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Delta Air Lines, Inc. (DAL)

Q4 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, everyone, and welcome to the Delta Air Lines December Quarter and Full Year 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 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 & Corporate Development, Delta Air Lines, Inc.

Thank you, Matthew. Good morning, everyone, and thanks for joining us for our December quarter and full year 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 you please limit yourself to one question and a brief follow-up, so we can get to as many of you as possible. And after the analyst Q&A, we'll move to our media questions.

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

We'll also discuss non-GAAP financial measures, and all results exclude special items, unless otherwise noted. You can find a reconciliation of our non-GAAP measures on the Investor Relations page at ir.delta.com.

And with that, I'll turn the call over to Ed.

Edward Herman Bastian

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

Well, thank you, Julie, and good morning. We appreciate everyone joining us today. Before we start, the hearts of the entire Delta family go out to all those who are being impacted by the devastating wildfires in Southern California. We're incredibly grateful to the heroic first responders who are working at great personal risk to keep our communities safe. We announced yesterday that Delta will donate $1 million to the American Red Cross to aid the individuals, families, and communities in the region who have been affected.

I also wanted to say a few words on the recent passing of President Carter. As a Georgia-based airline, his life and legacy has had a deep impact on Delta's mission to connect the world. Among his many accomplishments, his administration led the deregulation of our industry, making air travel more accessible and affordable to all Americans. I had the privilege of knowing President Carter and traveled with him on multiple occasions. He always took the time to personally greet our staff and every single customer on each flight we were on. He was as gracious and genuine a leader as I've ever met, a truly great man. His life of service embodied our motto to

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always keep climbing, and on behalf of the entire Delta family, we honor his memory and celebrate the many achievements of President Carter's life.

Earlier this morning, we reported December quarter and full year results. The Delta team delivered a strong close to the year, both operationally and financially. We reported a December quarter pre-tax profit of $1.6 billion, with earnings per share of $1.85, at the top end of our guidance on record revenue and outstanding operational performance. This marks the largest December quarter profit in Delta's history, improving more than $500 million over last year.

Operationally, we achieved industry-leading performance with a number one system completion factor and on-time performance amongst our peer set throughout the December quarter. I want to thank all 100,000 members of our team for their outstanding efforts, particularly during a busy holiday travel season. For the full year 2024, our operational teams delivered 78 brand-perfect days. Last week, Delta was recognized for the fourth consecutive year with Cirium's Platinum Award for operational excellence and as the most on-time airline in North America.

Financially, we expect our results will lead the industry across all key measures, with a double-digit operating margin and $5.2 billion of pre-tax income, representing nearly 50% of the industry's profitability. Our return on invested capital of 13% is in the upper half of the S&P 500 and double the rest of the industry. This performance reflects Delta's sustained differentiation and durability.

Full year earnings per share of $6.16 was above the midpoint of our initial $6 to $7 guidance from the start of the year when normalizing for the $0.45 impact of the CrowdStrike-caused outage in the September quarter. Free cash flow is expected to lead the industry at $3.4 billion, a nearly $1.5 billion improvement over 2023. Robust cash generation supported further debt reduction and a 50% increase to our quarterly dividend during the year. Recognizing the strength of our financial foundation, S&P upgraded Delta last month, returning our balance sheet to investment-grade level at all three major credit agencies.

Now, these results would not be possible without the incredible work of the Delta people. Our employees are the best in the business, and we are proud to recognize their commitment to industry-leading performance with industry-leading rewards. In 2024, we provided our employees with a 5% pay increase, and I'm pleased to announce that we will celebrate them with $1.4 billion in well-earned profit sharing on Valentine's Day in February. This will represent one of the top three profit-sharing payouts in Delta's history and is expected to be more than the rest of the industry combined. The Delta people are our number one competitive advantage, and our 2024 performance reflects their commitment to best-in-class operations and service for our customers.

Now, turning to our outlook. 2025 is off to a great start, and we are on track to deliver the best financial year in our history, with revenue growth and margin expansion driving record profitability. Across the industry, carriers are taking action to improve their financial health, creating increasingly constructive backdrop. The US consumer is financially healthy and continues to prioritize spending on experiences. Closing out 2024, we saw an acceleration in air travel demand from corporates and consumers and co-brand card spending growth accelerated. This momentum is continuing into the March quarter, where we expect to grow the top line by 7% to 9%, expand margins by 2 points, and nearly double earnings over last year.

For the full year, we expect earnings per share greater than $7.35, increasing more than 20% compared to 2024, as reported. When comparing to a normalized EPS, excluding the impact of CrowdStrike, this represents growth ahead of our long-term target of 10% average annual growth. Cash generation is an important differentiator for Delta, and in 2025, we expect to generate over $4 billion of free cash flow, supporting further debt reduction and bringing our leverage ratio down to 2 times or less.

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As we shared at Investor Day in November, Delta has a clear focused strategy that capitalizes on 15 years of investment in our brand, customer experience, and financial foundation. Entering our next century of flight, Delta has never been more differentiated from the industry. As a consumer brand that serves 200 million customers annually, we leverage innovation and technology to empower our people and further elevate the travel experience.

Tuesday night, I had the honor of giving the keynote address at CES 2025 in Las Vegas at Sphere. In that unique space, we honored Delta's century of connecting the world, presented our vision for the next century of flight, and previewed how Delta is driving innovation to deliver more seamless journeys from home to your seat, including new personalized experiences that are arriving in the coming months. This includes the introduction of Delta Concierge, the evolution of Delta Sync, and exciting new partnerships that will enable us to better anticipate customers' needs and grow the value of SkyMiles membership.

Delta Concierge is a new digital tool built into the Fly Delta app, which will support members as a virtual personal assistant, powered by Generative AI to make travel easier and less stressful. The next phase of Delta Sync, starting later this year, includes a new and exclusive partnership with YouTube, the world's largest video platform to provide access to ad-free YouTube Premium and music streaming onboard via Delta Sync's seatback screens and our fast free Wi-Fi for SkyMiles members.

And we announced an exclusive new partnership with Uber, where SkyMiles members will earn miles for eligible rides and deliveries in the US. This unique relationship creates new opportunities to integrate further and expands our partnerships with category leaders, broadening the Delta SkyMiles ecosystem and the range of benefits we provide to our members every day.

Together, these products and partnerships reflect our continued commitment to investing in and providing our customers with a superior travel experience. They drive greater engagement with our SkyMiles members that extend well beyond air travel, improving customer satisfaction and deepening loyalty to Delta.

In closing, Delta's people continue to differentiate what we deliver for our customers and our owners. With momentum entering our 100th year, we are positioned to deliver another year of industry-leading performance.

And now, I'll turn it over to Glen.

Glen William Hauenstein

President, Delta Air Lines, Inc.

Thank you, Ed, and good morning, everyone. I want to start by thanking our employees for their hard work and dedication in delivering a great year. December quarter revenue was a record $14.4 billion, 5.7% higher than 2023 and above the top end of our guidance on industry-leading operational performance and strong close in demand. Post-election, we recorded four of the top 10 revenue days in our history and saw a step-up in booking activity from both leisure and corporate travelers, driving double-digit growth in cash sales.

Total unit revenue grew 0.4 points over prior year, with sequential improvement in all geographies. Domestically, unit revenues picked up nicely following the election, and international unit revenues improved across all three geographies and performed ahead of our expectations. Corporate sales grew 10% year-over-year, improving 3 points sequentially. Strength built through the quarter driven by both volume and fare, with broad-based strength in geographically and across all sectors. We also saw an acceleration in co-brand trends with American Express

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remuneration of really – of nearly $2 billion during the quarter, up 14% year-over-year on a broad-based acceleration in card spend and acquisitions.

For the full year, we delivered a record revenue of $57 billion, 4% above 2023's prior record with diversified streams, including premium, loyalty and cargo leading and contributing 57% of total revenue. Premium revenue performance outpaced main cabin throughout the year, up 8% over prior year with positive unit revenues in all four quarters of 2024.

Total loyalty revenue was up 9% over 2023 with remuneration from American Express reaching approximately $7.4 billion for the year, driven by high single-digit growth in co-brand spend and over 1 million new card acquisitions. We are confident in another year of high single-digit growth in co-brand remuneration in 2025 as we progress towards our long-term goal of $10 billion. Cargo revenue grew 14% over 2023 with sequential improvement throughout the year.

Turning to our outlook. Delta is capitalizing on demand strength and improving industry dynamics. We expect March quarter revenue to be up 7% to 9% higher than last year, ahead of our capacity growth, as unit revenues improved several points sequentially with progression in all geographies.

Domestic demand remains robust with considerable improvement in the supply backdrop over the last few months as unprofitable supply is removed across the industry. Delta is well positioned in this environment as we focus on our core strengths and optimize our core hubs.

Transatlantic unit revenue is expected to lead at up mid-single digits for the second quarter in a row. Demand across the Atlantic is benefiting from strong US point of sale and an extension of the season with unprecedented off-peak results. We have good visibility into the spring and summer and expect another year of record profitability in our largest international entity.

Latin unit revenue is expected to improve sequentially for the third consecutive quarter and inflect positive as capacity investments mature, particularly in long-haul South America, where we have increased connectivity with our partner, LATAM. The Pacific is leading in overall revenue growth. Unit revenues are expected to be modestly negative on mid-teens capacity increases. Trends are improving sequentially and margins continue to be at record levels.

We congratulate our partner, Korean Air, on closing their acquisition of Asiana. We look forward to expanding our joint venture and increasing our options for our joint venture customers along the Pacific following the integration. This merger will facilitate even better connectivity and opportunity for further – to further expand our operations to Seoul over the coming years.

Turning to our network plans for the full year. As we noted in Investor Day, we expect to increase capacity 3% to 4% in 2025, with more than 85% of incremental seats in premium cabins. Domestically, 80% of our growth will be our most profitable core hubs and internationally, growth is normalizing following our multiyear restoration and investment phase.

We are confident in our ability to drive margin improvement in 2025 as we focus on efficient growth across high-margin premium cabins in our most profitable hubs, and we are well positioned to capture upside in the main cabin margins as industry health improves.

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In closing, we had a great 2024, and I am excited about Delta's opportunity to make our centennial the best year in our history.

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

Daniel C. Janki

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

Thank you, Glen, and good morning to everyone. I'm incredibly proud of the Delta team for their hard work in 2024. We closed out the year in a position of strength. In the December quarter, we delivered a record fourth quarter revenue and profit with earnings of $1.85 per share at the top end of our guidance and more than 40% higher year-over-year.

Operating margins of 12% were up 2 points over the prior year. For the full year, we reported a double-digit operating margin, earnings of $6.16 per share, and a return on invested capital of 13%. With strong operational performance through the year and a company-wide focus on efficiency, the teams delivered on our full-year target of low single-digit non-fuel unit cost growth.

During year, we invested in our people through pay and benefit increases, and in our customers with ongoing rollout of our fast, free Wi-Fi for SkyMiles members, the introduction of our three Delta One Lounges, and the completion of generational airport upgrades. Delta is investing at levels unmatched in the industry, while delivering better relative non-fuel cost performance.

Operating cash flow for the full year was $8 billion, and after reinvesting $4.8 billion back into the business, we generated free cash flow of $3.4 billion. Strong cash generation supported debt repayment of $4 billion, including $1 billion of early repayments. We ended 2024 with gross leverage at 2.6 times and unencumbered assets of $30 billion. And in the December quarter, our balance sheet returned to investment grade at all three major credit rating agencies, differentiating Delta and reflecting our financial durability.

Now, turning to our outlook. As part of our ongoing effort to focus on the primary financial metrics that drive shareholder value, we are providing full-year guidance that aligns to the three- to five-year financial framework, including EPS, cash flow and leverage.

On a quarterly basis, we'll be providing guidance for revenue growth, operating margins and EPS with directional color on unit metrics. For the March quarter, we expect revenue growth of 7% to 9%, a operating margin of 6% to 8%, and earnings of $0.70 to $1 per share. This represents more than two points of margin expansion and a nearly doubling of earnings at the midpoint.

Non-fuel unit cost growth in the March quarter is expected to be up low single digits year-over-year with performance similar to the December quarter. As the year progresses, we should see improvement in non-fuel cost growth as we continue to drive efficiency.

For the full year, we expect earnings per share ahead of our long-term average annual growth target of 10%, with earnings of greater than $7.35 per share, free cash flow of greater than $4 billion, and leverage of two times or less. This outlook incorporates margin expansion opportunities in our control, including improvements from revenue mix as we grow high-margin streams like premium and loyalty, while driving efficiency across the business.

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As Ed and Glen noted, the industry backdrop continues to improve, providing potential for additional margin upside from the main cabin. We expect non-fuel unit cost growth consistent to our performance in 2024 and our long-term target of low – up low single digits, even as capacity comes down two to three points from last year's growth, as we are better able to leverage our existing assets and maintenance expense begins to normalize. This will help fund ongoing investments in our people, and our customer experience.

In 2025, half our expected capacity growth is being funded by improved utilization of both our mainline and regional fleets with incremental capacity deployed primarily into our high-margin core hubs.

We are growing into our workforce and expect another year where head count growth is below capacity as our people gain experience with opportunities across our operational groups. 2025 is the final year of our generational airport developments. With their completion, we are now well positioned for the next several decades with a premium ground experience that is unique to Delta. Given the long-term nature of these investments, cost per employment will improve over time as we grow into our assets.

Strong cash flow remains an important differentiator for Delta. Our outlook for more than $4 billion of free cash flow is 10% of our current market cap and more than $500 million improvement over 2024.

Capital allocation, we expect to reinvest $5 billion of capital into the business, including approximately 40 aircraft deliveries and continued investment in technology and facilities, including Sky Clubs and Delta One Lounges.

Beyond investing in the business, debt paydown remains our priority. We plan to pay cash for $3 billion of our 2025 debt maturities this year and will opportunistically repay higher-cost debt to end the year with gross leverage of 2 times or less, progressing towards our long-term target of 1 times.

In closing, Delta is executing against our long-term financial framework and creating significant value as we expand margins, deliver durable earnings and free cash flow, and further strengthen our investment-grade balance sheet.

Returns remain industry-leading and we expect to make progress towards our return on invested capital target of 15% this year. We are excited about our momentum as we enter a historic year for Delta. I would like to thank our people for all they do every day.

And 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, we will now open it up for analyst Q&A.

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QUESTION AND ANSWER SECTION

Operator: Certainly. Everyone, at this time, we'll be conducting a question-and-answer session. [Operator Instructions] Your first question is coming from Catherine O'Brien from Goldman Sachs. Your line is live.

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

Q

Hi, everyone. Thanks so much for the time. It's good to be back on one of these things. So, maybe just to start, I don't want to be greedy after a fourth quarter beat and first quarter revenue guide that was much higher than I was expecting. But I'd love to dig in on the greater piece of your greater than $7.35 full-year guide.

And Dan hinted at it a little bit in his prepared remarks, but if we can assume that your prior commentary around mid-single-digit revenue growth for the full year stands and you're starting off with high-single-digit growth, would it be fair to assume that the $7.35 has a pretty conservative back-half revenue outlook baked in there? And then outside of potential revenue upside, what else drives that upside from the $7.35? Thanks so much.

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

A

Well, as we talked about at Investor Day and you think about it with – as you think about with capacity growth in the low-single digits, revenue growth of 5% and when you think about margin expansion of about 50 basis points, that gives you about 10% earnings growth. So, with this forecast, we're focused on things that we can control, as it relates to our capacity, where we're putting it, the premium revenue growth, loyalty, those types of elements, along with driving efficiencies from a Delta perspective. And that provides us the confidence. And we have good visibility as we sit here today, as it relates to first quarter, and really the first half of the year, we feel good about that.

Second half will unfold as we progress, and we'll give you more color and context on that. And as I mentioned in the note, I think the industry construct and how it evolves through the year and especially the back half as it relates to main cabin that we've talked about, that could provide additional upside as it relates to margins as we progress through the year.

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

Q

That's great. Thanks. And then maybe one for Glen, a quick one. In the press release, you noted that all geographic entities came in stronger in the fourth quarter than you were initially expecting. Was there any one standout in terms of the magnitude of that improvement? And how do these trends inform your view on capacity allocation geographically over the course of 2025? Thanks so much for the time, everyone.

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

Well, I would say the outstanding performance was in the Transatlantic. You're right, as everybody knows, the summer IATA season is the peak and the winter is the off-peak. And usually, we're not able to generate significant returns in the off-peak, many months in the off-peak. And just really, really strong, not only advanced bookings, but close-in business travel going in the Transatlantic has been incredibly strong.

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And you asked what is driving that, and it's really US point of origin. Again, today, the dollar was up again, the euro is down to $1.02. Europe is an incredibly screaming buy for – as a tourist destination and people are finding that particularly in Southern Europe, that the weather is actually pretty nice in the winter and the streets aren't as crowded. So it's not a bad time to go.

So I think we've got a little confluence of a lot of things happening, but all of those are favorable to our environment and we're really capitalizing on it.

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

Q

Thanks so much.

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

Hi. Good morning, everyone, and congrats on the results today. Nice to see the market taking notice. Ed, definitely exciting at CES this week, and I know you guys announced a lot of new partnerships, but maybe can you elaborate more for investors how you plan to monetize SkyMiles going forward, especially with like Sync and some of the new things you announced this week.

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

A

Well, thanks, Brandon. It was good that you were out there to see it. It was an exciting week for Delta. The question on monetization is interesting. We're not announcing these partnerships so that we could start taking and starting to try to capture revenue immediately out of it. This is all about creating a much longer-term relationship and experience-based platform for our customers.

The monetization opportunities will unfold in due course. But the more valuable item in my mind, is how we're growing the value of a SkyMiles membership and wanting our customers to continue to demonstrate an even greater amount of loyalty to Delta as part of that, giving them more reason to be flying Delta than ever before in every step of the journey.

The Uber relationship is unique and it's exclusive and it's new. It's something that, as we think about Uber and the impact, not just for Uber but Uber Eats as well, I think we'll have a big impact on them as well as with us. YouTube is going to be a huge enhancement for our in-flight entertainment product offerings and it's going to drive more and more sign-ups to be part of the SkyMiles program. So, we'll talk about monetization at some point in the journey, but that's not the initial goal of what we're doing here.

Brandon R. Oglenski
Analyst, Barclays Capital, Inc.

Q

Definitely appreciate that, Ed. And then, Dan, can you give us some insight into, you know, some of the levers you're pulling this year on keeping CASM low single-digits. Maybe we underappreciate how much like network restoration costs were in the last couple of years.

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

A

Yeah. I think consistent to many of the items that we talked about at Investor Day, it really -- they come down to a few. You know that so-called investments that we'll make in cost related to our people and the growth in seniority. We still have in 2025, the airports coming online and the full run rate of those developments along with the rate and inflationary elements that we're seeing in those, and that will be somewhat consistent to what we saw in 2024 and continued investment in customer experience.

But then as you were alluding to, on the efficiency side, it's really getting better utilization out of our assets and investments that we made. Part of it is the fleet and the network. It's about the growth is going into the higher margin. Glen alluded to it, the premium seats are driving vast majority of the seats that we're adding. The capacity that we're adding is going into the low-cost, high-margin core hub structures, over 80% of the incremental capacity.

Half of the growth of capacity is coming from the utilization of the fleet, mainline and regionals. We expect the regionals to be back to full flying of our assets. We have that capability. So that inefficiency has been sitting as part of our financials in our run rate associated with it.

The workforce, the Delta teams and the contractors, we put that capability and Ed really pushed us and the team to put that capability and get that operational excellence as we restore the airline, and we're growing into that experience. So, this year, you saw us grow the airline 6% and on average, head count was up 2%. We ended the year on a year-over-year basis flat as we start to now step down into 3% to 4% growth. So, you're starting to see that experience come through and getting that.

And then we think in Delta, we have a unique element as it relates to maintenance, John and the team at TechOps, we – the high level of volume of activity, that will start to normalize. And then you get the improvement in that whole maintenance supply chain. Turnaround times are still, as I talked about at Investor Day, well above historical levels. They were stable in 2024. But in 2025, we expect to start to make progress. The question will be, how much progress does the industry make, and we want to be part of leading that improvement and driving that efficiency and that team there is gaining experience.

So, across all these, I wouldn't say there were network efficiencies – inefficiencies. I'd say just across the company, we have the opportunity for broad-based efficiencies and grow into our airports. Those will open with time. And then we also talked about this at Investor Day. I think we're just at the doorstep of what technology can unlock over the long term. And that won't see big, big dollars associated with that in 2025, but that's multi, multiyear for the next three to five years that we're quite excited about what that can do for the company.

Brandon R. Oglenski
Analyst, Barclays Capital, Inc.

Q

Thank you both for the answers.

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

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Hi, everyone. Thank you. Glen, obviously a really solid start for 1Q, but there's a lot of moving parts this year from the calendar, and I think you benefited from the MAX grounding last year. So your comps are actually particularly difficult. So, shouldn't we expect a somewhat strong sequential acceleration into the spring? Just trying to understand if like your actual core results are even stronger than what you're reporting here today, even though those are really good, too, as well. Just any thoughts there. Thank you.

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

Well, I'd just say we're experiencing a very, very strong demand period. As we see our sales in January, we usually don't post record sales. We've had two of our top record sales day since the beginning of the year. And so I think early signs are that this is going to be a very very strong year for us. It's too early to call the second and third and fourth quarters. But what we can see in the first quarter and maybe into April is a really, really strong demand set across all entities.

Conor Cunningham
Analyst, Melius Research LLC

Q

Helpful. And then I think a lot of the – just around the idea of like better supply in the US domestic market. But I think there's an argument to be made that there's an even better supply story on the international side. Wide bodies are hard to come by, there's some engine issues there as well. Can you just talk about the international setup as you look from a supply standpoint and what that could mean for the Atlantic again this year? Thank you.

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

Yeah. We're really, really excited about the way the spring and summer are shaping up in terms of competitive capacity in the Transatlantic. And I think all the basis points are in there for another record year in the Transatlantic. Again, early the booking, we had the real big Transatlantic booking season coming up over the next month-and-a-half as people firm up their plans for summer travel. But I expect that we're going to see a very, very robust return.

And I'd also point out that last year, we had the Olympics in Paris, which was a very big negative for us as we pass through the summer quarter starting in late June and through the July and August peak. So, I think not only do we have a great competitive dynamic, but we also have some things that are uniquely beneficial to Delta as you look at this summer's performance in the Transatlantic versus last summer, knowing how big we are in Paris.

Conor Cunningham
Analyst, Melius Research LLC

Q

Awesome. Thank you.

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

Thomas Fitzgerald
Analyst, TD Cowen

Q

Hi, everyone. Thanks so much for the time. Could you mind maybe elaborating a little bit on what you're seeing across customer segments, so business and leisure as well as by age cohort, so maybe Boomers and Gen X versus some of the Millennials?

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Glen William Hauenstein
President, Delta Air Lines, Inc.

A

Sure. Well, I'm happy to report first on the second part of the question. The Boomers are driving the premium, and being a Boomer myself, I'm proud of us driving our premium results which is, I think, great for now, but also great for later because we know as people continue – as the cohort continues to age out and the new generation passes that threshold of wanting to buy more premium products and services, the newer generation is wealthier, and it's -- we have a bigger share of that generation.

So, excited not only for today as the Boomers are driving it, but excited for tomorrow as we pass it on to the next generation. So, that's the question on.

And then across the spectrum, consumer leisure very strong. Demand across corporate is very strong. Unit revenues in the fourth quarter, as we pointed out, our sales in the fourth quarter, up 10% on corporate sales. Those trends are continuing into the first quarter. So, continued very strong growth.

Our survey is out. We survey the corporate traveler every year, the corporate travel managers. I think the number was 90%, expected to exceed or meet last year's spend. So, all the components that we see are driving a really robust demand drop as we sit here in January.

Thomas Fitzgerald
Analyst, TD Cowen

Q

That's really helpful. Thanks so much, Glen. And then just as a follow-up, I'd love to hear what you're seeing in some of your core hubs. We've seen, obviously, Southwest pulling back in Atlanta and a lot of the low cost and ultra-low-cost pulling back significantly out of places like Minneapolis. So, curious just what you're seeing in bookings and yields there. Thanks again for the time and congrats on the quarter.

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

Right. Well, we're not going to start giving hub by hub yield and traffic information. But I would say that we're very encouraged by the competitive dynamics that are going on in all our hubs as we head into the spring and summer, with the possible exception of Boston, which is at an elevated capacity level, but I would say surprisingly resilient for us in the off-peak. Boston is a very seasonal market and we're in really the low season for Boston right now, and it's performing incredibly well despite the fact that it's got a significant amount of industry capacity in it.

So, I think we're – we like where we're sitting. Of course, the wildfires in Los Angeles are not helping Los Angeles origin and destination, but there's always something going on. And I feel really, really good about where we sit today.

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

Hi, good morning everybody. So this is probably for Glen. Dan might have thoughts as well. The topic is fuel recapture. At one point in the not too distant past, my professional lifetime, it could take up to a year for the

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industry to recalibrate the higher input costs, higher fuel costs. But given the evolution we've been on, it now seems like higher fuel can be recaptured somewhere inside of two quarters.

Dan, when we think about that past precedent, though, yield production was, I don't know, kind of modest, whereas today, we're in a strong environment, at least in most markets. So that's my question. With yields already being pretty strong, do you think that, that alters the calculus? Does it make it harder and longer to recapture higher fuel? Or do we still get to that 100% recapture mark inside of a couple of quarters?

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

I believe that it's never been short. And that's a personal belief based on how the industry is responding. And the fact that the bottom half of the industry is under intense pressure to continue to improve its results. So I think that backdrop is what you have to focus on in terms of fuel recapture. The industry needs to recapture that fuel faster than it has in the past. Dan?

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

A

And not only fuel, but I mean margins are at very low levels and they have to capture non-fuel costs and fuel costs, improve margins overall. So, I think that's the backdrop that Ed talked about in regards to improving industrial – industry backdrop that we're sitting in.

Jamie N. Baker
Analyst, JPMorgan Securities LLC

Q

Excellent. And then just a quick follow-up on corporate. Post-COVID, Delta and some of your competitors have talked about changes in how business travelers are flying that's had some impact on -- they have weak demand, somewhat elongated booking curve. There is my question. As corporate continues to rebound, is corporate behavior beginning to revert back to the way that it used to be? Or are those behavioral trends that you're seeing today kind of consistent with the post-COVID world that we live in? Thanks in advance.

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

I'd say on the margin, it's reverting, but it's still different. On the margin, close-in has picked up because the booking curves had elongated in the COVID recovery. Those have come in over the past year or so. And yeah, Tuesday and Wednesday travel is picking up. So, I would say it's not back to where it was, but on the margin it's coming more towards what it was pre-COVID.

Jamie N. Baker
Analyst, JPMorgan Securities LLC

Q

Okay, very interesting. Thanks so much.

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

Duane Pfennigwerth
Analyst, Evercore ISI

Q

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Hey thanks. Just to maybe continue that theme. As we play back the fourth quarter, what was the revenue surprise really driven by? There was some stronger post-election trends, which obviously some of the hotels called out, but do you think the compressed period between Thanksgiving and peak holidays actually stimulated compression in corporate? And how would you mark that corporate recovery, excluding some of the seasonal noise into 2025?

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

I think, clearly, for the month of December, late Thanksgiving is helpful for the month. But when you put those two months together, I don't think it's that much different, whether it compresses or doesn't compress. Next year, November is – the return date for Thanksgiving will be in November and not December, essentially one day, and I think we'll see similar results next year.

I think the big surprise for us is, again, when we did earnings, it was right after the election, right before – right after the election. And we hadn't really seen that strength of sales leading into the election, and it was a definite uptick you could see and you could feel post-election that goes out for 365 days that people felt more confident and they felt a little bit less confident before the election, and it was a big inflection point.

Duane Pfennigwerth
Analyst, Evercore ISI

Q

That's helpful. And then, just for a follow-up, Glen. In Latin, what inning are we in for the rebuild of that entity? Delta has been in investment mode there for a while, when would you expect to enter harvest mode?

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

Yeah. I think we're – as we indicated in the script, we're toning down our investment in LATAM. We've got most of the corridors in place that we need to feed each other, and we've worked on that coming out of COVID. So, I wouldn't say we're moving into harvest, but we're definitely moving into a more mature position in deep South America.

Duane Pfennigwerth
Analyst, Evercore ISI

Q

Thank you.

Operator: Thank you. Your next question is coming from Shannon Doherty from Deutsche Bank. Your line is live.

Shannon Doherty
Analyst, Deutsche Bank Securities, Inc.

Q

Hi. Good morning, everyone. Thanks for taking my questions. Maybe just one for Glen here. With premium revenue growth continuing to outpace the main cabin, could it be possible that the RASM gap actually stays the same between the two even as you're growing your premium seat mix just given higher yields and overall enhanced product offering?

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

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Right. Well, I think our plan for 2025 indicates or assumes that we will continue to keep the premium revenues growth trajectory that we're on. I think the upside surprise for us would be if main cabin starts to accelerate as we move through the year, given the fact that capacity in the industry level has come down significantly in that pool. So, that's how I would frame 2025 as continued trends that we're seeing in premium and potential upside being in the main cabin improving significantly.

Shannon Doherty
Analyst, Deutsche Bank Securities, Inc.

Q

Thanks. And as my follow-up here, what are your thoughts on calendar shifts, the later Easter this year? Could it be possible that it's a RASM positive in both the March and June quarters as travelers take two trips this year instead of one like many did last year?

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

A

Spring break and Easter. Is that the question?

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

I didn't really hear.

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

A

Thoughts on Easter shift.

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

Oh, Easter shift?

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

A

Could you end up seeing more travel?

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

Usually, a late Easter is bad for March, but it's good for the airline. So, we'll see how that plays out this year. But as you say, the longer that travel peak period, the better the general returns are for the season. But then the months play out differently because you compress the peaky peak, which is not a good thing. But the longer season offsets that.

Shannon Doherty
Analyst, Deutsche Bank Securities, Inc.

Q

Thank you.

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

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Ravi Shanker
Analyst, Morgan Stanley & Co. LLC

Q

Great, thanks. Good morning and Happy New Year, everyone. Glen, if I can revisit the topic of Europe, just this kind of unusual strength in 1Q, you elaborated on that a little bit. But are you confident that this is not pulling forward from later in the summer?

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

I am very confident. I am very confident. This is another year of – and if you think about the Baby Boomers travel, if you thread all these together, you say who's driving premium revenue? It's the Boomers. Who's driving – why is that happening, the euro at $1.02? Go to a restaurant in New York and then go to a restaurant in Europe, you'll see a vast difference in your bill. And so, this is a great time to travel to Europe. People are seeing that. US consumers are very smart. They figured these things out pretty quickly. And we're seeing robust demand in the off-peak, and I'm sure that the peak is going to be even better.

Ravi Shanker
Analyst, Morgan Stanley & Co. LLC

Q

I think a vast difference in the quality of the food as well. Maybe as a follow-up, how do we think about the pricing algorithm between main cabin, mid-cabin, and the front of the plane? Sort of as you talk about more momentum in main cabin RASM, like, is that – like, do you adjust front of plane pricing kind of in real time to adjust for that or how do you see that flow through through the cabin?

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

Right. I think one of the things that – one of the reasons we decided to really focus on premium back 10 or 15 years ago was we wanted to control our own destiny. So, the fact that we've been able to get this premium revenue growth despite the fact that main cabin has been under a lot of duress, I would expect us to be able to continue to optimize that. But we've tried to disconnect main cabin from premium products in terms of our pricing abilities. And I think that'll be our strategy. We don't want to price ourselves out. We want people to continue to grow and experience this because once they do, they tend not to go back. So, our – as we continue to put more premium seats in, driving premium revenue is going to come from higher loads, not necessarily higher yields.

Ravi Shanker
Analyst, Morgan Stanley & Co. LLC

Q

Understood. 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. I guess, Glen, maybe when we look out past the first quarter and I know it's early, but domestic schedule showing kind of high-single-digit growth in 2Q, I guess, obviously, relatively high to the 3% to 4% full year outlook. But when I look historically, this can come in anywhere from 1 to 3 points. Do you think that's reasonable? And then, any comments or color on how you think your capacity could trend throughout this year?

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Glen William Hauenstein
President, Delta Air Lines, Inc.

A

Well, thank you for that question because I've been looking for the opportunity just to give a little bit of context to the shape of the growth in capacity. First quarter, we're going to be probably somewhere between 4.5% and 5%. I think we have 4.7% loaded right now. We'll see what completion is, but somewhere between 4.5% and 5%, I would assume, depending on how completion factor plays out.

Second quarter, we have not really loaded our schedules yet. You'll start to see this weekend, I believe April, next part of April is going in, which will be a couple of points reduction of what we have selling out there, and you'll see us continue to bring that back into line. I would expect that June, July, and August would be our low points for year-over-year growth and the off-peak was a little bit more growth in the off-peak to try and get better utilization back to Dan's point of how do we work the trade between unit cost and unit revenues to ensure that we're optimizing our margins.

Andrew G. Didora
Analyst, BofA Securities, Inc.

Q

That's great color. Thank you. And then, maybe just sticking on the capacity front, obviously, you've spoken to we've seen the strong trends in the Atlantic. Clearly, the demand is there. How should we think about your growth across the Atlantic this year? Will it be system average above or below? Just thinking about how that could trend as we progress through the year? Thank you.

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

I think for the transatlantic, our schedules are pretty well loaded. There may be some tweaks around the edges as we move through on aircraft availability and crew availability. But I think largely, we're in place, and it's slightly above the average, not significantly.

Andrew G. Didora
Analyst, BofA Securities, Inc.

Q

Great. Thank you, Glen.

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

David Vernon
Analyst, Bernstein Institutional Services LLC

Q

Hey, good morning, guys, and thanks for taking the question. So, Glen, going back to corporate demand right now, the 10% growth, is there a way that you can help us understand kind of how much of that sort of volume, how much of that's yield? And then, obviously, last year was a pretty interesting year for corporate growth with American taking a step back, Southwest participating more in GDSs. Just trying to get a sense for maybe how share is trending in corporate from your perspective?

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

So, we don't comment on other people's share. What we can say is our share is at one year record highs every month. And so, we see no deterioration in our share in the past year in the forward sales. And then, as it relates to these trends, it was primarily early in the year driven by traffic. And then, as we headed towards the end of the

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year, it was driven by both the mix of traffic and yield. So, now, we have yields positive and traffic positive contributing to that number.

David Vernon
Analyst, Bernstein Institutional Services LLC

Q

Excellent. Thank you. And then, as you think about the ASM growth that you shaped for us, that was really helpful. Can you help us understand kind of the balance between international and domestic as we progress through the year?

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

Yeah. I think probably a little bit higher on international with Latin being the lowest growth rates as we move through the year and continuing with the Pacific, the run rates. And when we get to the latter part of this year, the Pacific will come down significantly. But the Atlantic is going to be just slightly ahead of our system average and domestic probably just slightly below.

David Vernon
Analyst, Bernstein Institutional Services LLC

Q

All right. Thank you, guys. Thanks for the time.

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. If I might on the CapEx front and the aircraft deliveries, I'm guessing your CapEx is still – thinking is around $5 billion. But you did have kind of 46 deliveries in – sorry, 38 versus kind of a 46 assumption. Curious what you're expecting in 2025 and if that $5 billion CapEx is still a good level?

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

A

Yeah. $5 billion is a good level. We had a few less deliveries in 2024 than we expected. We expect right around 40-ish here in 2025.

Savanthi Syth
Analyst, Raymond James & Associates, Inc.

Q

Got it. And Dan, maybe if I can follow up with on the non-OpEx side, any color that you can provide on how we should think about it for this year in terms of kind of interest side, but also kind of the non-interest side?

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

A

Yeah. I think it will be – think of it as flattish where you have a benefit from the deleveraging that's probably just under $100 million benefit. And then, you – the real question will be, where does all the other pieces fall out? Pension, finalizing it here as we go through the month of January, it performed well. It should be flattish to maybe a slight improvement. We'll see where we finally lock that in here as we get through January.

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We have always the moving pieces with equity earnings from our partners and whether they'll be up or down and that progresses through the year. We benefited from that this past year as they were better than expected and that drove some of the improvement, and we won't have the reoccurring gains that we had from some investments that we sold. So, that will be a headwind. So, I'd plan it flattish right around that $800 million mark thereabouts, and Julie and team can kind of work with you if there's any dynamic as it relates to quarterly splits.

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

Appreciate that. Thank you.

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

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

Operator: Certainly. Your final question is coming from Sheila Kahyaoglu from Jefferies. Your line is live.

Sheila Kahyaoglu Q
Analyst, Jefferies LLC

Thank you, and good morning. Great quarter, guys. Maybe just sticking on the fleet comments, if we could elaborate, I have two questions. First, on just stepping up retirements here again in 2025. How do you think about the number of A350 deliveries this year and how that signals to the strong Atlantic demand that you're seeing? And wondering if you're seeing any changes around how you're thinking about 767 and 757 retirements?

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

I'll take the retirement a little bit. On the retirements, we retired just over 20 aircraft in 2024. We expect in 2025 for that to be a little bit higher, probably closer to 30, thereabouts. We'll kind of see how this year progresses and how the fleet plan settles in for 2026. We'll be finalizing that late spring, early summer associated with that. But that's a good thing. It allows John and the team to have a material flow back into the TechOps team, and they're really good about having that back into the installed base and fleet and driving efficiency associated with that. As it relates to our deliveries, about 40 plus, just about 12, 13 of those in 2025 will be widebodies. It's a mix of the 330s and 350s.

Sheila Kahyaoglu Q
Analyst, Jefferies LLC

Thank you. And maybe, Dan, if I could ask a follow-up on just maintenance spend. How do we think about it for 2025 as it works towards normalized levels?

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

Yeah. I think it's going to move towards normalized levels. We should see an improvement year-over-year. We start to see that we're going to invest a little bit more year-over-year in the first quarter and then you'll see it start to step down. But the normalization of that doesn't occur in one year, it's over multiple years.

Sheila Kahyaoglu Q
Analyst, Jefferies LLC

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Understood. Thank you.

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

Matthew, we'll now move to the media portion of the questions.

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] (00:55:14) from CNBC. Your line is live.

Leslie Josephs
Reporter, CNBC
Q

Hi. Good morning, everybody. Just wanted to ask about Los Angeles flights. Can you talk about the level of cancellations or delays that you're seeing just kind of given that even in areas that aren't affected, just kind of like limited resources and difficulty getting around the city? And do you expect any material impact?

And then, second, on the incoming administration and tariffs, do you have the ability to take planes exclusively from Mobile in the case of narrowbodies? And anything else that you're doing to prepare for potential tariffs? Thanks.

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

On the Los Angeles wildfires, we monitor sales on a daily basis by geographic region. And we have seen a decline in sales, not a wholesale reduction or an uptick in cancellations, but a decline in sales during this period. So, we'll see, I think, as soon as the period ends, we can probably put a wrapper around how much we thought that cost us. But I don't think it's going to be significant to the quarter, hopefully not.

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

Hey, Leslie, it's Peter Carter on tariffs. We do have some, I'll say, alternative ways to receive delivery of aircraft to mitigate the impact of tariffs, which is what we used in the last Trump administration. Our hope, of course, is that Airbus is not subject to tariffs because, as we know, a substantial portion of those aircraft are produced in the US and employ thousands of Americans.

Leslie Josephs
Reporter, CNBC
Q

Thank you.

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

Hi. Thanks so much. Just curious in the current fare environment, are you seeing any indications or have any concerns that with higher fares there might be some inflation fatigue among consumers, especially in basic or main cabin?

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Glen William Hauenstein
President, Delta Air Lines, Inc.

A

I think the answer to that is clearly no. We see robust demand, we see record sales. And if you think about airline tickets, while coming out of COVID, there was an acceleration that reflected the new economics of the airline. Last year, the inflation for airline tickets was relatively benign. So, it's really driving volumes and slightly higher fares, but not anything that we think is going to destroy value over the medium or long term.

Alison Sider
Reporter, The Wall Street Journal

Q

Thanks. We've just seen other companies and other industries rethinking of sustainability pledges and DEI commitments. And I'm just curious if there's anything you could share, if there's anything Delta is kind of reevaluating in either of those spaces?

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

A

Again, good morning, it's Peter Carter. No, we are not. We are steadfast in our commitments because we think that they are actually critical to our business. Sustainability is about being more efficient in our operations. And really DE&I is about talent and that's been our focus. And of course, the key differentiator at Delta is our people.

Alison Sider
Reporter, The Wall Street Journal

Q

Thank you.

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

A

Thanks, Aly. Matthew, we have time for one call, one more if we could get one in, please.

Operator: Certainly. Your last 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 go back to the impact of the LA fires. I'm just wondering if over time after the fires themselves are largely put out, do you expect perhaps a drop in demand in that area because all these people who have lost their everything they have and are likely to be much less inclined to travel for a certain period?

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

I think, unfortunately, after natural disasters, we actually see an uptick in demand as people go in to rebuild that. Insurance adjustments come from all over the country. So, I'd say until it's rebuilt, you actually – you never – a natural disaster is a terrible thing and certainly something that – our hearts go out to everybody in Los Angeles who's affected by this. But from a long-term airline perspective, we faced hurricanes, we faced flooding, we faced all that. And usually, the impacts are in the beginning phases followed by a recovery phase. If you take Asheville, for example, we are actually having more traffic to Ashville than we did in the pre-pandemic or the pre-flooding

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experience as people go in to rebuild their homes and businesses. So, it's an unfortunate occurrence, but I think nothing that will long-term impact us.

Mary Schlangenstein
Reporter, Bloomberg News

Q

Thank you.

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

A

That should conclude the call today, Matthew. Thank you very much.

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

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