Delta Air Lines, Inc. (DAL) CEO Ed Bastian on Q3 2019 Results - Earnings Call Transcript

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Q3: 10-10-19 Earnings Summary

Press Release SEC *10-Q*

EPS of $2.32 beats by $0.05 | Revenue of $12.56B (5.08% Y/Y) misses by $-47.09M

Earning Call Audio

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Delta Air Lines, Inc. (NYSE:DAL) Q3 2019 Earnings Conference Call October 10, 2019 10:00 AM ET

Company Participants

Jill Greer - VP, IR

Ed Bastian - CEO

Glen Hauenstein - President

Paul Jacobson - CFO

Gil West - COO

Tim Mapes - Chief Communications Officer

Conference Call Participants

Michael Linenberg - Deutsche Bank

Duane Pfennigwerth - Evercore

Helane Becker - Cowen

Joe Caiado - Credit Suisse

Savi Syth - Raymond James

Hunter Keay - Wolfe Research

Jamie Baker - JP Morgan

Rajeev Lalwani - Morgan Stanley

Joseph DeNardi - Stifel

Catherine O'Brien - Goldman Sachs

Ran Yang - Bernstein

Elliott Blackburn - Argus Media

David Koenig - Associated Press

Ted Reed - Forbes

Leslie Josephs - CNBC

John Biers - AFP

Operator

Good morning, everyone, and welcome to the Delta Air Lines September 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 will be recorded.

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

Jill Greer

Thanks, Jake. Good morning, everyone, and thanks for joining us for our September quarter call. Joining us from Atlanta today are Delta's CEO, Ed Bastian; our President, Glen Hauenstein; and our CFO, Paul Jacobson. Our entire leadership team is here in the room for the Q&A session.

Ed will open the call and give an overview of Delta's financial performance, Glen will then address the revenue environment, and Paul will conclude with the 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 Investors Relations page at ir.delta.com.

And with that, Ed.

Ed Bastian

Thanks, Jill. Good morning, everyone. We appreciate you joining us today.

Demand for the Delta product is as strong as ever, and our powerful brand unmatched competitive strengths and pipeline of initiatives are driving earnings growth, margin expansion, and solid returns for our owners.

Earlier today, Delta reported the September quarter pretax profit of $2 billion, which is up $350 million from last year. Our EPS increased 30% to $2.32 per share with operating margins expanding by 2.5 points. Importantly, we've already generated $4 billion in free cash flow year-to-date. Our employees continued to deliver the very best operational reliability and service for our customers, even against the summer's backdrop of record passenger volumes, airport construction projects, and difficult weather.

We've now had 123 days without a single cancellation across the entire Delta system this year, a 23% improvement over last year's record performance. This unprecedented level of reliability combined with great service from our team continued to drive higher customer satisfaction and growing brand affinity for Delta. Year-to-date, our domestic net promoter score has improved more than 5 points over the prior year, and we're also seeing positive momentum in international net promoter scores with opportunity for further improvement as we continue to upgrade cabin interiors and enhance our customer experience.

Stronger customer satisfaction is translating into higher revenues. Revenues grew 6.5% to a record $12.6 billion in the quarter, and we now expect to achieve approximately 7% top-line growth for the full year.

I want to thank the entire Delta team for producing one of the best quarters in our history. You are the force behind the Delta brand. And to recognize your efforts through a challenging summer, we have accrued another $517 million towards next February's profit sharing. This brings the total for the year to nearly $1.3 billion. In addition, we're making important investments in our people, including improvements to benefits in the 4% base pay increase that went into effect last week for ground employees and flight attendants.

Beyond investments in our people, we are continuing to improve the customer experience through a record number of new aircraft deliveries, airport terminal projects, and technology innovations. These investments support long-term growth, industry-leading profitability, and strong cash flow. In many ways, 2019 has been a transformational year for our Company.

We've firmly established Delta as the largest airline in the world, both on revenues and profits and are solidly on track to produce our fifth straight year with pretax profits in excess of $5 billion. We have the world's most valuable airline brands, one that is mentioned not just among the best global airlines but alongside top consumer brands. And we're building out our portfolio of industry-leading partners across our business.

Just two weeks ago, we announced a new strategic partnership with LATAM Airlines. The agreement adds geographic diversity in a fast growing continent, adding 100 new destinations to our map and significantly improving our position in South America. Once approved, our proposed JV will move Delta from current number four position in South

America to a combined number one position. We expect this partnership to translate to $1 billion in new annual revenue over the next five years and improve returns in the Latin entity. Along with our existing partnerships with Aeromexico and WestJet, we're creating a true carrier of the Americas with the ability to connect travelers as never before.

American Express is another important long-term partner, and the combination of our two brands has created an industry-leading co-brand credit card portfolio. Our recent contract renewal provides a diverse, high-margin revenue stream that we expect to grow to nearly $7 billion by 2023, with further growth through the end of the decade.

Last week, we announced the major relaunch of our Delta SkyMiles American Express Card portfolio. We are providing our customers with more ways to earn miles and new benefits that deliver an even better travel experience. The investments we're making in our people, product, service, and partnerships are diversifying our revenues and will grow the earnings power of our business for years to come, important steps on our path to being the world's leading airline.

Demand for our product has never been higher. We've grown our revenues by 15% over the last two years. And to ensure that we continue to deliver the very best product and returns in this industry, we need to continue to invest in our people and our service. This volume growth coupled with challenging weather patterns has added costs in the back half of the year and will add about 1 point to our CASM-Ex fuel run rate in 2020. I'm confident that these are the right investments for the health of our brand. And with the productivity still to come from our fleet, facility and technology investments, we have the right platform to mitigate this cost inflation over the long term. With that said, it is important to note, our overall fourth quarter unit costs all-in are expected to be down 1% due to the drop in fuel prices and our margins should expand once again in Q4.

In closing, we are on track to deliver very strong results in 2019. Demand trends remain healthy and our full-year earnings guidance is for more than 20% improvement over last year's earnings per share. We have built a durable foundation through our culture, leading operational reliability, unrivaled network, our loyalty program, and relationship with American Express and an investment grade balance sheet. These strengths combined with a great brand powered by the very best professionals in the business provide the engine to drive long-term value for our owners. I look forward to sharing more details on our strategic outlook and 2020 business plan at our upcoming Investor Day in December.

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

Glen Hauenstein

Thanks, Ed, and good morning.

First, I'd like to thank the entire Delta team for their hard work during our busiest summer ever. In the quarter, we ran record load factors and carried 3.3 million more passengers than last year, up 6%. The exceptional operational performance and unmatched service our people provide are the foundation for improving customer satisfaction and the reason why more customers than ever are choosing to fly Delta.

When combined with the solid demand backdrop and progress against our commercial initiatives, we delivered a record quarterly revenue of $12.6 billion, up 6.5% over last year. This marks the ninth consecutive quarter of top line growth at a level more than 2 times GDP. We also continue to diversify our business with 52% of our revenue generated by premium products, loyalty, and other non-ticket revenue sources.

Premium product revenue grew 9% in the quarter to $4 billion on top of last year's growth of 13%. Momentum is expected to continue from the modernization of our fleet and improved ability to sell these products. Total loyalty revenues grew 16% to $1.2 billion, driven by double-digit increases in mileage redemptions, co-brand spend, new card acquisitions, and roughly 100 million benefit from the new contract with American Express.

Enhancing our customer loyalty and trust is at the heart of our business. And together with American Express, we are finding new and innovative ways to reward our customers for their loyalty. We are on track to achieve another record year of card acquisitions in 2019. Our redesigned card offerings will deliver rich rewards and support continued growth in our membership base in the years ahead.

We are making SkyMiles more valuable by offering members more ways to use Miles on Delta. Miles as currency launched last December and customer response has been strong. By the end of the year, we expect nearly 1 million customers will have used Miles to upgrade their experience. This revenue stream is projected to deliver over $100 million this year, ahead of our initial expectations. We expect this to continue to grow as we give our SkyMiles members more options to use miles anywhere they can use cash with Delta.

Corporate revenue was solid, improving 5% in the September quarter on top of the 12% improvement in the same period of last year. Domestic led with 8% revenue growth, offsetting a modest decline in international corporate revenue. In our most recent corporate travel survey, 86% of travel managers expect to maintain or increase their travel spend in 2020.

Leisure revenues remained healthy, growing 7% for the quarter with very strong demand during the peak summer travel season. Our MRO grew 9% in the quarter, and we are confident in our goal of roughly 20% improvement for the full year. Similar to the freight operators, we are seeing pressure on cargo revenues, which declined 17% on both lower volumes and yields. This is consistent with last quarter’s decline.

Turning to some specifics on unit revenues in the quarter. Total unit revenues were up 2.5% at the midpoint of our guidance on 3.9% higher capacity. Passenger unit revenues were up 1.7% over prior year as strengthen in domestic and Latin more than offset headwinds from FX and pockets of non-U.S. point of sale softness along with the impact of lower fuel costs.

We continued to optimize our leading domestic network with revenues growing 7.8% on 3.2% higher RASM and a sustained unit revenue premium to the industry of nearly 120%. Revenue and margins grew in every domestic hub with revenue improvements of 10% in our coastal hubs and 6% in our core hubs. Boston performance led the system again with 24% increase in revenue and a 5-point improvement in margin.

Internationally, revenues grew by 1.1% as 3.1% capacity growth offset a 1.9% decline in PRASM including more than 1 point of currency headwind. Latin was our best performing entity with 3.6% PRASM improvement. In the Atlantic, we saw strong U.S. point of sale continuing to offset weakness in European point of sale as currency was a major factor during the quarter, driving nearly all of the 1.6% PRASM decline.

Pacific is the only entity where revenue was down over prior year. This was due to a decline in corporate travel driven by tariff impacts on the automotive and manufacturing sectors, and lower leisure demand to and from China. While Pacific is facing some near-term headwinds, we continue to see long-term opportunity for growth and profitability improvement.

Looking forward, December quarter total revenue is expected to increase more than 5% on unit revenues of flat to up 2%. We are seeing solid corporate and leisure demand with revenue growth driven by premium products, loyalty and MRO. Sequentially, December quarter TRASM is negatively impacted by the timing of JV settlements and Jewish holiday calendar shift. Excluding these items, underlying PRASM growth remains consistent at approximately 1.5% in both 3Q and 4Q. For the full year, we now expect to achieve approximately 7% revenue growth on full year capacity growth of 4.5%, while sustaining our 110% unit revenue premium to the industry.

While still in the planning stages for 2020, the strong demand environment and our commercial initiatives and our relaunch to service to India support our expectations for another year of revenue growth in excess of GDP.

As always, we remain mindful of the economic backdrop, changes in fuel price and the industry landscape. Our additional planning assumptions for 2020 call for 3 to 4 points of capacity, with a point of that capacity related to our relaunch of service to India. Generally, capacity growth will be focused in the areas of strength that support our long-term plans. This includes further optimization of our domestic network and growing our global presence in conjunction with our partners.

Our premium products and non-ticket sources like American Express and our MRO business are expected to continue to outpace our main cabin revenue growth into next year as we build on our strong 2019 results.

We will provide more details of our capacity growth and commercial initiative for 2020 and beyond in our upcoming Investor Day in December. In closing, a more diversified revenue base along with our pipeline of Delta specific initiatives, give us confidence in our ability to achieve the high end of our plan for 6% to 7% revenue growth in 2019 and sets us up nicely for another year of revenue growth in excess of GDP in 2020.

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

Paul Jacobson

Thanks, Glen. Good morning, everyone, and thank you all for joining us. We're delivering against our Investor Day plan to drive top line growth, margin expansion and consistent returns to our owners. Year-to-date, our top-line has grown 8%, operating margins have expanded by over 200 basis points, and we've grown earnings per share by 30%, driven by strong core fundamentals in our extended Amex agreement.

We've also generated $4 billion of free cash flow, meeting our full year target in the first three quarters of the year, while also reinvesting in the business. Our investments continue to drive strong returns, supporting the long-term growth potential of the business. Our after-tax return on invested capital on a trailing 12-month basis is 15.9%. This represents more than 300 basis points of improvement since 2017, while our invested capital base has increased by nearly $2 billion.

Turning to September quarter results. We delivered solid performance in the quarter with pretax income of $2 billion and a pretax margin of 15.7%, 2 points higher than last year. Fuel was volatile during the quarter, but average prices remained below prior year levels. Total fuel expense decreased $249 million on 18% lower market fuel prices, including a $49 million benefit from the refinery during the quarter.

Our refleeting initiatives drove a 2.1% improvement in fuel efficiency during the quarter, keeping us on track to deliver a 2% fuel efficiency gain for the full year. While non-fuel unit costs in the quarter were up 2.4%, total unit costs were down 2%, as a result of those fuel prices.

During the September quarter, we announced a pay increase for eligible ground and flight attendant employees effective October 1st. This had a modest impact on the September quarter, and has about a 1 point impact on CASM-Ex in the December quarter. In addition to the pay increase, we're making investments in staffing and resources to ensure that our people can continue to deliver an industry-leading product for our customers in light of the strong demand. We expect these investments which provide the foundation for sustainable growth will add about 1 point to non-fuel cost in 2020. Our current plan assumption for 2020 is non-fuel unit cost growth of 2% to 3%. We'll provide more detail on that at our December Investor Day.

In the December quarter, we're also seeing an approximate 1.5-point impact to unit cost from the mark-up of liabilities related to long-term disability and retirement benefits. We do not expect there to be any impact from these adjustments on 2020 costs. Our investments combined with these accruals are adding approximately 3 points of CASM-Ex pressure in the December quarter and resulting in expected non-fuel unit cost growth of 4% to 5%.

Non-operating expenses for the quarter were $65 million higher than prior year, primarily due to higher pension expense consistent with our 2019 guidance. For the full-year, we continue to expect non-operating expense in the range of $525 million to $575 million.

Looking forward, we expect December quarter earnings to be in the range of $1.20 to $1.50 per share. This equates to a pretax margin of 9.5% to 11.5%, which is down from prior year as we lap more than $100 million of onetime gains, including the sale of Delta Global Services last year. Excluding this non-operating gain, our pretax margin is expected to improve over prior year and we expect our operating margin will expand by more than 150 basis points.

For the December quarter, we are forecasting fuel to remain below prior year levels, with all-in fuel price of $2 to $2.20 per gallon. We expect total unit costs to decline again in the December quarter as a result of this.

With the solid fourth quarter outlook, we are on track to grow full-year earnings per share by more than 20%.

Turning to the balance sheet and cash flow. At the end of the September quarter, adjusted debt to EBITDAR was 1.7 times at the low end of our target leverage ratio of 1.5 to 2.5 times. During the September quarter, we generated nearly $2.4 billion of operating cash flow, reinvested $800 million into the business, and invested $150 million to support our new strategic partnership with LATAM. This produced free cash flow of $1.4 billion, meeting our full-year free cash flow target of $4 billion in just nine months.

Our full-year core CapEx guidance $4.5 billion is unchanged, including the $100 million as part of our LATAM agreement to acquire 14 A350 aircraft. This recent transaction with LATAM is an exciting opportunity for Delta and as an example of how our balance sheet enables strategic moves that expand our competitive strengths.

We continue to consistently return cash to our owners in addition to investing in the future growth of the Company. During the September quarter, we returned $468 million to shareholders. For the year, we remain on track to return approximately $3 billion, in line with our commitment to return at least 70% of free cash flow to shareholders. Our consistent repurchase activity and 15% dividend increase in the third quarter demonstrates our continued conviction on the durability and sustainability of our business model.

We've been able to invest in the business and return cash to shareholders while maintaining low debt levels and improving the funded status of our pension as part of our commitment to maintain our investment grade ratings. These financials are a validation of our strengths, which 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 Greer

Thanks. And before we go to the Q&A, if we can just -- that time of year when we announce our December Investor Day this year, please mark your calendars for December 11th and 12th. We'll be back here in our hometown of Atlanta. For now, just mark your calendars, we'll send out more information as the date gets closer.

So, with that, Jake, if we can have the instructions for the analysts on how to join the queue?

Question-and-Answer Session

Operator

[Operator Instructions] We'll hear first from Michael Linenberg with Deutsche Bank.

Michael Linenberg

Hey. Thanks, yes. Hey. Good morning, everybody. I guess, maybe this is a question to Ed. If you can just give us an update on kind of where things, to the best of your knowledge, stand with respect to the tariff situation and the potential impact to Delta? And is it new aircraft orders; is it order aircraft as they deliver? Any color around this topic would be great. Thanks.

Ed Bastian

Thanks, Mike. It’s aircraft as they are being delivered, which we have expressed our concerns that this is kind of a retrospective tariff on decisions taken in the past. That said, we’re evaluating all of our options. We do not expect the cost to incur -- any cost of tariffs through the end of this year. We are expecting some deliveries out of Mobile in terms of 321s and those do not carry a tariff. And looking forward, we’re examining our options next year to make sure that we mitigate any increase to the prices that we’ve already negotiated with Airbus.

So, at this point, yes, we’re looking at our options, and I am not going to into any details around the options since it’s still pretty fluid at the moment, but we do not expect this is going to be a material cost to Delta, certainly not in the near term.

Michael Linenberg

Okay, great. And then, just a quick follow-up to Paul. I just -- I'm not sure if I heard it right. You talked about the CapEx associated with the LATAM A350s, and maybe that was just an amount that hits in 2019. Did you say $100 million or did I hear that right?

Paul Jacobson

Mike, you heard that correct. That's expected in the fourth quarter of '19.

Michael Linenberg

Okay. Thanks, everyone.

Operator

[Operator Instructions] Moving on to Duane Pfennigwerth with Evercore.

Duane Pfennigwerth

Hey, thanks. So, just playing back the summer, it feels like you've tried to flex up and respond to the environment, and that has obviously driven some expense, some over time, some airport costs. Can you comment on the quality of the incremental traffic that you picked up? Was it high quality or was it low yielding? And is this something that you plan to repeat in 2020? If not, why isn't it a tailwind to the 2020 cost outlook?

Ed Bastian

Hey, Duane. This is Ed. I've said a number of times, second quarter as well as the third quarter, we certainly were a beneficiary of the MAX not operating. That said, we don't believe we've got -- we've got a significant amount of new incremental growth coming from that. The majority of the growth clearly was the strength of our own brand, strength of our product and services, which continues to outperform anything that we've seen historically, and the costs that we talk about are not just due to the high demand. Remember, we ran a load factor of 90% from April all the way through August pretty much. But we also had an incredibly volatile weather pattern this summer that gave us very limited recovery option. So, the heightened load factor expectations, the fact that MAX was not out, the weather, all created an environment that we've got to reinvest to make certain that next year, because I expect the share -- any share we picked up are going to retain going forward, we're better prepared to handle the volumes in 2020.

Duane Pfennigwerth

Okay, thanks. And then just for my follow-up, I wanted to ask you maybe a longer-term question about South Florida. How do you think about the growth prospects for that market longer term and potential connecting opportunities with the LATAM partnership? Is this about getting a bigger presence in South Florida for Delta or is it about building out from Atlanta to point South? Thanks for taking the questions.

Glen Hauenstein

Thanks for the questions, Duane. It’s a little bit of both. I think, if you think about improving the connectivity to the existing LATAM infrastructure in South Florida, there is a little bit we probably have to add to replace some of the flows that’s existing today on American, but we’re not creating a new hub; we're not creating a new giant connecting complex. We're doing selective adds. So, think of it, if you think about Miami as a hub and you think about our size in Dallas or Denver or Chicago, it probably looks a lot more like that to make sure we have key fleets that will go over Miami and then really work with LATAM once we get ATI to continue to develop Atlanta and our other U.S. gateways as the primary connecting points for the South America traffic.

So, I think we have a pretty good plan that takes the best of both, that’s connecting complexes in the U.S. and best service within the local markets, and I think that’s going to be a great platform for growth moving forward.

Operator

We will now move to the next question, and that will come from Helane Becker with Cowen.

Helane Becker

So, I think this might be a question for Paul. As I look at those actuarial assumptions you changed, you mentioned that it doesn’t flow through to next year. But, I think you are also spending some money to bring your pension plans into closed or funded status. So, I was just wondering if it's possible for you to give us an update on that.

Paul Jacobson

Good morning, Helane. Those two issues are somewhat unrelated. The actuarial changes relate to the long-term disability program, and this is actuarial tables that are updated every few years and we'd seen a little bit of an increase in trends. So, we have to markup that liability one time. It hits that P&L, and that's why it's not expected to repeat this year -- or next year.

As to the pension, we continue to strive to target 80% funded status by the end of 2020. And so far, the assets are on strong trajectory this year with strong returns. Our pension expense, as we cited on in the prepared remarks is really a function of last year's returns as that gets spread over a full year. So, as we head into 2020 and we get those updates both on the funding as well as the investment returns, we'll have more detail at Investor Day on 2020.

Operator

We will now move to the next caller. And that will come from Joe Caiado with Credit Suisse.

Joe Caiado

Paul, maybe just picking off where Helane left off there on 2020. I'm not asking for explicit cash flow guidance for 2020, obviously, but just hoping you could walk us through some of the puts and takes in operating cash flow for next year, things like cash taxes, you just touched on the pension there, but any other moving pieces that we should be aware of?

Paul Jacobson

Good morning, Joe. Not materially. Obviously, we see growth in the business, we see growth in the Amex portfolio as we continue to work our way up to nearly $7 billion by 2023. Those are some good sides in the business. We have articulated a belief that we'll be a cash taxpayer in 2020. That's not expected to be a huge headwind for us. So, we see consistent cash flow generation in 2020 at this point. And we'll provide those details at Investor Day as well.

Joe Caiado

Okay. I appreciate it. And my second question on free Wi-Fi, whoever wants to take this. It's obviously something that your business travelers demand. So, that's an important box for you to check. But, it also feels like it's a consumer data play. I was hoping you could talk a little bit about maybe the second derivative commercial opportunity from that initiative, if you will, just perhaps in terms of what it can do for merchandising or just learning more about every passenger and every seat. In other words, how do you monetize free Wi-Fi over time?

Ed Bastian

Hey, Joe. This is Ed. I've again been vocal on this. I think, it's something that our customers not just demand but deserve. I think, the main benefit to me is the connection that they will continue to have to the brand and the strength of the brand and our selling proposition. But then, you're right, there's a second derivative order with respect to any commercial opportunities that we could create around that surface. We're not ready to talk into detail yet. We're still a ways off from announcing the exact start date. We're learning a lot on the technical capacity that we currently have and any additional changes we need to make. But, we're on the path to getting there and I'm excited by it. I think it's going to be a great new service to our customers when we get there.

Operator

And now, moving on to the next caller, and that will come from Savi Syth with Raymond James. Savi, you may be muted. Please unmute.

Savi Syth

Good morning. Sorry about that. I know it's early stages, but I was wondering if you could help me understand a little bit more on the 2020 cost outlook. It seems that you kind of -- it almost seems that you're indicating that you over-earned this year because the cost is about catching up your current market share, but you also had a lot of cost by paying kind of over time for your current -- for all your crusades to meet the capacity needs this time. So, kind of wondering how it adds that incremental 1 point and how should we think about that cost outlook for next year?

Glen Hauenstein

Good morning, Savi, and thanks for the question. The pressure that you cited and certainly what we've called out going back to some conferences this fall was real. And as I articulated, we felt a little bit like bursting at the seams with all the passenger loads and some of the weather pressures that we saw. And undoubtedly, some of the staffing investments that we'll make will help mitigate some of that. But it's really about arming our people with the tools and resources they need to serve our customers in an expanding base. Our total revenues are up 15% over the last couple of years, and there is investments in that process that we need to continue to make in order to drive the quality that our customers are used to, to continue to earn that revenue.

So, it goes beyond that. And as we said, we'll give more details at Investor Day.

Ed Bastian

Savi, this is Ed, if I could add to that. We've given a long-term trajectory on non-fuel cost of being around 2%. And when we can go below that, we do as we've been I think for the last couple of years. That means occasionally, it might be above that. But I think our long-term trend line is -- 2% is a good target for us.

I would not say that we over-earned this year. We certainly had that cost both in Q3 and Q4, related to the high volumes that we had. I think, this is about as much infrastructure investments that continue to better serve the growth, whether it be in airports and technology and in our people, and our service providers as it is dealing with the secure volumes of a very busy summer. So, this is a long-term investment that I'm confident is going to have long-term returns.

Savi Syth

That makes sense. If I might just ask a smaller cost question on 4Q, just on Trainer, just expectations there? I might have missed it.

Paul Jacobson

Sorry, Savi. On Trainer?

Glen Hauenstein

Yes.

Paul Jacobson

Trainer is expected to have a slight loss for the quarter that's built into our fuel price guidance. We have some scheduled maintenance on a couple of units that's going on now that's expected to be completed in early November. But overall, the refinery continues to operate well.

Operator

And next, we'll hear from Hunter Keay with Wolfe Research.

Hunter Keay

Ed or Glen, when we think back to simple fares in 2005, I'm wondering why that failed. And at its core, this is really a loyalty question. Is there a thought to maybe trying something like that again, given such clear product distinctions between their types and the segmentation era?

Glen Hauenstein

Hunter, I think simple fares might have been too simple, and maybe as an industry we weren't ready for it. We didn't have the sophistication to really manage it well. And I think that's really the infrastructures we're putting in place now and how we see the evolution of pricing occurring over the next year. One of the things that you would have to admit about the industry in general is it's transactional and it's not really trusted very well. And I think we learned that because sometimes you go look and the flight you want to take on a Monday morning is $500 and sometimes it's $1200 and sometimes it's yet another number. And I think, what we're doing with all of the data that we're collecting is we're trying to bring more stability to that pricing model over time. And it's not really simple fares but it's more reliable fares. And it's not a revolution, it's an evolution.

So, we're on a journey on this and we're trying to be less transactional and more customer-driven. And we're not at our destination yet and it will take several more years for us to get there. But I love the question because I do think it's a sense of how do we become a better consumer brand. And I think one of the things that we have to do is to have trust from our consumers.

Hunter Keay

That's great. Thank you, Glen. And then, Ed, maybe for you. The third runway Heathrow, is that a done deal? And how can you leverage the airport work that you've been doing here in the U.S. with your ownership stake in Virgin and maybe have a seat at the table for how that extension -- how that looks over there as it happens? Thanks.

Ed Bastian

I don't believe it's a done deal. I think, it's certainly something that's needed. I think, there is a lot of work going into the termination of the cost, the long-term impact to the city. We're going to provide certainly through Virgin our perspective on a build there, but we are a relatively small share of overall Heathrow. So, I'm not sure we're going to have much of a voice in that process.

Operator

Now, we will go to a question from Jamie Baker with JP Morgan.

Jamie Baker

For Glen, the 10% PRASM premium, that's driven by about 20% domestically and basically flattish on the international, if I'm correct. Why don't you think you get a RASM premium on international?

Glen Hauenstein

I think it depends on the entity. Of course, each international entity is different. We get a premium in the transatlantic. We have not gotten our premium historically in Latin America, and I think that's one of the reasons that we are so excited about the LATAM transaction as our offering really wasn't what it needed to be to drive revenue premiums being the number four carrier. So, I think that was one of the things that we thought we needed to have a structural improvement in our offering in Latin America in order ultimately to drive significant premiums. And I think we achieve that in the long run, not today, but over the long run by securing LATAM.

And then, in the Pacific, there is a lot of different -- it's a small entity for us and we have made significant improvements there. But, our stage length is really working against us. And I think, as we transition through to Haneda next year, we've told our investors we’re on a multiyear transformation. And one of the things we'll talk about at our Investor Day is we’re arriving at our destination finally in Asia, and that will give us the building blocks I think to drive premium with the products that will drive premium and with the introduction of the Delta One suites and the premium economy. I think, we're well-positioned to drive premiums in the Pacific as well over time.

Jamie Baker

And second on loyalty, maybe for Paul, maybe for Ed. I think, everyone recognizes that loyalty represents a moat around the business. But, it's not clear to me how some of your Amex assumptions, the path towards that $7 billion figure, how that gets altered by a U.S. recession? I've got all the data on what happens to air travel demand. But, what are your recessionary assumptions in terms of quarterly mileage sales, card openings, consumer spending? I mean, I know loyalty is more durable than air travel, but I still don't know how durable.

Ed Bastian

Well, Jamie, I'll take that. Obviously, we don't know what the economic outlook over the next five years. And the $7 billion number that we have disclosed is our target together with Amex, over this timeframe. It doesn't necessarily indicate that's recession proof. I mean, certainly, it's sensitive to spend, probably the single biggest element that we have in there. But, we also have modeled what happened in 2009 and how quickly spend did return. It's one of the reasons why we're creating not just greater loyalty through the card and the brand portfolio but also getting avenues for currency to be used as dollars, and the technology work that we have. And I think it's actually been one of the real nice innovations we brought to the market this year is that we're giving alternative use for currency, and people can spend and conserve cash.

So, I would say it's our target. Could there be bumps along that way? Certainly. It's not a flat guarantee. But, I think it's our best estimate together with Amex what we expect to see over the next five years. And at the same time, even through the process, this year while you have some economic concerns, I wouldn't say significant concerns in terms of consumer spend, we're still seeing growth on the card portfolio at double digits.

Jamie Baker

Is there a quarterly minimum in terms of what Amex is obligated to purchase in terms of miles or is there a scenario where spend was soft enough, they would have enough miles and they could just drop to zero for a period for Delta?

Ed Bastian

We're not going to get into any details of the contract, Jamie, as you can appreciate.

Jamie Baker

Okay. Fair enough. Thank you, everyone.

Operator

Rajeev Lalwani with Morgan Stanley will have the next question.

Rajeev Lalwani

Ed, Paul, a question for you. You've provided some good color on costs into next year. But, as we think about just over the next several years, how do we get comfortable with your ability to bring those costs back down to that target 2% or below level when you've got a pilot deal that's out there and you are likely going to be decelerating some of that capacity growth back to more normalized levels, if you will?

Ed Bastian

Rajeev, I'll take that. The 2% number is what we've given you in the past and we continue to see that hold. One of the -- we'll provide a lot more color when we get to Investor Day as to how we see the 2020 cost outlook. But, one of the pressure points we're also facing in 2020 is that our gauge in 2020 is actually going to be relatively flat year-over-year, and that's been certainly a source of productivity for us on unit cost. We expect to see that pick up again in ‘21. So, that's going to be another pressure that we're facing in the short term. But, we'll give you our perspective on that when we give you the details. But, we have faced our labor pressures in the past. We expect that whatever deal is cut with the pilots is going to be within the frame we talked about it.

Rajeev Lalwani

Okay. And then, Glen, actually a follow-up for you. You talked about a pretty strong demand environment. The supply backdrop seems pretty favorable from what we can tell. At the same time, you're pointing to RASM that's nearly flattish, once you take out the card benefit. I know there are some puts and takes there. But, can you just reconcile those two dynamics they seem to be odds with one another?

Glen Hauenstein

I think, we were trying to get to that in the call. So, I appreciate the question that our lift PRASM, which is what's coming off the tickets, is really very flat between 3Q and 4Q at about 1.5%. So, the TRASM decline between 3Q and 4Q is really a previous year accounting adjustments, which didn't occur this year. And so, that's what we were trying to say in the call. I'm sorry if we weren't clear enough. But, thanks for the question because I do want everybody to understand that the revenue coming off the tickets themselves is positive, it's consistent at about 1.5 up between 3Q and 4Q.

Operator

Now, moving onto Joseph DeNardi with Stifel. And Joseph, please go ahead with your question.

Joseph DeNardi

[Technical Difficulty]

Operator

I am sorry. Joseph, we're not hearing your question clearly.

Joseph DeNardi

Is that better?

Operator

Yes. Please continue.

Joseph DeNardi

[Technical Difficulty] at the Amex partnership a lot more that you used do. Analysts asked about it a lot more. I still think investor don't know what to [Technical Difficulty] on the valuation of the company. So, it suggests that [Technical Difficulty]. So, I'm wondering when do you think you'd be in a position to consider [Technical Difficulty] so investors can see profitability from a financial standpoint? Thank you.

Ed Bastian

Joe, you were still breaking up. If I understood your question, it's along the lines of, are we prepared to increase the segment disclosure relative to the American Express loyalty component of our business. Is that right?

Joseph DeNardi

Yes. That's right.

Ed Bastian

Yes. We're always evaluating how we provide the best insight for our investors into the drivers of our opportunities for the future. We've improved some of the disclosure. And certainly while we have to work within the confines of our contractual obligations to Amex, the confidentiality provisions, yes, I think it's a valid question, it's a fair question. It's something we need to continue to think about how we get greater visibility. It's an very important source of revenue for us today, it's certainly a growing source, probably growing faster than most other revenue components we have in the business, and it's certainly margin accretive. We can debate how you want to cost those miles, but it's certainly highly accretive to us. So, I think it's a fair question. I don't have an answer for you quite yet, but we're going to keep looking at.

Joseph DeNardi

And then, Ed, given the value of the Amex agreement and how valuable you think it can be, why isn't Sandeep's role a C level position?

Ed Bastian

Did Sandeep ask you to ask that question? Sandeep and the loyalty team are incredible contributors and highly valued. And I wouldn't go on title or definition. I've got great visibility to Sandeep and I see him just about every week on it. So, he’s a great asset to the Company as well as his entire team.

Joseph DeNardi

Thank you.

Operator

And now, we'll move to a question from Catherine O'Brien with Goldman Sachs.

Catherine O’Brien

So, year-to-date, you've been seeing some nice growth in your -- some of your non-ticket revenue categories like travel related services and, of course, loyalty revenue with the new Amex deal. Could you maybe walk us through some of the puts and takes on these non-ticket revenue streams into next year? Is there still room left to add some more products or should we expect to see growth accelerate in some of your ancillary businesses? Thanks.

Ed Bastian

Well, I'll talk a little bit about premium products and maybe turn that over to Gil for some of the ancillaries like the MRO. Clearly, we see room for growth there. And that's been on a different trajectory than base ticket fares. And as you saw, we grew premium products by 9% in the quarter, which was above the, of course, average of the total revenue growth at 6.5%. So, we continue to see that moving forward. And it's really, we think, our ability to a, price those products, given the increasing demand that we see from consumers on them, but b, also continuing to increase the number of channels we distribute them through. And as you know, we've been working to do that more on our digital channels but also through -- there are travel management companies and our partnerships and through the OTAs. And we're seeing some great early results on that. But, it's got ways to go over the next years -- months and years. So, we continue to see that as -- being able to grow even through maybe a challenging economic environment.

Gil West

Yes. Hi. This is Gil. I would just add -- first, just a shout out to our tech ops team for -- I mean, they are the best in the business. But the MRO business for us year-to-date is up about $120 million year-over-year, about 23%. So, we're seeing strong growth in the current year. As you look forward, some of the investments that we've made in terms of capacity for new generation engines, in particular the Rolls-Royce Trent engine and the Pratt & Whitney geared turbofan, those volumes start to ramp next year as well, albeit those will mature in three or four years. But, we'll benefit from some of that tailwind as well in the MRO business as we move forward.

Catherine O’Brien

That's great. Thanks. And then, maybe just one quick follow-up on costs. And I think, you already alluded to this Ed, but I just want to make sure I've got it right. In your 2020 CASM outlook, the 2% to 3%, there is a potential new pilot deal that is contemplated in that number. Is that correct?

Ed Bastian

Katie, I'll take that. We are not going to comment to pilot deal or in any nature. 2% to 3% is our best estimate where our cost will be next year. We're not going to get into the details relative to our negotiations.

Catherine O'Brien

Okay, understood. Thank you very much.

Jill Greer

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

Operator

Great. And that last analyst question will come from David Vernon with Bernstein.

Ran Yang

Hi. This is Ran Yang speaking on behalf of David Vernon. So, just to clarify talk go back to the CASM-Ex guide into 2020. The one point step up, is that something that you can potentially offset with other cost initiatives, like One Delta?

Paul Jacobson

One Delta continues to pay big dividends for us. And while we expect the level of investment back into the product and the infrastructure as Ed articulated, we're always striving to find some of that productivity. And as we've said before, we'll detail more about the 2020 cost outlook at Investor Day in December.

Ran Yang

Got it. Thank you.

Jill Greer

That's going to wrap up the analyst portion of the phone call. I will now turn it over to Tim Mapes, our Chief Communications Officer for the analysts -- or the media portion.

Tim Mapes

Good morning, everybody, and thank you to the members of the media for holding on. We have a little bit under 10 minutes of time to take questions. I'll just remind everybody, as we said earlier with analysts, please if you would limit your questions to one and so we can get through as many of these as quickly as possible.

Operator

[Operator Instructions] And we'll hear first from Elliott Blackburn with Argus Media.

Elliott Blackburn

Good morning. Thanks for taking my question. Curious how the Trainer refinery is going to adjust to the higher renewable fuel blending requirements that the Trump administration is proposing begin next year?

Paul Jacobson

Good morning, Elliot. This is Paul. We are in a full compliance with our RINs requirements under the RFS standard and have done a good job of managing through that volatility that we've seen over the last several years. And I'm confidence that the team will be able to continue to address that. We continue to advocate on behalf of small and independent refiners that long-term solutions have to be identified. But, we’re managing through that in the short term.

Elliott Blackburn

So, do you think that this -- it doesn't sound like you are concerned that this added cost is going to affect the refinery’s kind of viability long term?

Paul Jacobson

We certainly think that it can result in added costs. We don't believe necessarily that it affects the full viability. But, it does have an economic impact to the region and our ability to continue to drive those results at the refinery.

Operator

And now, we'll move to the next question and that will come from David Koenig with Associated Press.

David Koenig

Hey. Good morning. This is for Ed. You gave a figure on TV for hiring this year and next year. Can you go over those targets and how many will be pilots for example? And then, overall, how much of that hiring is just replacing people who retire or leave and how much of it is actually pure growth?

Ed Bastian

Sure, David. We haven't given out the specifics by job classification for next year. But, we've been hiring at a rate of about 6,000 new employees coming into the Company for the last couple of years, and we expect again going forward, next year, at a similar level. Pilots are going to be increasing in numbers due to retirements. The retirement age really starts to ramp up in the next two to three years. And so, those numbers are going to grow as well as to accommodate some of the growth that we've seen in the business. And one of the things that we'll be doing a bit differently than we did this past year is we're going to be hiring earlier in the year and continue to keep the hiring going through the year rather than have it in more discrete period. So, we'll have all of our new hires in position hopefully ready to handle as much of the new volume that's going to be coming in next year, not the [indiscernible]. In total, I'd say the -- probably at least half of the 6,000 we're talking about are retirement, replacement of workers that are retiring, half to two-thirds; and then, there is kind of some growth as well.

David Koenig

Okay. I'm a little unclear about pilots. Will you grow the overall number of pilots, or next summer you'll have more? Okay.

Ed Bastian

We just haven't given the number, but we're going to be growing our pilot hiring too. Yes.

David Koenig

Okay. Got it. Thank you.

Operator

And next, we'll hear from Ted Reed with Forbes.

Ted Reed

I have two questions. First for Glen, if I look at what you're doing this quarter, it seems like you're growing at southern most major airport on the East Coast in Miami and then northern most in Boston. Is that a good way to look at it?

Glen Hauenstein

I don't think we've announced any plans to grow Miami yet. But, as I outlined in the earlier call, I think, we will add some key spokes into Miami. It won't be giant. But, I think we have had a successful growth in Boston. And as you know, this past quarter, we just took back our terminal. That terminal was constructed almost 15 years ago and opened, and this is the first time that we've occupied the terminal that was built for Delta. And I would assume that we will be the leading carrier in Boston in terms of revenue in 2020. So, yes, we've done a lot of growth in Boston.

Ted Reed

Secondly for Ed. As you look at the impact of the tariffs, is your response -- your ability to respond going to be based on Mobile and taking more production from Mobile? And do you have any priority in getting the production from Mobile?

Ed Bastian

Well, certainly Mobile is going to be very important for us going forward. And that's -- yes, that's going to be the focus of our domestic strategy to be getting our 220s, our 321s via Mobile as Airbus continues to ramp up that production capability. I'm not going to get into any longer term ideas we have because obviously it doesn't necessarily help you on the wide bodies. But, we're evaluating options there. And as I said, our goal is to mitigate any potential tariff exposure.

Operator

Now, Leslie Josephs with CNBC, we'll have the next question.

Leslie Josephs

Hi. Good morning. Thanks for taking my question. This is about basic economy. I've been noticing the fare differences between main cabin and basic seem to be going up, I mean across various routes when you guys started -- I know you started a long time ago. But, maybe a couple of years ago, it was like $30, $40, now seeing sometimes $100. Is that kind of across the board? What kind of benefit are you seeing from that?

Ed Bastian

Well, basic economy is not something that we want to grow. It's not really a premium product. And as we've outlined before, defensive product against ULCCs, we want to have best-in-class product whatever people's needs are. And for people who only care about the lowest fare possible, I think, we have by far the best offering. And the differential between that and the main cabin, it hasn't been an intentional shift in separating those out. But, I think what we're testing in many cases is what are people willing to pay for that. And sometimes in business markets, it's a bigger differential. And I think maybe that's what you're looking. At a market basket level of all markets, the difference has only been a couple of dollars different. But, I think at individual market levels, it may be greater.

Leslie Josephs

Okay. When did that start, that larger gap? It was about $30, $40 just a couple of years ago.

Ed Bastian

Yes. I think you'd have to give us what markets you're looking at because each one of the markets is managed individually.

Leslie Josephs

Okay. Like transcon, for example.

Ed Bastian

All right. Well, again, I think, we can get back to you with some more details. But, the intent has not been to move up the ladder significantly.

Operator

We'll take our final question today from John Biers with AFP.

John Biers

Hi. Thank you for taking my call. We've seen a fair bit of data showing that there is weakness in the manufacturing sector in the U.S. right now. There is a strike that's been going on for weeks now in Detroit, which is one of your hubs. Are you seeing any weakness right now in your demand forecast looking forward for the U.S. in general? There's -- obviously we've had more talk about possible recession in the next couple of years. Any shift at all, any weakness compared with a few months ago?

Ed Bastian

John, this is Ed. No, not at all. We had a -- as we've mentioned a number of times on this call, we had record summer in terms of both volumes and revenues. So, all time high revenues for us. And the domestic system is what produced those records. Our domestic revenues were up 8% in the third quarter. And we continue to see advanced bookings, the domestic consumer being quite strong. We expect the holiday period to be a strong period. Looking ahead, we don't have a great view into 2020 since it's pretty early for us on our booking curve, but the -- our business is heavily levered to the U.S. consumer. And the U.S. consumer is doing quite well and is preferring Delta.

John Biers

Thank you.

Glen Hauenstein

With that, we'll conclude today's call. As has been mentioned earlier, we look forward to seeing everybody on December 11th and 12th here in Atlanta. And we're grateful for your time today. Thank you.

Operator

And once again, ladies and gentlemen, this does conclude your conference for today. We do thank you for your participation. And you may now disconnect.