

## Financial Results of U.S. Major Airlines from April to June 2020

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### 1. Introduction

Although the ferocity of the novel coronavirus (COVID-19) seemed to have calmed down in Europe and Asia at one point, the number of people infected have again been going up in Japan and the U.S. with the arrival of the summer season. In this unforeseeable situation, airlines all around the world have been fighting hard not to halt business operations and both international and domestic air traffic. However, many airline business failures have occurred globally. Recently in the Americas, LATAM airline group, the largest airline company group of South America, and Mexico's Aeroméxico airline went bankrupt. Other airlines have also been forced to fight an uphill battle. In this report, I will observe the impacts of COVID-19 on the U.S. aviation industry through focusing on the three major U.S. airlines, and will overview their financial results from this April to June. (The second quarter of 2020 in the U.S.)

### 2. Financial Summary of the Three U.S. Major Airlines During the 2020 Second Quarter

The following table gives a lowdown of finances during the 2020 second quarter for American, Delta and United, the three major U.S. airlines. The sales earnings for each airline went down almost 90% across the board compared to the same period a year ago. Though operating expenses decreased by a great extent due to each company's efforts to cut costs, which will be explained further later in this report, the decline in business income greatly overtook these endeavors. As a result, the net loss for the three airlines totaled \$9.4 billion (approx. 1 trillion yen), becoming a headline in the Japanese media.<sup>1</sup> Below, we will look at the key financial results of each company, the measures they've taken in response to COVID-19, and their policies on strengthening and maintaining cash flow.

	American	Delta	United
Total Sales Earnings	1,622 (-86.4%)	1,468 (-88%)	1,475 (-87.1%)
Passengers	1,108 (-89.9%)	678 (-94%)	681 (-93.5%)
Freight	130 (-41%)	108 (-42%)	402 (+36.3%)
Total Operative Cost	4,108 (-62%)	6,283 (-40%)	3,112 (-68.7%)
Labor Cost	2,538 (-20.7%)	2,086 (-24%)	2,170 (-29%)
Fuel Cost	217 (-89.1%)	372 (-84%)	240 (-89.9%)
Operating Income	-2,486	-4,815	-1,637
Pretax Profit	-2,659	-7,014	-2,003
Net Income	-2,067	-5,717	-1,627
Gross Income per ASM	9.50 (-42.6%)	13.85 (-21%)	16.46 (+5.7%)
Yield	15.32 (-12.8%)	18.73 (+4%)	22.93 (+37.8%)

Reference) Company websites

※The unit is one million dollars. However, the unit for “Gross Income per ASM” and “Yield” is by cent.

※The numbers in the brackets are increase-decrease rates compares to the same period last year.

## 2.1 American Airlines<sup>2</sup>

### 2.1.1 Financial Results of the Second Quarter

The pretax loss for American Airlines’ GAAP for the second quarter (which is the accounting principle commonly recognized for U.S. accounting standards) was 2.7 billion dollars. The adjusted pretax loss, excluding special items (such as grants received from the Payroll Support Program (PSP) under the CARES Act, etc.), for the second quarter was 4.3 billion dollars. The net loss was 2.1 billion dollars, and the loss per share was 4.82 dollars. The adjusted net loss, excluding the total from special items, was 3.4 billion dollars. The loss per share was 7.82 dollars. They finished the second quarter with approx. 10.2 billion dollars of the accessible liquidity. The amount of the liquidity balance for the second quarter combining the secured loan through CARES and other transactions was approx. 16.2 billion dollars.

### 2.1.2 Response to COVID-19

American Airlines’ response to COVID-19, as listed below, considers the provision of care for customers and team members as the first priority to survive the current situation. Responses include:

- Making it obligatory for all traveling passengers and employees on duty to wear a face mask
- Implementing body temperature tests for all employees and requiring customers to submit a document prior to trips proving that they do not have any Covid related symptoms
- Establishing a travel health advisory panel consisting of internal leaders over the prevention of infectious disease and external experts, and gathering information related to health and cleaning
- Starting a partnership with GBAC for GBAC STAR Accreditation regarding cleaning and disinfection of aircraft and lounges (GBAC STAR Accreditation is a public health related certification recognized by GBAC, or the Global Biorisk Advisory Council, which is an internal organization of ISSA, The Worldwide Cleaning Industry Association.)
- Strengthening cleaning and disinfection procedures by using electrostatic sprays every 7 days on the inside of every aircraft

Furthermore, as a special service to their customers, they didn’t charge a fee for rescheduling air tickets booked by July 31<sup>st</sup>, provided notifications to customers when their flight was full, and waived fees for changing flights to one that had less passengers. In addition, partnering with Deloitte, they sent over 40,000 medical gowns to emergency personnel at Mount Sinai Hospital in NY, and provided free stays

at no cost to a couple thousand employees of NYC Health + Hospitals/Elmhurst Hospital through collaborations with Hyatt Hotels Corporation.

### 2.1.3 Maintaining and Strengthening Cash Flow

American Airlines implemented the following cost cutting measures to maintain their cash flow, such as organizing the aircraft equipment they own, adjusting their human resource planning, and reviewing routes. So far they have:

- “ • Retired four aircraft types, consisting of 20 E190s, 34 B757s, 17 B767s and 9 A330-300s. In addition, the company placed its A330-200s and certain older B737s into a temporary storage program.
- Introduced additional voluntary leave of absence and early-out programs. American anticipates having over 20,000 more team members on payroll than needed to operate its fall schedule. In total, more than 41,000 team members have opted for an early retirement, a reduced work schedule or a partially paid leave.
- Consistent with the CARES Act, reduced its management and support staff team, including officers, by approximately 5,100 positions, or 30%.
- Announced changes to its international schedule for 2021. American expects its summer 2021 long-haul international capacity to be down 25% versus 2019 and also plans to exit 19 international routes.
- Reduced non-aircraft capital expense by \$700 million in 2020 and another \$300 million in 2021 through the elimination of all new ground service equipment purchases, and pausing all noncritical facility investments and IT projects.”<sup>2</sup>

Furthermore, the following measures have been implemented to strengthen liquidity in addition to reducing operational costs and capital investment amounts.

- “ • Refinanced the delayed draw term loan credit facility the company entered into in March 2020, which was set to mature in March 2021.
- Signed a term sheet with the U.S. Department of the Treasury for a \$4.75 billion secured loan under the CARES Act.
- Announced \$1.2 billion of committed financing in the form of two senior secured note transactions to be collateralized by intellectual property and other assets with Goldman Sachs Merchant Bank.
- Reduced its daily cash burn rate from nearly \$100 million in April to approximately \$30 million in June. The company’s second-quarter cash burn rate was approximately \$55 million per day vs. its previous forecast of \$70 million per day.”<sup>2</sup>

## 2.2 Delta Air Lines<sup>3</sup>

### 2.2.1 Financial Highlights of the Second Quarter

The GAAP pre-tax loss for Delta Air Lines was \$7.0 billion. The pre-tax loss for the quarter was \$3.9 billion after adjusting for the exclusion of fleet-related restructuring cost, write-downs from Delta's equity investments, and benefits received through the CARES Act. The total operating cost was reduced by \$4.1 billion, with total adjusted operating costs reduced by \$5.5 billion (53%) compared to the same period last year. This was affected by lower supply capacity, expenses for revenue, and strong cost management of the whole company. The liquidity for the end of the second quarter was \$15.7 billion.

### 2.2.2 Response to COVID-19

Delta Air Lines also prioritizes the safety of their customers and employees during the COVID-19 pandemic, and have taken the following actions.

- “ • Adoption of new cleaning procedures on all flights, including disinfectant electrostatic spraying on aircraft and sanitizing high-touch areas before each flight
  - Requiring employees and customers to wear masks, blocking middle seats and capping load factor at 60 percent and modifying boarding and deplaning process
  - Installing plexiglass shields at all Delta check-in counters, Delta Sky Clubs and gate counters, adding social distance markers in the check-in lobby, Delta Sky Clubs, at gate areas and in jet bridges
  - Launching a Global Cleanliness organization dedicated to evolving Delta's cleanliness standards
  - Providing COVID-19 testing for employees in partnership with the Mayo Clinic and Quest Diagnostics
  - Giving customers flexibility to plan, re-book and travel including extending expiration on travel credits through September 2022. Delta has provided more than \$2.2 billion in cash refunds in 2020”<sup>3</sup>

### 2.2.3 Maintaining and Strengthening Cash Flow

Since the beginning of March, Delta Air Lines has received nearly 1.5 billion dollars in funds with an average interest of 5.5%, including acquiring unsecured lending from the PSP through the CARES Act. Furthermore, they extended maturity dates for \$1.3 billion in loans under revolving credit facilities from 2021 to 2022. They also actively did cost management by reducing capacity, cutting fuel expenses, reducing work schedules, providing voluntary leave for employees, parking aircraft, consolidating facilities, and eliminating nearly all discretionary spending. In addition to this, they acquired \$5.4 billion in funds and unsecured loans from the PSP through the CARES Act, which will be received in installments through July 2020. Regarding the CARES Act, they submitted a non-binding Letter of Intent to the U.S Treasury

Department for \$4.6 billion, based on the secured lending program, in addition to participating in the PSP. They also implemented the following to further reduce expenses.

- “ • Accelerating fleet simplification with the retirement of entire MD-88, MD-90, B777 and B737-700 fleets and portions of the B767-300ER and A320 fleets
  - Taking advantage of reduced demand to accelerate airport construction projects in Los Angeles, New-York LaGuardia and Salt Lake City, in an effort to shorten timelines and lower the total cost for the projects
  - Launching voluntary separation and early retirement programs to proactively manage headcount and rescale operations. “<sup>3</sup>

## 2.3 United Airlines<sup>4</sup>

### 2.3.1 Financial Results of the Second Quarter

The GAAP net loss for United Airlines was \$1.6 billion, and the adjusted net loss was \$2.6 billion. The total operating revenue decreased 87.1% compared to last year. The capacity amount also decreased by 87.8% compared to a year ago. The current total liquidity of the company is approx. \$15.2 billion. It is expected to exceed \$18 billion at the end of the third quarter. The cash burn rate for the second quarter averaged \$40 million per day, including \$3 million in principle payments and severance benefits. United Airlines predicts that the average cash burn rate for the third quarter would be approx. \$25 million per day, including \$6 million in principle payments and severance benefits.

### 2.3.2 Response to COVID-19

United Airlines has published their “United CleanPlus” program, and implemented the following measures in order to place strengthened health and safety precautions at the forefront of the overall customer experience.

- “ • Partnering with Clorox and experts from the Cleveland Clinic
  - Require all United flight attendants and passengers to wear face coverings.
  - Among first U.S. airlines to enforce policy that bans customers for refusing to follow mask requirements.
  - Ask all passengers to complete a health self-assessment during their check-in process.
  - All U.S. airports are electrostatic spraying aircraft interiors.
  - Expanded touchless check-in capabilities to kiosks at more than 215 airports.
  - The company offers free COVID-19 testing to all employees, and checks their temperatures before they begin work at all U.S. airports.
  - Providing individually wrapped hand wipes and snack bag with pretzels, Stroopwafel, water, and a hand sanitizer wipe as customers board to reduce

touchpoints.”<sup>4</sup>

Furthermore, they have been offering special deals, such as the ability to change flights at no cost in cases where booked flights are reserved at over 70% capacity, or the capacity to change flights booked by July 31st. In addition to these, MileagePlus member have been able to donate miles to support COVID-19 relief organizations, donations have been made to local food banks and charitable organizations from United Airlines’ lounges and catering kitchens, face masks made from recycled, unused ramp uniforms have been donated, and United has participated in volunteering activities.

### 2.3.3 Maintaining and Strengthening Cash Flow

United has attempted to mitigate the impact of the COVID-19 pandemic by improving liquidity and decreasing the cash burn rate, as the other two airlines mentioned above have. Since this pandemic started, they have obtained a total of \$16.1 billion in issuing bonds and stocks. They are also receiving grants and loans from the PSP through the CARES. At the same time, they have been implementing the following measures for financing and cutting expenses.

- “ • As of July 2, raised \$6.8 billion in financings secured against MileagePlus Holdings in the form of a \$3.8 billion bond and a \$3.0 billion term loan
- The company entered into an agreement with a subsidiary of BOC Aviation Limited to finance through a sale leaseback transaction six Boeing 787-9 and 16 Boeing 737 MAX 9 aircraft
- Raised \$250 million in a secured term loan facility
- Increased cargo revenue by 36.3% by serving strategic international cargo-only missions and optimizing aircraft capacity with low passenger demand
- Reduced total operating costs by 69% versus the second quarter of 2019
- Offered employees comprehensive voluntary separation packages with more than 6,000 employees opting to participate.”<sup>4</sup>

## 4. Conclusion

Each airline has endeavored to overcome continuous challenges by doing everything they can in the second quarter, which was ‘the most difficult quarter in company history’ according to top airline managements. Demand for travel is usually expected to increase in July, as the demand for leisure activities simultaneously rises. However, demand recovered with only slight increases due to a second wave of the pandemic, and additional challenges are expected. There is also a concern in the U.S. that airlines might experience big layoffs following the end of September, as the CARE Act’s PSP requirement for employment retention will end on September 30th.

A bipartisan group of House delegates<sup>5</sup>, U.S. travel industry members<sup>6</sup>, etc. is seeking to extend the period of support provided through PSP. Challenges for airlines will persist, as rapid recovery is not expected during the third quarter. The next quarter’s financial outcomes will surely be of great interest.

## References

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