



INTRODUCTION TO THIS DOCUMENT

Skift , US based media company, summarises the impact of COVID-19 on Delta Airlines operations and its top management's views on the airline's recovery timeline and possible changes to its business model

OUR TAKE-AWAYS:

This is what we learned from this document:

- **It's a long road to recovery for the airline industry. Demand for air travel is at an all-time low and it might take as long as three years for air travel to rebound to pre-COVID-19 levels.**
- **Domestic travel demand is projected to recover sooner than international travel.**
- **Airlines will be different! Expect lots of changes when travel resumes – from new measures guiding flight and personal safety to operating capacity are expected.**

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Delta Air Lines CEO: Don't Count on Airlines to Recover for 3 Years

— *Madhu Unnikrishnan*

6-8 minutes

Air travel will not rebound to pre-pandemic levels for another three years, Delta Air Lines CEO Ed Bastian warned analysts during the company's first quarter earnings call on Wednesday. "Demand for near-term air travel dropped to almost zero in a matter of weeks," he said.

But when travel starts to return, Bastian predicts Delta will be a different airline. "Safety will not be limited to flight safety, but [will expand] to personal safety," Bastian said. "People will pay a premium on service excellence like never before."

Flights, which before the pandemic were operating 80-90 percent full, may only be 65-70 percent full. Although Bastian did not speculate on whether fares will rise, he stressed that the airline will be "different" than it was even 60 days ago and will focus on a premium experience, inflight and in airports. "I firmly believe people will pay for premium service."

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For now, Delta is attempting to assuage passengers' concerns by blocking middle seats and increasing social distancing at airports, security lines, and at the gates. It is investing heavily in cleaning aircraft, with disinfectant fogging and more rigorous cabin cleaning, including of tray tables, seat-back pockets, and inflight entertainment screens. It is too soon to determine if these measures will be permanent, he cautioned. "This recovery will take years. We will spend some time in the future to figure that out."

Like all U.S. airlines, has seen an astonishing collapse in demand. Bookings in April evaporated, and Delta saw its revenues for the month fall by 90 percent, compared with the same month a year prior. In response, the company has slashed its second-quarter schedule by 85 percent, which translates into 80 percent fewer domestic flights and 90 percent fewer international flights for the quarter.

Delta predicts domestic demand will return sooner than international demand, which Bastian says could take "years" to recover. "Forward bookings are bumping along the bottom," Bastian said, noting a 95 percent drop in travel. "Demand questions are hard to answer, because there's not a lot of data."

Cares Act Cash, Labor, Aircraft, and Oil

Delta this week took the first tranche [from the CARES Act funds for airlines](#). In total, Delta expects to take \$5.4 billion in payroll support

from the federal government, comprised of \$3.8 billion in grants and \$1.6 billion in loans. It received \$2.7 billion of these funds and expects the federal government to disburse the balance in the next three months. Delta granted the U.S. Treasury warrants to buy 6.5 million shares in the company in return. Delta also is eligible for a further \$4.6 billion in loans but has not yet determined if it will avail itself of these funds.

As part of the deal for taking the grants, Delta, like all airlines, cannot lay off or furlough staff through Sept. 30. Bastian made no prediction about future staffing, although he did say the airline will be “smaller.” More than 37,000 of Delta’s 90,000 employees have taken voluntary unpaid leave for periods ranging from one month to one year, for which Bastian said he will be “forever grateful.” This staffing reduction helped Delta reduce its daily cash burn from \$100 million per day in March to \$50 million per day now. Delta said it has \$6 billion in liquidity now and expects to end the year with \$10 billion, and it has raised \$5.4 billion from capital markets. The company has additional assets it can use as collateral to raise more cash, if it wants.

The pandemic has forced Delta to ground more than 650 aircraft of its roughly 850-aircraft fleet, and is accelerating the carrier’s fleet retirements. Some of those grounded aircraft, including the MD-80 fleet, will not return to service. The airline may permanently retire its MD-90 fleet and is considering removing some Boeing 757s and Boeing 767s and some regional jets from its roster. In addition, Delta is not taking delivery of new aircraft, except for those that have been fully financed and paid for already. With such a large chunk of its fleet currently grounded, the carrier doesn’t need any new aircraft, Bastian noted.

Delta owns an oil refinery in Trainer, Pennsylvania, which it bought as a hedge against the spiking oil prices in the last decade. The company has no plans to wind down the facility, although it expects to take a loss in the second quarter, especially now that oil prices have plummeted to historic lows. Since demand for jet fuel has all but vanished, the facility is being retooled to blend some of its output into diesel fuel, and production has been halved.

International Strategy

Before the pandemic, Delta had [an expansive international strategy](#), buying stakes in such carriers as Virgin Atlantic, Aeromexico, and Latam, among others. The Atlanta-based airline has no plans to end these relationships, but things will change.

Government support for these airlines differs in each country, but Bastian noted that most countries outside of the U.S. are offering loans, rather than grants. Delta will not contribute financially to any of its partners but will offer commercial support.

Although not speaking specifically about Delta's partners, Bastian said he expects to see some airlines cease operations altogether or declare bankruptcy. International travel will recover slowly, which will affect when or if Delta returns to its previous international strategy.

And Now, the Numbers

Delta reported a \$534 million net loss in the first quarter, down from a \$730 million net profit in the first quarter of 2019. Operating revenue plunged 18 percent from 2019 to \$8.6 billion. A rare spot of good news is that fuel costs fell 19 percent year-over-year, but

that's small consolation when demand has fallen by 95 percent.

“The first quarter of 2020 truly has been like no other in Delta’s history,” Bastian said.

Photo Credit: In the good old days, a Delta aircraft flies over Florida. Skift