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Delta Air Lines, Inc. (DAL)

Q3 2018 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, everyone, and welcome to the Delta Air Lines September Quarter 2018 Financial Results Conference Call. My name is Lisa, 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 now like to turn the conference over to Jill Greer, Vice President of Investor Relations. Please, go ahead.

Jill Sullivan Greer

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

Thanks, Lisa. Good morning, everyone, and thanks for joining us on our September quarter call. Joining us from Atlanta today are our CEO, Ed Bastian; our President, Glen Hauenstein; and our CFO, Paul Jacobson. The 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. And 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 H. Bastian

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

Well, thanks, Jill. Good morning, everyone, and thank you for joining us today. Earlier, we reported a $1.6 billion pre-tax profit in the September quarter and earnings per share of $1.80, which was at the high end of our initial guidance. Our EPS was up 16% over last year driven by strong revenue momentum, tax reform benefits, and a 4% lower share count. Demand for the Delta product has never been greater. Our revenues grew 8% to nearly $12 billion, a record level for the company, and now, we expect to achieve 8% top line growth for the full year.

We have seen continuous success in addressing fuel cost increases and offset roughly 85% of the $655 million impact of fuel cost for the quarter. Excuse me – our speed in recovering these costs has never been better, and gives us confidence that we can fully recapture fuel cost at these levels as we head into 2019 and start to grow our margins once more.

I'd like to thank the Delta people for running the best airline operation and continuing to raise the bar. We've now had 100 days without a single cancellation across the entire Delta system, both Delta mainline and Delta Connection, already exceeding 2017's full year record of 90 days.

I'd also like to thank the team for the incredible job they've done with the difficult and challenging conditions of Hurricane Michael. We've had less than 100 cancellations over the last two days with minimal financial impact. We are the last operator out of the Gulf Coast stations and we're the first carrier to return to these stations today. Our customers depend on Delta, and we put our customers' needs and interests first. That's the Delta Difference.

It's this unprecedented level of reliability, combined with great service from our team that is driving our customer satisfaction scores to new heights, our domestic Net Promoter Score has averaged 44% this year, which is up three points over the prior year. This is the reason why our revenue per premium is at record levels and sustainable.

In recognition of our employees' outstanding performance, we've added another $395 million towards next February's profit sharing payout. This is in addition to awarding a 3% base increase, which was effective October 1, for ground employees and flight attendants.

Later this month we'll celebrate the 10th anniversary of our merger with Northwest, which was the beginning of a campaign to become the very best airline in the world for our employees, owners, and the customers and communities that we serve.

In those 10 years, we've lead an unprecedented transformation at Delta and our industry. We are financially stronger and able to withstand industry cycles like never before. We increased our global reach to 52 countries with an innovative strategy that includes over $2 billion in equity ownership of our airline partners.

Through our commercial efforts, we have taken Delta from mid-teens NPS and a revenue deficit to the industry to a carrier with leading customer satisfaction and a sustainable revenue premium. And through it all, we've shared that success with our people and, at the same time, achieved an investment-grade rating and returned nearly $12 billion to our owners through dividends and share repurchases.

Despite three significant upward moves in fuel this year, driving more than $2 billion of higher fuel expense, we still expect to deliver our fourth consecutive year of pre-tax profits over $5 billion. This demonstrates the resiliency of our business model and the speed with which we are able to react to changing economic conditions. Even with oil now hovering above $80 per barrel, we are confident that we have the momentum to return to margin expansion in 2019. We are never satisfied, and we continue to set ambitious goals to improve the business and expand our profitability. We believe that Delta will sustain solid profits, margins, and cash flows throughout the business cycle.

While still in the planning stages for 2019, we expect domestic capacity growth next year will decelerate by at least a point, partially offset by additional long-haul flying as we leverage our Korean joint venture. At a system level, we are building a plan for growth next year in the 3% range, which represent seat growth of about 2%, which is below expected GDP output and a point from greater stage length. While this is our current assumption, we'll be monitoring fuel and our ability to recapture these higher price points to ensure that 2019 is a year of margin growth. That is our top financial priority and is a business imperative. We will be ready to act if we see sustained higher fuel prices or economic uncertainty impacting our return to margin expansion.

In closing, we remain on track to deliver a very strong 2018, a $5 billion profit year, which is very similar to last year's results despite covering a $2 billion fuel cost increase. Our brand has never been healthier and the service from our team, never greater. As we look forward to 2019, we are confident in our ability to drive long-term value for our owners through top line growth, margin expansion, and prudent deployment of our capital.

I look forward to sharing more details on our strategic outlook and 2019 business plan at our upcoming Investor Day in December, as we lay the foundation for another decade of success.

And with that, I'd like to turn the call over to Glen and Paul to go through the fine details of the quarter.

Glen William Hauenstein

President, Delta Air Lines, Inc.

Thanks, Ed, and good morning, everyone. I'd like to start by thanking the Delta team for delivering another record revenue quarter. The revenue environment is strong with solid demand in both leisure and business, and a healthy yield environment. We had our busiest summer ever as record numbers of customers chose Delta for our industry-leading service and reliability. This generated record revenues of nearly $12 billion in the quarter, up 8% over last year.

As a result, unit revenues grew by 4.3% as foreign exchange benefit of approximately 0.5 point was offset by the impact of Hurricane Florence. Storms are normally RASM accretive because flight cancellations drive ASM reductions. However, our in-house meteorology team and our OCC did a great job predicting the storm's path would avoid Atlanta, and we were able to limit flight cancellations for our customers.

We are maintaining our revenue momentum, delivering a consistent mid-single digit unit revenue growth on a year-over-year and year-over-two-year basis despite much more challenging comps.

Importantly, the rate of fuel recapture has sequentially improved each quarter this year, and we are sustaining record revenue premium of 110% or higher to the industry. This speaks to the strength of the Delta brand and the quality of our services as our increases in both stage length and gauge significantly outpaced the industry in the quarter.

We continue to grow the proportion of more stable and more profitable revenue, which is growing at a pace faster than ticket prices. Cargo, loyalty program and MRO revenue were up double digits for the third consecutive quarter. This revenue momentum, combined with better cost performance, positions Delta to be among the first in the industry to expand margins despite the significant fuel price increases.

Corporate travel is a major part of this momentum. Our total corporate revenues grew 12% for the quarter on close-in booking strength and business yield improvements. September finished as our strongest month of fare recovery this year, and for the quarter, we have now recovered nearly 40% of the decline since 2014, with fares now back above the 2016 levels.

September was the sixth consecutive month with month-over-month improvements in corporate fare growth. Evidence, we are seeing acceleration in the corporate fare environment. And our most recent survey, 90% of travel managers expect to maintain or increase their travel spend into 2019, giving us continued optimism that this positive momentum will continue.

Domestic revenues grew 9% on 3% higher unit revenues, driven by improved yields. The pace of improvement picked up in August and September, driving the best quarter of domestic PRASM growth since the third quarter of 2014. Our core hubs of Atlanta, Minneapolis and Detroit delivered amongst the strongest performances. Domestic unit revenue growth improved sequentially by more than one point despite the headwind from travel avoidance in the Southeast as Hurricane Florence approached. Looking forward, we see the continued momentum in close-in yields in the entity.

Internationally, we saw improving trends with revenues up more than 6% on a 5% increase in unit revenues, led by strong demand and robust revenue growth in our premium products. Our foreign exchange benefit stepped down from the June quarter as the dollar strengthened, and we expect it to become a roughly 0.5 point headwind in the fourth quarter.

Transatlantic unit revenues increased 8% driven by yield improvement and strong demand environment. Joint venture synergies and strong premium seat performance drove improvements above and beyond a 1.5 point FX benefit. In Latin, after eight consecutive quarters of positive unit revenue, PRASM was down 3%, driven by currency headwinds and political instability. We are making necessary adjustments by deemphasizing capacities in weak markets to offset headwinds and return to unit revenue growth by early next year.

In the Pacific, our unit revenues increased 5%. This is impressive performance given that our network changes drove an 11% increase in stage length. Japan and Korea both produced double-digit RASM growth, and our China routes delivered a 9% RASM improvement on an 18% increase in capacity.

Delta's superior service and unmatched reliability drives our expectations for topline revenue growth of 8% in the December quarter on 3% to 5% unit revenue growth and 4% increase in capacity. While our full year seat growth expected to be below GDP at 2.8% on flat departures, completion factor and stage length are expected to result in our full year ASMs slightly ahead of our 3% guidance.

The revenue environment is the best we've seen in years and the Delta brand has never been stronger. We believe we are seeing a strong commercial momentum needed to fully offset fuel prices at current levels.

Longer-term, we are using our network, our brand and customer experience, and segmentation initiatives to drive revenue growth and margin expansions. First, on network, we are leveraging our domestic footprint and expanding our global capabilities. Our fleet evolution is focused on getting the right aircraft on the right routes. This will allow us to improve the customer experience, grow premium products, while also benefiting our cost structure.

Over the next five years, we expect our share of domestic fleet departures in the most efficient narrow-body aircraft category will grow to 45%. No carrier has this much opportunity to benefit from up-gauging as Delta over the next 5 to 10 years.

Internationally, the most significant change taking place is in the Pacific. In 2013, we laid out a vision of transforming our Pacific network. Since then, we have rationalized our footprint in Tokyo and Narita, developed U.S. gateways to the Pacific, replaced our 747 fleet with more efficient A350s, and enhanced our trans-Pacific alliances.

With the building blocks now in place, we are seeing the expected improvements in profitability. Premium cabin performance has strengthened as our product has improved. With now 10 A350 aircraft deployed in the Pacific. We are encouraged by the revenue trends in our new Delta One suites and Premium Select cabins.

Our joint venture with Korean is progressing well. Connecting traffic to Korea and beyond has more than doubled as we are building the best connecting complex in the Pacific. We will leverage this with our growth in the region next year.

Second is strengthening our brand and improving customer experience. The quality of our product, service and operational reliability, combined with the breadth of our network, drives higher customer loyalty and strengthens the Delta brand. Our commercial innovation has allowed us to deliver a differentiated high-quality customer experience. This has resulted in more than a 20-point improvement in domestic Net Promoter Score since the merger.

This increasing customer affinity is reflected in record acquisitions of our co-brand American Express card, which is seeing double-digit spend increases, outpacing the U.S. card industry. Our loyalty program revenue has nearly tripled since the merger as more customers than ever see increasing value from using their SkyMiles/American Express card.

And finally, we are enabling customer choice through our segmentation initiatives. We are offering our customers more choices in best-in-class products that are increasingly easier to buy across all channels. We want all of our customers to be able to purchase Delta products, how they want, when they want, and where they want.

Premium product revenues grew 19% on a 3% increase in premium seats as upsell revenue continues to be a source of strength. We are excited to roll out additional functionality to allow post-purchase mileage upgrades later this year.

Our success in filling branded products, growing our premium seats, and enhancing future functionality gives us confidence that branded fares will deliver sustained contribution to improve revenue generation.

In closing, it's been an incredibly eventful 10 years at Delta since the merger. Every day, we think how we can make Delta better. We are giving our customers a high quality experience that they value and will pay a premium for, improving that through innovation and service, and continue to differentiate and expand on our commercial successes.

Now, I'd like to turn it over to Paul.

Paul A. Jacobson

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

Thank you, Glen, and good morning, everyone. Thank you for joining us. I'm pleased to say that the September quarter marked an important inflection point in our non-fuel cost trajectory. While non-fuel cost in the first half of the year were slightly higher than we expected, non-fuel unit costs were flat for the September quarter. This is a three-point improvement from the June quarter and keeps us on track to deliver on our full year guidance of 1% to 2% non-fuel unit cost growth.

As we outlined in our Investor Day last December, getting our unit cost back in check has been a huge focus for the company this year, and I want to thank the entire Delta team for all the work it's taken to get here.

In the December quarter, we expect our non-fuel CASM to be slightly better at flat to down 1%. As anticipated, overhead pressures such as depreciation have begun to moderate in the second half of 2018, and we've seen productivity benefits from our fleet changes and our One Delta initiatives.

Our fleet transformation is still in the middle innings and will continue into the mid-2020s. As Glen mentioned, no carrier has as much opportunity to benefit from up-gauging as Delta over the next 5 to 10 years.

Airbus A220 delivery started this quarter with entry into service in early 2019, primarily replacing high-cost 50-seat regional jets, the aircraft least preferred by our customers.

A321 and Boeing 737-900s are replacing the MD-88 fleet through 2020, providing a nearly 15% improvement in seat cost while also up-gauging the fleet with a much better product for our customers.

Then, beginning in 2020, we start the next phase in our journey as we replace our older narrow bodies with larger new engine technology A321s, resulting in even greater efficiencies than the classics.

Our One Delta initiative is founded on the idea that better cross-company collaborations drive better cost efficiency. It has been exciting to see the organization embrace this mindset as many of our large initiatives gain steam. One of our more substantial long-term opportunities is our network optimization initiative. This quarter, we opened a cross-divisional schedule coordination center to provide a more holistic approach to our scheduling, providing benefits to customers and employees, while driving $300 million in annual run rate savings.

Our business units are executing well and achieved lower non-fuel CASM versus prior year, helping to offset nearly a point of overhead pressure from fleet and facility investments. That cost discipline, along with incremental efficiency gains from re-fleeting in One Delta, gives us confidence in our ability to keep our non-fuel unit cost below 2% next year and beyond.

Remaining disciplined with our unit cost is even more important to margin expansion given the recent volatility in fuel. Our September quarter fuel expense increased by $655 million on 30% higher market fuel prices. We offset a portion of this through improved fuel efficiency from our new fleet and the One Delta initiative that reduced APU usage by 15%. While market fuel prices took a pause through mid-August, there's been a run-off since then with prices testing new four-year highs.

For the December quarter, we expect our all-in fuel price to increase approximately 30% over last year to $2.47 to $2.52 per gallon. Remember, this includes a $0.05 headwind from the refinery due to the scheduled maintenance turnaround, which is progressing well and is on schedule to restart in mid-November.

We currently forecast December quarter earnings per share of $1.10 to $1.30 per share, which keeps us on pace to achieve our full year earnings guidance despite the latest increase in fuel. This equates to a December quarter pre-tax margin in the range of 9% 11%, consistent with last year's result of 9.8%. This is despite continued pressure from higher fuel costs on our own earnings, as well as the earnings of our airline partners, Aeromexico and Virgin Atlantic, of which we recognized 49% through non-operating expense. While 2018 has been challenged with over $2 billion of higher fuel expense, our belief and our ability to drive a fourth consecutive year of pre-tax earnings of over $5 billion speaks to the resilience of our business and the consistency of our performance.

Turning to the balance sheet and cash flow, we generated $1.5 billion of operating cash flow for the quarter, allowing for reinvestment in the business through $865 million in CapEx, with nearly $600 million related to aircraft and aircraft modifications. Our full year CapEx is expected to be $4.9 billion. This is up from our prior guidance, reflecting our recent decision to purchase and finance $600 million of aircraft that were previously slated for operating leases.

While our decision to finance the aircraft differently reduces short-term free cash flow generation, net cash flow will be improved as we will finance the aircraft at a substantially lower cost than the lease rates we've been seeing in the market. We remain committed to returning over $2 billion to our owners in 2018.

In the quarter, we generated $655 million of free cash flow and returned $325 million in share repurchases, and $241 million in dividends to shareholders. With consistent returns to shareholders over the past five years, we reduced our fully diluted share count by 20%, and returned nearly $12 billion through both dividends and share buybacks, with our current dividend yield of approximately 2.8%.

Over the same time period, we've also reduced our adjusted net debt by $700 million and our pension liability by an astounding $4.6 billion at current market rates, dramatically improving the health of our balance sheet. Achieving this level of cash return and the balance sheet strength in just five years is another sign of how different our business is from the past. Last month, S&P reaffirmed Delta's investment-grade credit rating underlying the financial strength of the company. An investment-grade rating gives us better access to capital markets, and the flexibility and the agility to better manage our business over time.

In closing, we delivered solid earnings for the quarter through revenue momentum and bending of the cost curve. Looking into 2019, I am excited to continue this momentum as we drive the business back to margin expansion.

And with that, I will 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. Before we go to Q&A, I'll just have everybody take a minute and mark their calendars as we will return to New York this year for our Investor Day on December 13. So, more details will go out closer to that date, but in the meantime, hold that date for us. So, Lisa, if you could now give the instructions to the analysts for the Q&A.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from Duane Pfennigwerth with Evercore ISI.

Duane Pfennigwerth

Analyst, Evercore ISI

Q

Hey, thanks. So, really appreciate the breakout on passenger revenues that you provided in the release. It looks like your business in premium products drove about 70% of your passenger revenue growth in the third quarter. I wondered if you could just break out what's included in that. And maybe not a criticism of Delta, but given that all the action is coming from premium, why does the industry spend so much time talking about Basic Economy? Thanks.

Glen William Hauenstein

President, Delta Air Lines, Inc.

A

Well, Duane, I think we've been pretty articulate about why we've put Basic Economy in the marketplace years ago, as the industry was being commoditized at the low end, and we didn't really have a product that competed on a like-for-like basis with Spirit or Frontier.

I think that was a necessary thing we needed to put in the marketplace. And as many people have written, ours was the most humane of all of those as we didn't try to charge for overhead baggage. But really, for the commoditized sector, we had something that was well above what they were competing in the OTA as in, in the low end spectrum.

And that's when we also started to think about, well, what did people want to buy from us that we weren't supplying? And that's where we've devised these superior products and services and brought them to market. And I think what we get really excited about as we still believe we're in the early innings on this, they're still not as easy if they need to be to buy, they're still not available in all channels with all forms of currency. And over the next years, not only will we be expanding those products and services, but we'll make them be easier to buy for our customers, and we think that will continue to fuel growth in those sectors.

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

And, Duane, the breakdown is fairly simple. It follows the cabin flown.

Duane Pfennigwerth
Analyst, Evercore ISI
Q

Sorry. I didn't understand that, Jill. Sorry.

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

If the customer travels in Delta One, First Class, Delta Premium Select or Comfort+, then it will be in that business cabin and premium products line.

Duane Pfennigwerth
Analyst, Evercore ISI
Q

That's great. I mean, 19% growth on 3% seats, so mid-teens RASM growth. That's great that you broke that out. And then, Glen, I wonder if you could just – sorry, if I missed it, but do you expect domestic unit revenue growth to accelerate into the 4Q? How do we think about the relative regional growth into the December quarter? Thanks for taking the questions.

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

Yeah. We're pretty excited about the current trends in domestic. December is going to be a bit of a challenge because we have a very long period this year between Thanksgiving and Christmas. But we're certain that will become a business period as we get closer to it. But the core trends on business demand and the yields on business demand are in a very good place as we exit this year and head into 2019.

Duane Pfennigwerth
Analyst, Evercore ISI
Q

Thank you.

Operator: We'll take our next question from Jamie Baker with JPMorgan.

Jamie N. Baker
Analyst, JPMorgan Securities LLC
Q

Hey. Good morning, everybody. First question for Ed. You talked about the industry's ability to recoup higher fuel is never having been faster. I agree with that, but I'm curious as to what you think the driver is. Is it simply that the industry is largely unhedged? Have there been shifts in the booking curve? Are your systems simply better able to articulate schedule changes, close-in?

The reason I ask is that, I wonder if it could ever happen faster than, say, I don't know, five or six months. I mean, the reason FedEx trades 6 turns higher than you is that they recoup fuel practically in real time. So, obviously, any further progress you or the industry can make should only further bolster your multiple. Any thoughts on that?

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

A

Sure, Jamie. Obviously, FedEx has the ability to surcharge for fuel, which we do not. So, that's a fundamental difference and we've talked about that in the past. Whether that ever becomes an opportunity, I don't know, but that's a regulatory issue, not a industry-specific matter that we can control ourselves.

Yeah, I think it's a little bit of everything you mentioned.

Jamie N. Baker
Analyst, JPMorgan Securities LLC

Q

Okay.

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

A

I don't know what the other airlines are going to report this quarter in terms of their pace of recapture relative to the improvement at Delta. I can tell you it's a number of things. Certainly the health of the business in terms of the brand and service reliability is strong. That gives us the pricing platform. You can only price where you have demand for your product, and we have greater demand than ever at Delta. We had our busiest travel quarter in our history, and that certainly has given us an ability to make sure we can cover the cost of fuel. I think part of it is the work we've done on the non-fuel side, to be able to have zero non-fuel cost growth and productivity, the benefits of up-gauging, are meaningful, and that's certainly helped us real-time in terms of that recapture.

Technology certainly is a component. The focus on premium product and business traveler, our corporate volumes are up double-digits in terms of revenue year-on-year, that's been helpful. So, I think it's a combination of all of the above. It's interesting question, are we hedged, is that having an impact on it or not? I don't know, haven't thought too much about that. But certainly, it does create across the board, everybody's got the same incentive to make certain that we're all covering costs real-time. So, probably on the margin, that's helping as well.

Jamie N. Baker
Analyst, JPMorgan Securities LLC

Q

Okay. That helps. And second question for Glen, a follow-up to Duane's question. I'm also trying to understand the revenue breakdown in the income statement a little bit better. On the business in premium category, if I buy a $300 Main Cabin ticket and then I get an upsell offer of $100 when I check in, do you then classify $400 in the premium category or just the upsell? I really just kind of want to understand the mechanics behind the 19% year-on-year increase. Also, once I start using miles on my app to upgrade, does that potentially cause the momentum in that category to slow as, I guess, that would be captured in the loyalty category.

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

No. I think at the end of the day, what we're trying to do is accelerate the usage of these products and services. And as we indicated previously, we're growing those cabins through the up-gauge. And as we exit the MD-80s and as we bring on a A321 to substitute it, we generate 20% more premium seats. So the answer is, is that clearly, it comes through different line items, but the revenue is real, whether or not you pay with cash or whether or not you pay with mileage. And that's one of the things that we're really excited about, is being able to let you do that on your app on the way to the airport. And it doesn't matter to us how it comes through the P&L because it's real revenue either way. And what we need to do is continue to have your affinity grow there.

And I think when you think about the ecosystem of the frequent flyer program, we want to give you more ways to burn your miles and control your experience. And that's really the key of where we want to take this in the next couple of years, is to be able to buy what you want from us and be able to supply it to you. And as these things fill up, there's nothing keeping us from making more seats on those cabins because they are the higher-margin pieces of our [ph] equation (00:30:51).

Jamie N. Baker
Analyst, JPMorgan Securities LLC
Q

Look, I get all that. It's just my concern that as it starts to shift to loyalty, when people start using miles, if there's a deceleration in that 19% rate, my concern is that people are going to look at that and then say, oh, the business cabin and premium is beginning to slow, which wouldn't necessarily be accurate. So again, when I'm using dollars for an upsell, does that reclassify everything in the premium or just the incremental amount of the upsell?

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

So, let me – the first question is, it's the entire amount. So, the whole $400 would go...

Jamie N. Baker
Analyst, JPMorgan Securities LLC
Q

Okay.

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

...because it's where you sat and traveled.

Jamie N. Baker
Analyst, JPMorgan Securities LLC
Q

I think that's fair. Cool.

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

Right. And we will try and classify the loyalty by cabin as well because we will – Jill is looking at me like I'm crazy, but we can figure out a way to do that by the time we bring all that online.

Jamie N. Baker
Analyst, JPMorgan Securities LLC
Q

I'm sure I have caused many eyes to roll, so I will turn it over to the next question. Thank you, everybody.

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

Aspirational goals.

Operator: We'll take our next question from Michael Linenberg with Deutsche Bank.

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

Q

Hey. Hey, good morning, everyone. Hey, nice quarter here. I've got two questions here for Paul. Just in the rising rate environment, can you just kind of refresh us on what the change in the discount rate for the pension means, like 50 bps, what that means for the liability, number one? And then, number two, just your composition of fixed versus floating rate debt, if you have that may be as of the June or the September quarter year-end? Thanks.

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

A

Sure, Mike. Good morning. And thanks for the questions. So, as we talked about before, every 50 basis points increase in rates on the pension lowers our liability by about $1.2 billion. And that's been a good source of traction for us over the last couple of years, especially as we have overfunded the pension plan last year with $3 billion of contributions. And then secondly, that interest rate appreciation is actually very good thing for us in the aggregate because when you look at our P&L, we're actually less than 10% floating rate exposure on a net basis when you can take into account cash and the other floating liabilities. So, we're in fine shape for higher interest rates and, in fact, we're a net beneficiary of them.

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

Q

Thanks, Paul. Thanks, everyone.

Operator: We'll take our next question from Hunter Keay with Wolfe Research.

Hunter K. Keay
Analyst, Wolfe Research LLC

Q

Hey, thanks, good morning. Just to follow up on Mike's question there, Paul. You've talked about contributing $500 million to the pension plan next year. I don't know if you used the word overfunded. How do higher rates and the impact on liability impact that decision to use that $500 million towards pension? And can you answer that question in the context of how pension contributions impact the NOL, if at all? Thanks.

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

A

Sure. Thanks, Hunter. I probably used the wrong word there in terms of overfunded, funded above our minimum contributions.

Hunter K. Keay
Analyst, Wolfe Research LLC

Q

Yeah, that's what I meant.

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

A

But the plan is, as we know, still underfunded overall. Our long-term strategy, the $500 million that we've earmarked next year, as well as the $500 million that we've earmarked in 2020, has all been consistent with the expectations of a higher interest rate environment over time, which gets us well above that 80% funded target. And as we've disclosed at prior investor days, et cetera, a couple hundred basis points gets us much closer to being fully funded on that pension plan. So that remains part of our strategy and we'll continue to evaluate that as we see the rate environment continue to move.

Hunter K. Keay
Analyst, Wolfe Research LLC
Q

Okay. And the NOL portion of the question, does that have any impact on it if you decide to fund more or less?

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

Yeah. So, contributions to an underfunded pension plan are immediately deductible per tax. So it actually does extend our NOL marginally.

Hunter K. Keay
Analyst, Wolfe Research LLC
Q

Okay, thanks. And then another one for you, Paul. As we think about this, the sub-2% CASM-Ex number next year and the 3% capacity guide, how sensitive is that CASM-Ex number to that 3%? And I realize that it depends on the type of capacity that's removed, there's gauge, whatnot, and maybe I'm just asking about sort of like variable and the fixed costs at the end of the day. But is there a rule of thumb that you've seen from Delta over the years, where if you say, we take out X number of points of ASMs, that loosely translates to X percentage points of headwind in the CASM-Ex side or is it really different every time?

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

It can be different. I think you answered your own question to some extent that it depends where the capacity is being added or taken out, up-gauging affects that, et cetera. So, I think there isn't really a rule of thumb as we continue to look through our 2019 planning process. As I've mentioned before, we've got increased confidence about our ability to deliver sub-2% CASM next year. And we feel good about those estimates.

Hunter K. Keay
Analyst, Wolfe Research LLC
Q

Okay, thanks.

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

Hunter, this is Ed. I think one other thing that obviously is playing a role as we look to next year is the improvements we're seeing from the One Delta initiatives. We started to gain some real traction as the year progressed here in 2018, and you see that in the numbers. And that's on top of the traditional network changes, up-gauging, all the productivity that we've talked about in the past. And, yeah, I think that number next year is going to be in the incremental hundreds of millions of dollars over 2018.

Hunter K. Keay
Analyst, Wolfe Research LLC
Q

Thanks, Ed.

Operator: We'll take our next question from David Vernon with Bernstein Research.

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

Q

Hey. Good morning, and thanks for taking the time. So, Glen, it sounds like you guys are recovering the fuel cost increase quicker than you may be have in the past. I was just curious as to your thoughts on how we should expect the stickiness of that revenue to endure if we do end up in a period of maybe a little bit more moderate fuel price. Do you think you will be able to hold on to more of that kind of in the next lower fuel price environment?

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

So, I think if you look at the history, is the last time fuel rolled over, we were still hedged. So I think that's the real opportunity, is if fuel does moderate without a hedge here, that we would be able to have a lot of that flow to the bottom line. That's what happened last time. It took a long time in the wind up and it took a long time in the wind down. So, I would expect that it is very sticky on the way down.

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

Q

All right. And then, Paul, I'm just curious on the cost guidance for at least – preliminary cost guidance for next year is 0 to 2%. We're ending the year here kind of zero-zero to minus 1. It sounds like the One Delta initiatives have traction. Can you kind of walk us through what the thoughts are there in terms of the expectations for a little bit of a step-up in the unit cost and where the opportunities might be in 2019?

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

A

Well, and I think as Ed mentioned, the opportunities sit in One Delta, they sit in the general productivity initiatives that we challenge ourselves to achieve every year. Keep in mind, there's a little bit of a wage pressure next year with the regular increase for the pilots on January 1, as well as lapping the increase that Ed mentioned on this call for the October 1, for the ground and flight attendants. So those pressures are present every single year, and as we work through those in our planning cycle, we can provide more detail at Investor Day.

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

Q

All right. Looking forward to it. Thanks, guys.

Operator: Our next question comes from Dan McKenzie with Buckingham Research.

Dan J. McKenzie
Analyst, The Buckingham Research Group, Inc.

Q

Hey, good morning. Thanks, guys. Paul, there has been a lot of bullish commentary around commodities, not just today, but over the coming three to five years. And I'm just wondering how you're thinking about this idea that there could be a permanent supply mismatch relative to demand. And does it – really, where I'm going with this is it doesn't make sense, just given Delta's balance sheet, to secure some catastrophic insurance for potential fuel volatility here.

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

A

Well, good morning, Dan. I think as we talked about it, we're not pursuing any hedging and I think that we're in a very good position. And I think it's important to note that as we've demonstrated this year, our ability to recover fuel cost in the business has accelerated over the past, and that's the number one frontline from that standpoint. And I think what we've proven here, what we're in the midst of proving is the durability in the business model to be able to absorb that. We've been successful in higher oil price environments, we've been successful in low oil price environments. Where it gets a little bit tricky and what you've seen this year is in the volatility, when that moves quickly in one direction or the other.

So, I think we continue to believe that we're on the right trajectory without hedging. Certainly, the refinery helps us, as does are integrated fuel strategy, in which we continue to deliver results that are materially better than the industry average to the tune of $0.07 to $0.10 per gallon.

Dan J. McKenzie
Analyst, The Buckingham Research Group, Inc.

Q

Understood. Okay. And then, Glen, with respect to the average upsell rates, the industry started at $25. And I'm just wondering if you can provide some insight into what it was for Delta in the third quarter and what's driving the appetite of corporations to continue to support that buy-up? And what I'm getting at is if corporations are offering road warriors more perks just given the tight labor conditions today.

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

Well, clearly, that's been one of our advantages. And Steve and the sales team have done an amazing job getting a lot of the premium products incorporated into the sales agreements that we have today. But we're really only scratching the surface there and we've got a long way to go. That gives us a lot of hope that we will continue to be able to improve there.

The other thing is since these are relatively new products, as you pointed out, they were pretty brute force in the beginning in terms of our sophistication in marketing to people or ascribing differential in prices based on length of haul or competitive markets.

And so, now, that's what we're really focused on today, is to provide much more granularity in terms of that actual upsell rate that will indicate the true value that customers are receiving. So, for example, on a long-haul transcon play that might be $100 each way for an upgrade to Comfort+, well worth that money, but on a short-haul competitive market, it may be $5 or $10. And that's generating a higher average upsell rate because we're able to really tailor the offering to what the market is.

Dan J. McKenzie
Analyst, The Buckingham Research Group, Inc.

Q

Understood. Thanks for the time.

Operator: We'll take our next question from Savi Syth with Raymond James.

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

Q

Hey, good morning. Paul, if I might ask, and I know there were some news items about Trainer and looking for a strategic partner. Could you talk a little bit about what you're exploring there and what benefits a strategic partner might make? And just a follow-up on just China, in general. With some of these IMO 2020 talk, if we're going to get refining margins that expand here, does that improve your kind of relative advantage that Trainer provides?

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

A

Well, good morning, Savi. Thanks for the question. As we've talked about over the years with the Trainer strategy, we've talked often about finding a strategic partnership to take some of the products that we don't need, particularly the gasoline and the diesel, and keep us focused on jet fuel and allow us to harness all the benefits while still operating that plant. So, with the turnaround coming up, it was a good opportunity to start that process. I won't comment on the process itself, but we continue to work through that.

As it relates to IMO 2020, we've spent a lot of time talking about it internally, and I think the speculation is out there, both that it could affect higher crude prices but the preponderance seems to be that we would expect to see higher jet cracks. That's net bad for the airlines, but less bad for an airline that owns a refinery because we produce about 30% to 40% of the refineries' production in diesel and jet fuel that can help offset any increases in jet. So, we would expect that it would continue to help our relative advantage, and look forward to continuing to see the benefits of Trainer in the years to come.

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

Q

All right. Thank you.

Operator: Our next question comes from Jack Atkins with Stephens.

Jack Atkins
Analyst, Stephens, Inc.

Q

Great, thank you very much for the time. Paul, just following up on your last point there on IMO 2020. I mean, as you think about the broader expectation for pre-tax margin expansion in 2019, what are you sort of baking in to your internal planning with regard to what crack spreads could do or additional prices could do next year as you think about the impact from IMO 2020?

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

A

Well, thanks for that Jack. We're generally expecting to see higher cracks, especially as we get to the back half of 2019. And we'll be modeling accordingly based on – depending on where crude ends up as we go through our planning prices. But as a general rule, we tend to plan conservatively on fuel. That's tough when fuel prices are up $2 billion year-over-year, but we still expect that cracks are going to be higher, especially as we go to the back half of next year. What there's more uncertainty about is what the crude environment looks like in 2019.

Jack Atkins
Analyst, Stephens, Inc.

Q

Okay. Thank you for that. And then as a follow-up question either for Ed or for Glen, with regard to tariffs, our sense is that the tariff sort of war that we're seeing between the U.S. and China is beginning to have an impact on trans-Pacific global trade flows. Are you seeing any change in corporate behavior in your booking trends or either into or out of Asia? And do you think the tariffs are having any sort of impact on demand at this point as far as you can tell?

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

A

Well, Jack, we really haven't seen any meaningful impact. We're watching it as everyone is. Our Pacific-based revenues and China specifically have done quite well in the quarter, especially given some of the added capacity that we had put into the market with our recent launch of Atlanta-Shanghai, is doing well within our range of expectations. So, we haven't seen it.

Jack Atkins
Analyst, Stephens, Inc.

Q

Okay, great. Thank you again for the time.

Operator: We'll take our next question from Helane Becker with Cowen.

Helane Becker
Analyst, Cowen & Co. LLC

Q

Thanks very much, operator. Hi, everybody. Thank you for the time. So, I think last week, I want to say, Governor Cuomo talked about JFK expansion. And I was just kind of wondering, you guys have a really nice facility there right now. How will that program affect you both from a cost perspective and from operations perspective?

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

A

Hi, Helane, this is Ed. We are obviously working with the Governor, as we do with the Port Authority, to figure out the long-term strategy at JFK. Right now, I think it's premature. A vision has been laid out. There's a long way to go between taking that vision and some of the initial commitments to actual documentation and deals. Our goal is to unify Terminal 4. So, the T2 facility will eventually be brought into Terminal 4, and we'll be building out some additional capacity for Terminal 4, which we're excited by. We don't have that in place at the port yet. We've been talking about that with them for the last couple of years. And I support the Governor's vision, creating a more unified version. One of the big challenges at JFK, as you appreciate, is the alliances are generally not in the same airport facilities as the home carriers. And I think over time, hopefully, that will get resettled.

Helane Becker
Analyst, Cowen & Co. LLC

Q

Okay. And then, does that in any way change? I think, in the last conference call, you talked about $12 billion over the next decade in airport construction spend. Does that change that number at all?

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

A

Not meaningfully. A little bit of that's in there. We are anticipating that, that build out's not going to be a substantial amount.

Helane Becker
Analyst, Cowen & Co. LLC

Q

Okay. And then, can I just ask one last question about looking ahead to the first quarter of 2019 when Brexit kicks in? Ed, you're pretty plugged in to Washington. Have you heard anything about agreements being negotiated to continue uninterrupted air travel?

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

A

I don't have any inside intelligence, if that's what you're asking me, Helane. I think we all have a vested interest in making certain that our access to the U.K. market remains unfettered. And no, I don't anticipate it's going to be a meaningful issue for us.

Helane Becker
Analyst, Cowen & Co. LLC

Q

Great. Okay. Thanks very much.

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

A

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

Operator: Thank you. We'll take our last question from the analysts from Rajeev Lalwani with Morgan Stanley.

Rajeev Lalwani
Analyst, Morgan Stanley & Co. LLC

Q

Morning. Thanks for squeezing me in. Glen, a question for you on 4Q RASM, can you provide just some color on the regional breakdown? I know you talked a little bit about domestic earlier. And then just, how are you feeling about the international environment given FX, capacity and so on?

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

I think that's a great question. We clearly see the impacts of a stronger dollar on the international arena. And I think one of the changes that you'll see as we move towards 2019 is a re-emphasis of U.S. point-of-origin travel over foreign point-of-origin travels as we reorient our network even further.

The recent devaluation of the Chinese currency, as well as the Brazilian currency, all have an impact on us. And so, we tend to then favor places with high point-of-sale U.S. as opposed to places where there's higher foreign point-of-sale. And that's, I think, something we'll be talking about at Investor Day.

Rajeev Lalwani
Analyst, Morgan Stanley & Co. LLC

Q

Okay. And then just regionally? Yeah.

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

As far as the regions go, I think we're – from what we see now, we're sitting kind of at the bottom, as we speak, in terms of the Latin. The forwards look better than where we've seen in the last few weeks. So, I think we're not calling the bottom of the trough, but I think we will start to see growth in Latin over the next couple of months and position well into 2019.

The Pacific remains strong despite all the rhetoric that Ed just talked about. It's core demand, to and from, and particularly in the business cabin, it's very strong. And then Atlantic is where we're facing more FX volatility, but core demand in the trans-Atlantic remains incredibly strong, and we're looking for RASM through the winter to be quite positive despite the fact that there is a lot of capacity in the trans-Atlantic this winter...

Rajeev Lalwani
Analyst, Morgan Stanley & Co. LLC

Q

Thanks. If I can sneak one in...

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

Okay. Sorry.

Rajeev Lalwani
Analyst, Morgan Stanley & Co. LLC

Q

If I can sneak one in for Paul there. Sorry, for cutting you off, Glen. Paul, can you just talk about some thoughts on CapEx going forward just with higher fuel rates, and whether or not you're considering pulling in spend, deferring aircraft? And then maybe what's a good number to use over the next couple of years just given all the moving parts about what you're leasing and so on?

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

A

Sure, Rajeev. I think our CapEx strategy of continuing to reinvest 50% of our operating cash flow back into the business is still intact. Obviously, we'll be higher than that this year, but given the receptivity of fuel price recapture and what we've been able to do for the P&L, we didn't want to whipsaw the organization and make any short-term adjustments to what we saw as a temporary challenge in the business. So, we're going to continue to march along that path and feel good about the guidance that we've given. The step-up that we talked about today really represents just the different financing decision for the same capital, and that will save us tens of millions of dollars a year.

Rajeev Lalwani
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you, and, Ed, good luck with the run next month.

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

A

Thank you. I'm going to need it.

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

A

Well, that is going to wrap up the analyst portion of the call. And I will now turn it over to Ned Walker, our Chief Communications Officer.

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

A

Okay. Hey. Thanks, Jill, and welcome, everyone. We'll go ahead and begin the process of the media Q&A at this point. I'd like to ask the media if they could limit themselves to one question and a quick follow-up. We should be able to accommodate most everyone. And, Lisa, if you could review the process for queuing up to ask a question, we'll get underway. Thanks.

Operator: Yes, sir. Thank you. [Operator Instructions] We'll take our first question from Andrew Tangel with The Wall Street Journal.

Andrew Tangel
Staff Reporter, The Wall Street Journal

Q

Hi, there. Good morning. Wondering if you all could give us a breakdown of how much you all have raised Main Cabin fares versus the business and premium fares so far this year and in the third quarter.

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

A

We typically don't give that kind of disclosure. Overall, our unit revenues were up 4% in the quarter, and much of that was the pricing effect.

Andrew Tangel
Staff Reporter, The Wall Street Journal

Q

Yeah. Well, can you give us an idea of how much more room you've got down the road to raise fares later this year or next year given the inflation elsewhere we're seeing and where incomes overall are nationwide? How much more flexibility do you all have to raise fares to recover fuel and other costs?

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

A

Well, we don't speculate on the upcoming pricing or fare environment. I can tell you that the economy is healthy, demand is very healthy for the Delta product. And to the extent oil prices were to continue to rise, we expect to be able to pass along the cost of that.

Andrew Tangel
Staff Reporter, The Wall Street Journal

Q

Thanks.

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

A

Thank you.

Operator: We'll take our question from Kelly Yamanouchi with The Atlanta-Journal Constitution.

Kelly Yamanouchi
Business Writer, The Atlanta-Journal Constitution

Q

Hi there. I'd like to ask what impact you expect President Trump's lift of the summer ban on ethanol might have on the Trainer refinery?

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

Well, Kelly, this is Paul. I think we are applauding the administration's efforts to help streamline the renewable fuel standards and improve the market trading of RINs. We have seen a significant benefit in the lowered cost of RINs compliance for the refinery this year, and applaud the efforts to try to find a solution.

Kelly Yamanouchi
Business Writer, The Atlanta-Journal Constitution
Q

Does it affect – does it change your strategic plans for the refinery in any way?

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

No. No, it doesn't. Like I said, we realized a nice benefit in the lower RINs cost and the refinery is performing well.

Kelly Yamanouchi
Business Writer, The Atlanta-Journal Constitution
Q

Thank you.

Operator: Our next question comes from Dawn Gilbertson with USA Today.

Dawn Gilbertson
Reporter, USA Today
Q

Hi, good morning. My question has to do with Basic Economy. I'm wondering if you guys have seen any impact from American's move beginning in September to allow a carryon bag, your more humane approach as you described it?

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

Well, we have not. We don't sell an incredible amount of Basic Economy because most of our customer base chooses, when they're presented with what those are and the modest amounts to sell up in the Main Cabin or even better products, choose to sell up into the Main Cabin. So it's a very small percentage of our total sales and we haven't seen a change in that with American's new policy.

Dawn Gilbertson
Reporter, USA Today
Q

Thank you.

Operator: We'll take our next question from Leslie Josephs with CNBC.

Leslie Josephs
Airline Reporter, CNBC LLC
Q

Hi, good morning. Hi. Could you tell me what the upsell rate is on for Main Cabin to premium economy for international, and then Main Cabin for Comfort+ domestic? I think Basic Economy's something like 50% of passengers considering Basic Economy bought into Main Cabin. I'm just curious about the more expensive economy fares you offer.

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

Well, I think it's a lot based on the amount of seats we have available to sell. So you're asking how many people who are presented with that offer take it? Is that the take rate you're asking?

Leslie Josephs
Airline Reporter, CNBC LLC

Q

Yeah. Like if there's any gauge of what the percentage is of people that are buying up.

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

Yeah. I think what we could tell you is that the load factors, the side load factors in these cabins are relatively good. We've gone from selling about 13% of the first class, for example, when we started selling first class to now selling about 60% of the cabin. The rest is available for upgrades. Comfort+ runs a load factor in high-60s now and based on stage. And then Premium Select, which is our newest product and is only available on a minimal number of flights, but we're going to bring that to all of our long-haul internationals over the next two years, is off to an amazing start. We're selling about 85% of those seats.

Leslie Josephs
Airline Reporter, CNBC LLC

Q

Okay, thank you. And is there any way upgrade to Premium Select? Do you offer that yet? Or if not, are you considering it?

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

Yes, that's what we're excited about in the future, is the ability to control your travel and upgrade however you want to with whatever currency you want to use. So, if your company buys you a coach ticket and you want to sit in the Premium Select cabin, we have an offer for you that says that would be 17,000 miles for you or it's $170 in cash. So, those kinds of offers are really where we're trying to go with all of that and making it simpler to buy – or easier to buy and allowing you to buy it however you'd like to pay for it.

Leslie Josephs
Airline Reporter, CNBC LLC

Q

Okay. And is that available now or is that something that's going to be available?

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

Some are available now, some are available – generally cash is available now. Mileage will be available in the fourth quarter. But what we're really trying to get to is mileage on mobile, which will be early in 2019.

Leslie Josephs
Airline Reporter, CNBC LLC

Q

Okay. Thank you.

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

A

Okay. And we have time for one more question, please.

Operator: Thank you. We'll take our next question from Edward Russell with FlightGlobal.

Edward Russell
Americas Finance Editor, FlightGlobal

Q

Hi. Thank you for taking my question today.

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

A

You're welcome, Ed.

Edward Russell
Americas Finance Editor, FlightGlobal

Q

I wanted to ask about recent performance in Minneapolis and Detroit is just very strong in the quarter. However, I've seen some capacity reductions there in connecting markets like Akron, Canton and Peoria. Could you talk about the strength there and why you're pulling out some of those connecting markets?

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

We are growing Detroit as a matter of fact. We have significant growth in Detroit. We're adding new markets, I believe, in November. We added Detroit to San Jose. And last year, we added Detroit to Santa Ana. And so we're trying to make our schedules more relevant to people in Detroit to places people in Detroit want to go, focusing on the top 50 cities that people in Detroit want to go. And to the extent that we are not making money into regional cities, we're rationalizing that capacity out of the network in some of those cities.

If you look at the number of people who went from Detroit to Peoria on any given day, it was probably less than 10. And there are alternatives in the region. So streamlining, making the network more efficient, and providing the people in Detroit with places they want to go. And we're very excited, Ed, last month, announced the new services from Detroit to Honolulu.

Edward Russell
Americas Finance Editor, FlightGlobal

Q

Yeah.

Glen William Hauenstein
President, Delta Air Lines, Inc.

A

And so, we are growing Detroit and we're really headed to Detroit, and we're excited about 2019 because there is going to be quite a bit more service into Detroit.

Edward Russell
Americas Finance Editor, FlightGlobal

Q

Great. Thank you.

Ned E. Walker

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

Okay. Thanks, Ed, Glen, and Paul. That concludes our September quarter 2018 conference call. We'll see the analysts at our Investor Day in New York on December 13, and back on the fourth quarter year end results call back in January of 2019. Good day, everyone.

Operator: Thank you. That concludes today's conference. Thank you for your participation. You may now disconnect.