United Airlines Holdings' (UAL) CEO Oscar Munoz on Q3 2019 Results - Earnings Call Transcript

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Q3: 10-15-19 Earnings Summary

Press Release SEC *10-Q* *Slides*

EPS of $4.07 beats by $0.11 | Revenue of $11.38B (3.43% Y/Y) misses by $-48.51M

Earning Call Audio

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United Airlines Holdings, Inc. (NASDAQ:UAL) Q3 2019 Earnings Conference Call October 16, 2019 10:30 AM ET

Company Participants

Mike Leskinen - Vice President, Corporate Development and Investor Relations

Oscar Munoz - Chief Executive Officer

Scott Kirby - President

Greg Hart - Executive Vice President and Chief Operations Officer

Linda Jojo - Executive Vice President-Technology and Chief Digital Officer

Andrew Nocella - Executive Vice President and Chief Commercial Officer

Gerry Laderman - Executive Vice President and Chief Financial Officer

Conference Call Participants

David Vernon - Bernstein

Joe Caiado - Credit Suisse

Rajeev Lalwani - Morgan Stanley

Jamie Baker - JPMorgan

Darryl Genovesi - Vertical Research Partners

Hunter Keay - Wolfe Research

Andrew Didora - Bank of America

Michael Linenberg - Deutsche Bank

Joe DeNardi - Stifel

Catherine O'Brien - Goldman Sachs

Alison Sider - Wall Street Journal

Justin Bachman - Bloomberg

Operator

Good morning and welcome to United Airlines Holdings Earnings Conference Call for the Third Quarter of 2019. My name is Brandon. And I'll be your conference facilitator today.

Following the initial remarks from management, we will open the lines for questions. [Operator Instructions] I will now turn the presentation over to your host for today's call, Mike Leskinen, Vice President of Corporate Development and Investor Relations. Please go ahead, sir.

Mike Leskinen

Thank you, Brandon. Good morning, everyone and welcome to United's Third Quarter of 2019 Earnings Conference Call. Yesterday, we issued our earnings release and separate investor update. Additionally, this morning, we issued a presentation to accompany this call. All three of these documents are available on our website at ir.united.com.

Information in yesterday's release and investor update, the accompanying presentation and the remarks made during this conference call may contain forward-looking statements, which represent the Company's current expectations or beliefs concerning future events and financial performance.

All forward-looking statements are based upon information currently available to the Company. A number of factors could cause actual results to differ materially from our current expectations. Please refer to our earnings release Form 10-K and other reports filed with the SEC by United Airlines Holdings and United Airlines for a more thorough description of these factors.

Also during the course of our call, we will discuss several non-GAAP financial measures. For a reconciliation of these non-GAAP measures to the most directly comparable GAAP measures, please refer to the tables at the end of our earnings release, investor update and presentation, copies of which are available on our website.

Joining us here in Chicago to discuss our results and outlook are Chief Executive Officer, Oscar Munoz; President, Scott Kirby; Executive Vice President and Chief Operations Officer, Greg Hart; Executive Vice President of Technology and Chief Digital Officer, Linda Jojo; Executive Vice President and Chief Commercial Officer, Andrew Nocella and Executive Vice President and Chief Financial Officer, Gerry Laderman. In addition, we have other members of the team in the room available to assist with Q&A.

And now, I'd like to turn the call over to Oscar.

Oscar Munoz

Thank you, Mike and my thanks to all of you for joining us today. Before I start, as we always do, we want to thank each and every one of our United colleagues for their determination and passion for serving our customers. It truly is their dedication that has helped us build the track record of delivering on our financial targets and returning a solid value to our investors that we have.

So to the results, we had another strong quarter of results. As you can see on Slide 4, we reported adjusted pretax earnings of $1.4 billion with an adjusted pretax margin of 12.1%. Our adjusted earnings per share of $4.07 was 33% higher than the third quarter of last year and that reflects 250 basis points of adjusted pretax margin expansion in the third quarter. It is our best so far this year.

It also reflects the third consecutive quarter that our pre-tax margin has grown in the fourth quarter on an adjusted basis. This strong performance gives us the confidence to raise our full year 2019 adjusted EPS guidance to a new range of $11.25 to $12.25.

We are now ahead of pace towards achieving our 2020 adjusted EPS target of $11 to $13 which we set nearly two years ago. We extended this quarterly streak of pretax margin expansion despite the obstacles like historically severe weather, volatile global market and of course the grounding of the MAX aircrafts. Now we didn't overcome these obstacles by cutting back on the value we provide to you, our customers, in fact, just the opposite.

We continue to invest in a variety of improvements to the United experience that are benefiting our customers and elevating the value proposition of flying United. Here's just a few items. Our ConnectionSaver, which you've heard about that's already saved over 50,000 customers from missing their connections year-to-date, which is accruing customer gratitude and appreciation over time while ensuring each aircraft arrives on time.

We are also now selling flights on the new CR J550 which will transform regional flying and give us a uniquely United advantage serving customers in our [small city] [ph] as they connect to international destinations. As we told you before, it will offer a first-class cabin, economy plus seating, Wi-Fi and more amenities than any other 50-seat regional aircraft operating today.

So from the award winning and refreshed United app to expanded complementary snack options, we are continuing to invest in our customers' experience across the board. But ultimately, what makes all of those enhancements truly come alive are the people who deliver them and serve our customers every day and that is why our Backstage event for our flight attendants are so pivotal. It's proven to be an absolutely game changing experience for our employees.

I believe the reason for their enthusiastic response is that Backstage brings our core4 principles to life in a variety of tangible ways that authentically resonate with our employees and our customers. It's been really satisfying to travel systems since we introduce core4 and witness how our employees have embraced this framework of safe, caring, dependable and efficient. And it's inspiring to see how they've taken personal ownership of the concept finding creative compelling ways to embody it, every customer, every flight, every day.

In closing, when you look at the sum of all these efforts, what you see is a picture of what proof not promise looks like in practice. So we have less than a quarter left of 2019 and we believe our momentum remains strong. But I promise you and I use that word with earned confidence, we expect the best lies ahead.

I look forward to welcoming journalists from around the world for our first ever Media Day here in Chicago on October 24 and October 25. It will be an excellent opportunity to showcase what is driving our confidence and the bright future of United Airlines, and the new spheres of United.

So with that, I'll turn it over to Scott.

Scott Kirby

Thanks, Oscar. I'd also like to thank all the people of United Airlines for the incredible job they're doing taking care of our customers and producing strong results. Thanks to our team's no excuses mentality, we delivered another quarter of adjusted pretax margin expansion.

This continued an eight quarter streak of coming in above the midpoint of our guidance range. Andrew and Gerry will talk more about the recent results and the near-term future, but I want to address a couple of the bigger picture questions that have been top of mind for our investors.

First, we're getting a lot of questions about our ability to continue driving flat CASM-ex in the years to come. It certainly won't be easy, but our goal remains to drive flat CASM-ex at the same time, we will of course continue to make the anticipated increases in compensation for all of our employees. After all, it's the people of United Airlines that are driving these results and they deserve sharing the rewards.

As Oscar mentioned earlier, we also expect to continue making significant product and customer experience investments next year consistent with our core4 framework of being safe, caring, dependable and efficient. We've been doing that this year with investments like ConnectionSaver, free DirecTV, dramatic improvements to Wi-Fi and much, much more. We already see the positive impact of those investments.

The material increases in customer satisfaction and Net Promoter Scores which is driving customers to choose United Airlines and contributing to our strong financial results. So how can we continue to invest in our people and our customer experience and drive towards flat CASM-ex? For one thing, we plan to take advantage of increasing gauge.

We have large hubs in big cities across the country and because of that we should be the airline with the highest gauge. But at this point, we aren't. In fact, United is seven years to eight years behind our large competitors on gauge growth with approximately 13% fewer seats per domestic departure compared to Delta.

As our fleet mix shifts to a higher percentage of larger gauge mainline aircraft instead of regional aircraft, we begin closing that gap in earnest starting next year, and we're planning for approximately 3% more seats per departure by the end of 2020. We expect gauge growth to continue to the middle of the next decade.

In addition to gauge growth, we've also built a disciplined, action-oriented, innovative no excuses culture here at United, where we make difficult decisions to drive efficiency throughout the Company, which provides us with the resources to continue investing in our people, product, and customer experience.

The second big concern that we're hearing from investors is what's going to happen to industry PRASM with the return of the MAX. We don't have unique insight into the economy that will make our opinion any better than yours. But we're more optimistic than most about industry revenues and more importantly, we feel good about our track record of overcoming hurdles and producing results without making excuses.

We're in the early innings of our journey to make United the best airline in the world for our customers and our employees and our owners. We believe, we'll continue to have uniquely United opportunities that will allow us to continue to differentiate our performance in 2020 and beyond. The bottom line is that we expect to meet or exceed our $11 to $13 adjusted EPS target for next year.

I'd now like to take a moment to talk a little bit about the team and culture here at United. Many of you probably play fantasy football. I don't by the way. And my wife, Kathleen is in a couple of leagues and is actually the Commissioner of one of our league, so I hear about it a lot.

A successful company is a lot like a successful fantasy football team. You're looking for players you can count on who are more than just stand out individual performers. You are looking for talented players, who are part of a good team, playing in a good system and who overcome obstacles to help their team win. And the reason is simple. Football is a team sport. Well running an airline is a team sport also. And here at United, you've got a talented team and a great system that now has a track record of overcoming obstacles and competing at the highest level.

On these earning call, we're increasingly trying to introduce you to more of the talent on our team. Kate Gebo, our EVP of Human Resources and Labor Relations joined the call last quarter, and today, you will hear from both Greg Hart, our EVP and Chief Operating Officer; and Linda Jojo, our EVP of Technology and Chief Digital Officer.

Even better, get out there and fly United, and you'll see in person what our incredible frontline team is doing every day to take care of our customers. This really is a new United Airlines and we're continuing to build a new culture around a talented team that's determined to be the best airline in the world for our customers, employees and owners.

Right now, we're winning and we're more confident than ever about our future. There have been and will be speed bumps along the way. But we will not be defined by them. We will be defined by our ability to overcome them. I'm really proud of this team and really proud to be a part of it.

And with that, I'll turn it over to my talented colleague, Greg.

Greg Hart

Thank you, Scott. I appreciate the opportunity to be here today and I also want to thank all of our 95,000 employees. This has been an incredible year and I want to take a moment to mention some of the great achievements of our team. We are consistently number one for on-time departures at all hubs, where we face with large competitor. In the quarter, we achieved first place in Chicago, Denver and Los Angeles.

In fact, September was the 15th month in a row we've outperformed our three major competitors in LAX, the 31st month in a row in Chicago, we outperformed our two main competitors and the 55th month in a row in Denver that we've outperformed our two major competitors, achieving first place in on-time departures at all of those hubs. And we did this while carrying more customers than ever.

This is really something to be proud of and is a true testament to the team's ability to quickly and effectively respond to the range of operational challenges we face every day while doing their very best to take care of our customers.

Our teams have achieved this incredible track record despite the fact that we are facing some hard hitting weather across the system. Tropical storm Imelda caused severe flooding in Houston and impacted over 20% of our scheduled flight system-wide for three days in September.

We also had 9% of our flights impacted by aircraft control delays in the quarter. This compares to about 4% at our competitors. Tough weather and irregular operations are nothing new to United but it's incredible to see how our team gets better and faster recovering from these events.

To enable this success, we have equipped our employees with the right tools to manage all types of situations. Linda and her team have done an incredible job of putting technology in the hands of our employees to better communicate with each other to solve problems in the operation or take care of customers in the moment. We are running a great operation at United and we couldn't be proud of the team. We are the industry leader when it comes to our ability to recover from irregular operations caused by weather and we'll continue to learn and only get better from here.

I'll now pass the call on to Linda.

Linda Jojo

Thanks, Greg. It's great to be on the call today. I'm excited to share some of the progress we've been quietly making on the digital front, our operational improvements and growth plan takes hold. At its core, we've created a fast-paced, action-oriented culture that frees our people to partner closely with the business units and quickly roll out and test new innovations.

Not all of them work, but the fast pace allows us to quickly test new ideas, discard those that don't and double down where we're seeing cuts. Today, I am going to highlight a few examples of those high return investments. Starting with our digital channels, united.com and our award winning mobile app, we enable our customers to purchase and change both tickets and ancillary products through any of our channels at any time before their trip. All of the confidence that if they change their mind, we have their back.

For example, if a customer can pre-pay for her bag at time of ticket purchase but if she doesn't actually end up checking her bag, the bag fee is automatically refunded. We are the only airline to do this. Or if a customer checks the app, when she arrives at the airport and sees that she might be too far down the upgrade list, she can purchase an upgrade right in the app.

We also continue to build upon personalization of our mobile app. Developments like Mile Play, which is unique to United, our – our in-app product offers include artificial intelligence, gamification features that increases customer engagements and drive take rates even higher, especially with our millennial customers.

These examples may seem small, but they have helped us grow ancillary revenues by over 18% year-to-date. I want to speak briefly about how we work. Our digital team does not sit in some far off building or city. We are embedded in the airline and rather than take years, new tools and features are rolled out in weeks often at just one airport or one region, where we get real-time feedback, make changes and then repeat it until we get it right.

As you've heard from Andrew in the past, our new revenue management platform Gemini is helping us get more granular and delivers significant value to United to more precise forecasting and predictive modeling. This wasn't a Big Bang implementation but one that started small was modified and expanded until it covered all of our markets.

In the operation, we took this approach when solving the problem of aircraft swaps. We have to take a plane out of service. We have a new tool that consider several possible aircraft, evaluate future scheduled maintenance, the seat layout and many other factors and then makes a real-time recommendation to our routers on which aircraft to fly. This gets our down – our customers on their way, all while creating the least amount of downstream disruption.

What I've touched on today is just a small sample of what we do. We have created tools, developed apps and streamline processes that benefit our customers and our employees while improving revenues and driving cost savings, and there are hundreds of projects we're working on now side by side with Greg and Andrew's teams that we believe will drive customer engagement, empower our financial performance for years to come.

With that, I'll pass it over to Andrew to recap our commercial performance.

Andrew Nocella

Thanks, Linda. In the third quarter, our PRASM grew 1.7% which was slightly above the midpoint of our guidance, with September being the strongest month in the quarter. PRASM performance in our domestic network was up 2.1% on a 1.7% increase in capacity driven by solid close-in bookings.

International performance was mixed with continued robust results in Latin America offset by headwinds in Asia. Latin America was our best performing international region in the third quarter. Third quarter PRASM increased 7.2% on a 0.4% increase in capacity. We had great results in many parts of Latin America, including double-digit increases in Mexico, Brazil and Puerto Rico.

Performance across the Pacific further weakened in the quarter with a negative 3.4% decrease in PRASM on a 2.3% increase in capacity. All the weakness occurred in Hong Kong and to a lesser extent Beijing and Shanghai. As we indicated earlier in the quarter, Hong Kong, Beijing and Shanghai reduced our Q3 system performance by about 0.5 point.

Atlantic PRASM was up 0.8% in the quarter on a 2.8% increase in capacity, strong U.S. point-of-sale demand offset weaker European point-of-sale demand. Looking ahead to the fourth quarter, we expect our consolidated passenger unit revenue to be up 0% to 2%. We see potential for stronger yields among leisure travelers during the holiday season. We think this is a positive indication of the increasing effectiveness of our commercial initiatives and customer focus here at United.

Our PRASM outlook is also impacted by our ability to quickly adjust to changing market conditions as demonstrated in the third quarter. This summer, we announced the suspension of Chicago to Hong Kong and New York to Buenos Aires which were offset with capacity increases to other parts of Latin America. And a global network as large as ours there will clearly always be a few spots that have demand issues.

Hong Kong demand, while weak, has for the moment stabilized. We expect Pacific year-over-year PRASM performance in the fourth quarter to improve versus the third quarter. We continue to push the booking curve closer into departure date saving more seats for a closer-in, higher yield business traveler, which in turn allows stronger yield performance early in the booking curve for leisure customers.

Gemini, our new RM system that Linda mentioned earlier is working well with this strategy. Additionally, our sales team has been busy signing up new corporate accounts totaling over 500 year-to-date, a record number for United so far. This is just one of the many initiatives that we have in place to help us drive our RASM performance in 2020.

We believe United's network is uniquely suited to be the leading airline for business here in the U.S. as well as across the globe with our great partners. Our network is performing well as we continue to build connectivity, scheduled dep and small community service focused on our Mid-Continent hubs.

However, our coastal gateway hubs also saw improved profitability on many network realignments over the past year. We're running a disciplined airline that will make hard decisions like suspending service and as a result, all of our hubs are profitable on a rolling 12 month basis. It's a nice achievement on our road to our adjusted EPS targets.

Turning to Slide 13. We continue to focus on our commercial initiatives. Our first set of 10 dual class CRJ-550s are scheduled into service in the next couple of weeks with client focus here in Chicago, later followed by New York. We expect to have 54 CRJ-550s flying by the fall of 2020.

We announced several changes to the MileagePlus program into the third quarter. First, miles don't expire anymore, which will help engage new members and less frequent travelers in the program. Second, we replaced our upgrade certificates with PlusPoints, which starting in December will be easier to use and understand.

PlusPoints can be managed in our industry-leading mobile app, a first for any U.S. airline. Third, we will adjust how members are in status going forward to be more reflective of their total value. As a reminder, we are also now dynamically pricing award redemptions in Q4 for the first time, which allows, both lower and higher redemption pricing, a win for our customers and our investors.

Segmentation initiatives continue to perform well and we have a lot of them in different phases of roll out. Basic Economy allows us to offer a low price point profitably. Premium Plus will accelerate in 2020 and beyond, be more consistently offered across the globe on our wide-body jets. Our high business class configuration 767s are now operating most flights from London to Chicago and New York. Installation of Polaris seats continues and in 2020, our passengers will find an increasingly consistent experience on our intercontinental fleet of wide-bodies.

We now regularly offer with plans to continue in 2020 Boeing 787-10 service from New York to California and have recently started selling Premium Plus seats on these selective flights. We estimate that our Economy Plus seats per departure on mainline jets is now more than 50% larger than our competitors, providing our frequent flyers with more upgrade opportunities and serving as an excellent driver for ancillary revenue growth.

As we look to next year, we expect these uniquely United initiatives, the CRJ-550 deployed in key high yield markets and the ancillary revenue drivers that Linda spoke about earlier to drive incremental revenue growth moving forward. Thanks to the entire United team for a great third quarter.

With that, I will turn it over to Gerry to discuss our financial results.

Gerry Laderman

Thanks, Andrew. Good morning, everyone. Before I start, I want to mention that one prominent analyst recommended that we have no theatrics on the call this morning. In deference to this analyst, I will attempt to be as bland as possible. Yesterday afternoon, we issued our third quarter 2019 earnings release and our fourth quarter investor update. You can refer to those documents for additional detail.

For the highlights, Slide 15 is a summary of our GAAP financials and Slide 16 shows our non-GAAP adjusted results. We are pleased to report adjusted earnings per share of $4.07 for the third quarter, up 33% versus a year ago. Adjusted pretax income was $1.4 billion and adjusted pretax margin was 12.1%, up 250 basis points year-over-year and marking the fourth consecutive quarter of adjusted pretax margin expansion. These strong results demonstrate our ability to offset challenges across our global network, as we continue to grow margins. Slide 17 shows our total unit cost for the third quarter and our forecast for the fourth quarter and full year 2019.

Turning to Slide 18, nonfuel unit cost in the third quarter increased 2.1% on a year-over-year basis, slightly above our original expectations. This was due to our capacity growth for the quarter coming in at 1.9%, slightly below our original expectations.

As we discussed on the last call, we have some pressure on nonfuel unit costs in the second half of this year due to the timing of a number of maintenance events which moved from the first half of the year to the second half of the year. We expect fourth quarter CASMex to be up year-over-year by approximately 3.5% which brings projected full year 2019 CASMex to be up around 1.2% as compared to last year. Almost all of this year-over-year increase in unit cost compared to our original plan of year-over-year flat or better is driven by the MAX grounding, temporary suspension of our India flights and suspension of our Chicago, Hong Kong flight.

Looking ahead to 2020. We are in the middle of our budget process and we'll provide formal guidance in January. However, based on preliminary numbers, we expect nonfuel unit cost next year to be flat as compared to this year. This will put us slightly above the target we established almost two years ago to maintain flat CASMex during the three year period from 2018 through 2020.

We began making investments in customer experience over the past year and those investments have resulted in improved financial results. We expect to continue to make more investments next year that we believe will enhance margins. While these improvements represent about 1% of CASMex growth overall, we are very proud of the cost control we've delivered and will continue to deliver.

Through next year, we expect the three year compound annual growth rate for nonfuel unit cost to be just 0.3% which would be a remarkable and industry-leading achievement and allow us to deliver our commitment to use to meet or exceed our adjusted EPS targets.

As you can see on Slide 19. During the quarter, we took delivery of six additional used Airbus A319 aircraft and nine new Embraer E175 aircraft. We also spent $363 million to repurchase shares of our common stock in the third quarter at an average price of $88.22 per share. This brings our year-to-date repurchases through the third quarter to $1.4 billion.

During the quarter, we raised $1.2 billion of WTC debt at a blended interest rate of about 2.8%, the lowest rate on record for this type of debt and another proof point that the market already views us as an investment grade credit. We maintain a healthy balance sheet that allows us to be opportunistic with share repurchases and strategic investments.

Lastly, Slides 20 and 21 have a summary of our current guidance. The range provided for capacity, revenue and costs implies an expected fourth quarter 2019 adjusted pre-tax margin between 7% and 9%. As Oscar mentioned earlier, we now expect full year 2019 adjusted earnings per share to be between $11.25 and $12.25. With three quarters behind us, we are proud of our financial performance and ability to nimbly manage the business. Finally, our cost management is an integral part of our path towards continued margin expansion, and our entire team is taking a rigorous approach to our budgeting process to ensure that we offset inflationary pressures next year and achieve our financial targets.

With that Mike will now begin the Q&A.

Mike Leskinen

Thanks, Gerry. First, we will take questions from the analyst community, then we will take questions from the media. Please limit yourself to one question and if needed, one follow-up question. Brandon, please describe the procedure to ask the question.

Question-and-Answer Session

Operator

Thank you, sir. [Operator Instructions] And from Bernstein, we have David Vernon. Please go ahead.

David Vernon

Hey, good morning, guys. Thanks for taking the question. Andrew, I wanted to follow-up on an issue we talked about before, which is the premium economy roll out. Have you guys gotten any closer to being able to kind of give us a sense for what the unit revenue headwind or tailwind, or tailwind from that is going to be in 2020?

Andrew Nocella

I don't have a 2020 number to report to you. I can tell you in Q3 it was 0.5 point number system. So it's pretty substantial.

David Vernon

So 0.5 point tailwind from the premium economy roll out and that should be a bigger impact next year or smaller impact?

Andrew Nocella

I'm not going to give you that number today. But what I would say is that we are becoming increasingly consistent and Greg's team is rolling out these aircraft very, very quickly. So we expect by next summer, premium economy getting really consistent across the system, so we're pretty bullish about its contribution next year. It's one of the reasons why we think RASM – the PRASM next year is pretty good.

David Vernon

Okay. And then maybe just as a quick follow-up, as you think about the impact of dynamically pricing the award tickets, is that – can you help us give – help give us a sense for what that should do from either a utilization or yield benefit kind of as we think about the 2020-2021 timeframe?

Andrew Nocella

What I would tell you is that we're able to kind of move the redemption awards around in a way that allows us to price lower and price higher, which we think will be a net benefit to the airline, but I'm not going to give any more details on that, but we do think this is a win for everybody and that we have a lot more lower-priced inventory available out there based on our ability to be more surgical in the way we price it.

David Vernon

Have you seen any change in the redemption rates on that so far as you're starting to enable it?

Andrew Nocella

No, we are continuing to redeem miles, I think at the same pace. It's going very well.

David Vernon

All right, thanks very much for the time, guys.

Operator

From Credit Suisse, we have Joe Caiado. Please go ahead.

Joe Caiado

Hey, good morning. Thanks very much. First question really on high level 2020 capacity growth outlook. Now I'm not looking for explicit guidance, we have the 4% to 6% guide posts that you've given us, but Scott, since you mentioned that we're going to start to see some gauge growth in the operation next year, I was just hoping you could talk a little bit about how we should think about departures and gauge and stage and the overall composition of your growth for next year?

Andrew Nocella

Sure. This is Andrew. We're still developing the plan for next year. So it is still preliminary. That being said, assuming the MAX returns there and we don't know when that will be. And based on the fleet plan we have, we are driving to increase the gauge of the airline. It happens more in the back half of the year than the first half quite a bit, in fact, more in the last 90 days quite frankly.

But as we looked at our load factors where we're flying aircraft and the size of aircraft we have out there, we think this is the next great opportunity. It's going to be a significant help to CASMex as I'm sure Gerry will talk about later. So that's kind of where we're going. But there's still a lot of moving pieces. The plan is not finalized, but we believe there is a ton of opportunity for gauge growth at airline, given our hubs are located in the largest cities across the country, and we're currently flying the smallest gauge as anybody.

Joe Caiado

Okay, got it. And then actually, just another quick follow-up for you Andrew. You mentioned your corporate sales team signed a record 500 new accounts this year, I think that's what you said. Can you just give us a sense for how that breaks down roughly between brand new corporate accounts for United versus customers that may be left United several years ago and now you're winning them back?

Andrew Nocella

There's definitely a mix of those, but quite frankly a lot of these – the disproportion of share are brand new customers. To be clear, some of these customers flew United without a corporate deal. So we want to be very clear about that, but now they're signed up on a corporate deal where we can provide them the appropriate discounting being a bigger share of their spend. So I think it's a pretty big deal.

Our sales team is doing an excellent job out there, and quite frankly, the product that we're delivering every day is making their job easier and easier. So we can win back customers that maybe left us many, many years ago and we also can gain new customers. So it's just been, can’t say how bullish we are about the progress we've made on the sales front, we believe that a lot of that activity in terms of the revenue creates shows up in 2020 and beyond.

Joe Caiado

I appreciate the answers. I'll jump back in the queue. Thanks.

Operator

From Morgan Stanley, we have Rajeev Lalwani. Please go ahead.

Rajeev Lalwani

Hi, good morning guys. First and obvious one on the CASM side for, I guess, Gerry and Scott, does your preliminary CASM thoughts for next year still include a reset of all your open labor contracts?

Gerry Laderman

Yes, it's Gerry . So all of our CASM guidance that we put out, including the original three-year numbers includes something for any open labor contracts.

Rajeev Lalwani

And does that apply for 2020 as well?

Gerry Laderman

It applies pretty much for any CASM guidance we put out, period. So, yes.

Scott Kirby

For any guidance that we put out, we make it a point to put in scenarios for everything, so we're not going to make excuses and this is consistent with our guidance practice of putting anticipated labor increases in the guidance.

Rajeev Lalwani

Understood. It just seemed like things were moving around and I wanted to clarify, so thank you for that. And then, Andrew, a relatively quick one for you. You talked about health and leisure going into the fourth quarter. Can you provide a little bit of color on how corporate's looking, and then maybe some color on domestic versus international?

Andrew Nocella

Sure, trying to take it piece by piece. I would think what we're seeing is corporate volumes are steady, they are not growing rapidly, but they are steady, but even more importantly than that, we're seeing leisure yields as we enter the quarter being pretty strong. So that gives us a lot of confidence about our outlook as we go into the quarter.

So for example, the premium cabins were slightly down across the Atlantic and across Pacific in the previous quarter and that's probably true in the next quarter. But the main cabin is outperforming that. And so we're pretty pleased by that performance and that's driven again by leisure travelers or main cabin travelers more than business travelers.

In terms of view of the world, international had tough comps in the Q3 time period. As we go into Q4, I expect international is likely to outperform domestic on year-over-year PRASM increases. As I said earlier, I expect the Pacific to do better in Q4 than it did in Q3. It's interesting, I would always say that I've never seen a bigger disconnect between the global headlines in terms of the economy and its potential impact on travel than the numbers I see here at United for yields and future RASM builds across the globe. Latin America looks – continuing to look very strong, Europe is definitely going to be probably the weakest of the three, but also still doing I think very well from a P&L perspective. So overall, I couldn't be more happy about where we stand and the outlook for Q4 I think looks really solid.

Operator

From JPMorgan, we have Jamie Baker. Please go ahead.

Jamie Baker

Hey, good morning, everybody. First question for Gerry. How do we think about CASM relief as the MAX is reintroduced? Obviously in above plan growth rate next year provides its own relief, but specific to the MAX and the cost drag that it's currently creating, how sticky are those costs? How quickly do they exit as the aircraft is reintroduced? And also for any one-time maintenance costs and I understand it's going to differ whether the planes have been in short-term or long-term storage, do you intend to take those as one-offs or is that also baked into the CASM guide?

Gerry Laderman

So, yes, our plan for the MAXs next year is actually similar to what we were planning this year. The issue is going to be, Jamie, if, let's say there are further delays next year than what we are currently assuming, that could create again CASM pressure like it did this year, but other than that, for us, it's sort of business as usual and baked into that CASM, I wouldn't call it a guiding tip, but the CASM expectation that I mentioned earlier.

Greg Hart

And this is Greg, the maintenance cost associated –

Jamie Baker

Hi Greg.

Greg Hart

– aircraft back in the service is minimal, not material at all.

Jamie Baker

Okay, perfect. And second question probably for Scott or for Andrew, how have your multi-year forecasts for Latin America changed in the last month or so? Obviously, material revision in terms of alliance structure down there, I realize you're pursuing your own strategy with several partners. We also have American adding capacity with its own metal. I know you don't guide by geography, but have you made any internal revisions to your forecast as to how you're thinking about Latin America on a multi-year basis?

Scott Kirby

We have not, I will tell you that I think our recent performance has actually gotten better, given all the changes with revision, which is I think fascinating, it is doing incredibly well. As you can see by the numbers we've put up this quarter and last quarter. So we're pretty happy by it, it's not our biggest international entity and therefore we have been working really hard with a great set of partners, Copa, Avianca and Azul, and we are going to put together a fantastic joint business and we are going to be competitive in the region as a group in a way that I think has actually just been enhanced over the last few weeks. So we're pretty pleased by where we stand and are positioned in for the long-term.

Jamie Baker

Okay, thanks for the color. Thanks, gentlemen.

Operator

From Vertical Research Partners, we have Darryl Genovesi. Please go ahead.

Darryl Genovesi

Hi, good morning everyone, thanks for the time. Scott, I don't want to downplay the CASMex performance, that's clearly industry leading. But I do – I would like if you're able to get a little bit better feel for the investments that you're talking about, in particular, I guess your operational reliability has become much better, the customer experience is better as you've outlined, Linda's team has clearly made some investments. Is there a way to tie all of that back to your expected RASM performance relative to the industry?

Andrew Nocella

Maybe I'll try – it's Andrew, I'll give you maybe one or two examples. So we announced, I think six months or nine months ago the High-J 767 that would be flying across the Atlantic. When we did that, we took a bunch of seats out the aircraft and we caused the CASM of that aircraft flying from New York to London to go up by about 25% quite frankly.

And so as we give our guidance for next year, part of that guidance includes a significant CASM headwind related to the reconfiguration of those aircraft, but we reconfigured those aircraft to get higher RASM and in fact our performance as we look forward is going to be well in excess of the increase in CASM, otherwise, we would not have done it. And so I think that's working well. But when you add that up, you have to think about the fact that our CASM is definitely higher on that aircraft. And as a result, it's going to drive higher RASM and it's one of the reasons we think, we are going to have decent RASM results for next year.

The CRJ-550 is not all that dissimilar, we now have our premium cabin being offered to all flights that we didn't have before. We know our CASM of that particular aircraft is going to be up high single digits relative to what otherwise could be, but we think the RASM gains related to that is more than that. So those are just two, I think really very specific examples of us pushing higher costs on to the airline in terms of CASMex, but knowing we're going to get it back in terms of RASM and knowing we are managing our total CASMex number to a really great spot. So those are just two examples.

Linda Jojo

Yes, I can, this is Linda. I can add one really about improving onboard Wi-Fi. Greg's team in tech-ops have just done an incredible job to make the product more stable. We have 63% less maintenance deferrals, 20% less onboard recess by our in-flight crew. And what that's translating into is customers that are just using it more. You have 30% increase in our data consumption and 17% increase in customer satisfaction.

Darryl Genovesi

Great. I'll keep it to one, thank you.

Oscar Munoz

Hi Darryl. Let me just add. I have been long enough to see where there were times we managed for revenue. There are times we managed for cost and as you know those never worked and what you're hearing everybody say is all this is managing to margins and EPS. So those investments that we're making are going to drive those financial results.

Darryl Genovesi

Perfect. Thanks very much everyone.

Operator

From Wolfe Research, we have Hunter Keay. Please go ahead.

Hunter Keay

Hi good morning. Hi, Scott, you guys are clearly driving some transformational changes with the way you do business and your success is obviously involving some pretty big thinking, so with that backdrop, Scott, what is the likelihood that you push for and get partial content agreements with GDS in your next negotiation and if that's not a near-term issue. How important to that – how important is that to you that you eventually get there?

Scott Kirby

Look. We are quite proud of the culture that we're, that we we're creating here at United and you're right that there is transformational changes going on. We’ve talked about some of the big picture items, the reason I talked about the team and the culture on some of these calls recently is because, I literally could talk for the next hour off the top of my head on examples of things that are going on throughout the airline that no one else is doing and that the team of people at United Airlines is doing and doing quickly and it's showing up in our bottom line results.

As to the GDS specifics, it kind of depends on where those partners are and what they want to do. We want to be able to deliver our products to our customers who are actually willing to carry a fair price to do that. We want to be able to deliver our product to our customers in the way they wanted to consume it and purchase it as long as we can do so at a fair price and importantly as long as GDSs or OTAs or anyone else can actually display the products to the customer.

And so any push back that we have in the months, quarters, years to come with third-party providers is more likely to be about their ability to service the customers in a way that we think is appropriate.

Hunter Keay

All right. And then on CASMex the third-party expense was up over 100% year-on-year in 4Q, the guide. Why didn't other revenue tracking higher? And is $65 million a quarter a good run rate to use as we model that out for 2020?

Gerry Laderman

It's Gerry. So what happened with other revenue is, what you are also seeing there is the impact of the decline in cargo, which offset what you would have seen as a gain in third-party maintenance revenue.

Hunter Keay

Right. And then the run rate into 2020, Gerry if you would – should we take $65 million a quarter in third party-expense and put it into that run rate for 2020, third-party expense.

Gerry Laderman

Yes, it's a good number to use.

Hunter Keay

Okay, Gerry. Thank you.

Operator

From Cowen, we have Helane Becker. Please go ahead.

Helane Becker

Thanks, operator. Hi team. Thank you very much for the time this morning. So I'm not sure whether it's Scott or Oscar to answer this question, but, or maybe even Greg. Last week, I think you said, you were going to hire 10,000 pilots over the next decade, which seems right when we look at your numbers, we see about 6,500 of about 12,000, 13,000 maybe retiring in that time frame. So can – so it works out to like a 1,000 a year. Right? Can you say what percent of those hires are going to be growth versus retirees?

Scott Kirby

Helane, that's a difficult question to answer, right now, because a lot depends on where we're flying obviously if we're flying long-haul flights. We got augmented crews which drive a little bit more need for pilots, but the majority. The vast majority of those hires will be replacing retirements with our wave starting to hit us in 2022 or 2023.

So that's kind of what we're looking at is the vast majority of the 10,000 will be replacing folks currently on our seniority list.

Helane Becker

Okay. Well, so then as you up gauge. Just as a follow-up. As you up gauge the aircraft, is it more, do you need more pilots per plane or I guess the other part of it is the training costs associated with moving pilots around.

Gerry Laderman

Helane, I'd caution you to not try to back use our pilot – high level pilot hiring number to try to back into what our 10-year growth plan assumption is. We don't actually have to use them. There is nothing to be read into that number, it's a nice round number, that's in the order of magnitude of what we will hire over the next decade.

Helane Becker

Okay. That's really helpful. Thank you. I'll keep it at one question.

Operator

From Bank of America, we have Andrew Didora. Please go ahead.

Andrew Didora

Hi, good morning, everyone. So Gerry, I had a question just on, in terms of some free cash flow components. Can you maybe help us understand some of the bigger buckets there particularly in terms of planned pension contributions, anything we should be thinking about on cash taxes and then should we still be expecting CapEx of about $1 billion higher next year than originally planned in 2019?

Gerry Laderman

So let me start with CapEx. As you know, next year is a peak year for us for aircraft deliveries particularly the 17-or-so wide-body aircraft, on top of hopefully a significant number of MAXs and other aircrafts. And so when you start adding all that up and assume kind of a normal level of non-aircraft CapEx, you actually get to a number that's potentially closer to $7 billion, than $6 billion. So it's going to be higher than just $1 billion more than this year, which is still running we think about the $4.9 billion that we said.

With respect to pensions, this year was a little bit of an unusual year because we effectively in September, prepaid contribution that we normally would have made in the first quarter of next year, to save a substantial amount of some fees we otherwise would have been hit with, so this year's total pension contribution slightly over $600 million. I would expect next year to be – could be potentially zero. But what you should assume right now is probably $300 million at some point during the year.

Andrew Didora

Got it. And just curious on – when do you become a cash taxpayer?

Gerry Laderman

I really hope it's not for a while other than a small amount of taxes. One of the benefits that we now have that is making up for the – going through of the NOLs is the 100% expensing on new aircraft that we are now able to take, pretty much on all the new aircraft that are delivering this year and for the next few years.

Andrew Didora

Great, that's helpful. I'll keep it to that. Thank you.

Operator

From Deutsche Bank, we have Michael Linenberg. Please go ahead.

Michael Linenberg

Yes. Hey, just two quick ones here. I guess, first to Andrew, as we think about your 2019 – excuse me, 2020 capacity headline number and we think about how it relates to the original plan. How many points, assuming that the MAX does come back in January, which does seem less likely, but if we assume the current schedule, how many points tied to the MAX in India? Does that drive that headline number relative to the original plan? Is that about two points, two and a half points?

Andrew Nocella

I think one and a half points is our estimate.

Michael Linenberg

Okay, thanks. And then just my second question, Gerry, for the year on the tax rate you were guiding to 21% to 23% for the first three quarters, it now bumps up by about 100 bps for the full year. What does that – what's in the fourth quarter? Is that timing? Is that just end of year reconciliation? Anything other than that? Thanks.

Gerry Laderman

It was a result of some choices we had to make on how we were going to take some bonus depreciation that slightly increases the effective tax rate. But economically, it was the right decision to make, there is substantial cash saving that as a result. It's counter intuitive, but to get some actual cash savings, the effective tax rate crept up a little bit.

Michael Linenberg

That's great. I mean, look at the end of the day you have a higher EPS guide. So that's all we care about. Thank you.

Operator

From Stifel, we have Joe DeNardi. Please go ahead.

Joe DeNardi

Yes, good morning. Is Luc Bondar on the call by chance?

Scott Kirby

No he is not.

Joe DeNardi

Okay. In my opinion he probably should be, I think he is an asset of United that is doing a lot from an innovation standpoint for the loyalty program. So maybe Scott or Andrew, the level of innovation, I think within United's program is clearly very different than it is elsewhere in the industry.

And so I'm wondering if you could just talk about in terms of kind of the gamification, personalization of the loyalty program, what that's meaning from the engagement standpoint with your members? And then, how relevant that is along with the improvement in operations to a card issuer when you think about the economics that you'll be able to get?

Scott Kirby

Well, as all these things work together and we set out about two years ago with Luc leading the charge along with Linda on the digital side, we kind of rethink the whole program and what it should look like and how we can make it even better for our customers quite frankly. And PlusPoints is a really good example of an amazing innovation that we put forward and that will be available on the app, it will be easy to use, and it will be simple, the new Value publications. I think will be much easier to understand for our customers going forward.

So we're really excited about that. We're really excited to lead the charge and Luc is doing a great idea. And all of this, as I said in the previous call has resulted in a lot more engagement by our customers. We can see their propensity to hold the credit card or to join the club or to fly more often, or to buy higher fares has all increased versus the previous year by significant amount. And that's all kind of coming together and I think I'll pass it off to Linda because the digital technology used to make all that happen are just been phenomenal.

Linda Jojo

Yes. Thanks, Andrew. I think the way to think about loyalty program is obviously in the way it's designed, but it's ultimately about giving the right offers to our customers to get them to want to fly us. And so we are thinking on all different ways to leverage where our customers want to go and then create very targeted offers, Mile Play is a great example of that where we are using gamification to get customers to really try things that they haven't tried before whether that's a new product or a new location and then rewarding them with currency that is our program.

Andrew Nocella

So we'll let Luke to know that you're pretty high on him.

Joe DeNardi

Yes. I appreciate that. I mean, Scott or Andrew, there was some headlines, I don't know a month or two ago that your deal with Chase runs through 2024, 2025 which is a lot longer than I think most deals run. So Scott or Andrew, can you talk about your ability to close the gap in earnings between you and your peers without a new deal or whatever you'd like to say along those lines? Thank you.

Andrew Nocella

What I would say is, we're working really hard with Chase and our new acquisitions last year were up 20% and this year are going to be up 20%. So the teams are working together really well and creating a lot of value, and that's about all I can really say on it. So we're pretty happy with the recent increase in new credit card acquisitions.

Joe DeNardi

Thank you.

Operator

From Goldman Sachs, we have Catherine O'Brien. Please go ahead.

Catherine O'Brien

Good morning, everyone; thanks for the time. So over the next five or six years, it looks like you have more wide-body aircraft coming up to the global average retirement age than you currently have on order. Should we think about some of those aircraft maybe being replaced by new technology long-range narrow bodies? Would you look to the secondary market? Just any thoughts there would be helpful. Thank you.

Scott Kirby

Maybe I'll start off and Gerry can help me on this. We've invested in our 767s and our 777s to extend their life. Both aircrafts are incredible machines and continue to perform well for the company, both from a reliability standpoint and an economic standpoint. So the new Polaris interior is just recently been put on them. So I'm not sure what you're assuming for retirement age. But we're pretty happy with these wide bodies and they can fly for a bit longer.

Gerry Laderman

Yes, I would just add. Yes, over the next, certainly over the next five years, there is really no need to retire any of the wide bodies we're currently flying and that's not our focus right now on the next fleet to retire. To be honest, next fleet to retire, we'll start looking at the remaining 757s that will start coming out.

Catherine O'Brien

Okay, that's great, thanks so much for the color. And then maybe just high level, you guys have discussed quite a few exciting projects that you're looking forward to next year, whether that's more Premium Plus, more CRJ-550s. Like, how should we think about ranking some of these projects in terms of what you see as being the largest drivers of our revenue enhancement for next year? And is there anything else that's on the list that features prominently and how much revenue growth we should see next year just outside of capacity growth? And thanks so much for the time.

Scott Kirby

Well, it's pretty clear we have a large number of commercial initiatives ongoing and they're are all in different stages of roll-out with our segmentation philosophy, I think really expanded and then doing very well for the company. So we're not going to line item, the value that each one of these brings to the bottom line. I provided a small hint that our Premium Plus projects across the globe already has given us a half a point of RASM in the third quarter, which is pretty substantial, given that we just started.

So there is a lot to come and there are initiatives that are coming, that we have yet to announce, which is really exciting. And that's why we're pretty bullish as we look at the outlook for next year, that we know where we're going to be and we're on our road to our EPS target.

Catherine O'Brien

That's great. Looking forward to hearing more in March. Thanks.

Operator

Thank you. And this concludes the analyst and investor portion of our Q&A for today. We will now take questions from the media. [Operator Instructions] From Wall Street Journal, we have Alison Sider. Please go ahead.

Alison Sider

Hi, thanks everyone. I was wondering, if you could sort of share anything about what you're hearing in terms of the regulatory process on the MAX, if you're getting that sense there are any disagreements between the FAA and the off room by its push back recertification or, and if that happens, whether you might consider pushing back your own return to service if it's something you have that hasn't yet signed off on?

Oscar Munoz

Yes. So this is Oscar. There is ongoing dialog between and there's a lot of chatter from many different folks. I think the ultimate goal of all regulators around the world is to obviously do the facts and data research on the aircraft and its qualifications and make the right decision. So as far as what we hear and what you hear, I'm not sure it’s entirely pertinent. I think we're all focused on making sure that aircraft is safe and return to flight and when that is. And so – and to that extent, there is nothing much else to say on that subject.

Alison Sider

I mean, if there was some kind of staggered regulatory process, so would that affect your plans like does that create any issues with your alliance partners this different regulatory authorities have a different view of the planes?

Oscar Munoz

I think, we'll cross that bridge when it comes to. But I don't think so, I think we are overseen by the FAA, and we'll certainly look to that aspect and across the country, across the world, we hope. But I think, we're driving towards a somewhat staggered sort of roll-up and not necessarily one that's going to be in – measured in lot of time.

Alison Sider

Thank you.

Operator

And from Bloomberg. We have Justin Bachman. Please go ahead.

Justin Bachman

Yes, hi, thanks for the time today. My question is about your nonfuel unit costs over the next few years and the goal to be flat. But as you think of the different revenue initiatives and the plans that United has to grow those revenues and profits over time. How do you balance that against the employee base that obviously would want to share in some of that? And how do you see the longer-term cost picture playing out in terms of employee contracts?

Scott Kirby

We absolutely. As I said in my opening comments, I think that our people are the ones that are delivering these results and they deserve to have increases in compensation and will get those, we built that into our plan. We have the ability to keep costs flat, because we're doing it in other ways. We're doing it by putting, by gauge growth, so flying larger airplane is lower CASM, that we're doing it by constantly getting more efficient.

We're going to be the second year in a row here as we go through the budget process for example where despite growing the airline, despite all kinds of new initiatives and despite giving pay raises to management and administrative employees, we're going to keep total spending there flat. So we're doing a really effective job this team at managing fixed cost and keeping them fixed as we grow the airline and by growing the gauge same time, that gives us the monies to invest in our people, product and customer experience.

Justin Bachman

Great, thank you.

Operator

Thank you. We will now turn it back to Mike Leskinen for closing remarks.

Mike Leskinen

Thanks to you all for joining the call today, please contact Media Relations, if you have any further questions and we look forward to talking to you next quarter.

Operator

Thank you. And ladies and gentlemen, this concludes today’s conference. Thank you for joining, you may now disconnect.