15-Jan-2019

Delta Air Lines, Inc. (DAL)

Q4 2018 Earnings Call

CORPORATE PARTICIPANTS

Jill Sullivan Greer
Vice President, Investor Relations, Delta Air Lines, Inc.

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

Glen W. Hauenstein
President, Delta Air Lines, Inc.

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

Wayne Gilbert West
Chief Operating Officer & Senior Executive Vice President, Delta Air Lines, Inc.

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

OTHER PARTICIPANTS

Brandon R. Oglenski
Analyst, Barclays Capital, Inc.

Mike J. Linenberg
Analyst, Deutsche Bank Securities, Inc.

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

Joe Caiado
Analyst, Credit Suisse Securities (USA) LLC

Andrew G. Didora
Analyst, Bank of America Merrill Lynch

Hunter Keay
Analyst, Wolfe Research LLC

Duane Pfennigwerth
Analyst, Evercore ISI

Jamie N. Baker
Analyst, JPMorgan Securities LLC

Helane Becker
Analyst, Cowen & Co. LLC

Joseph William DeNardi
Analyst, Stifel, Nicolaus & Co., Inc.

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

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

Andrew Tangel
Staff reporter, The Wall Street Journal

Mary Schlangenstein
Dallas Reporter-Bloomberg News, Bloomberg LP

Leslie Josephs
Airline Reporter, CNBC

Tracy Rucinski
U.S. Aviation Correspondent, Thomson Reuters

Benjamin P. Zhang
Senior Transportation Reporter, Business Insider

Elliott Blackburn
Senior Reporter, Argus Media

MANAGEMENT DISCUSSION SECTION

Operator: Good morning everyone and welcome to the Delta Air Lines December quarter and full year 2018 financial results conference call. My name is Augusta, and I will be your coordinator. At this time, all participants are in a listen-only mode until we conduct a question-and-answer session following the presentation. As a reminder, today's call is being recorded.

I would like to now turn the conference over to Jill Greer, Vice President of Investor Relations. Please go ahead, ma'am.

Jill Sullivan Greer

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

Thanks, Augusta. Good morning, everyone, and thanks for joining us. With us in Atlanta today are CEO, Ed Bastian; our President, Glen Hauenstein; and our CFO, Paul Jacobson. Our entire leadership team is here in the room for the Q&A session.

Ed will open the call and give an overview of Delta's financial performance, Glen will then address the revenue environment, and Paul will conclude with a review of our cost performance and cash flow. To get in as many questions as possible during the Q&A, please limit yourself to one question and a brief follow-up.

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. 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 here's Ed.

Edward H. Bastian

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

Thanks, Jill. Good morning, everyone. Thanks for joining us today. Earlier today, we reported our full-year results including a December quarter pre-tax profit of $1.2 billion and earnings per share of $1.30, both of which were at the top end of expectations that we gave you at the start of the quarter.

Our top line grew 7% in the quarter. This solid performance combined with our best non-fuel unit cost result of the year, offset a $500 million increase in fuel expense. The December quarter marked a successful step on our path to improve margin performance with our pre-tax margin expanding over last year's even if excluding the one-time gain from our DGS transaction. 2018 was a successful year for Delta as we delivered strong results for our customers and our owners.

Our earnings per share improved nearly 20% over the prior year and we returned $2.5 billion back to our owners. We ended the year with an 11.6% pre-tax margin and a return on invested capital of 14.2%.

Notably, our $5.1 billion in pre-tax income was only 3% below 2017 despite a 30% increase in our fuel expense. The last time we saw a 30% annual fuel increase was 2011 and that year earnings fell approximately 25%. This really sums up the resiliency of our business and how different Delta is.

For our customers, Delta's operation is the best in the industry and 2018 was another record-setting year. We ended the year with 143 days without a single cancellation across the entire Delta system including both mainline and Delta Connection exceeding 2017's full-year record of 90 days.

For our mainline product alone, we had a record-breaking 251 days without a cancellation, delivering an on-time arrival rate of 85.7%. This exceptional performance by our operations' team resulted in Delta being named 2018's most on-time global airline by FlightGlobal for the second year in a row.

Running a great operation is the foundation for high customer satisfaction. When combined with the great service our employees provide and the investments we've made in our product, we're creating some of the most loyal customers in the airline industry. We drove improvement in net promoter scores during 2018 in every region of the world. Our domestic net promoter score has tripled over the last decade and reached an all-time high in September of over 50%. All of these results were reflection of the incredible work of the Delta people and I'm pleased to recognize our employees' outstanding performance this year with over $1 billion in profit sharing for the fifth consecutive year.

As we move into 2019, while fuel volatility has been a major story the last few months, prices now sit almost exactly where they were a year ago and by the way where we thought they would be. This coupled with strong non-fuel unit cost control should position us well for cost stability in the new year. The revenue environment remains solid. After 8% top line growth last year, we are assuming a modest reduction in global economic growth rates for 2019. We expect top line growth to be 5% this quarter, a rate we are also anticipating for the full year as we communicated last month at our Investor Day.

Our revenues to China, a market that's driving some trade and travel concerns, grew 27% in the fourth quarter and we expect a similar level of growth this quarter. Most importantly for Delta, the domestic revenue environment which accounts for approximately 70% of our total passenger revenue continues to do well. Corporate revenues grew 8% in 2018 and recent bookings show this trend continuing.

Now with respect to the government shutdown, we are seeing some pressure on our business. On the revenue front, we're experiencing about $25 million per month in lower government travel. The bigger impact is on our operation. With non-essential work at the FAA shutdown, our Airbus A220 start date is likely to be pushed back due to delays in the certification process. This is also hampering our ability to put seven other new aircraft deliveries into service, but it's our customers who are seeing the biggest impact with longer lines at airport security.

We're working closely with TSA on any steps we can take to minimize these delays including mobilizing Delta employees to perform non-essential aspects of the security process. We strongly encourage our elected officials to do their very best to resolve their differences and get our government fully open as quickly as possible.

In summary, 2018 was a strong year for our customers, owners and employees. We experienced significant top line demand growth for our product. Our operational reliability was record-setting and our brand has never been more healthy. Despite a $2 billion fuel headwind, we generated double-digit margins, topping $5 billion in profits for the fourth year in a row. And we expect 2019 will build on these strengths and deliver a great year of returns for our stakeholders.

The demand environment is solid and our cost base should be stable resulting in improved earnings and cash flows for our owners. And while we're certainly mindful of the challenges that exist, macro trends, currency headwinds and extended government shutdown, our team has built a great foundation for our business and Delta is well positioned for success in 2019.

And now I'll turn it over to Glen to discuss the revenue environment.

Glen W. Hauenstein

President, Delta Air Lines, Inc.

Thanks, Ed, and good morning, everyone. 2018 was a strong year for Delta. Demand for our product and the affinity for the Delta brand has never been higher. I'd like to thank the Delta team for delivering record revenue and operational result this year and our customers for their continued loyalty and support.

For the full year, revenue grew 8% to nearly $44 billion on unit revenue growth of 4.3%, with a record revenue premium of 112%. Passenger unit revenues improved in all entities for the first time since 2012, with demand strength in both corporate and leisure segments throughout the year.

Corporate average fares improved 5% and returned to 2016 levels. Non-ticket revenue streams were strong as we diversified our revenue base. Cargo revenue grew 16% and MRO was up 19%, both producing double-digit margins.

Our close relationship with American Express is a source of competitive advantage. In 2018, we drove $360 million of incremental value for a total contribution of $3.4 billion. During 2018, we set a new record with over 1 million co-brand acquisitions and spend across the card portfolio grew double digits.

In the December quarter, revenue grew 7% on a 3.2% unit revenue improvement. Corporate revenues grew 7% in the December quarter on both volume and fare improvements, with growth across almost all sectors.

Revenues from premium products were up 10% in the December quarter on a 4% increase in premium capacity. On December 7th, miles as a currency launched, allowing our customers to redeem miles for post-purchase upgrades. Initial customer response has been strong, with over 30,000 flight upgrades purchased within the first month, driving a 2.5-point increase in upsell on delta.com. Miles on mobile will roll out later this month, and we plan to deliver much more additional functionality as we move through 2019.

Turning to specific entity performance in the quarter, domestic revenues increased 7.7% on 2.6% higher unit revenues. Both business and leisure revenues grew 8%, and we continue to set records for domestic revenue premium. This is noteworthy given an industry-leading increase in both stage length and gauge.

Internationally, we saw revenue growth of 4.8% on 2.3 points higher unit revenues. Our Latin region returned to positive unit revenue growth of 1% in the December quarter. The Caribbean was the best-performing sub-entity with 5% unit revenue improvement, and we are really pleased to see recovery taking hold in Mexico, where we posted a 3% RASM growth.

In the Pacific, unit revenues were relatively flat year over year, with significant increase in stage and currency headwinds offset by strong demand. Japan and Korea saw mid-to-high single-digit unit revenue growth, with Korea posting the strongest performance. Transatlantic unit revenues increased 4.1 points, but we started to see some cautionary signs in the quarter in addition to more pronounced currency headwinds.

The strength of our absolute performance was unfortunately overshadowed by the 1 point miss to our guidance midpoint. This was attributable to two main factors. First, we gave guidance near the peak of fuel prices and expected fuel recapture initiatives did not materialize. Second, the early Thanksgiving in 2018 created the longest possible calendar period between the holidays. And revenue during these weeks, while strong, was not as robust as expected, potentially due to consumer fatigue during this extended period. Retailers have reported seeing similar trends. Good news here is that January traffic and yields have returned to pre-holiday levels and demand is back on plan.

Looking forward, March quarter total revenue is expected to increase 4% to 6%, with adjusted unit revenue growth of flat to up 2% on a 4% higher capacity. The 2 point sequential change in unit revenue from the December quarter is due to a 0.5 point impact from Easter shifting to late April, a 0.5 point from the timing of JV settlements, and a full point from trends in Europe, currency, and the government shutdown.

We are optimistic about domestic performance for the March quarter. Leisure and corporate demand remain healthy, with strong bookings for the upcoming MLK and Presidents Day holidays as well as the spring break period. And the overall outlook for corporate travel is positive. In our most recent survey, 90% of travel managers expected to maintain or increase their travel spend into 2019. This is a 2 point improvement over the last survey we did a year ago.

For January, on-hand corporate bookings are already up 7% year over year, with both fares and passenger volumes continuing to improve. Domestic capacity growth for the industry and for Delta is moderating compared to 2018, and we are seeing improved competitive outlooks in Delta hubs.

For the March quarter, Latin will be our best-performing international entity, driven by the Caribbean and Mexico. Brazil remains challenging, as Delta is committed to improving profitability by trimming marginal capacity. With capacity plans down approximately 20% in 2019, we expect Brazil to become RASM contributor as the year progresses.

In the Pacific, stage length and currency headwinds will persist into the first half of 2019. For the March quarter, unit revenues are expected to remain flattish, but profitability will improve as we capitalize on cost efficiencies from new aircraft, upgrade our products and services, and further integrate our Korean joint venture products.

In the transatlantic, we see some cautionary signs in the March quarter. This is the entity expected to be the most challenged. We have seen leisure and corporate impacts in France due to the domestic unrest. And when you combine this with the uncertainty of Brexit, a more pronounced currency headwind, and the timing of Easter, which historically impacts this entity the most, we expect modest negative unit revenues for the March quarter.

While current trends are not as robust as what we saw in 2018, we are confident that the summer will be strong based on early bookings. We are watching this region closely given the uncertainty and are prepared to adjust capacity as we approach the next shoulder season.

In closing, a more diversified revenue base across geographies and products along with a continued pipeline of Delta-specific initiatives give us confidence in our plan of 4% to 6% revenue growth in 2019. Delivering on this target while also expanding margins is a top priority for Delta.

And with that, I'd like to turn it over to my good friend, Paul, to discuss the financials.

Paul A. Jacobson

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

Thanks, Glen. Good morning, everyone, and thank you for joining us.

Changing our cost trajectory was the top priority for the finance team in 2018 and I'm pleased to say that December quarter non-fuel unit costs were down 0.5%. Importantly, our full-year unit cost growth of 1.4% marked an inflection in our cost trajectory, putting us back within our long-term target of keeping unit costs growth below 2%. I'd like to thank the entire Delta team for their hard work and innovative thinking.

Our operating units are executing well on cost, achieving lower non-fuel CASM year over year, which is helping to offset overhead pressure from fleet and facility investments. My hat's off to Gil and the operations team for a job well done. Our 2018 performance and the initiatives underway give us confidence in our path to 1% non-fuel unit cost growth in 2019.

In the March quarter, we expect non-fuel unit cost to increase 1% to 2%. Relative to the December quarter, there is incremental cost pressure from maintenance timing ahead of summer flying, with about half of the full year increase in maintenance occurring in the first quarter and creating approximately 1.5 points of pressure. Despite this pressure and as evidenced by the midpoint of our CASM guide, we expect each quarter of the year to be 1.5% or lower, which this quarter is expected to be the high watermark and is consistent with our guidance at Investor Day. In 2019, we expect an additional $350 million of benefit from One Delta beyond the $150 million realized in 2018. And we'll continue to see benefits from refleeting as we replace aging narrow bodies throughout the year.

Turning to fuel. Our total fuel expense drove $508 million of pressure in the December quarter. Our all-in fuel price of $2.42 per gallon was 25% higher than prior year. While market prices moderated significantly from the beginning of the quarter, inventory pre-purchases and the scheduled maintenance turnaround at the refinery drove a $0.16 headwind during the quarter.

For the March quarter, we expect our all-in fuel price to be roughly flat to last year. Some of this is driven by a loss at the refinery of approximately $40 million due to lower gasoline cracks. We currently forecast March quarter earnings of $0.70 to $0.90 per share, an approximately 10% improvement over prior year at the midpoint. This equates to a March quarter pre-tax margin in the range of 6.5% to 8.5% compared to last year's 7.1%.

Our full year results in 2018 were impacted by two unique items, the sale of 51% of our Delta Global Services business and early adoption of the new lease accounting standard. These two items together increased 2018 earnings per share by $0.14 adjusted for profit sharing, with the majority of that benefit coming in non-operating expense. As we said at Investor Day in 2019, we expect non-operating expense to be $450 million to $500 million. This is $350 million to $400 million higher than 2018, primarily due to a lower pension benefit and the lapping of the gain from the DGS sale.

And finally, our strong cash generation and healthy balance sheet allow Delta to execute on investment opportunities and consistently return capital to shareholders. During 2018, we generated $7 billion of operating cash flow and invested $4.7 billion back into the business, resulting in free cash flow of $2.3 billion. In 2019, we expect to produce roughly $8 billion in operating cash flow and free cash flow of $3 billion to $4 billion, which is more than 50% higher than last year and represents an approximate 10% free cash flow yield at our current stock price.

As outlined at Investor Day, we are planning capital spending of $4.5 billion in 2019 as we continue to replace our fleet and invest in our product and technology. 80% of this spend is fleet-related including the replacement of less efficient narrow bodies. Our investments are transforming our fleet to drive margin benefits through higher customer satisfaction, increased premium seats and significant cost efficiency gains.

For the first quarter, we expect capital spending of roughly $1.3 billion as we take delivery of 29 aircraft in the quarter. We remain committed to consistent return of capital to our owners as well. In the December quarter, we returned $325 million in share repurchases and $238 million in dividends for a total of $2.5 billion returned to shareholders for the year. We expect a similar level in 2019 in line with our target of returning 70% of free cash flow to shareholders annually.

Over the past five years, we have reduced our fully diluted share count by more than 20%, returning more than $12 billion through dividends and share buybacks with a current dividend yield of nearly 3%.

Importantly, we've done that while also reducing our debt and our pension liability, improving the health of our balance sheet. We're comfortable with the current level of debt. And as we highlighted in Investor Day, we have moved to a long-term leverage ratio target of 1.5 times to 2.5 times adjusted debt to EBITDAR.

This ratio was 1.9 at the end of 2018. Our targeted range should allow us to maintain investment-grade ratings through a business cycle and also includes the incremental lease liabilities recognized with the adoption of lease accounting.

At year-end, our pension funded status was 68% with an unfunded pension liability of $6.4 billion. Our 2018 planned asset returns underperformed our target of 9% by about 14 points. This return shortfall will reduce our pension benefit in 2019 contributing to the year-over-year pressure in non-operating expense.

Looking back on 2018, I am extremely proud of what we have accomplished at Delta. We successfully navigated challenges and have positioned the company for another year of solid top line growth, and more importantly, margin expansion, which should drive double-digit growth in our earnings and free cash flow in 2019.

As Ed said, at the outset of this call, this performance was enabled by the Delta difference. Our combination of the powerful brand, coupled with our unmatched competitive advantages, continue to deliver industry-leading results and drive long-term value for our owners.

And with that, I'll turn the call back over to Jill to begin the Q&A.

Jill Sullivan Greer

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

Thanks, Paul. Augusta, we are ready for questions from the analysts. If you could give instructions on how to get into the queue.

QUESTION AND ANSWER SECTION

Operator: Certainly. The question-and-answer session will be conducted electronically. [Operator Instructions] We'll go first to Brandon Oglenski with Barclays.

Brandon R. Oglenski
Analyst, Barclays Capital, Inc.

Q

Hey, good morning, everyone. And thanks for taking my question. So I guess Ed or Glen, I mean, you guys mentioned challenges from European economies, it looked may be a little bit slower this year, the government shutdown here in the U.S., maybe some lingering challenges in the Pacific and Latin. So I guess when we look at capacity growth, I think scheduled right now in 2Q is about 4.6%. What's the ability to take the capacity down if some of these trends continue or even worsen from here?

Glen W. Hauenstein
President, Delta Air Lines, Inc.

A

First of all, we're very encouraged by – you kind of characterized this global slowdown as all the same and I'd like to put some qualifiers on there. We're actually quite excited about the Latin trajectory. If you recall, this is the first quarter after two quarters of it being negative that it's returned to positive and we – see Latin accelerating as we move into 1Q and then throughout the year.

We see very solid returns in the domestic. And remember, last year was a really great year for the transatlantic, one of the best years we've ever had. So being in the flattish in the off-peak season is really I wouldn't characterize it as something that we're fearful of. But we're going to keep a very close eye as we read all these papers and we read the current events.

We see what's going on in France. There's still uncertainty over Brexit finally come to a head here. And so what we're – but we know the summer in Europe is going to be great with lower fuel prices, so we're really looking more towards the back half of the year, and do we need to make additional adjustments when we get past the summer peak. And we'll keep a close eye on that and we'll report back to you.

Brandon R. Oglenski
Analyst, Barclays Capital, Inc.

Q

Okay, I appreciate that, Glen. And I guess we've heard it from FedEx too that maybe Europe is incrementally slower from here. That's why I asked. But thinking more broadly, if the market's really concerned here that the economy will slow because it's not necessarily slowing right now, with 35% of your passenger revenue tied up in premium products, should investors be thinking that maybe the Delta business now is more cyclical than maybe it was in the past? And I think at the Analyst Day, you guys tried to answer that. You said look, the spread between a premium ticket and the economy ticket actually isn't that far off, so we don't think so. But can you give folks maybe some additional ideas on why this may not be as cyclical as folks think?

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

A

I think there are two things we should talk about in that question, and the first is the disparity between the higher ending corporate travel and the lower ending leisure. The spread between those, absent the premium products, is at an all-time low. If you think about what's happened over the past couple of years, leisure fares have continued to increase and we've had very stubborn corporate yields. And while we returned to 2016 levels, we're still far off the peaks that occurred many, many years back.

So if you think about the last cycle or some of the big cycles we had really big change – we had really big differentials in the realized fare from corporate versus leisure and those at a macro level have never been closer if you were thinking how does the next cycle play-out. So I think that's a very big issue we need to talk more about because that should make it – the whole industry a lot less cyclical.

And then in the premium products I think if there was a tick down in demand we're more than confident that all of the new products and services and the way we're distributing and the broadness that we're able to offer including the Pay with Miles feature and things like that, we would be able to offset weakness in demand by bringing new ways to buy the product into the marketplace.

So really confident on both of those and we should probably talk more about that as we move through the year. We hear a lot of your concerns about where we are in the cycle. And while we haven't really seen any weakness in domestic, we are mindful that we are many years into this expansion. And eventually we will face a recessionary or a contractionary environment. And we're planning for it and we should – would tell you more about why we feel so confident that we will weather the next cycle so much better.

Brandon R. Oglenski
Analyst, Barclays Capital, Inc.

Q

Thank you.

Operator: We'll go next to Michael Linenberg with Deutsche Bank.

Mike J. Linenberg
Analyst, Deutsche Bank Securities, Inc.

Q

Hey, two quick ones here. Glen, just you had highlighted the headline – excuse me, the headwinds on RASM in the March quarter. And I heard government shutdown and currency is like a point. Easter shift is a half a point. What was – there was another thing you mentioned, another 50 basis points. What was that again?

Glen W. Hauenstein
President, Delta Air Lines, Inc.

A

That was foreign exchange and JV settlements.

Mike J. Linenberg
Analyst, Deutsche Bank Securities, Inc.

Q

Oh, okay, the JV settlement piece, okay.

Glen W. Hauenstein
President, Delta Air Lines, Inc.

A

And that's really just the timing as to when they come in and when they go out. That should balance out throughout the year.

Mike J. Linenberg
Analyst, Deutsche Bank Securities, Inc.

Q

Okay, great. And then just my second question, there was commentary about how strong sales were to China. And then there was some positive commentary about Japan and Korea. And I noticed that the Pacific RASM was down a smidge. Is that – what was driving that? Is that more stage length? Or is there another part of the Pacific like Australia where you're seeing a lot of weakness?

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

A

No, most of that – all of that is stage length because in China, as you know, we discontinued the Narita to Shanghai route and replaced it with Atlanta to Shanghai. So the RASM, while it's lower, the profit potentials there are significantly higher. And – so that's what's driving a slightly negative Chinese unit revenue but all based on stage length.

Mike J. Linenberg
Analyst, Deutsche Bank Securities, Inc.

Q

Great, that makes sense. Thank you.

Operator: Our next question comes from Savi Syth with Raymond James.

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

Q

Hey, good morning, just a clarification from Glen. On the domestic commentary, you mentioned solid trends. So just outside of Easter and maybe the government shutdown, should we assume that the magnitude is similar, Glen, at least on a core level?

Glen W. Hauenstein
President, Delta Air Lines, Inc.

A

I think we're very confident. We had that little blip in December right around the holiday. But as January and everybody came back from work, we are back on track. And the corporate trends and the leisure demand look very similar to what we saw in the earlier part of 4Q.

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

Q

Helpful. And just as a follow-up on the Trainer – the color that you provided, Paul, that was helpful. I'm just trying to understand what's driving the loss in 1Q and how we should think about it as the year progresses.

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

A

Sure, Savi. Good morning and thanks for that question. There are two big impacts year over year with Trainer. One is the difference in gasoline cracks. They're trading at pretty historic lows right now, which is putting some pressure on the production at Trainer on a year-over-year basis. The second was, we benefited last year from a slight revaluation of a RINs liability that we were holding from 2017. So with those lower RINs prices. RINs have been traded relatively flat. We've satisfied our 2017 and 2018 obligation to date. So that's a smaller impact, but it's primarily driven by those lower gasoline cracks, which we expect should reverse over the year, especially as we get into summer season.

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

Q

Thank you.

Operator: We'll go next to Joe Caiado with Credit Suisse.

Joe Caiado
Analyst, Credit Suisse Securities (USA) LLC

Q

Thanks very much. Good morning, everyone. First question is for Paul on unit costs. I appreciate the color on the timing of the maintenance spend here in Q1 and the expected cadence for the year. But at a high level, can you just talk about where you see the biggest risks and opportunities in your cost structure to either materially outperform or underperform your 1% CASM-Ex target for the year?

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

A

Sure, good morning, Joe. We've come out of 2018 with a lot of momentum that we expect to continue into 2019. So I'm optimistic on our One Delta initiatives in particular as we continue to progress and get better at that enterprise level of thinking. But I'm also optimistic about the fleet efficiencies that we'll get. We'll take approximately 60 airplanes in the first half of the year. And as that phases in over time, we start to realize some of those efficiencies going forward. So again, I reiterate the optimism I conveyed at Investor Day. We feel very confident about our 1% goal, and the timing of maintenance was fully expected in that when we gave that guidance on a quarterly basis.

Joe Caiado
Analyst, Credit Suisse Securities (USA) LLC

Q

Okay, thanks, and then a question for Glen on cargo. I was curious if you could give us some more color on what you're seeing in the cargo operation, particularly across the Pacific and what you're seeing there in terms of volumes and yields, and whether or not it makes sense for us to think of that as potentially being a leading indicator of what we might see in passenger demand.

Wayne Gilbert West
Chief Operating Officer & Senior Executive Vice President, Delta Air Lines, Inc.

A

This is Gil West. I just comment – a couple of comments on cargo. First, the cargo business had an exceptionally strong year in 2018. As you probably know, revenues were up over $100 million or 16%, as Glen mentioned, due large part to the yield performance. So, despite lapping some pretty challenging comps year over year, we're seeing yield performance continue to hold strong. We do see some volume pressures, some geography to that, as you allude to, that's occurring. But I will say revenue growth, while it's moderating, is still up single digits, driven primarily by yield performance.

Joe Caiado
Analyst, Credit Suisse Securities (USA) LLC

Q

And should we view that as a potentially leading indicator of what we might see with volumes on the passenger demand side, or is that not the right way to think about it?

Glen W. Hauenstein
President, Delta Air Lines, Inc.

A

I think you've got to think about what's going on with the tariffs and, in a more macro sense, on how people are trying to offset tariffs, whether they're using air or sea. And I think we could always look at leading economic indicators, but we are very, very close when we look at the passenger revenue side, and we don't see those same trends translating into the passenger revenue side. I think we don't try to get ahead of ourselves. We try and size what that revenue is going to be as quickly as we can and then we make the appropriate decisions.

Joe Caiado
Analyst, Credit Suisse Securities (USA) LLC

Q

Understood, I appreciate all the color. Thanks, everyone.

Operator: We'll go next to Andrew Didora with Bank of America.

Andrew G. Didora
Analyst, Bank of America Merrill Lynch

Q

Hi, good morning, everyone. Thanks for taking questions. First question for Glen, now that you're breaking out the premium product versus Main Cabin, I did notice that growth in premium revenues had decelerated a little bit to up 10% in 4Q versus I think you were tracking a mid-teens rate earlier in the year. What changed here? And really interested in, Glen, getting your thoughts on – what's your read on this? Do you view this premium revenue bucket as a good read across for corporate spend?

Glen W. Hauenstein
President, Delta Air Lines, Inc.

A

No, I think you've got one thing – two things going on. One is the base is increasing dramatically. So we didn't expect that we would be in the mid to high teens as the base continued to grow. And second is that the quarter had the least number of premium seats in it that we'll have over any quarter. So, we were tracking at about plus 8% on the premium seat counts. This quarter was about plus 4%. And as we go into 2019, that number will go back up to plus 6%. So your ability to sell premium is also related to the inventory you have. And the 4Q number was the lowest inventory growth that we'll have for the next few quarters.

Andrew G. Didora
Analyst, Bank of America Merrill Lynch

Q

Got it, that makes sense. And then my second question revolves around more on the government shutdown. And look, I appreciate that this is a pretty fluid situation, but I know you guys called out the lack of corporate contracts on the government side traveling. But have you seen anything in your bookings or conversations with your corporate travel managers that would indicate that maybe corporates might be beginning to delay travel given the crowding issues that have popped up at the airports, or is that not in the conversation yet? Thanks.

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

A

Andrew, this is Ed. No, we're not seeing any evidence that people are looking at this extended shutdown as anything other than something that was going to be resolved hopefully soon.

Andrew G. Didora
Analyst, Bank of America Merrill Lynch

Q

Got it, okay. Thank you.

Operator: We'll go next to Hunter Keay with Wolfe Research.

Hunter Keay
Analyst, Wolfe Research LLC

Q

Thank you, good morning.

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

A

Good morning.

Hunter Keay
Analyst, Wolfe Research LLC

Q

Hey, Paul. Good morning. So, Paul, the pension plan return of negative 5%, what happened there? I think you guys said in your 10-K you got about 40% – 50% of growth seeking assets. I'm wondering if that's what drove it. And how are you thinking about that pension plan asset allocation given some of the comments you made about maybe some concerns you maybe starting to have around global economic growth?

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

A

Sure, Hunter. So, as you know, the pension plan has a pretty long life and with an approximate 9% expected return we tend to be heavily weighted toward equities. It was a challenging year in the equity markets across the board, but particularly in global stocks around emerging markets, et cetera. We're always looking at ways to tweak that, but we do that through a lens of a long-term expected return matching that liability profile. So, be careful not to overreact, but at the same time we want to manage that exposure prudently.

Hunter Keay
Analyst, Wolfe Research LLC

Q

Okay, and then maybe this is a question for Glen. Do you know how many seats – if you want to maybe take a stab at quantifying this, Glen? Do you know how many seats go unsold relative to your target maybe 7 or 10 days before the flight today and maybe how that's changed in the era of low oil prices or higher industry capacity growth? I'm basically wondering if the industry is just a little bit more geared, particularly you guys, I should say, Delta is just a little bit more geared towards that last minute 7-day AP window than maybe you were five, six years ago? Can you provide any data around that for me?

Glen W. Hauenstein
President, Delta Air Lines, Inc.

A

I think when you look at where we have been going into each one of the months in 2018 and into 2019, we've entered the months actually ahead in load factor. So we've actually become a little bit less reliant on the very close-in demands. And that's really where we want to continue to position ourselves in 2018 as with little bit less risk on the table as we head into each one of the months.

Hunter Keay
Analyst, Wolfe Research LLC
Q

Okay, thanks.

Operator: We'll go next to Duane Pfennigwerth with Evercore ISI.

Duane Pfennigwerth
Analyst, Evercore ISI
Q

Hey, thanks. Just with your commentary about aircraft induction delays. I think I understand the A220 and certification process. But I think you mentioned some other aircraft types. Can you just expand on why this shutdown is driving delays?

Wayne Gilbert West
Chief Operating Officer & Senior Executive Vice President, Delta Air Lines, Inc.
A

Gil, yeah. Of course, the A220 we've talked about, I think, there is some potential impact on some other fleets namely the A330-900neos and it gets back into certification issues that we certify seats and crew rest and things of that nature, Wi-Fi systems that with the government shutdown become problematic for us. So there's not an immediate impact, but it certainly could have an impact downstream on us.

Duane Pfennigwerth
Analyst, Evercore ISI
Q

Thanks, that's helpful. And then with the A220s specifically, can you just remind us what aircraft types are those replacing? So in other words, are you going to be parking 717s? And are these delays part of what is driving maybe some maintenance pressure in the short run as you keep these older aircraft around?

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

Duane, I think, you're over thinking it. We're not expecting this to be an extended delay, and the primary aircraft the initial A220s are replacing are really long range 2-class RJs, of course, some MD-80s as well.

Duane Pfennigwerth
Analyst, Evercore ISI
Q

Okay, thank you.

Operator: We'll go next to Jamie Baker with JPMorgan.

Jamie N. Baker
Analyst, JPMorgan Securities LLC
Q

Hey, good morning, everybody. First one for Glen, I'm guessing the majority of your passengers that do fly on government fares have SkyMiles accounts. Can you give us a feel for how much these passengers drive in terms of non-government spend? I think, for somebody in tech or finance, their personal spend is a fraction of what their annual corporate spend probably is. I just don't really know how that dynamic looks for a typical government employee obviously trying to figure out the knock-on effect on leisure spend even if the government were to reopen tomorrow?

Glen W. Hauenstein
President, Delta Air Lines, Inc.

A

Right. We're trying to quantify that right now. It's a very – as you might imagine, it's kind of difficult to figure out all of the implications because you have multiple dimensions there. But that's – our estimate of $25 million includes all of those components. So it's not just...

Jamie N. Baker
Analyst, JPMorgan Securities LLC

Q

Oh, it does?

Glen W. Hauenstein
President, Delta Air Lines, Inc.

A

Yes.

Jamie N. Baker
Analyst, JPMorgan Securities LLC

Q

But presumably any reduced leisure spend by government employees in January wouldn't have manifested in January. You don't come back from vacation and then start working and then go on another vacation, right? So that's in your future, not somewhere else in the quarter, in other words?

Glen W. Hauenstein
President, Delta Air Lines, Inc.

A

Exactly, we'll see how long this reoccurs and we could revise that if it's long and expands. But right now that's what we we're thinking $25 million.

Jamie N. Baker
Analyst, JPMorgan Securities LLC

Q

Okay. And second and probably for Paul, Ed answered the question about at what point A220 delays might pressure ex-fuel CASM. But is there any lingering impact from all the tariff noise? I haven't been paying close attention recently. Not sure which plant you're taking the aircraft from, also have you figured out the network impact, are these going to be spread far and wide eventually? Or should we think the A220 is, I don't know, more of a Boston plane or a Seattle plane or something like that? Just wondering how they fit within the domestic network construct.

Glen W. Hauenstein
President, Delta Air Lines, Inc.

A

I think you're right and in your assumption that they'll be primarily focused on the coastal gateways as opposed to the interior hubs where we can drive more fuel – more cost efficiency and higher volumes.

Jamie N. Baker
Analyst, JPMorgan Securities LLC

Q

Okay, fair enough. Thank you very much.

Operator: We'll go next to Helane Becker with Cowen.

Helane Becker
Analyst, Cowen & Co. LLC

Q

Thanks very much...

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

A

Helane, we can't hear you. Could you repeat your question?

Helane Becker
Analyst, Cowen & Co. LLC

Q

Can you hear [Technical Difficulty] (41:40).

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

A

No, we can't hear you.

Helane Becker
Analyst, Cowen & Co. LLC

Q

Hello. No? Operator, can you open the right line?

Jill Sullivan Greer
Vice President, Investor Relations, Delta Air Lines, Inc.

A

There you are, Helane.

Helane Becker
Analyst, Cowen & Co. LLC

Q

Is that better?

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

A

Yes.

Helane Becker
Analyst, Cowen & Co. LLC

Q

Oh good, okay. I think, there's just a problem with me calling in from London and my office, calling in from New York. Just a question on tech ops and I didn't hear you talk about that. But could you just talk about the cadence for revenue growth in that business and how that's shaping up your – and maybe the first half of year that would offset some of the other pressures that you're seeing in maintenance?

Wayne Gilbert West
Chief Operating Officer & Senior Executive Vice President, Delta Air Lines, Inc.

A

Sure. This is Gil. So our MRO business in tech ops, again, had a great year in 2018. It's pushed well over $700 million, up $100 million year-over-year. We see a similar trend in 2019, little more moderated growth, but still pushing probably close to $800 million. Longer term though as you probably know we've made investments in our capabilities, new engine shop, new test cell. All that is a foundation to introduce two new engine-type fleets into our MRO network, the geared turbo fan Pratt & Whitney engines and the Rolls-Royce Trent series engine. And then longer term as that revenue ramps we'll see over $1 billion a year incremental revenue from those two engine types.

Helane Becker
Analyst, Cowen & Co. LLC

Q

Just from those alone not including the other business?

Wayne Gilbert West
Chief Operating Officer & Senior Executive Vice President, Delta Air Lines, Inc.

A

That's correct.

Helane Becker
Analyst, Cowen & Co. LLC

Q

Great, okay. Thanks, everybody. Thanks for being patient.

Wayne Gilbert West
Chief Operating Officer & Senior Executive Vice President, Delta Air Lines, Inc.

A

Thanks, Helane.

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

A

Thanks, Helane.

Operator: We'll go next to Joseph DeNardi with Stifel.

Joseph William DeNardi
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Good morning. Paul, the ROA of 9% is about as high an assumption as I've seen. Can you just talk about the sustainability of that? What the knock-on effects would be if you lowered it and whether lowering it is contemplated in your earnings guidance for 2019?

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

A

Sure, Joe. Good morning. The 9% expected return assumption is at the high-end of corporate plans. But remember that our plan is unique not only to Delta in the airline industry, but to all corporate plans because of airline relief. So what we have done is taken an approach where we've proactively funded with a little bit more of an aggressive return profile because we have the time to do that with airline relief with having fully met our minimum obligations through 2024. So it has always been in our plans that we would work on reducing the risk in that portfolio as we get closer to fully funded. But what I would say is the long-term returns of that plan as we thought about it over the last 10 years have been wholly consistent with that strategy of trying to drive a better funded status through both contributions and investment returns. And that will change over time, but there's no change contemplated in the rate in 2019.

Joseph William DeNardi
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Okay, that's helpful. And then, Glen, I just have a two-part revenue question for you. First is, I think, your agreement with Amex probably comes up in a couple of years typically when both parties are happy they'll extend that early. So can you just talk about both the timing of that and what sort of revenue opportunity that could offer you? And then, whether you've changed the way that you guide based on kind of the challenge you've had over the past couple of years of hitting guidance whether first quarter guidance is different than it has been? Thank you.

Glen W. Hauenstein
President, Delta Air Lines, Inc.

A

We don't comment on any potential negotiation. So I'll defer on the first one. But on the second one, we clearly have heard our investors that they want us to make sure that we hit our targets and we – while we did hit inside the range from 3.2% is in the range 3% to 5%, we know that we lowered in the quarter. And so we're examining that. And I'd say we don't want to miss again. It's too painful for everybody.

Joseph William DeNardi
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Thank you.

Operator: We'll go next to Catherine O'Brien with Goldman Sachs.

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

Q

Good morning, everyone. Thanks for the time. So, first question just on business travel. I usually think about business travel being booked within seven days, but I could imagine booking curve for international business travel could be slightly longer on average. So could you maybe talk about the differences in the booking window you see between regions? And then is there a region in particular maybe where that booking curve is longer or shorter where you build in more cushion or less cushion to your forecast? Thanks. That's my first question.

Glen W. Hauenstein
President, Delta Air Lines, Inc.

A

Sure, yes. You can kind of think of the booking curve related to how far the trip is. So the further you go around the world earlier the general booking curve is. Very short haul things like Atlanta to Jacksonville, Atlanta to Orlando, New York to Atlanta have close-in booking windows as well. New York to China or New York to Japan or Atlanta to Japan would have very long booking windows. So that's the general rule of thumb. And was there another part to that?

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

Q

Yeah, and then the second part was just keeping that in mind, do you build in more or less cushion given some of these longer booking windows for international into your forecast than you might for domestic?

Glen W. Hauenstein
President, Delta Air Lines, Inc.

A

Of course. The way we build our forecast is really what's happening in the last few weeks versus what happened in the last few months versus what's happened in the last few years. So it's a very complicated mathematical equation. And for those that have longer booking windows, we clearly take that into account.

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

Q

Understood. Then if I could just as a quick follow-up on the government shutdown math, so when you're saying $25 million a month, in the March quarter guidance, are you just baking that in for the month of January? Or I know that you said there's a point for Europe slowing, government shutdown, and maybe FX. Is the government shutdown most of that point, or how should we think about that?

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

A

Catherine, this is Ed. We're not going to speculate what's going to happen with the government shutdown. We commented on the $25 million so people can see what the current run rate is. It's one of the risks that we considered in coming up with our overall unit revenue guide, but I don't think we should get that level of precision into the guidance.

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

Q

Understood, thank you very much.

Jill Sullivan Greer
Vice President, Investor Relations, Delta Air Lines, Inc.

A

Augusta, we're going to have time for one more question from the analysts.

Operator: And that will come from David Vernon with Bernstein.

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

Q

Hey, thanks for taking the question. The first question is really again a continuation of some of the government questions. But I guess, Ed, [Technical Difficulty] (49:02) baked into the one quarter guide associated with the shutdown or how long this thing would have to go before you'd have to be worried about some of the cost guidance for the year?

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

A

David, we lost your first part of your question. Could you repeat it?

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

Q

Sorry. The question was what – like China dimension, whether or not there's any of the government shutdown cost associated with aircraft delays, stuff like that, in the guidance, and how long we would need to see this go before you'd be worried about an impact to the unit cost guide either in 1Q or for the year?

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

We don't expect it to have a meaningful impact on the unit costs guide in either the quarter or the year.

J. David Scott Vernon
Analyst, Sanford C. Bernstein & Co. LLC
Q

Okay. And then, Paul, maybe just as a quick follow-up, could you give us a sense for how non-op expense should look for the full year?

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

As we talked about, David, non-op expense is going to be pretty even throughout the year. That pressure from the pension gets spread evenly throughout the year. So it should be pretty consistent.

J. David Scott Vernon
Analyst, Sanford C. Bernstein & Co. LLC
Q

Okay, thank you very much for the clarifications.

Jill Sullivan Greer
Vice President, Investor Relations, Delta Air Lines, Inc.
A

That's going to wrap up the analyst portion of the call. I'll hand it over to Ned Walker.

Ned E. Walker
Senior Vice President & Chief Communications Officer, Delta Air Lines, Inc.
A

Okay. Hey, thanks very much, Jill. Good day, everyone. We'll go ahead and begin the media Q&A at this time. I'd like to ask everyone if they could ask one question with a brief follow-up. That way, we should be able to accommodate most everyone. And, Augusta, if you could review the process for asking a question, we'll go ahead and begin.

Operator: Thank you. Again, it is now the media portion of the question-and-answer session. [Operator Instructions] We'll go first to Andrew Tangel with The Wall Street Journal.

Andrew Tangel
Staff reporter, The Wall Street Journal
Q

Hi there. Wondering about the shutdown and long lines. Can you give us some idea of how much you're seeing in a way of passengers getting delayed, missing flights, maybe missing connections, like Customs, if there are shorting staffages. And what kind of financial impact is it having on Delta, and have you been able to measure that? Is it material in any way in terms of rebooking cost and so forth?

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

Andrew, this is Ed. We're not seeing a meaningful impact. The operations are running on schedule, on time. Our team is doing a great job of working with the TSA to help the queues moving forward. I mentioned earlier today that the TSA published yesterday they had an unscheduled absence rate at 7%. That compares to a 3% rate they typically run. So in isolated airports, we're having some longer lines, but it's not a system-wide issue at all. And to the extent that customers are impacted by delayed lines, we're re-accommodating them and getting them to their destinations in good manner.

Andrew Tangel
Staff reporter, The Wall Street Journal

Q

And just as a follow-up on the A220, you mentioned in your remarks that the shutdown is costing $25 million from government workers. Both the A220, how much money you will be leaving on the table if the launch is delayed for weeks and weeks. Is there a way you could quantify that?

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

A

We're not anticipating that outcome. That's probably the short answer. We are not leaving any money on the table. We're not going to be canceling routes or flights. We'll just delay the introduction of that specific aircraft type.

Andrew Tangel
Staff reporter, The Wall Street Journal

Q

Thanks.

Operator: We'll go next to Mary Schlangenstein with Bloomberg News.

Mary Schlangenstein
Dallas Reporter-Bloomberg News, Bloomberg LP

Q

Thank you. You talked earlier in the call about the dip in corporate travel and the bookings right before Christmas and then how that rebounded. Can you talk just a little bit more on that in general terms on – was it just the one week or did that one week extend into the start of the new year and you rebounded since then?

Glen W. Hauenstein
President, Delta Air Lines, Inc.

A

It was really specific to the long period between Thanksgiving and Christmas. And it wasn't corporate, it was really just an across-the-board lull. As you know, once every seven years this occurs where the first day of the year is on a Thursday in November and it creates the very longest possible period between the holidays. I think you've seen a lot of people talk about this not only in our industry where that long period probably is not advantage for airlines or for retail. So next year it moves again and it will move a lot closer, and we're not expecting that to reoccur. And yes, all the trends did go back online right after the holidays.

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

A

Mary, this is Ed. Just to affirm, we had a great Christmas, all-time record in terms of volumes that we carry. So, it wasn't a lull, it was just the impact on pricing was a little softer than we anticipated, but it was a very, very strong Christmas and holiday season for us.

Mary Schlangenstein
Dallas Reporter-Bloomberg News, Bloomberg LP

Q

Great. And if I could just ask on the seven planes that are being delayed into entry, does that include the A220s? And if so how many? And then the other question is related to that, were the others all A330-900s? Or were there some other fleet types in there?

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

A

We're not going to get into all those details. It's primarily the Airbus A220, yeah. But as Gil mentioned earlier, the A330neo could also be impacted here.

Mary Schlangenstein
Dallas Reporter-Bloomberg News, Bloomberg LP

Q

Great, thank you.

Operator: We'll go next to Leslie Josephs with CNBC.

Leslie Josephs
Airline Reporter, CNBC

Q

Thank you for taking my question. I just wanted to clarify, is $25 million a month in lost revenue or just January? And also on the shutdown, what else can you not do? I mean, you mentioned the A330neo and then Internet. Can you launch new routes? So what can you not do with those FAA furloughed?

Glen W. Hauenstein
President, Delta Air Lines, Inc.

A

On the revenue estimate, $25 million is what we're seeing in the month of January. Obviously, if it was to continue, we think that's an order of magnitude number, but we don't know what those impacts could be. And we're not seeing any significant operational challenges. The introduction of new aircraft types for us is primarily is the Airbus A220 and the A330neo and that's where our concerns are limited to.

Leslie Josephs
Airline Reporter, CNBC

Q

Is there any issue especially on the tech ops with hiring mechanics with some FAA furloughed or hiring in any aspects of the business?

Glen W. Hauenstein
President, Delta Air Lines, Inc.

A

We're not seeing any meaningful changes. Certainly, the on-boarding is delayed a little bit for any new hires in that space. But, again, it's something hopefully that we're going to be moving through relatively quickly. We're not making any changes in our procedures.

Leslie Josephs
Airline Reporter, CNBC

Q

Okay, thank you.

Operator: We'll go next to Tracy Rucinski with Reuters.

Tracy Rucinski
U.S. Aviation Correspondent, Thomson Reuters

Q

Hi. My questions have already been answered. But just one more shutdown-related question, you said that you haven't seen any impacts on bookings, but has there been any rise in passengers canceling travel plans this month that can be attributed to the shutdown?

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

A

We're not seeing that. The $25 million estimate we gave for the month of January is inclusive of all of the above, all those factors.

Tracy Rucinski
U.S. Aviation Correspondent, Thomson Reuters

Q

That's not just the government contractors?

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

A

It's government contractors and any knock-on effects that we can see that are related to that, the best that we can tell.

Tracy Rucinski
U.S. Aviation Correspondent, Thomson Reuters

Q

Okay, thanks.

Operator: Next, we'll hear from Benjamin Zhang with Business Insider.

Benjamin P. Zhang
Senior Transportation Reporter, Business Insider

Q

Good morning gentlemen. I just had a quick question about the 52% revenues coming from premium products and non-ticket sources, you guys mentioned there's a 14% – or sorry, double-digit increase in that. What do you foresee for 2018 (sic) [2019]? Do you expect that growth to continue at that pace?

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

A

Yes, we expect that we will continue to grow the premium products and services more than we grow the base fare products. So if you think about our total growth of 4% to 6% next year that would indicate that we're growing significantly higher on the premium products side. So probably close to that 10% to 15% as we have in the past few years.

Benjamin P. Zhang
Senior Transportation Reporter, Business Insider

Q

Great, thank you.

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

A

Okay, I guess that we have time for one more question.

Operator: Thank you. That will come from Elliott Blackburn with Argus Media.

Elliott Blackburn
Senior Reporter, Argus Media

Q

Good morning. Thanks for making time for me. You guys had a process late last year exploring partnership options at the refinery. Just curious if you could give us an update on what you determined in that or if it continues and also curious just more broadly if Delta is looking at making any other non-maintenance investments maybe logistics to bringing crude from the mid-con and that refinery to improve performance?

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

A

Good morning. We have continued with that process and have received some interest in having discussions with parties. There's no update on the strategy broadly as we articulated. We're looking for ways to enhance the value and the strategic value to Delta of the refinery through a partnership and those discussions can be complicated. But right now, we're focused on running and operating the refinery as efficiently as we can. We just came out of a major turn around investment that is done every five to six years and the refinery is running quite well. So, nothing needed in terms of enhancing the performance.

Elliott Blackburn
Senior Reporter, Argus Media

Q

Okay. So, you're satisfied with the access that you have to crude right now. You don't feel like you need to build anything on to that?

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

A

Absolutely. So, we take a wide variety of crude. Sometimes we swing domestically and some internationally and we have logistics to be able to take advantage of that as those opportunities present themselves.

Elliott Blackburn
Senior Reporter, Argus Media

Q

All right, thanks very much.

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

Okay. Thanks, Ed, Glen, Paul, and Gil. And that does conclude our December quarter and full year 2018 earnings call. We'll be back here again in April when we report our March quarter 2019 earnings. Have a good day everyone.

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