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Delta Air Lines, Inc. (DAL)

Q2 2019 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning everyone, and welcome to the Delta Air Lines June Quarter Financial Results Conference Call. My name is Jake, 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, Jake. Good morning and thanks, everyone, for joining us on our June quarter earnings call. Joining us from Atlanta today are our 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 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 IR 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. Our record June quarter financial and operating results demonstrate the Delta difference in action. We are translating our powerful brand, unmatched competitive advantages and pipeline of initiatives to drive earnings growth, margin expansion and solid returns for our owners.

Earlier today, we reported a June quarter pre-tax profit of \$2 billion, with earnings increasing 32% to \$2.35 per share. We expanded operating margins by more than 2 points and generated \$1.8 billion in free cash flow. We continue to run the best operation in the global industry by far.

To date, we've achieved 82 days without a single cancellation across the Delta system, a 26% improvement over last year's record performance. And for our mainline product, we've already reached 153 days without a cancellation. This reliability, combined with the great service our people provide, is translating to more customers than ever choosing Delta.

As a result, we ran the highest load factors in our history and flew a record 53.9 million passengers in the June quarter. And even with these record volumes, this was the first time in our history that Delta had zero involuntary denied boardings for an entire quarter.

This strong demand drove an 8.7% improvement in our top line and total revenue of \$12.5 billion, which marked the highest quarterly result in our history. And our momentum continues to build. We've experienced 5 of the top 10 revenue days in our history just over the last 30 days.

With our people consistently delivering best-in-class travel experiences for our customers, we are seeing our Net Promoter Scores reach new heights and our brand affinity grow. We have the world's most valuable airline brand, one that's mentioned not just among the best global airlines, but also alongside top consumer brands.

The ascent of our brand is a sign of the trust and preference we're earning from our customers through operational excellence and unmatched service. Our people are the very best in the business and they are Delta's strongest competitive advantage. They keep climbing, improving year-after-year, because our customers count on us to connect them to moments that matter around the world every day. And not only do they serve our customers, but they continue to give back to the communities where they live, work and serve.

Earlier this week, Delta was recognized by the American Red Cross as the number one corporate blood donor in the country for the second year in a row. This is a fantastic accomplishment. And I want to say congratulations and thank them for their service. So far this year, we have accrued \$739 million towards next Valentine's Day profit sharing.

Across the business, we are harnessing Delta's strength in quality and innovation to drive improvements in the customer experience, stronger customer loyalty and profitable global growth. Delta's financial foundation and cash generation are allowing us to sustainably invest across the business at a level no competitor can match.

During the first half of the year, we generated \$2.5 billion in free cash flow, more than what we produced in all of 2018, positioning us to achieve \$4 billion in free cash flow in 2019. We are investing for the future to ensure that our customer experience and brand continue to elevate, while ensuring our employees have the right tools to continue to provide best-in-class customer service. One example is the transformation of our domestic narrowbody fleet, which is exciting and Glen will cover the substantial benefits we expect this to deliver to our customers as well as to our owners.

On the airport front, we'll invest over \$12 billion in terminal facilities at our key hubs over the next five years. This fall, we'll achieve a major milestone in New York as we open Concourse G, the first of four new Delta concourses included in our \$3.9 billion project at LaGuardia. By taking control of the construction process, we've been able to build a more efficient facility focused on meeting the needs of our customers. And by utilizing our investment-grade balance sheet, that facility will have a long-term competitive cost advantage.

We're also making meaningful investments in our customer-facing technology. Delta.com is one of the top e-commerce sites in the U.S. and we continue to add functionality not only to our site, but also to our Fly Delta app. These are our fastest-growing distribution channels with the highest customer satisfaction as more customers are choosing to interact directly with us.

Our technology investments are helping us deliver more customized offers and enabling our employees to further differentiate our level of service. Through our single view of the customer technology stream, we are increasingly

personalizing interactions, celebrating milestones and engaging with our customers through their preferred channels as we deepen our customer relationships.

We're also continuing to enhance our onboard experience. We just announced that starting in November, we'll launch an industry-leading reinvented international Main Cabin experience that will make every customer feel even more valued. We are also taking steps to provide more options for spending time in flight. During the quarter, we took the first steps towards bringing free WiFi to life by completing a two-week test and we'll conduct more testing in the months ahead to create an experience customers prefer. We are committed to providing the best in-flight entertainment in the sky, which will be another point of differentiation.

And finally, as part of the foundation for a global franchise, we have built a \$2 billion equity portfolio of strategic partners. The most recent addition was our 4.3% investment in Hanjin KAL, the largest shareholder of Korean Air. We intend to increase our stake to 10%, pending regulatory approval. This investment supports the stability and growth of our joint venture with Korean, an important piece of our long-term Pacific strategy.

So in summary, we're executing well and we have confidence in our continued momentum. As a result, we are raising our full year earnings guide to \$6.75 to \$7.25 per share, which is a 25% improvement over last year's EPS. We also announced the board's decision to raise our quarterly dividend by 15% to \$0.4025 per share. This is the sixth year in a row that we have increased the dividend and this increase represents a 2.7% yield at yesterday's price.

Importantly, it demonstrates the sustainability of the Delta business model and our shareholder-friendly capital allocation strategy. We've also raised our total shareholder return expectations for 2019 to \$3 billion on the strength of our free cash flow results and our expectations for the rest of this year. The business has positive momentum with significant opportunity ahead.

We have a durable foundation of strategic advantages: our culture, leading operational reliability, an unrivaled network, our loyalty program and relationship with American Express and an investment-grade balance sheet. These advantages combined with a great brand powered by the very best people in the business, provide the engine to drive meaningful long-term value for our customers, our employees, and our owners.

And now, I'll turn it over to Glen and Paul to discuss the details of the quarter.

Glen W. Hauenstein

President, Delta Air Lines, Inc.

Thanks, Ed, and good morning everyone. I'd like to start by thanking the Delta team. Exceptional operational performance and unmatched service of our people provide are the reason why more customers than ever are choosing to fly Delta. Their hard work enabled a record revenue quarter with a \$1 billion increase over the prior year. The 8.7% growth in the June quarter is the seventh consecutive quarter of top line growth of 7% or more, a level that is more than two times GDP.

Demand for Delta remained strong, both our onboard products and our SkyMiles currency. Our investment in products, airports, service and reliability are reshaping customer perception and driving record satisfaction scores. This increasing brand affinity supports our revenue premium to the industry, which remains at more than 110%.

Premium product revenues were up 10% to more than \$4 billion on a 7% increase in premium capacity. With more customers choosing these products and improved distribution, premium paid load factors increased by 3

points year-over-year. The loyalty revenues grew 19% to \$1.2 billion, including a roughly \$100 million benefit from the American Express contract renewal announced in April.

Our loyalty program and relationship with American Express are key drivers of our business and remain sources of true, long-term competitive advantage. New acquisitions of SkyMiles members this year are on track to increase at a rate double that of just three years ago. And more and more of our members are signing up for the SkyMiles American Express cards. But most importantly, customer satisfaction among our loyalty members is at record levels.

During the quarter, spend on our co-brand cards and mileage uses both increased double digits. More customers are using miles as currency to upgrade their experience post-purchase. This new functionality has been very well received and it's exceeding our expectations with over 0.5 million members using this option since launch earlier this year. Both leisure and business travel demand remain robust and have improved relative to the March quarter. The shift in Easter to April and peak summer travel season contributed to strong leisure volumes and record load factors.

Corporate revenues remained healthy, increasing 6% for the quarter. This was driven by domestic up 8% versus prior year. In our most recent corporate travel survey, 83% of travel managers expect to maintain or increase their air travel spend this quarter. This is consistent with last year as pockets of international softness in the automotive and manufacturing industries are being offset by strength in healthcare, technology, and financial service sectors.

Cargo revenues declined 17% on both lower volumes and yields as industry capacity continues to outstrip demand. We are actively implementing strategies to mitigate this impact, but are very cautious on the cargo outlook for the remainder of the year.

Turning to specifics on unit revenues in the quarter, total unit revenues were up 3.8% above our guidance on 4.7% higher capacity. Passenger unit revenues were up 2.9% over prior year, sequentially improving 2 points compared to the March quarter, driven by strong demand.

Domestic revenues grew 8.8%, with 3.6% higher PRASM. This is the best domestic performance in nearly five years with unit revenue growth in every hub. Boston led the system with revenues up 25% over prior year on a 10% improvement in unit revenues. Now, with over 140 departures a day, Delta is increasingly the airline of choice for Boston travelers.

Internationally, revenues grew by 5.3% as we offset a 1.5-point currency headwind to increase our unit revenues by 1.1%. While Pacific revenue performance was softer than our initial forecast, we were able to maintain our margin performance versus prior year. We see our opportunity for profitability to improve as we continue to execute on our multi-year Pacific restructuring. Additional commentary on the entity performance for the June quarter may be found in this morning's press release.

Looking forward to the September quarter, total revenue is expected to increase 6% to 7% on a 1.5% to 3.5% improvement in unit revenues. July is off to a great start with a new number one system revenue day, it was last Sunday or this Sunday?

Jill Sullivan Greer

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

This past Sunday.

Glen W. Hauenstein

President, Delta Air Lines, Inc.

This past Sunday, okay. While underlying passenger demand remained strong sequentially, we expect TRASM to see about a 1 point pressure from the Easter holiday timing and a slight deceleration in the transatlantic.

Domestic corporate and leisure demand remain strong, premium product growth should continue to lead to Main Cabin as we monetize the investments we have made in improving the customer experience.

In international, currency headwinds are beginning to moderate in the back half of the year as we lap U.S. dollar strength. Atlantic unit revenue is expected to be roughly flat over prior year as strong U.S. point of origin demand and stable corporate trends are offset by some softer European leisure demand.

In the Pacific, we expect unit revenue declines will be similar to the June quarter, but should begin to moderate later this year as we lap foreign exchange headwinds and as our comps ease.

Latin is positioned to remain our best-performing international entity as strength continues in both Brazil and Mexico and we expect system capacity to grow by 4% in the September quarter, a modest decline from our first half run rate.

Full year capacity is trending slightly above 4%, including additional capacity from higher completion factor, incremental joint venture flying to assist our partners with grounded airplanes and increased charter flying. I'd like to congratulate our charter team on an outstanding quarter and strong year-to-date performance.

As we think longer-term, our opportunities lie in leveraging both our brand and our scale to grow our revenues, expand Delta's competitive advantages, and differentiate the perception of Delta in the minds of our consumers. We are targeting our capacity in markets with the best growth potential, improving the efficiency and profitability of our core hubs through upgauging.

While the last 10 years were spent fundamentally transforming our domestic hub structure, we are currently in the midst of the most significant fleet evolution in Delta's history. We are focused on getting the right aircraft on the right routes, allowing us to deliver leading customer service-focused products and services and expanding our margins. With over 200 narrowbodies set to deliver over the next four years, we are building a more efficient fleet that best serves the scale of our network. These are larger gauge aircraft, with a higher percentage of premium seats, which help drive Delta's margin profile.

Our fleet transformation extends to the international entities as well. Not only will our fleet become more efficient with new deliveries, our entire international fleet will have upgraded interiors, including Premium Select and Comfort+ by the end of 2021.

The improved international product combined with efforts to create a more seamless experience for our customers flying within our partner network gives us confidence in our global ability to continue to drive profitable growth.

The scale of our global network, product investments and Delta's best-in-class service are the foundation for our revenue premium and underlie the improved economics of our recent American Express agreement. That agreement alone should drive a nearly \$7 billion contribution by 2023, double to what we saw in 2018.

In closing, we expect strong demand to continue throughout the rest of the year. Our first half results and pipeline of initiatives give us strong confidence to again raise our revenue growth target to 6% to 7% for the full year. As pleased as we are with the record June quarter result, we are even more excited about our great runway of opportunities.

And with that, I'll turn it over to my good friend, Paul.

Paul A. Jacobson

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

Thanks, Glen. Good morning, everyone, and thank you again for joining us this morning. Our results through the first half of the year show that we're delivering against our Investor Day plan to drive both top line growth, margin expansion and continue to return consistently to our owners.

In the first half of the year, revenue has grown by 8%, our operating margins have expanded by 200 basis points and we've grown earnings per share by 30%. We've also generated \$2.5 billion of free cash flow, more than all of 2018, with \$2 billion of that going back to shareholders.

Our after-tax ROIC, on a trailing 12-month basis, is 15.3% as the investments we've made are driving strong returns. These results give us confidence to raise full year revenue, earnings per share and free cash flow guidance. For the full year, we're on track to deliver 6% to 7% top line growth, at least 150 basis points of margin expansion and 25% EPS growth. With results to-date and updated expectations for the full year, we now expect to return \$3 billion to shareholders in 2019. This is a \$500 million increase above our initial plan outlined at Investor Day.

Turning to June quarter results, we set a June quarter record with pre-tax income of \$2 billion. Our operating margin of 17.1% was 2.3 points higher than last year. Our pre-tax margin of 16% was the highest we've achieved in two years. We're firmly on track to exceed our target for full year margin expansion and now expect at least 150 basis points of improvement versus 2018.

We continue to deliver solid cost performance, with efficiency gains throughout our operations, fleet transformation and One Delta initiatives all contributing. For the June quarter, non-fuel unit costs were up 1.4%, in line with our guidance of 1% to 2%. This included approximately \$60 million of pressure due to higher depreciation expense associated with our decision to accelerate the retirement of the MD-90 fleet by two years to the end of 2022. This impact is largely limited to the June quarter as 31 aircraft were permanently retired. We will retire another nine of these aircraft by year-end and expect MD-90 depreciation to moderate in future periods.

One Delta is enabling a more efficient approach to our ongoing fleet transformation as well. The team has identified a number of opportunities to drive incremental efficiency gains, as we transition aircraft into and out of the fleet, minimizing friction cost from operating small sub fleets. We will continue to realize fleet simplification benefits as we reduce and exit another fleet type in the MD-90.

And, as we induct new aircraft such as the A330-900neo, we're streamlining entry into service to minimize unproductive time. This enables crew efficiencies through better training and scheduling management and drives incrementally higher ROIC through less idle time on the asset.

Non-fuel unit costs increased 0.6% in the first half of the year, giving us confidence in our full year CASM-Ex guide of approximately 1%. In the back half of 2019, we face tougher cost comparisons from last year's performance as well as decelerating capacity growth. While fuel was volatile during the June quarter, Brent prices

remain below prior-year levels. Total fuel expense decreased \$35 million on 4% lower market fuel prices. Refinery profits of roughly \$40 million were flat to last year.

Our re-fleeting and One Delta initiatives drove a 1.6% improvement in fuel efficiency in the June quarter and we expect a 2% fuel efficiency gain for the full year. Non-operating expenses for the quarter were \$60 million higher than prior year, due to lower pension income and a decline in our equity partner earnings. For the full year, we now expect non-operating expense to be in the range of \$525 million to \$575 million. This is above prior expectations due primarily to these lower partner earnings.

For the September quarter, we expect earnings per share to be in the range of \$2.10 to \$2.40 per share, up 25% versus prior year at the midpoint. This equates to a pre-tax margin of 14.5% to 16.5%, comparing favorably to last year's 13.6% result. This includes an expectation for non-fuel unit cost growth of 1% to 2% and all-in fuel price of \$1.95 to \$2.15 per gallon. This is down from last year and similar to the June quarter. Our guidance includes an approximately \$40 million contribution from the refinery this quarter, which is expected to benefit the September quarter fuel price per gallon by roughly \$0.04.

Turning to the balance sheet and cash flow, our balance sheet remains strong. Adjusted debt-to-EBITDAR of 1.7 times is at the low end of our target leverage ratio of 1.5 times to 2.5 times. Consistent with our capital allocation strategy, we continued to proactively address our pension obligation with a voluntary \$500 million contribution in the June quarter.

We generated \$3.3 billion of operating cash flow and reinvested \$1.4 billion into the business during the June quarter. This produced free cash flow of \$1.8 billion, bringing our first half free cash flow to \$2.5 billion. This represented conversion of more than 100% of net income, nicely ahead of last year, benefited by both top line growth and margin expansion.

Our strong first half performance sets us up to achieve \$4 billion in free cash flow for the full year and we expect a net income conversion of nearly 90%. This includes our expectation for full year CapEx of \$4.5 billion, which is unchanged from initial guidance provided at Investor Day.

Our healthy balance sheet and cash generation enable us to consistently return cash back to our owners, while also investing in the future growth of the company. During the quarter, we've returned \$497 million to shareholders. Including the accelerated buyback earlier this year, total shareholder returns are just over \$2 billion through the first six months of the year. We funded our accelerated buyback in the first quarter with a \$1 billion short-term loan. With cash flow running ahead of plan, we completed repayment of this short-term facility earlier than anticipated.

Since first announcing our capital allocation strategy in 2013, we've returned more than \$14 billion to owners. We've reduced our fully diluted share count by approximately 25% and increased our dividend for six consecutive years. But importantly, we've done that while also investing in our business and our people.

Additionally, we're maintaining low debt levels and improving the funded status of our pension plans as part of our commitment to maintain our investment-grade credit ratings.

Our consistent repurchase activity and 15% dividend increase in the third quarter demonstrate our continued strong conviction on the durability and sustainability of our business model. These results are a validation of our unrivaled network, our dedicated people, and our powerful brand. Our competitive advantages continue to deliver industry-leading results and drive long-term value for all of our stakeholders.

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.

Great. Thanks, Paul. Jake, we're ready for questions from the analysts if you could give the instructions.

QUESTION AND ANSWER SECTION

Operator: Yes. [Operator Instructions] We'll begin with Mike Linenberg with Deutsche Bank.

Mike Linenberg

Analyst, Deutsche Bank Securities, Inc.

Q

Yeah. Hey, good morning, everyone. Yeah. So, I have one and one follow-up. Just, I guess, the first one to Glen. You called out the strength in Boston and I think over this last quarter, I think Boston was maybe officially anointed a hub. I think there was also some press out about maybe some other focus cities like Nashville and Austin. As we think about your domestic capacity growth in 2019, Glen, will more of it be allocated to these focus cities or newer hubs? Or how should we think about the split across your system?

Glen W. Hauenstein

President, Delta Air Lines, Inc.

A

Great question, Mike. I think Boston is a true focus city for us that we have commitments over the next year, year-and-a-half to take our departure levels up towards 200. For those of you who are familiar with our Boston operation, we have shared our terminal with various carriers over the years and we will take over the entire terminal starting late this summer, which will allow us to continue to grow in Boston.

And what we've been focused on is making our hubs more efficient, so we can drive higher earnings and targeting those cities that are high growth. And Boston, Seattle, Austin, Nashville, Raleigh, all fit that profile of cities, where growth and growth for air travel is significantly higher than they are across the system in general. So, that's really been our thoughts to continue to grow where markets are growing and to continue to make our existing hubs more efficient.

Mike Linenberg

Analyst, Deutsche Bank Securities, Inc.

Q

Okay, great. And then just jumping over to Paul on the pension, the \$500 million contribution. Is there anymore require – are you required to contribute more this year? Or it sounds like maybe you went above and beyond what you were required to. And where is the – what's the funded status of the pension at this point if you could? Thanks.

Paul A. Jacobson

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

A

Hi. Good morning, Mike. Thanks for the question. So, all of the contributions that we've made are voluntary, as we've talked about at Investor Day. With airline relief, we have fully completed all of our required funding through 2024, but we remain committed to try to get – achieve an 80% funded status by the end of 2020. Right now, we're

in the low to mid-70s. The plan is performing very well, in line with equity markets globally and we expect to be a good year on the return front.

Mike Linenberg

Analyst, Deutsche Bank Securities, Inc.

Q

Great. Thank you.

Operator: We will now move to the next question and that will come from Jamie Baker with JPMorgan.

Jamie N. Baker

Analyst, JPMorgan Securities LLC

Q

Hey, good morning, everybody. Yeah. First question, either for Glen or for Gil, it's a hypothetical. If you had a substantive portion of your fleet grounded right now, from an operational perspective, what would be the most intelligent and profitable way for Delta to reintroduce aircraft in a manner that wouldn't prove detrimental to RASM. Simply a hypothetical, how would Delta phase grounded aircraft back into its operation? Hopefully, I'm asking in a way you're comfortable answering.

Edward H. Bastian

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

A

Hey, Jamie, this is Ed. Actually, I'm going to jump the line, I'm going to answer it. We know what you're asking. And you know what, it's really not appropriate for us to be speculating as to what the other carriers ought to do. It's clear that MAX has been a real – it's had a dramatic impact on our industry. I think the reintroduction, when the time comes, is going to have to be carefully managed, no question. But in the interim, we're going to continue to watch and see the developments there. But I don't think we should be looking to second-guess or call out the current or the expected actions of our competitors.

Jamie N. Baker

Analyst, JPMorgan Securities LLC

Q

Fair enough, can't blame me for asking. Second, probably for Paul. So you continue – Delta continues to demonstrate that it's possible to grow revenue at a rate nicely ahead of that of capacity, which, of course, lays waste to the long-held view that that wasn't possible. Similar to my question last quarter, could you rank order what drives this? I assume loyalty is probably the biggest driver, but we've had significant consolidation, there's the phenomenon of segmentation, there's consumer shift from goods to services. I'm just trying to understand the drivers in better hopes of predicting the sustainability of this trend, given that it is a new trend.

Glen W. Hauenstein

President, Delta Air Lines, Inc.

A

Jamie, it's Glen. I think, all those things that you just mentioned are contributors to it. It is not one thing and it is – while we are really excited about the American Express transaction, that is not the key driver within the quarter for the excellent performance, I think, is as much being able to charge for products, being able to understand where people want to fly, being able to put the right products and services in those markets and being able to charge customers for what they're willing to pay us for. And I think it's a combination of everything you just mentioned.

Jamie N. Baker

Analyst, JPMorgan Securities LLC

Q

Okay. I'll settle for that.

Edward H. Bastian

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

A

Jamie, this is Ed. I'll just chime in on Glen's response as well. This is a growing business. I think, for years, people wondered whether it was a mature business. But when you think about what – where consumers are looking to go and whether, as you say, it's the millennial impact of wanting experience versus ownership, whether it's the baby boomer segment that's looking to explore, I think technologies had a huge impact here, people are more aware of the world than ever before, people are more interested in seeing the world and connecting with the world than ever before.

And as the best-performing airline in a market that's growing at a multiple of GDP, we're really well positioned to see this continue to grow into the future. And all the other actions that you talked about are more tactics in terms of how we continue to drive a greater value back to consumers, but I think the fundamental demand for this product in this business is very, very strong and we're capitalizing on it.

Jamie N. Baker

Analyst, JPMorgan Securities LLC

Q

And if I could just squeeze in a third question since you deflected – understandably deflected the first. Just getting back to Mike's question about Boston and reiterating a question I asked about 11 years ago, how do you define hub?

Glen W. Hauenstein

President, Delta Air Lines, Inc.

A

I think a hub is a place that we connect traffic and an endpoint is clearly the opposite of a hub. And so to the extent that we are beginning to connect traffic and more and more traffic over Boston, we would consider it a hub. This year, we're connecting almost 1,000 people a day from the U.S. to Europe over Boston, for example, with our partners started new service from Boston to Asia. And I think when you think about our ability to connect people through a city, that's what we define in as a hub.

Jamie N. Baker

Analyst, JPMorgan Securities LLC

Q

Okay. Thank you very much, gentlemen. Take care.

Operator: We'll now hear from Rajeev Lalwani with Morgan Stanley.

Rajeev Lalwani

Analyst, Morgan Stanley & Co. LLC

Q

Good morning. Thanks for the time. Glen, I wanted to come back to some of your comments, and I guess, Ed's as well. In particular, when you think about the divergence you're seeing in cargo, in passengers, is that something you've seen before? Is cargo maybe a leading indicator of a potential rollover? I'm just trying to get more and more comfortable with the demand outlook as we're looking forward?

Glen W. Hauenstein

President, Delta Air Lines, Inc.

A

Well, any of us could take that, Rajeev. Cargo is not – certainly not a big contributor to the total revenues. It's probably less than 2% of our total revenue base. The impact we're seeing in air freight has been across the industry, not just the airline industry, but the major freight and express companies are seeing those same impacts.

I think a lot of the reduction currently is due to the big inventory build last year in advance of the tariffs and all the geopolitical trade tension that existed. And as a result, there's not as much demand for near in air freight. So, shipping and other forms of transportation are probably getting a higher amount of volume. So, it's something that's important for us, but at the same time, I don't think it has really any direct correlation to what we see on our passenger business.

Rajeev Lalwani
Analyst, Morgan Stanley & Co. LLC

Q

That's helpful. And then, Paul, a question for you on the cost side. We've obviously seen capacity tick up for this year. Is that not creating a tailwind on the CASM side or is it simply offset by some of the D&A items that you talked about? And then just generally, how do you feel about keeping trend steady i.e. inflationary sort of cost curve going forward, given that we're looking at potential labor step-ups for you guys for the industry and so on?

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

A

Sure. Thanks, Rajeev. We, obviously, have enjoyed in the first half some of the benefit and we've seen that in our results with our non-fuel CASM benefiting alongside higher completion factor and more consistent and better operational performance contributing to that, that has helped. We've been pressured a little bit by some of the revenue index. So, with revenue growing at more than – almost twice the rate of capacity, we see some revenue index pressure around commissions and around merchant fees et cetera, but all of that is good money to spend from that perspective.

Last half of 2018, we had negative CASM, so we've got a little bit of tougher comps going in, but we feel very comfortable about holding the line between 1% to 2% and delivering that 1% for the full year. Obviously, the additional D&A from the MD-90 fleet, which we absorbed into our regular earnings, has pressured that somewhat, but we do feel confident.

Looking forward, we continue to see really good progress from One Delta. It's contributed almost \$200 million incrementally in the first half of this year over 2018 and we're on track to exceed \$500 million total from the One Delta program through the first two years, on track to our \$1 billion number. We're going to need to continue to do that. Obviously, there's potential pressures on the horizon, but we're constantly diligent about it and we feel good about holding that below that 2% goal long term.

Rajeev Lalwani
Analyst, Morgan Stanley & Co. LLC

Q

Thank you, guys.

Operator: We'll now hear from Hunter Keay with Wolfe Research.

Hunter Keay
Analyst, Wolfe Research LLC

Q

Hey, good morning.

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

A

Good morning.

Hunter Keay

Analyst, Wolfe Research LLC

Q

Hey. A couple questions on loyalty. Can you hear me, by the way, sorry?

Glen W. Hauenstein

President, Delta Air Lines, Inc.

A

Yeah, we can hear you.

Hunter Keay

Analyst, Wolfe Research LLC

Q

All right. Is there a point where you feel like your loyalty is so strong that you can fully remove yourself from the aggregators that commoditize the look and feel of air travel airfare?

Glen W. Hauenstein

President, Delta Air Lines, Inc.

A

Our strategy has been to build something that consumers want to buy and let them chose how they buy it. And that's led to a continuation of a migration towards Delta direct channels and Delta loyal customers. And I think that's how we see the landscape continuing to evolve. The question is, do you want to do a more aggressive and say no to customers who might want to buy a product a certain way or distributors? And the answer is we would never want to do that. We would just want to continue to focus on buying directly from Delta and Delta sites as the better way to buy a Delta ticket.

Hunter Keay

Analyst, Wolfe Research LLC

Q

Why not? I mean, Southwest customers and a lot of those guys go straight there without price comparing. And I would argue that a lot of Delta customers now buy Delta airfare without price comparing because they feel like it's a good value. So, maybe this is a 5, 10-year question, but why not maybe say if you're going to commoditize our product and sell in the way that's not representative of the value you're getting, we're just not going to do business with you?

Edward H. Bastian

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

A

Hunter, let me offer my thoughts here. We're going down that direction obviously. I'd say, 10 years ago, about one-third of our tickets were sold over the online agencies. Today, we're down to somewhere around 10% to 15%. And probably, as you look forward, you're right, delta.com is going to take more and more of that traffic. So, I don't think we need to put a stake in the ground and say that we won't sell over other channels. But at the same time, the online agencies are aware that they need to provide a differentiated experience to our customers in order for us to continue to invest in them and together have our content on their sites.

Hunter Keay

Analyst, Wolfe Research LLC

Q

Okay. Thanks. And then just one more quick one just related to it. Do you happen to know, maybe through survey work or whatever, how many customers book directly with you guys without price comparing?

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

A

We have no idea.

Hunter Keay
Analyst, Wolfe Research LLC

Q

Okay. Thank you.

Operator: And our next question will come from Savi Syth with Raymond James.

Savanthi Syth
Analyst, Raymond James & Associates, Inc.

Q

Hey, good morning. Just a question on the cost side. With the tariffs, I'm wondering if that's having an impact on airport projects and costs and what the implication for just airport costs in general and the LaGuardia project you're working on in particular? And just tied to that, I think we're seeing a lot of just airport projects in general and a lot of funding related to that and wondering if you're going to start to see funding pressure and if these – if that just translate to higher airport costs for the industry in general, or if we might see some of these projects getting curtailed.

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

A

Good morning, Savi. Thanks for that. Certainly, we've seen some inflationary and tariff-related pressure on structural steel and other elements. I would say actually a little bit of a bigger pieces than just general inflation in the areas of New York and L.A., where we're constructing, there's obviously a lot of infrastructure work going on and competition for labor is tight. That being said, both of those projects remain on target, on schedule and on budget. The work that the team is doing has been phenomenal on the ground in both places. And this is one of the strong benefits that we feel we have by controlling the financing and controlling the construction of these projects being able to manage through these things. And the teams have done an amazing job.

Savanthi Syth
Analyst, Raymond James & Associates, Inc.

Q

So, any thoughts and then kind of as you look at other airports as well – the follow-on on if we are going to kind of continue to see this kind of increasing clip of airport inflation, or if some of these projects get curtailed especially as the economy kind of slows down here?

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

A

Well, I think you're going to continue to see airport cost inflation across the board. There is a lot of infrastructure improvement happening not just at our hubs but across the board. But all of these are customer-enhancing and going to make the customer experience better, more streamlined with more features and more modern. So we actually feel good about it. And those projects are all moving ahead. We feel comfortable absorbing that rate of inflation as we can deliver those products and in line with our general cost goals.

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

A

Savi, if I may take a stab at it, what I think you're getting at to is, when you think about the trends in the U.S. aviation industry that big cities tend to be getting bigger and the small cities tend to be getting a bit smaller. And if you look at Kennedy, when we made the initial investment, during the first year or two, our CPE went up slightly. But sitting where we are at today, by driving the more efficient larger airplanes through those facilities, which you couldn't have done through the previous facilities, our CPE is now significantly below where we were just a few years ago, and even before the construction. So, really these are the enabling projects for the airlines to become more efficient as well.

Savanthi Syth

Analyst, Raymond James & Associates, Inc.

Q

That's helpful. All right. Thank you.

Operator: And now we will take a question from Brandon Oglenski with Barclays.

Brandon R. Oglenski

Analyst, Barclays Capital, Inc.

Q

Hey, good morning, everyone. So, Glen or Ed, I want to circle back to this idea of sustainably growing revenue above GDP. And I know we've kind of hit on at this call like the de-commoditization of the product, but can you talk to – have you seen like repeat purchases of these different branded fares or segmented products? Or is it just like a novelty that could potentially wear off as consumers just go back to thinking, hey, a seat is a seat?

Glen W. Hauenstein

President, Delta Air Lines, Inc.

A

I think it's become more and more sticky and that's why, I think, we pointed out that every year the paid load factors in the premium products get higher and higher and higher and we continue to drive loyalty into those products and services, so, I think, our ability to continue to grow those sectors. I think when you look back and say what was wrong with this industry 5 or 10 years ago as we all thought that it was a race to the bottom and that the only thing that mattered to consumers was having the lowest fare. What we really figured out when we did a lot of survey and results was that for most customers, for 60% of our customers, they were choosing on something other than the lowest fare. And then when we dissected that even more it was 60% of customers but really 80% of revenue. And we weren't really geared towards being able to provide value, and that's the whole genesis of this transformation of Delta and its premium products and services, it's been about providing people what they want to buy.

Edward H. Bastian

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

A

And Brandon, the other thing I'd add to that is that we've been growing our top line revenues easily the last two years in the high single-digit level year-on-year, again, multiple of where GDP has been. And the diversity of those revenue streams is powerful, whether it's loyalty and other components to that. But the other thing is our Net Promoter Scores are at their highest, in records. So, not only are they purchasing these new products, they are even more satisfied than ever in the services that Delta is providing. So, I think, it's quite sustainable and I think it's going to continue to grow at a pretty accelerated pace.

Brandon R. Oglenski

Analyst, Barclays Capital, Inc.

Q

Okay. Well, it makes sense because we've always had travel options on hotels and cars, so. If I can, I want to ask one nerdy analyst question here. So you guys are guiding to 6% to 7% top line growth for the year. Let's say capacity is around 3% gets you close to 4% for the fourth quarter. I think that's implying TRASM that would be close to flat. Is there anything in the guidance that is suggestive of like a slowdown in industry yields or maybe a bit more caution on the economy?

Edward H. Bastian

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

A

As you said so, you are right, that's a nerdy analyst question. No, we're not expecting to see any trend shifts in the numbers. We're probably just being a little conservative in our long-term top line guidance.

Brandon R. Oglenski

Analyst, Barclays Capital, Inc.

Q

All right. I appreciate it.

Operator: And now we'll hear from Andrew Didora with Bank of America.

Andrew G. Didora

Analyst, Bank of America Merrill Lynch

Q

Hi. Good morning, everyone. Paul, I actually wanted to get your thoughts here as we head into the back half on just on IMO 2020 and how you're thinking about that and the impact to jet fuel. Are there any ways to hedge this as what we see futures contracts show up kind of a meaningful step-up from the end of the year into 2020? And does this maybe change your thoughts at all on the refinery?

Paul A. Jacobson

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

A

Well. Andrew, good morning, thanks for that. At the end of the day, as we've said, the refinery, given its diesel and jet production will effectively serve as about a 35% hedge against that. So we feel like we're well-positioned going into that. Certainly, we've seen a little bit of pressure on the futures curve, but it hasn't been near what the market had expected or at least thought in extreme cases that it would be. So we're continuing to watch it and keep it close. The refinery is performing well. We've seen some upward pressure on gasoline and other products on the profitability of that given the recent announcement by PES to shut down their refinery. And we feel like we're well positioned to be able to continue to deliver those results.

Andrew G. Didora

Analyst, Bank of America Merrill Lynch

Q

Got it. That's helpful on the diesel and jet hedge. But – and I guess my follow-up question here just on the free cash flow execution, obviously, has been excellent this year. Can you maybe talk a little bit on how sustainable you see this \$4 billion going forward, particularly in the face of maybe some rising jet fuel, possibly slowing economy? And can you remind us of what levers you have to pull in case kind of any of these scenarios play out? Thanks.

Paul A. Jacobson

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

A

Well, sure, we always have the flexibility levers on voluntary spending and capital, et cetera, to be able to manage that, which is why our balanced capital allocation strategy is the right one, because it can be flexible and respond

to changes. But if you look at our cash flow conversion rates, they've been going up pretty steadily and a huge contributor to that is the American Express deal. As we've talked about, the loyalty program, the cash turn versus the deferral that we see, some of that to the balance sheet is very strong and that's expected to continue to grow, which will enhance our operating cash generation going forward.

This year in particular, we've lapped a couple of sizable increases in non-cash-related expenses, principally the pension as well as depreciation and amortization. So you see the cash efficiency of the earnings stream increasing. And that should continue as well. So, the trajectory we're on, we're confident about and we feel good about being able to continue that performance into the future.

Andrew G. Didora
Analyst, Bank of America Merrill Lynch

Q

Great. Thank you.

Operator: The next question will come from David Vernon. One moment please.

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

Q

Hey. Hello?

[indiscernible] (00:48:43)

Operator: Go head.

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

Q

Okay. Sorry. The moderator was still speaking there. Coming back to the theme of infrastructure for a second, Paul, if you think about the amount of money sort of Delta has been putting into airport projects the last several years, is there a point over the next several years where you start to get some free cash flow leverage off of that investment? Because we're starting from a pretty low base in terms of airport quality around the network, I'm just wondering if there's a point in an investable horizon where that non-aircraft CapEx could start to fall off a little bit.

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

A

Well, thanks for that, David. We also for the large projects that we are doing because we finance those in the tax-exempt markets or through general airport funds are excluding those from investing activities, because they're on a standalone and we repay those over time. So I think, there's going to be a steady stream of investment across the airports, whether it's driven by the airports themselves or by us. We've put significant investment into our Sky Club and lounge program for customer satisfaction, and clearly those are paying dividends in the product scores and the revenue performance of the company as well.

So I don't see the non-large infrastructure changing significantly as we go forward. But those large infrastructure projects will be here for a little bit of time and they'll be great for the customers. And as Glen talked about they create some significant operational efficiencies and scale benefits for us to be able to amortize those costs over higher loads.

J. David Scott Vernon

Analyst, Sanford C. Bernstein & Co. LLC

Q

And maybe just as a follow-up, Glen, that tie in as far as kind of the cost advantages creates for you as a bigger airline. As we kind of finish the development of the airport at LaGuardia, for example, how does that change sort of the competitive dynamic against the lower-cost carrier in that market?

Glen W. Hauenstein

President, Delta Air Lines, Inc.

A

Yeah. I don't think we want to speculate on how they're going to react to the new facilities, but I do think that we know that in order to accommodate the growth of air travel in New York City, we have to have a bigger facility as if you've used it, you understand how constrained it is and that constrains our ability to put larger airplanes in there that can drive significant cost efficiencies and accommodate growth over time. I think we all realize, particularly in summertime, how constrained New York City air space is. And so there is really no way to be able to put more airplanes in there, so we're going to have to put bigger airplanes in there that are more efficient and those facilities are the key enablers for that.

J. David Scott Vernon

Analyst, Sanford C. Bernstein & Co. LLC

Q

Given your scale benefit, though, wouldn't you think that the higher cost per enplanement might be more relatively impactful for a lower-cost carrier than it would be for you to absorb? Or am I not thinking about that right?

Glen W. Hauenstein

President, Delta Air Lines, Inc.

A

Clearly, our business model would be favored in a high CPE environment.

J. David Scott Vernon

Analyst, Sanford C. Bernstein & Co. LLC

Q

Okay. Thank you.

Glen W. Hauenstein

President, Delta Air Lines, Inc.

A

Thank you.

Operator: Now, we will take a question from Helane Becker with Cowen.

Helane Becker

Analyst, Cowen & Co. LLC

Q

Oh, thanks very much, operator. Hi everybody and thank you very much for your time. One of the areas that you guys seem to be on the leading edge of but don't talk a lot about is what you're doing regarding environmental and sustainability efforts. And I think you're pretty big internationally and that seems to be where there's more focus rather than the U.S. – from international investors more than domestic investors. But could you maybe talk a little bit about how we should think about your efforts in that regard and whether you think they add to brand and so on? Thank you.

Edward H. Bastian

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

A

Sure, Helane. Thanks. That's a very good question and you're absolutely right. ESG is going to become an increasingly important part of our responsibilities in our governance of our brand and how we operate into the future. You're right, that is probably a bigger point of emphasis in Europe today than it is in the U.S. But it's going to continue to grow here as well. We've made a lot of commitments as an industry as well as an airline and I'm pleased to say that Delta is continuing to meet its commitments in that.

We've made a commitment as a company as well as an industry to reduce our footprint by 50% by the year 2050, which requires that we need to continue to reduce our footprint by up to 2% per year, which is right in line with where we are today on fuel and emissions. We've made a commitment as a company to eliminate single-use plastics from onboard our aircraft as well as in our lounges in our airports and we continue to make new announcements. I just saw the new amenity kits that we've got for international, that's eliminated the plastic. We're going to be taking the wrappers off, put blankets here soon.

And every day there is a lot of small efforts, all of which add up to a lot of big impact. So, ESG is something that we are paying good attention to. I think investors will increasingly pay more attention to and it's going to be a point of pride for Delta people as we bring forth the lead in that effort as well.

Wayne Gilbert West

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

A

And I'd just add, Ed. This is Gil that also sustainability goes hand-in-hand with efficiency because as the waste is reduced, right, there is a cost savings associated with that. So, whether it's fuel – as an example, fuel efficiency, but everything else associated with waste, we save money when we eliminate it.

Helane Becker

Analyst, Cowen & Co. LLC

Q

That's great. Thanks for your help. Have a nice day, everybody.

Edward H. Bastian

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

A

You too, Helane.

Glen W. Hauenstein

President, Delta Air Lines, Inc.

A

Thanks, Helane.

Operator: Our next question comes from Duane Pfennigwerth with Evercore.

Duane Pfennigwerth

Analyst, Evercore ISI

Q

Hey, thanks, and congrats on the strong results.

Edward H. Bastian

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

A

Thank you, Duane.

Duane Pfennigwerth

Analyst, Evercore ISI

Q

I wanted to ask you about the accelerated retirement of the MD-90s two years early. Was there a corresponding new order to facilitate that? How far out does your current narrowbody order book take you? And have you considered any potentially opportunistic pricing on the MAX?

Paul A. Jacobson

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

A

Hey, Duane, this is Paul. Thanks. Thanks for the question. The decision to retire the MD-90s is part of the continued move in fleet simplification, driving that through. We feel comfortable with our existing order book. There were no new orders accompanying that decision as we thought about it. And we feel good with that balance and the trajectory that we're on to be able to drive to the benefits of fleet simplification, significantly reduce the complexity in the business, which is going to translate to better efficiency going forward.

Duane Pfennigwerth

Analyst, Evercore ISI

Q

And have you been tempted by any opportunistic pricing on the MAX?

Edward H. Bastian

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

A

Duane, we are very focused on the narrowbody transformation that Glen talked about in his comments. We made the decision two years ago to invest in the A321 and I think that, yeah, we're going to stay that course.

Duane Pfennigwerth

Analyst, Evercore ISI

Q

Fair enough. Thank you. And then, just for my follow up, very strong Latin RASM, comps actually get easier, much easier in the back half. Can you just remind us, what were the main drivers of weakness in the second half of last year? Was it more Mexico? Was it South America? Thanks for taking the questions.

Glen W. Hauenstein

President, Delta Air Lines, Inc.

A

Right. It was both Mexico and Brazil last year, which have had turnarounds in both of those marketplaces that really – those are our epicenters of Latin turnaround.

Duane Pfennigwerth

Analyst, Evercore ISI

Q

Thank you.

Edward H. Bastian

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

A

Thank you.

Jill Sullivan Greer

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

A

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

Operator: Thank you. And that question will come from Dan McKenzie with Buckingham Research.

Daniel J. McKenzie

Analyst, The Buckingham Research Group, Inc.

Q

Hey, good morning. Thanks for squeezing me in here. Both of my questions also tied to revenue sustainability. On corporate revenue, I'm hoping you can elaborate on underlying volumes tied to the larger managed accounts and the smaller unmanaged accounts. I wonder if there's been a change in velocity here. One of your competitors had some pretty substantial operational disruptions. And I guess, I'm wondering, to what extent there are new revenue pipelines getting turned on from potentially new accounts. Or is just the corporate revenue story more about getting the existing accounts just to pay more?

Glen W. Hauenstein

President, Delta Air Lines, Inc.

A

Well, it really isn't about the corporate accounts paying more. It's really the yield trends have been very stable this year, both domestically and actually slightly down internationally, primarily driven by currency headwinds. But it's really been a volume story. And volumes have been up throughout the year. So we've seen very robust volumes, particularly domestically, with many weeks being up double digits in terms of the volumes. So, I think we're relatively excited about the broadness of this. And clearly, there are industries that are growing and there are industries that are scaling back. But in general, the trends have been overwhelmingly positive for volume.

Daniel J. McKenzie

Analyst, The Buckingham Research Group, Inc.

Q

And, Glen, I think, that actually ties to the second question I have here and that is just, sort of, helping to clarify some of the revenue outlook for later this year. It sounds like the outlook is factoring in some impact from the MAXs coming back and potentially from some elevated macro risk. And it sounds like you've got some strong offsets to those headwinds, corporate volumes being one of those. Should we think about the offsets to some of these risks later this year is also being on the international side of the revenue equation ex-Europe?

Glen W. Hauenstein

President, Delta Air Lines, Inc.

A

I think, as we go through the year and really more in the fourth quarter, we're starting to lap the higher dollar. And, as you know, international has a longer sale – advanced sale than domestic. So the tail end of the fourth quarter should – or the mitigation of the headwinds should be better as we move through the year. And we're also looking at starting to lap some of the weakness in some of the sectors, as we mentioned earlier in the call, automotive has been down and as you might expect with a hub in Detroit and a very big Midwest presence, that had a pretty large impact on us. So, as we get to the fourth quarter, we're actually lapping those lower comps. And so that should actually prove, hopefully, we can get back to a constructive environment in one of our biggest sectors. And so we're really looking forward to a very strong close to the year.

Daniel J. McKenzie

Analyst, The Buckingham Research Group, Inc.

Q

Very good. That's helpful. Good job on the quarter. Thanks very much.

Edward H. Bastian

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

Thanks, Dan.

A

Paul A. Jacobson

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

Thanks, Dan.

A

Jill Sullivan Greer

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

Jake, that's going to wrap up the analyst portion of the call. We will hand it over to Tim Mapes and our media team, Jake, if you could give the instructions to the media for how to get in the queue.

A

Operator: Of course. [Operator Instructions] And we'll go first to Leslie Josephs with CNBC.

Leslie Josephs

Airline Reporter, CNBC

Hi, good morning. Thanks for taking the question. Could you please update us on the – what's going on with Wi-Fi and those tests? You said you had a two-week test in the last quarter. Where are the tests this quarter? And when do you expect it to be free throughout the network? Thanks.

Q

Edward H. Bastian

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

Sure, Leslie. This is Ed. We did conduct two weeks of test. It was on a limited scale. We learned a lot about the technical capacity challenges that you face when you want to open a Wi-Fi up free with great broadband capabilities across our entire global network. We're not ready to announce when the next free tests will come. But they will be coming certainly later this year and we're on a path here. We think it's important that our customers stay connected. And entertainment is something I think that will continue to distinguish Delta in the sky.

A

Leslie Josephs

Airline Reporter, CNBC

Thanks. And then just one quick follow-up, on the interview this morning, you said that about 65% to 70% of First Class is paid in cash. Is that First Class purely or is that First and like Delta One business class as well?

Q

Edward H. Bastian

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

It's essentially our First Class product both domestic as well as international, paid load factors in that 60% to 70% range.

A

Glen W. Hauenstein

President, Delta Air Lines, Inc.

But it's not only – importantly it's...

A

Leslie Josephs

Airline Reporter, CNBC

Q

What was it last year?

Edward H. Bastian

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

A

What's that?

Leslie Josephs

Airline Reporter, CNBC

Q

Sorry. What was it last year?

Edward H. Bastian

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

A

It's up that. Glen can give you some of the details.

Leslie Josephs

Airline Reporter, CNBC

Q

Okay. Thank you.

Glen W. Hauenstein

President, Delta Air Lines, Inc.

A

Importantly, it's not cash. It's cash and the frequent flyers using their mileage to upgrade into those cabins. And I think that's one of the real – when we talk about continuing to increase the diversity and the ability for people to sit up here, we're trying to bring more and more ways to get there and that's increasing the distribution has been one of the keys.

Leslie Josephs

Airline Reporter, CNBC

Q

Thanks.

Operator: And now we'll hear from Tracy Rucinski with Reuters.

Tracy Rucinski

U.S. Aviation Correspondent, Thomson Reuters

Q

Hi. Good morning. I'm interested in hearing a little more context on your Hanjin Korean Air investment. You mentioned your close personal relationship with the Cho family. Did anyone from the Cho family contact Delta to ask for help in warding the activist fund KCGI? And what role do you expect to have in Korean Air's corporate governance?

Edward H. Bastian

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

A

Tracy, this is Ed. We do have a close relationship with the family as well as with the company. We were in contact on a almost daily basis across our two companies. And I'm not going to comment relative to investment, how we develop our investment thesis, but the investment that we made in Korean is consistent with the investments you've seen us make in many of our main partners around the globe. So, I don't think there should be anything considered unusual at all about it.

Tracy Rucinski

U.S. Aviation Correspondent, Thomson Reuters

Okay. Thank you.

Q

Operator: We will now take a question from Ted Reed with Forbes.

Ted Reed

Reporter, Forbes Media LLC

Thank you. I have two questions. So, first is about the MAX. When you guys decided not to buy the MAX, what was the reason? Your competitors had it – had ordered it. Was it just cost or was the wait too long or something else?

Q

Edward H. Bastian

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

We – listen, the MAX is a good product. I'm not dismissing it. It's a very competitive tool that our OAL has. We look at all aspects of performance. We looked at the customer view of the product. We looked at the cost from the OEMs. We looked at the engine deal. We looked at what we were able to do with Pratt & Whitney on the geared turbofan and the commitments that we've received in the A321neo. So, it was a comprehensive review. It was a close call I admit. We've spent quite a few months analyzing and going back and forth. But the A321neo in aggregate carried the day for us.

A

Ted Reed

Reporter, Forbes Media LLC

All right. Thank you. Secondly, I would like to ask about Boston. You said – Glen, you said you'd get to 200. Is that going to be it for you once you get to 200? And also you mentioned competitors are flying Boston Asia. Is that something you're interested in?

Q

Glen W. Hauenstein

President, Delta Air Lines, Inc.

No, I said our partners were flying from Boston to Asia.

A

Ted Reed

Reporter, Forbes Media LLC

Oh, okay.

Q

Glen W. Hauenstein

President, Delta Air Lines, Inc.

As you know, we – our partner Korean launched Korea to Boston this year on the 787. And it was an incredible success. So, they've been doing quite well on that flight. I think they will expand that service as we move into next year. So, we've been working with our partners. We've been growing our own hub and I think 200 is kind of our medium-term objective here and we think we'll get there in the next 18 to 24 months. But beyond that, we'll see how the market grows. We think, at 200, it's a very sustainable and very profitable franchise for us.

A

Ted Reed

Reporter, Forbes Media LLC

Q

Is it important to be the number one carrier in market share in Boston?

Glen W. Hauenstein

President, Delta Air Lines, Inc.

A

No, it's important to be the most profitable and most loved.

Ted Reed

Reporter, Forbes Media LLC

Q

All right. Thank you, Glen.

Tim Mapes

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

A

Jake, we have time for one final question please.

Operator: And that final question will come from Elliott Blackburn with Argus Media.

Elliott Blackburn

Senior Reporter, Argus Media

Q

Good morning. Thanks. I wanted to ask, you guys touched on this a bit and you bought the Trainer Refinery years back in part to ensure continued fuel production in the New York market. How does the planned closure of the Philadelphia refinery change Delta's outlook for fuel supply and cost in that region?

Paul A. Jacobson

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

A

Elliott, this is Paul Jacobson. Thanks for the question. That Trainer Refinery was originally purchased for events just like this as we saw supply contracting in the region through various closures back in 2012. We saw this as an opportunity for us to take a little bit more control over production and we've done just that. We've taken the refinery and used it in connection with our commercial operations to drive, on average, \$0.05 per gallon benefit against our competitors using the benefits of the refinery and all the logistics expertise that we have. That means that translates to about \$200 million per year.

Certainly, we expect to see some rebalancing going on with the lost production from the PES facility and we believe the Trainer Refinery is well positioned to help us offset any increases in the region we might see.

Elliott Blackburn

Senior Reporter, Argus Media

Q

Thanks. I mean, do you guys continue to seek a partner at that facility? Or how is this also changing kind of your outlook for refining generally in that area?

Paul A. Jacobson

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

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We're always looking for opportunities to enhance the return structure and the overall structure of how we manage that refinery. We went through the process, we found we've got multiple investors and firms interested in talking to us. Ultimately, we weren't able to put a deal together that met all of our needs and have decided, for the time being, to remain the status quo. So we expect no changes in that structure and we put our pencils down on that process.

Elliott Blackburn

Senior Reporter, Argus Media



Thanks very much.

Tim Mapes

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

That will conclude today's call. We're grateful for everyone's time and look forward to sharing the great results that we will be talking about in October. Thank you everybody.

Operator: Once again, ladies and gentlemen, this will conclude your conference for today. We do thank you for your participation. You may now disconnect.

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