12-Jul-2018

Delta Air Lines, Inc. (DAL)

Q2 2018 Earnings Call

CORPORATE PARTICIPANTS

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

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

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

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

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

OTHER PARTICIPANTS

Jamie N. Baker
Analyst, JPMorgan Securities LLC

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

Hunter K. Keay
Analyst, Wolfe Research LLC

Andrew G. Didora
Analyst, Bank of America Merrill Lynch

Michael John Linenberg
Analyst, Deutsche Bank Securities, Inc.

Brandon R. Oglenski
Analyst, Barclays Capital, Inc.

Duane Pfennigwerth
Analyst, Evercore ISI

Rajeev Lalwani
Analyst, Morgan Stanley & Co. LLC

Helane Becker
Analyst, Cowen & Co. LLC

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

Kevin Crissey
Analyst, Citigroup Global Markets, Inc.

Susan Donofrio
Analyst, Macquarie Capital (USA), Inc.

Alison Sider
Reporter-Air Travel Business, The Wall Street Journal

Leslie Josephs
Airline Reporter, CNBC

Edward Russell
Air Transport Reporter-Americas, FlightGlobal

Dan Reed
Contributor, Forbes Media LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good morning, everyone, and welcome to the Delta Air Lines June Quarter 2018 Financial Results Conference Call. My name is Allen, I'll be your coordinator today. 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'd now like to turn the conference over to Jill Greer, Vice President of Investor Relations. Please go ahead, ma'am.

Jill Sullivan Greer

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

Thanks, Allen. Good morning, everyone, and thanks for joining us for our June quarter earnings call. Joining us from Atlanta today are CEO, Ed Bastian; our President, Glen Hauenstein; and our CFO, Paul Jacobson. Our entire leadership team is also 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, here's Ed.

Edward H. Bastian

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

Thanks, Jill. Good morning, everyone, appreciate you joining us today. Earlier, Delta reported a $1.6 billion June quarter pre-tax profit and earnings per share of $1.77, beating consensus of $1.72. Our EPS was up 11% over last year, driven by tax reform benefits and a lower share count.

Our revenues grew 10% to $11.8 billion, a record level for the June quarter. We have seen early success in addressing the fuel cost increase and we did offset two-thirds of the $600 million impact from higher fuel in the June quarter. While this is good progress, there's still more to be done.

Strong demand, recovering fare environment and momentum across our business will all be critical as we work to fully recapture higher fuel costs. I'd like to thank the Delta people for all they're doing, especially during our busiest time of the year.

With a record 50 million passengers this quarter, more customers than ever are choosing Delta because of the great service our people provide and the reliability of the product that we deliver. We are running the world's best operation and our people continue to raise the bar.

For the first half of the year, we've had 58 days without a single cancellation across the entire Delta system, an improvement of 23 days versus the same period last year. This is continuing in July. I would like to congratulate our Delta Connection team as they are currently on a 12-day streak this month without a single cancellation.

Our customer satisfaction scores demonstrate Delta is increasingly a carrier of choice. Year-to-date, we're seeing a domestic Net Promoter Score of 44%, up 3 points versus the prior year. This is all a testament to our employees, and it's an honor to recognize them with $400 million accrued in profit-sharing this quarter and $23 million in share rewards. Our people are the best in the business, and it's our employees and our culture that are Delta's strongest competitive advantage.

Since our last call, we've seen a significant increase in fuel prices. And now, we expect our fuel expense to increase by about $2 billion for the year. Our new EPS guide of $5.35 to $5.70 per share reflects both higher fuel and a stronger revenue outlook. While the rapid increase in fuel prices puts downward pressure on our earnings in the near term, we have the right plan in place to address the challenge and we expect to return to margin expansion by year-end.

We have solid revenue momentum and improving cost trajectory and we'll take 50 to 100 basis points of underperforming capacity out of our fall schedules. We are continuing to look for opportunities to reduce marginal flying in a higher fuel environment.

With a strong financial foundation in place, we expect to deliver a fourth consecutive year of pre-tax earnings above $5 billion, will result largely in-line with last year despite the significant fuel headwind. This shows that the plan we laid out at Investor Day is working and positions us well to succeed in today's fuel and revenue environment.

First, we are seeing outstanding results in growing our top line. Our record June quarter showed solid revenue performance across the business. We also have the most diverse revenue stream in the industry with contributions from our MRO, cargo, loyalty program and our joint ventures.

During the June quarter, we saw four new top 10 revenue days and that momentum is continuing in the September quarter with a new top 5 day last Sunday. We are raising our full year revenue guide to 7% to 8%, reflecting strong demand, pricing momentum and record unit revenue premiums.

Next, we are changing our cost trajectory. For the June quarter, unit cost growth rates are down sequentially for the third consecutive quarter. This trend is expected to continue in the second half of the year, getting us back into our target range of less than 2% annual growth for 2018 and beyond. Since the merger, we have grown non-fuel unit cost at a rate below inflation, while investing significantly in our people, customer experience, operation, fleet and product.

And finally, we're continuing to invest in our international franchise. Through our own growth and joint ventures, we are building a best-in-class global network for our customers. In 2018, we expect to drive $100 million in incremental value from all these relationships with even greater upside to come.

Delta has the right combination of strategic advantages to be successful in any environment: our culture, leading operational reliability, an unrivalled network, loyalty program, including our relationship with American Express and an investment-grade balance sheet. This powerful combination sets the stage for continued success and consistent earnings growth.

Our strong foundation underpinned the board's decision to increase our dividend for the fifth year in a row. Beginning in the September quarter, our dividend will increase by 15% to $0.35 per share. This increase demonstrates our conviction in the durability and sustainability of the Delta business model. At yesterday's closing price, this represents a nearly 3% yield.

In closing, while higher fuel prices are pressuring near-term results, we remain on track to deliver a solid year, offsetting a $2 billion cost increase to deliver a pre-tax result this year that's largely in line with 2017. And 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 capital.

Before turning the call over to Glen, I'd like to take a minute to congratulate Gary Chase on his new role as Chief Strategy Officer. Gary's been a key part of our team since joining Delta in 2012, including leading our One Delta initiative. We're excited that he'll now shift his focus to the formation and execution of our strategy, helping position Delta to keep climbing.

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

Glen W. Hauenstein

President, Delta Air Lines, Inc.

Thanks, Ed, and good morning, everyone. First, I'd like to thank the entire Delta team. The great service they provide customers each and every day enabled us to generate record revenues of $11.6 billion in the June quarter. These results were driven by a continuation of strong demand, coupled with yield momentum that built throughout the quarter. We also experienced significant gains in cargo, loyalty and Branded Fares, all contributing to really nearly $1 billion of top line revenue growth. This produced a 4.6% improvement in total unit revenues year-over-year at the high end of our initial guidance for the quarter.

Corporate revenues grew 10% and were our highest quarterly corporate revenues ever. There were increases across all entities and across all industry sectors. Our corporate demand outlook remains strong. In our most recent survey, 84% of corporate travel managers are expected to maintain or increase their travel spend in the third quarter.

Improving corporate yields remains a significant opportunity and focus. While we are pleased with the June second quarter revenue results, as of June, we have only recovered 20% of the decline in domestic corporate fares since our peak in 2014. While we saw sequential improvements in corporate yields within each of the three months in the second quarter, we still see great opportunity and momentum as we continue to work every day to recapture the cost of higher fuel through further yield improvements.

In the June quarter, cargo and loyalty revenues both grew by double digits. Our close relationship with American Express is a true source of competitive advantage. In the quarter, we drove an incremental $120 million in value, and we are on pace to deliver $3.4 billion in total for 2018, up from our initial prediction of $3.3 billion.

Direct digital channels experienced their best quarter on record with direct sales up 13% year-on-year. We recently launched the newest version of Delta.com and the Delta mobile app. These new products are producing record revenues as well as record satisfaction numbers as we continue to bring industry-leading products and services to market through our digital applications.

Focusing on fuel, there has been a substantial run-up in market prices since this time last year. There have been two sharp legs up, one in late last year and one more recent in late spring. Given the industry's historical fuel recapture lag, we have fully recaptured the first leg in fuel run-up and are working hard to realize the second leg as quickly as possible.

Strong core demand, recent industry momentum, as well as programmatic international industry fuel surcharges, which kick in over the next quarter, give us confidence that we will successfully recapture the most recent leg of the fuel run-up during the second half of 2018. While we have reduced our fall capacity plans by 50 to 100 basis points, work is ongoing and we will continue to adjust capacity in markets, which we are not able to pass along higher fuel costs.

We expect to see new unit revenue premium records in the June quarter. This is again a testament to the strength of the Delta brand, as both our increases in stage length and gauge significantly outpaced the industry in the quarter.

Turning to our entity performance, domestic revenues grew 8% on a 2.5% increase in yield and a load factor of 87%. Delta's hub positions give us a unique opportunity to continue to benefit from up-gauging while maintaining the best revenue premium in the industry.

70% of our domestic growth this year is from higher gauge as we continue to retire our MD-88s and replace them with larger, more efficient 737-900s and A321s. Over the next several years, our domestic fleet will receive further step-function improvements as we deliver the new A220 aircraft and A321neo, which both replace older, less efficient aircraft and provide best-in-class economics.

Internationally, we experienced improving trends with unit revenues up 9% versus last year. This was led by strong demand in both leisure and business segments, coupled with growing revenues from the suite of products and services we have begun to sell internationally. This is the fourth consecutive quarter that international unit revenue growth has outpaced domestic.

Transatlantic unit revenues increased 11%, driven by very strong business cabin performance and robust leisure demand combined with a 3-point currency tailwind. We now offer a complete set of branded fares across the Atlantic and are working with our partners to provide a more seamless experience when flying Delta and our partners by aligning those products and services as closely as possible.

Our alliance team is building the largest and most profitable joint venture with our European partners, Air France-KLM, Virgin Atlantic and Alitalia. We continue to rely more heavily on our partners' EU hubs and now deploy 60% of our transatlantic capacity into their hubs. We have successfully added routes like Los Angeles to Paris, Indianapolis to Paris, Orlando to Amsterdam, Los Angeles to Amsterdam into our portfolio of successful transatlantic markets.

Unit revenues increased by 1% in Latin, as this region faced the most headwinds during the quarter. Weak demand to Mexican beaches and currency devaluations were offset by strength in Central America and the Caribbean. We are reducing capacity to match demand in the impacted markets.

Forward bookings into the Caribbean remain a bright spot, as demand has rebounded more quickly than expected from last year's hurricanes. And with the most recent election now over and stabilizing the peso and Mexico business markets are showing improvements in the back half of 2018. Our JV partnership with Aeroméxico, which just celebrated a one-year anniversary, gives us a great platform for providing the best products for business and leisure travelers to and from Mexico.

In the Pacific, our multi-year restructuring is delivering solid improvements in margins and we now provide the most efficient and comprehensive route network in the Pacific. An 8% increase in year-over-year stage lengths makes our 10% unit revenue growth even more impressive. We officially launched our joint venture with Korean Air in May, marking a very significant milestone for us in the Pacific. In the June quarter, we experienced double-digit unit revenue growth in Korea on a 24% increase in year-over-year capacity. We are very pleased with this strong start to our joint venture and would like to thank our Pacific team and our partners at Korea for delivering such terrific results.

We are committed to continuing to improve our products as well as our network footprint as we add A350s and reconfigure 777s with our four class product, including Delta One suites, Premium Select, and the industry's largest seats in coach on our 777 fleet. Across all regions, segmentation initiatives are one of our largest commercial opportunities. During the quarter, domestic First Class and Comfort+ revenues grew almost 20% on an 8% increase in available premium seats. Looking forward, we will continue to grow our ability to offer customers upgraded experience as we add premium seats domestically with our fleet renewal program.

We know these products are not yet mature, and we are increasing the ways our customers will be able to purchase them. For example, since launching last May, post-purchase upsells have generated over $200 million of revenues and now account for over 10% of all premium products. We continue to roll out more options that our customers are asking for, including the ability to Pay with Miles by the end of 2018.

Delta Premium Select expanded into the transatlantic during the quarter, and by 2021 all of our international widebodies will be equipped with this cabin, which is generating an average fare premium of over 100% to a standard coach seat. Our success in selling branded products, growth in our premium seats and enhanced future functionality give us confidence that we will deliver the $350 million of incremental revenues in our 2018 plan. And looking forward, we believe there will be significant continued growth and expect an additional $500 million in 2019.

With momentum from fuel price recapture and our commercial initiatives, we expect top line growth of 8% for the September quarter, with total unit revenue growth of 3.5% to 5.5% on 3% to 4% higher capacity. Importantly, baseline unit passenger revenue trends are showing improvements despite tougher comp and headwinds due to holiday timing.

The trends we are seeing, combined with the level of service that only Delta people can provide, drive us to raise our full year revenue growth to 7% to 8% from our previous guide of up 4% to 6%. This will be Delta's highest top line revenue growth since 2011, a year in which we successfully recaptured a $3 billion increase in fuel.

With that, 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, and thanks for joining us. For the June quarter, total operating expenses increased 13% or $1.1 billion, with over half of the increase driven by higher fuel prices. With market fuel prices up 10% over the March quarter and 50% versus prior year, our fuel expense increased nearly $600 million for the quarter.

For the September quarter, we expect our all-in fuel price to increase approximately 40% over last year to $2.32 to $2.37. At the current forward curve, year-over-year increases in fuel should moderate to about 20% in the December quarter.

In the third quarter, we expect earnings per share to be in the range of $1.65 to $1.85 per share, which equates to a pre-tax margin of 12% to 14%, about 2 to 3 points behind last year's 15.6% result. With the strong revenue environment and a backdrop of moderating fuel increases, improving our non-fuel unit cost trajectory will play a key role as we drive toward a return to margin expansion by the end of the year and in 2019.

Non-fuel unit costs were up 2.9% for the June quarter, a 1 point step-down from the March quarter. In the September quarter, we take a bigger step-down and expect our non-fuel CASM to be flat year-over-year with the fourth quarter slightly better than that.

As we've discussed since Investor Day, the second half of 2018 is an inflection point on CASM as overhead pressures moderate from categories like depreciation from our fleet retirements, investments made in the back half of 2017 related to our product and security enhancements and one-time benefits last year from the Republic bankruptcy emergence and other settlements, which occurred in the first half.

Unit costs in the back half of the year should be 3 to 4 points better than our first half performance. 1 to 2 points of that relief is driven by lapping these overhead pressures just mentioned, with the remainder of the improvement driven by a ramp in One Delta productivity and re-fleeting benefits. This puts us on a trajectory for 1% to 2% non-fuel unit cost growth for 2018. This is a solid result, albeit at the upper end of our original range due to a 0.5 point of pressure from weather and currency.

Our One Delta project is progressing well. And as we roll into the second half of the year, we will begin to see more benefits throughout the P&L, including in fuel. As an example, we recently launched a fuel initiative that focuses on auxiliary power unit usage to optimize how we power aircraft on the ground, while also working on improving our load planning. The One Delta team has made good progress and remains focused on process improvements that create a short-term benefit, but more importantly build a foundation for Delta's long-term success.

This fall, our network optimization efforts kick into high gear. This is one of our more substantial long-term opportunities, where we are designing a new process to create and implement schedules, driving expected annual run rate savings of more than $300 million. Recently, we also identified opportunities in our supply chain in categories like maintenance components and IT hardware.

Looking forward, One Delta initiatives combined with our fleet renewal and simplification should drive substantial efficiency gains over a multi-year period. With 30 aircraft still to be delivered this year, re-fleeting will also drive significant seat cost improvements in our domestic hubs, which are the most profitable in the industry. Internationally, our new A350s and A330s will improve our Pacific profitability through increased fuel efficiency and better revenue performance from an industry-leading product.

Turning to the balance sheet and cash flow, we generated $2.8 billion of operating cash flow for the quarter, which allowed for reinvestment in the business through $1.4 billion in CapEx, with $1.2 billion of that related to aircraft and aircraft modifications. In the quarter, we generated $1.4 billion of free cash flow and returned $813 million to shareholders through $600 million in share repurchases and $213 million in dividends.

Since announcing our strategy to consistently return cash to shareholders five years ago, we've reduced our fully diluted share count by 19% and have returned more than $11 billion through dividends and share repurchases, while maintaining low debt levels and improving the funded status of our pension plans.

We continue to buy back shares every day and are on pace to complete our current authorization in 2020. Our repurchase activity and dividend increase demonstrates our conviction on the durability and the sustainability of our business model.

Harnessing our investment-grade balance sheet, we completed $1.6 billion unsecured debt offering at a blended rate of 3.85% that was used to refinance secured debt and freed $8 billion in previously encumbered assets, while lowering our annual interest expense by about $20 million. As part of these transactions, we also increased our undrawn revolver capacity by about $600 million to a total of $3.1 billion.

We also, during the quarter, launched and closed a $1.4 billion tax exempt bond offering to finance our LaGuardia project. By self-financing this project, we can maintain control of the construction and drive more certainty in our long-term cost structure and product.

We continue to strengthen our balance sheet, and our combined adjusted net debt and pension liability declined $600 million since the end of last quarter.

In closing, we delivered solid earnings for the June quarter despite higher fuel costs. I want to add my thanks to the entire Delta team for their hard work and dedication in helping to produce these results. As we look forward, we're excited about our continued revenue momentum and improving cost trajectory. Irrespective of fuel, returning to margin expansion is the critical focus for this team.

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.

All right. Allen, we are now ready for the analyst Q&A section. If you could give the instructions for how to get in the queue.

QUESTION AND ANSWER SECTION

Operator: Certainly, ma'am. [Operator Instructions] We'll take our first question from Jamie Baker with JPMorgan.

Jamie N. Baker
Analyst, JPMorgan Securities LLC

Q

Hey. Good morning, everybody. Paul, the $3 billion in Amex contribution last year, can you tell us how you're tracking in 2018, but also how we should reconcile that on the income statement? How much is accounted for in revenue? How much is accounted for in reduced expenses? Just trying to understand how you define the term contribution.

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

A

Sure. As Glen mentioned in his comments, we're expecting $3.4 billion from our Amex relationship this year, which is higher than our original expectations going into the year. The overwhelming majority of that appears in the other revenue line through both other revenue, and then once the miles are redeemed for flying. There is some element of cost and we can walk you through separately on the detailed modeling exercise of that.

Jamie N. Baker
Analyst, JPMorgan Securities LLC

Q

That helps. Second question for Ed. This whole leap of faith, and I know that's not your term but we've said it's different this time. It's not your grandfather's airline industry. You've spoken to the industry's structural changes. I think you and I are in agreement on this topic, but the economy is roaring; your stocks down 10% year-to-date; you're trading at a multiple that's no better than when the industry was basically a joke; you are essentially getting zero credit for what you've accomplished.

I mean, I think the sell side has done a pretty good job at pointing out what's better. The rating agencies get it. Marks investors, the credit market gets it, look at your debt costs. So my question is what is still broken here. And please don't tell me that we have to pass through recessionary test in order for multiples to rise, because that just means there's no reason to own a stock today. So I promise there's a question here. What is still broken? What does Delta or the industry in general still need to tackle in order to get its message through to the equity market?

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

A

Well, Jamie, you expressed the frustrations, I think, many of us in this room and throughout the industry feel. Fundamentally, we believe in the thesis. We need to continue to perform. I agree with you. I don't think we need to go through hard times to demonstrate that this model works. All you have to go back is through the hard times in 2009 at the bottom of the recession, ex a bad fuel hedge decision, Delta would have been profitable in 2009. And if you model us today, in any reasonable economic downturn, we're, I think, significantly profitable going forward.

So we're going to continue to produce. We're going to continue to point investors to where the opportunities are. Certainly fuel prices have been weighing on the stock. One of the things I think is most important is that we get back to margin expansion. When you think about the margins in this industry, they've declined now three years in a row. We need to stop that. We need to grow the margins. And I'm hoping certainly by year-end that we are starting to grow margins again and, hopefully, with a little luck maybe even in Q4.

Jamie N. Baker
Analyst, JPMorgan Securities LLC

Q

All right. I appreciate the comments. I'll turn the microphone back to others for all the RASM and CASM questions. Thanks, guys.

Operator: All right. Next, we'll go to Savi Syth with Raymond James.

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

Q

Hey. Good morning. I guess, I'll ask the RASM question. Just on the international side, I was wondering if you could give a little bit more color on what you're seeing in the transatlantic, especially does FX start to be less of a tailwind and also does the Air France-KLM strikes have any kind of beneficial impact there in the first half and maybe not as much in the second half?

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

A

We see very robust demand and continued strength into the third quarter and the early results for the fall. As you know, transatlantic tends to book sooner than domestic, so we have a little bit more visibility into what we're seeing in the third quarter and beyond. And we feel really comfortable, and this is a very, very strong environment for the transatlantic.

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

Q

Yes, Glen, what's driving that? Is it just strong economy or any kind of thoughts on that?

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

A

Business traffic. Some things that are a little less obvious, I think, is we hear a lot about Brexit and we see all the rhetoric about Brexit, but business traffic to and from the UK on Delta and our partners is at record levels. Similarly, in Continental Europe, we're seeing record revenues in terms of yields and in terms of traffic into Continental Europe. So it is a relatively robust business environment and very, very strong leisure demand.

And, I think, when you think of how fuel weighs on the ultra-low-cost carriers in that marketplace, it tends to have more of an impact on them and their raising fares has translated into our ability to get higher fares for not only business, but for leisure as well.

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

Q

Okay. Thanks. And if I might ask just a follow-up on the capacity comment, I know you've talked about adjusting capacity in the markets where you can't pass through the higher fuel costs, but as you look at your kind of the second half and beyond, are there markets where you're actually seeing stronger-than-expected results and maybe an opportunity to increase capacity in some of the entities?

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

A

I think that's what we do every day here is try and figure out where we want to position the airline's capacity and try and continue to optimize it. And we're working very hard. And, I think, the results in the second quarter show, again, a step-function improvement versus the general industry in our ability to go ahead and do that.

And that's a testament to the entire commercial team here at Delta who takes the great product that our people produce every day and takes the demand set for that and then tries continually to re-optimize it. And I think if you look in long-term trends, this will be yet another record for our system unit revenues versus the industry.

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

Q

Okay, fine. All right. Thank you.

Operator: Next we'll go to Hunter Keay with Wolfe Research.

Hunter K. Keay
Analyst, Wolfe Research LLC

Q

Hey. Thank you. Good morning. How do you calculate that two-thirds of fuel being passed through? I'm curious because you mentioned it in the context of how you think about capacity planning and I'd love to be able to sort of replicate that in my model simplistically if I'm able to do it.

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

A

Sure. Good morning, Hunter. It's Paul. What we do is we basically take all the revenue growth, subtract out the costs and then cover the difference in pre-tax margin as a function of what the fuel price is. So if you look at that, our pre-tax was down slightly under $200 million for the quarter on $600 million of fuel pressure.

Hunter K. Keay
Analyst, Wolfe Research LLC

Q

Okay. Great. Thank you. And then with the caveat that this is not necessarily a comment on capacity guidance for next year, how are you thinking about net changes to the fleet count or even better on a seat count basis in 2019?

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

A

Hunter, we haven't given the 2019 guidance. We're not going to give it on this call, as you can appreciate. I think our fleet is expected to grow by about 80 aircraft next year in total. That's the gross new aircraft we're taking. Most of those will be replacement aircraft, but we haven't decided what the net growth position of the airline will be.

Hunter K. Keay
Analyst, Wolfe Research LLC

Q

Okay. Thank you.

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

Andrew G. Didora
Analyst, Bank of America Merrill Lynch

Q

Hey. Good morning, everyone. I guess, Glen, just wanted to touch upon your total revenue growth numbers here. Coming into the year, you said that you didn't really expect much deviation in quarterly RASM. With your 3Q guide, first half results, this has really been true. I think total revenue growth has been around 9.5%, but fuel's, obviously, moved here. So would have thought things should be getting better, but that's not really what your 4Q revenue guide would imply, given your total revenue growth number for the year now goes down to 7% to 8%.

And I know there are tough comps out there, but can you maybe walk us through any headwinds that you see as we get later into the year, or is your total revenue growth outlook really more a function of having shut down the refinery for most of 4Q? Thanks.

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

A

I'll turn that over to Paul here.

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

A

Yeah. So. Andrew, thanks for that. As we have talked about going back to Investor Day, we do expect that the refinery will be shut down in 4Q for its systematic turnaround efforts. So that's a bigger drain on 4Q, that is a disproportionate step-down from what we've seen for the rest of the year.

Andrew G. Didora
Analyst, Bank of America Merrill Lynch

Q

Got it. Okay. So just in terms of everything else in the business, it seems like pretty – when I back that out, it seems like pretty steady growth is still anticipated?

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

A

Yeah. We're seeing very good momentum on the passenger revenue line item, and I think we are anticipating that to continue in the third and fourth quarters.

Andrew G. Didora
Analyst, Bank of America Merrill Lynch

Q

Great. That clarity is helpful. Thank you.

Operator: Next we'll go to Michael Linenberg with Deutsche Bank.

Michael John Linenberg
Analyst, Deutsche Bank Securities, Inc.

Q

Yeah. Two quick ones here. Just on the refinery in the quarter, Paul. I don't know if it was in the press release. Do you have – what the P&L was on that?

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

A

Yeah. It was about a $40 million benefit for the quarter.

Michael John Linenberg
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. Great. And then just to Glen. Glen, you talked about third quarter RASM outlook. I mean it sequentially looks better than June. And then you talked about the fact that there are some headwinds. I think you said holiday shift, maybe difficult comps. Is the holiday shift, is that Labor Day or July 4th? And what about the storm impact, is that a benefit, or how do we think about those?

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

A

So there are a lot of ins and outs in the quarter, as there always are. The holiday we're referring to is the shift of the Jewish holidays from a weekend day in the October timeframe to a weekday in September.

Michael John Linenberg
Analyst, Deutsche Bank Securities, Inc.

Q

Okay.

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

A

And that's actually a pretty big number when you think about the quarter shifting, and actually going from a weekend to a weekday ruins a whole week of business travel for a sector of our business travelers. So that's impactful. The storms, as we said last year, were 1 point favorable impact. And then we have a difference in PRASM to TRASM, which is a negative in the third quarter, which is a positive in the second quarter.

Michael John Linenberg
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. Great. All right. Thank you.

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

A

I want to just reiterate that the passenger revenue momentum that we saw accelerating into the second quarter is continuing into the third quarter.

Michael John Linenberg
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. Great. Thanks, Glen.

Operator: Next we'll go to Brandon Oglenski with Barclays.

Brandon R. Oglenski
Analyst, Barclays Capital, Inc.

Q

Hey, good morning. Thanks for taking my question. So, I guess, Ed or Glen, back to Jamie's first question here, should investors just expect that we're going to have a lot of earnings volatility in any up economy? Because when we go back historically, usually oil prices move with the economy. So how do you think about this going forward? What are some proactive measures you can make to maybe tamper out some of that fuel-driven earnings volatility?

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

Well, Brandon, I can't speak to the industry at large. I can only speak to Delta. What we're trying to do is deliver a premium product that customers prefer. It's driving our Net Promoter Scores. It's driving an outperformance within the industry. It's top line, not just growth for growth's sake, but growth for premium's sake as well and get back to margin stabilization and expansion.

The fuel price volatility has certainly been somewhat dysfunctional within the industry over the last several years. We've all talked about that. And fuel prices, where they are today, at roughly $75 Brent, does not scare us. I think that's actually a good, stable place that we can platform from to continue to grow – or to get back to growing our margins. So I think that's what the industry needs to do.

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

Okay. I appreciate that. And, Paul, can you remind us on the One Delta initiatives, what your long-term CASM guidance is? I think you did provide that through 2020. And I think you said $1 billion of non-fuel cost that you're looking to save by that time period. Does that also include the fleet renewals that we're looking at?

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

No. So, Brandon, thanks for that question. The One Delta initiatives stands on its own, and it's all about improving processes and really an enterprise-wide project for just performing better and more efficiently. That is over and above the fleet efficiencies. So what we've said is $1 billion from that program building over the next few years will keep us below 2% unit cost inflation and help us to drive towards those continued goals for the long-term.

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

Thank you.

Operator: Next we'll go to Duane Pfennigwerth with Evercore ISI.

Duane Pfennigwerth
Analyst, Evercore ISI
Q

Hey, thanks. As you watch how the rest of the industry has implemented Basic Economy so far, have you detected any positive share gain versus some of the more punitive implementations of it, no carry-on, et cetera? Any sense that customers really don't like it?

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

Those are very, very difficult things to isolate. And, I think, what we look at is our relative revenue performance in aggregate and are we supplying the right products and services that people want to buy from us.

And I think as the quarter unfolds over the next couple of weeks here, as everybody announces the details of their earnings, you'll see that we, I think, took another step-function improvement in aggregate and produced the highest level of revenue premiums we have in our history. So it's very hard to isolate which individual piece contributed to the whole brand impact, but I think that's certainly a contributing factor.

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

Part of that, Duane, also, is the Net Promoter Scores that we see and mentioned our domestic Net Promoter Scores were up 3 points year-over-year, which is huge when you measure Net Promoter Scores to drive an improvement at an already good base of further improvement. So clearly, customers of all classes are preferring Delta, in increasing numbers.

Duane Pfennigwerth
Analyst, Evercore ISI
Q

That's helpful. And then, Glen, I always appreciate the reminder on how much you've recovered in corporate fares and how much potential is out there. I wonder if you could offer a view on sort of headroom by geographic region. Which geographic entity do you think has the most upside potential? Thanks for taking the questions.

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

Well, I think we're most focused on domestic, right? The domestic is where we really need to get those fares moving. They have moved internationally. And so we're continuing to focus on that every day. We see great opportunity and that's what gives us really good confidence as we move through the rest of the year that we'll be able to hit margin expansion by year-end.

Duane Pfennigwerth
Analyst, Evercore ISI
Q

Thank you.

Operator: And next we'll go to Rajeev Lalwani with Morgan Stanley.

Rajeev Lalwani
Analyst, Morgan Stanley & Co. LLC
Q

Hi. Good morning, gentlemen.

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

Good morning.

Rajeev Lalwani
Analyst, Morgan Stanley & Co. LLC
Q

Ed, in terms of the capacity outlook, can you just reconcile the full year guide going to the top end of the range, but then also highlighting 50 to 100 bps or so of trimming in the fall schedule?

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

A

Well, I'll let Paul and Jill provide some of the detailed reconciliation of the numbers. Part of the increase is the higher completion factor that we're running above plan. That's a meaningful part of it.

But the other thing to think about when you're looking at our overall 3% capacity up, that's entirely gauge and stage-related. Departures actually are down for the full year. Our expectations are departures count will be down. And when you think within the industry, I think we're the only major – maybe the only airline out there that's got departures down.

So I think we're being very prudent as to how we're thinking about capacity. We are certainly outperforming the industry on revenue production and revenue productivity. And we also know that we've got to a big non-fuel CASM reduction plan that we are working heavily on and fleet is a big part of that too.

Rajeev Lalwani
Analyst, Morgan Stanley & Co. LLC

Q

Got it. Thanks. And, Glen, a network question for you. Can you just talk about how you go about evaluating whether or not to take away a flight or even add a flight. Is it looking at margins or is it just simply, hey, if we're as profitable, there's no reason to cut it.

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

A

Well, I have a dart board in my office. No, we have teams that comb through this day in and day out and we have really the best teams in the industry. I'm really so proud of them. And they are, every day, working to optimize our capacity and press the envelope in terms of trying to raise the yield.

So this is a great process that we have in place and one, I think, that's proven Delta as at the top of the industry year after year in producing these returns. And I'd love to say it's me, but it's not. It's a team of hundreds of professionals every day who are working to make this happen for us and they do a great job at.

Rajeev Lalwani
Analyst, Morgan Stanley & Co. LLC

Q

Thanks. Maybe the other way to ask the question is if you've got, say, a flight out there and it's barely profitable, do you say, hey, look, that's additive to EPS, we should keep it there or is it sort of a, hey, it's not reaching a return threshold, it's time to go kind of a thing?

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

A

I think that highly oversimplifies the process that you look at a flight. It's clearly in terms of the competitive dynamics of that and what your expectations are for that individual flight. And, of course, when you look at the flight-level details, what time of day is it, what's the opportunity cost for that flight, so it's a very complicated transaction. I think we're oversimplifying it by trying to put it in boxes like that. It's a much more complicated and rigorous, and happy to spend a day down here some time if you want to come down and look how we do it, because I think it's a really interesting feature.

Rajeev Lalwani
Analyst, Morgan Stanley & Co. LLC

Q

Very helpful as always, guys. Thank you.

Operator: Next, we'll go to Helane Becker with Cowen & Company.

Helane Becker
Analyst, Cowen & Co. LLC

Q

Thanks very much, operator. Hi, guys. Thank you very much for taking the question. So, I think, you mentioned that, for an example, you were adding Indianapolis to Europe service. Is that a connection – is it really about connecting Indianapolis traffic with other points in Europe as opposed to point-to-point and instead of over hubs in New York and Detroit? A. And B, should we think about opportunities for you in that small or medium-sized city to Amsterdam and Paris and to some extent London, going forward?

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

A

Helane, great question. And I think that really is the point, is that when we fly from Indianapolis to Paris, we're not just flying from Indy to Paris, we're flying from Indianapolis to Paris connecting to all of Europe and then really connecting to Asia and Africa through Paris. So we would never contemplate flying from Indianapolis to Paris if it were two endpoints on our network. But really given the strength of the frequent flyer base and the loyalty we have in Indianapolis, and the amount of traffic that's continuing on to those destinations beyond Paris, that's where we've really added over the past years using our partner hubs.

Really exciting for us the results, too. Indianapolis to Paris is doing quite well in its first year of operation. We also added Orlando to Amsterdam. That's also doing quite well. And Los Angeles to both Paris and Amsterdam. Interesting factoid is of the three major U.S. carriers in Los Angeles, we were the only one that did not have non-stop European service on our own metal. So we added that and that's this year, and that's doing really well as well.

Helane Becker
Analyst, Cowen & Co. LLC

Q

Is that designed to prepare the airline and your partners in case there's no EU/UK or UK/U.S. agreement after March 29?

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

A

We haven't really done that with that in mind. But I think we don't connect a lot of traffic in Heathrow, because we have a great partner that has the number two position in the UK, but it's really not a hub-connecting complex. They have a few connections, but it's not to decide in scale and scope of Paris or Amsterdam, which are two of the largest connecting complexes in all of Europe.

Helane Becker
Analyst, Cowen & Co. LLC

Q

Got you. Okay. Thank you very much. I appreciate the answers.

Operator: Next, we'll go to Dan McKenzie with Buckingham Research.

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

Hey. Good morning. Thanks, guys. Glen, the stat in the script that stood out to me is an 8% increase in premium seats that drove a 20% increase in upsell revenue. Please correct my math here, but it sounds like premium products in total are driving roughly $2 billion annually, and I'm just wondering if we should interpret this segment of the business as growing double digits? Or maybe you could just clarify and help us understand how to think about the sustainability of kind of the premium suite of products that you are selling today.

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

Dan, and this is really something we continue to remain excited about and excited about our future. As we continue to drive brand loyalty and to drive better customer segmentation, we've seen continued strength here. And when you add 8% in capacity and you far outpace that in terms of revenue growth, we think that's just another factoid in the, hey, people really want to buy this from us. Our fleet sets up nicely over the next few years to continue to expand those number of seats, and then we're taking some changes to the fleet.

For example, adding the Premium Select into all of our international widebody fleets, which is really a new announcement that we've made on this call that that will all be complete by 2021, because people want to buy these products and services for us. And quite honestly, we haven't made it that easy for them. And over the next months and years, we're going to make it easier and easier with more and more ways to buy these products and services, and we see that as a real growth opportunity.

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

Very good. And then just a second question here. We got a better revenue outlook this morning despite greater macro volatility, and so at least the revenue outlook's a little better than I would have anticipated. And the industry has cited escalating trade war as a risk to revenue. And I'm just wondering how you guys are thinking about it; what you're seeing today; how that's factored into your revenue outlook, if at all, as we look out through the end of the year here.

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

Dan, this is Ed. We're not seeing any signs that the rumored escalating trade wars are impacting business travel or travel in general. We just posted our highest quarter in history. Our total top line is up 10%. I think the increase outlook, as you say, we gave for revenue is due to both the health of the international as well as the domestic economies and also the fact that we need to cover the higher price of fuel in our ticket pricing. So, who knows where the thing goes, but we're not seeing any negative impacts currently.

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

Perfect. Thanks, Ed.

Operator: And next we'll go to Kevin Crissey with Citi.

Kevin Crissey
Analyst, Citigroup Global Markets, Inc.

Q

Hey, good morning, thank you. Maybe a question for Glen. Your Q2 domestic yield's up 2.5%. That's inclusive of your kind of domestic portion of international itineraries, I assume. Can you talk about what that might look like if we just looked at a domestic origin to a domestic destination? And if you don't have that handy, maybe you could just talk about maybe the situation in ULCC competitive markets. That's what I'm getting at there. Thanks.

....

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

A

Well, domestic portion of international journey is not going to have a significant impact on that number. And ULCC traction has been very strong. We've seen a lot of strength in leisure and ULCC competitive markets. When you think about the business model at a more macro level, clearly, higher fuel has much more impact to them in terms of trying to drive leisure traffic that might not otherwise fly. So, I think, we've seen some very good traction in those markets.

....

Kevin Crissey
Analyst, Citigroup Global Markets, Inc.

Q

If I could just follow up on that, given the strength of the international franchise and the yields that you're putting up there and the overall average fares, why wouldn't the allocation of that to the domestic market be impactful? I'm not sure I understand that.

....

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

A

Because the number of passengers – while the revenues are 40% the number of passengers because of the higher ticket volumes doesn't drive a whole lot of travel on the domestic portion and the pro-rates are relatively low to begin with, so that's not going to drive a whole lot. And we can happily walk you through that math. I mean it could be a few tenths of a point but it's not going to be significant.

....

Kevin Crissey
Analyst, Citigroup Global Markets, Inc.

Q

Terrific. Thank you.

....

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

A

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

....

Operator: Okay. We'll take that last question from Susan Donofrio with Macquarie.

....

Susan Donofrio
Analyst, Macquarie Capital (USA), Inc.

Q

Yes. Good morning, everybody. Just a quick question. I think following up with Jamie and Brandon's question and trying to think through how to, perhaps, help mitigate earnings volatility. You guys own your own refinery, as you know, and certainly domestically, that helps. Would you consider, I guess, hedging more internationally? Or is there anything else you could do when you kind of look at some of the drivers that, perhaps, could help placate investors a little more?

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

Susan, what do you mean by hedging internationally?

Susan Donofrio
Analyst, Macquarie Capital (USA), Inc.
Q

Well, I was thinking more just on the fuel side, if there's more FX currency or just anything you could just, perhaps, put more in your numbers.

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

We're not thinking of doing anything like that, Susan. No.

Susan Donofrio
Analyst, Macquarie Capital (USA), Inc.
Q

You're not? Okay. And then just a follow-up domestically. Can you broadly give us maybe more of a sense of pockets of strengths and weaknesses? Is it more in the low fare airline overlap? Just a little more color, I think, would be helpful.

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

I think what we've seen is we've seen really robust business travel in terms of volumes. The yields have been weaker than we would have liked or anticipated given the robust levels of demand, and so that's the piece that we're working on every day to try and improve. And leisure travel, so all of the advances, when you look out, are very strong in terms of both yield and traffic, so we have – the flush consumer continues and the consumers want experiences and travel fits well into that experiential model. So we see robust demand there, and we see really, really strong demand for business in terms of volumes and now we continue to – need to work on improving the yields.

Susan Donofrio
Analyst, Macquarie Capital (USA), Inc.
Q

Great. I'll end with that. Thank you very much.

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

That's going to wrap up the analyst portion of the call. I'll now hand it over to our Chief Communications Officer, Ned Walker.

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

Hey, Thanks, Jill. We'll go ahead and begin the media Q&A now. First, I'd like to ask the media to limit themselves to one question with a quick follow-up that should allow us to accommodate most everyone. And, Allen, if you could please review the process to queue up to ask a question, that would be helpful. Please go ahead.

Operator: Certainly, sir. Thank you. [Operator Instructions] We'll take our first question from Alison Sider with The Wall Street Journal.

Alison Sider
Reporter-Air Travel Business, The Wall Street Journal

Q

Hi. Thanks so much for taking the question. Just sort of curious – well, looking out at what points do you start to see higher fares starting to discourage passengers and dampen demand?

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

A

Hi, this is Ed. We're not seeing anything other than strong demand for our products. Pricing is certainly a function of cost and with higher fuel prices, you're going to expect to see ticket prices go up as well. Our pricing currently is up about 4% on a year-over-year basis, so I think it's at a good level, but best revenue performance in our history this quarter and our outlook is strong.

Alison Sider
Reporter-Air Travel Business, The Wall Street Journal

Q

Thanks.

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

A

Okay. Next question?

Operator: Next we'll go to Leslie Josephs with CNBC.

Leslie Josephs
Airline Reporter, CNBC

Q

Hi. Good morning, guys. On the premium economy, are you seeing a lot of corporate travelers take those fares and is that cannibalizing from the more expensive business fares? And then also on the international growth, how much of that is on your own metal? And does that help you or hurt you, how it's broken up with your JVs? Thanks.

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

A

So we've seen robust demand for our Delta One product, especially in the Pacific as we've introduced Premium Select into over 50% of the markets now, we have seen no real degradation in terms of the demand for the premium products and services – the most premium. And what we've seen is really consumer discretionary and corporations that have travel policies that only allow for coach really using that extensively. And as we continue to roll out different ways to buy those products, we will see, I think, another explosion in demand as other customers will use their miles to sit in the cabins they want. And I think bringing that ability of our frequent flyers to choose where they want to sit after they buy the ticket is really going to be something that's going to generate a lot of great products and services for customers as well as revenue for the airline.

Leslie Josephs
Airline Reporter, CNBC

Q

And on the international growth, how much of that is your own flying versus your JVs or codeshares or other partnerships?

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

So generally we'd stay balanced with our partners so that all of our joint ventures are based on a 50/50 growth pattern and so over the long-term on any individual season or month, it might be a little bit weighed to one or the other but over the long-term, it's based on growing at the same rates. So a lot of that's our own metal and a lot of it's partner-related.

Leslie Josephs
Airline Reporter, CNBC
Q

Okay. And is there any number on the upsell between economy and premium economy or economy and Comfort+? I think you guys were like 50% last year.

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

Sorry. Could you repeat that question?

Leslie Josephs
Airline Reporter, CNBC
Q

What's the upsell from economy to Comfort+ domestically or economy to Premium Select? I think it was like 50% or 60% last year. Has that grown?

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

So the average fare differential from Main Cabin to Comfort+ is between $25 and $35 domestically on average, so very nominal fees to get a really, I think, a great product value. And then internationally, which is the only place we have Premium Select, it's about 100% fare premium differential in the markets. Right now it's mostly in the Pacific, so that's several hundred dollars more...

Leslie Josephs
Airline Reporter, CNBC
Q

Okay.

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

...but we'll be rolling it out to the transatlantic. Well, we actually started but it's really only on one flight right now, but it will be ubiquitous in our long-haul network over the next several years.

Leslie Josephs
Airline Reporter, CNBC
Q

And the upsell from customers that are looking at regular economy versus buying up to something more expensive?

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

Regular economy – internationally?

Leslie Josephs
Airline Reporter, CNBC Q

Domestic – or both.

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

Well, domestically it's about $35 for Comfort+. We won't have Premium Select in domestic. And then internationally it's about $50 to $100 depending on the market to go from Main Cabin to Comfort+ on the long-haul. And it's several hundred dollars to move into Premium Select.

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

Okay. We'll take the next question now.

Operator: Yes, sir. We'll go to Edward Russell with FlightGlobal.

Edward Russell
Air Transport Reporter-Americas, FlightGlobal Q

Hi. Thank you for taking my question. There's been some recent reports out of Austin about Delta having interest in potentially building a focus city there in the future, especially as the CSeries start to come in – sorry, the A220s. Could you comment on those reports and Delta's ambitions in Austin?

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

Ned, we're not going to comment on any future plans that haven't already been announced.

Edward Russell
Air Transport Reporter-Americas, FlightGlobal Q

Okay. Understood. And then a follow-up, could you comment on how many A220s you expect to take delivery of this year and when those deliveries will begin?

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

You mean the 220s?

Edward Russell
Air Transport Reporter-Americas, FlightGlobal Q

Yes. The A220s.

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

We expect to, I think, take delivery of a handful by the end of the year, and we'll be putting them into service in the first quarter.

Edward Russell
Air Transport Reporter-Americas, FlightGlobal

Q

Okay. So still no set date or number yet?

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

A

It'll be the beginning of the year.

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

A

Okay. Allen, we have time for one more question.

Operator: All right. We'll take that last question from Dan Reed with Forbes.

Dan Reed
Contributor, Forbes Media LLC

Q

[indiscernible] (01:00:30-01:00:35)

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

A

Hey, Dan, we cannot hear you.

Dan Reed
Contributor, Forbes Media LLC

Q

I'm sorry, can you hear me now?

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

A

Yes, we can.

Dan Reed
Contributor, Forbes Media LLC

Q

Can you hear me now? Okay. Ed, at the risk of – hello? Hello?

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

A

Yeah, we're having troubles. Try asking the question again, Dan.

Dan Reed
Contributor, Forbes Media LLC

Q

Okay. At the risk of asking you to practice as a psychoanalyst, let me ask a question that Jamie Baker asked in a different way. Why do you think investors are hesitant to bid up Delta's stock price principally but also some of the other industry players stock prices? Why are they being so hesitant to go where you think they should go?

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

A

You certainly should get that feedback from the investors directly themselves. We're doing our very best. The Delta stock price is roughly adding in American and United's market cap combined. That's what the Delta price is. So we do think we get a premium. And from a performance perspective, we can just control what we control, which is delivering an outstanding value for our consumers, great product, reliability, with the best service and hospitality for our employees that's driving a higher customer satisfaction than we've ever seen and the highest revenue growth rate. I think one of the things that's been weighing on the stock, as we all know, is the growth in fuel prices in the short-term. And we've said on the call that we expect to be able to cover most, if not all of it, this year by the end of the year and set the pace for margin expansion going into 2019.

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

Okay. Hey. Thank you, very much Ed, Glen, Paul, and Jill. That concludes the June quarter 2018 call. Thanks, everyone, and have a good day.

Operator: Once again that concludes today's conference. Thank you for your participation today.