Seeking Alpha
Transcripts | **Services**

Southwest Airlines Co. (LUV) CEO Gary Kelly on Q3 2019 Results - Earnings Call Transcript

Oct. 24, 2019 9:45 PM ET | 3 Likes
by: SA Transcripts

Q3: 10-24-19 Earnings Summary

Press Release SEC *10-Q*

EPS of $1.23 beats by $0.15 | Revenue of $5.64B (1.15% Y/Y) misses by $-15.6M

Earning Call Audio

Subscribers Only

0:00:00 -1:32:46

Southwest Airlines Co. (NYSE:LUV) Q3 2019 Earnings Conference Call October 24, 2019 12:30 PM ET

Company Participants

Ryan Martinez - Managing Director of Investor Relations

Gary Kelly - Chairman & Chief Executive Officer

Mike Van de Ven - Chief Operating Officer

Tom Nealon - President

Tammy Romo - Executive Vice President & Chief Financial Officer

Linda Rutherford - Senior Vice President, Chief Communications Officer

Conference Call Participants

Duane Pfennigwerth - Evercore ISI

Hunter Keay - Wolfe Research

Jamie Baker - JPMorgan

Michael Linenberg - Deutsche Bank

Savi Syth - Raymond James

Katie O'Brien - Goldman Sachs

Joe Caiado - Credit Suisse

Alison Sider - The Wall Street Journal

Tracy Rucinski - Reuters

Dawn Gilbertson - The USA Today

Operator

Good day and welcome to the Southwest Airlines Third Quarter 2019 Conference Call. My name is Chad and I will be moderating today's call. This call is being recorded and a replay will be available on southwest.com in the Investor Relations section. After today's prepared remarks, there will be an opportunity to ask questions. [Operator Instructions]

At this time, I'd like to turn the call over to Mr. Ryan Martinez, Managing Director of Investor Relations. Please go ahead, sir.

Ryan Martinez

Thanks, Chad. Thank you all for joining us today. Joining me on the call we have Gary Kelly, our Chairman and CEO; Mike Van de Ven, our Chief Operating Officer; Tom Nealon, our President; and Tammy Romo, Executive Vice President and CFO.

A few quick notes. We will be making forward-looking statements based on our current expectations of future performance, which could differ from actual results and we will make reference to 2019 results to compare to prior year non-GAAP results, which exclude special items. We have more information regarding forward-looking statements and a reconciliation of non-GAAP results in our earnings release from this morning.

Also, given the ongoing MAX groundings, just a reminder, that the timelines and current estimations we are sharing today regarding the MAX are based on Boeing's targeted regulatory approval of MAX return to service in fourth quarter 2019. Any changes to current estimations could result in additional adjustments to our flight schedule beyond February 8th, as well as further aircraft delivery delays and additional financial damages.

With that, Gary, Mike, Tom and Tammy will provide updates before we open it up for Q&A. So I will turn it over to Gary.

Gary Kelly

Thanks Ryan. And thank you all for joining us for our third quarter 2019 earnings call. All around, it was an outstanding performance and I am prouder than ever of our people. We told you last quarter, we were going to adjust to the MAX and operate a great airline and our people did just that. Our customer feedback reflects that. It was just a great performance in terms of reliability and hospitality. So I'm very, very proud and very thankful for our people.

We also told you, we would adjust for the MAX and produced satisfactory financial results and I think we under promised. These results are stellar, strong revenues, better cost performance, record earnings, EPS was up 13.9% and even without the $31 million tax benefit EPS would have been up over 9%. And of course, our EPS would have been up over 43% were it not for the MAX grounding.

Our operations frontline employees have delivered exceptionally well. I'm going to also give another special shout out to our planners or, as I've termed them last time, our replanners who continue to toil through ever changing scenarios and that is network planning, operations planning, financial planning, just to name a few. They continue to work very long hours and produce amazing results that's just truly heroic.

I talk a lot about the importance of being prepared for the unexpected as Herb taught me and really all of us to do. And we talk about the importance of low cost, ample cash, low debt levels, sensible growth, sensible capital commitments, but we can never talk too much about the importance of having great and talented employees and a very strong culture. And of course, an element of that culture, we call the warrior spirit and their resilience. So we are truly blessed to have such great people.

I want to talk about what's next. In addition to continuing to run a superb airline operation and deliver solid financial results, we want to do a couple of things. We want to conclude our discussions with the Boeing Company regarding compensation for the MAX related damages.

And secondly, we want to safely and methodically return the MAX to service. And regarding the timeline of that, the FAA has revealed this week that they received the final software and related system documentation for the MAX from Boeing and they are in the process of certifying the changes with the certification flight weeks away.

While the FAA has been very clear and very careful not to commit to a date, working with Boeing we've assumed an ungrounding date of around mid-December and that translates to a MAX in-service date for us of February the 8th in terms of our flight schedule.

So, along the way, between now and mid-December if we judge that that date won't be met, we'll roll our schedule yet again. So recall that our second quarter assumption was that Boeing delivered by the end of September, so we're about three to four weeks behind that, which is why we've moved from what was the January 6th date to February the 8th.

So the closer we get the more confident I am. However, I'm still not highly confident about mid-December. I think Ryan's already made that clear. But what's important of course is that we give the FAA the time that they need to do their job, which I know they will. And, of course, we're here to support them every way that we can.

Our plans and our outlook for the fourth quarter are very solid. We've got a schedule that's stable, if not optimal. Travel demand continues to be strong. Fuel prices are remarkably stable and moderate and our cost outlook for everything else is below our original plan.

So we've given you the guidepost for fourth quarter in the press release and the key to understand here is that, we had to redo what turns out to be nine complex schedules that make up the fourth quarter and they're complex because of the way variability caused by the holidays.

And we simply didn't have time to redo nine schedules. So we did one, or in essence one, and that results and less peak flying than we would otherwise like, because we didn't have enough airplanes and it translates into more non-peak flying than we would like.

So time has gone by since we've done that. Bookings look pretty darn good for the fourth quarter and we're more bullish that RASM will be up during the quarter and we've provided that guidance and maybe as much as 2%. And that's on capacity that is down just slightly versus a year ago.

Regarding next year, we are redoing our plan yet again, as we speak. I don't have a capacity forecast for you for the obvious reason, other than to say I can't imagine that it will be double-digit growth compared to 2019. And I would also say that more than likely whatever you guessed it would be based on our July discussions. It's going to be less than that, because the return to service schedule has pushed out.

So our 2020 market priorities will continue to be Hawaii, which is going extremely well and based on what we published so far, we'll have an emphasis on Denver, Baltimore and Houston. And obviously, looking forward to having the MAX back so we can restore a lot of depth that is currently missing in a lot of our markets. So Mike, Tom and Tammy as always are going to elaborate further those are the highlights.

And with that, I'm going to turn it over to our Chief Operating Officer, Mr. Mike Van de Ven to kick this off. Mike?

Mike Van de Ven

Well, thanks Gary, and good morning, everyone. I spend a lot of time talking about the importance of teamwork and especially in our industry where our customers are completely dependent on our people to take good care of them and our people do take a lot of pride in that. They jump through all kinds of routes taking care of our customers in light of the MAX groundings throughout the second quarter.

And it wasn't until June which finally had the MAX out of the schedule and a sufficient number of spare aircraft incorporated into the network. So the third quarter was really the first clean quarter without having to scramble operationally due to the MAX impacts.

As I mentioned in our second quarter call, it was important for us going into the third quarter to deliver the operational reliability, hospitality and efficiency that our customers have come to expect from Southwest. And you know our people were just magnificent. They delivered the best overall operation that Southwest has produced in at least a decade.

Our on-time performance for the quarter was 83.4% that's the best since 2011. We carried 30.5 million bags in the quarter and 99.6% of those were handled just as they were checked and that's the best performance in our history. Our customers certainly noticed all of that.

Two out of three of them were net promoters of Southwest based on our survey results. That's the highest it's been in five years. And again, we believe the industry with the lowest customer complaint ratio as measured by complaints of the BOT and we're also leading year-to-date in that measure.

So overall an exceptional operational performance and we accomplish those results with the lowest amount of aircraft time invested in blocks and turns in the industry.

With respect to our turns, we had a heavy focus in the third quarter on rolling out bag scanning technology. We introduced the scanners and we trained 10,000 plus ramp agents in all of our domestic locations over a five-month period and that effort ended September 30th. So that's a foundational investment that's going to help us track our bags with more accuracy provide more customer service, automated aspects of the weight balance process and move toward a paperless turn.

So we expect this kind of operation reliability to continue. And at this point in October our on-time performance and a bag handling is shaping up again to be the best in years. The operation is solid and our biggest unknown at this point is the MAX return to service timing.

As Gary mentioned as you all know we've pulled MAX related flying from our schedules through February 8th. We had previously planned for an early November return to fly and our expectation to split at least a month. And as Gary mentioned Boeing did confirmed -- reaffirmed yesterday that their target was to return the MAX to service in the fourth quarter. And we are in continued conversations with Boeing and the FAA as they complete their various milestones in the process and we'll get a clear picture of when the aircraft may be cleared to fly.

If we don't have certainty of the mid December return to service, we will likely need to push our cancellations out further. So once the aircraft are cleared to fly our process to get them back in the service the same as I reported last quarter. It will take 30 to 40 days from the issuance of the airworthiness directive to get our manuals updated, FAA approval and our pilots trained.

Our assumptions at this point is that the pilot training will be computer-based training and we will not require simulator time. We will be coordinating work necessary to bring the aircraft back into the operational fleet to correspond to the end of that pilot training period. So Boeing owes us 41 aircraft that we contracted for 2019 that have yet to be delivered. And we add that to the 34 own MAXs and that gives us 75 aircraft of backlog to ingest into the fleet when the grounding is lifted.

We believe that we can manage that at a rate of about 5 to 10 airplanes per week which if you do the math implied to two to four months before all of our 2019 and prior MAX aircraft are back into operational service.

As Gary mentioned our main objective in relaunching the MAX is to do it with a high degree of certainty and confidence. It's critical that the schedule and the aircraft availability come together so we avoid the unexpected customer disruptions that we had early in the year.

So in closing, I am so grateful to all of our employees. They are the heartbeat of Southwest Airlines. They are the best. The operational results for the third quarter were superb our plans to return the MAX to service are well thought out. They are embedded and are coordinated across all of our operating teams. And our focus remains on running a safe, reliable, hospitable and efficient operation.

And I think we've got the best team in the industry to do it. So with that Tom, over to you.

Tom Nealon

Okay. Well thanks, Mike. Good morning, everybody. I'm going to start -- I'm going to pick up right where Mike left off. I also want to echo what Gary and Mike said we just had tremendous third quarter operationally absolutely rock solid. The service and hospitality was incredible.

We're the very top of the industry in terms of our service and we deliver great financial results. And I really do believe as Mike and Gary said this is absolutely because we have incredible people. They are just so committed toward Southwest Airlines stands for. So I want to thank each of you for the great performance. So with that let me just jump right into the third quarter.

Our RASM growth of 4.2% year-over-year was in line with the guidance we gave on our July earnings call and reaffirmed back in September. Throughout the quarter we saw continued strength in passenger demand trends both leisure and business travel were strong and we continue to see strong year-over-year passenger yields.

We are obviously significantly impacted by the removal of the MAX from our schedules and the result was our capacity declined 2.9% in the quarter. We had an awful lot of moving parts. We made a lot of schedule changes But we did have to make some choices around the timing of network investments on a market by market basis.

But even with the MAX challenge, we generated record third quarter passenger revenues and record operating revenues as well as record RASM performance. Our commercial team did an absolutely incredible job of minimizing a good portion of the MAX impact. And as expected we experienced roughly two points of temporary year-over-year RASM benefit for Q3 comparing us our original plan before the MAX grounding.

We also had a 0.5 point year-over-year RASM benefit from our new res system and revenue management tools as expected. And we also had a 0.5 point year-over-year RASM tailwind from 2018 sub-optimal schedule as well as 0.5 point tailwind from Flight 1380.

Our other revenues increased 8.6% year-over-year for the quarter. This is primarily due to the continued strong performance of our Rapid Rewards program. And on a year-to-date basis our other revenue is growing at 11.4%. So we're continuing to see strong growth in spending on our co-brand credit cards. I think this is really being driven by two things.

First our customers tend to keep our credit card top of mind and top of wallet. And I really see this as a function of the real value that our customers get from the program. So they tend to use our card as a primary credit card which is very important.

Second we're seeing new credit card acquisition growth rates in the double-digits on a year-over-year basis. And the acquisition growth rates on our business co-brand cards are even higher. So we're seeing tremendous growth in the size of our credit card portfolio.

Our Rapid Rewards program continues to perform very well and we are very pleased with the structure and the economics of our program as well as with our Chase relationship. The beauty of the program is simplicity and the value that it brings to our customers.

No seat restrictions. No blackout dates. It's easy to earn, its easy to redeem points. So there is really value to our customers and they love it which is why it’s an award winning program year after year after year. So our loyalty program is kicking all cylinders and we couldn't be -- we're happy with where we are.

My last point on Q3 as I'm sure most of you have seen by now, we did announce in early August our plan to expand into the global distribution systems or GDSs with new agreements with Travelport and Amadeus. And we will have the highest level of GDS participation with industry standard capabilities which will make it easier for travel management companies and corporate travel managers to do business with Southwest.

And this opens up a whole new pool of corporate customers that we haven't had access to our current distribution platforms. And I also think it's important to note that the vast majority of domestic business travel is booked as coach travel which we happened to be pretty good at.

Our product has a lot of distinct advantages the business travelers, corporate travel managers truly value such as low fares, a strong network with high frequencies, roughly 75% of our customers fly non-stop, no fees for changes to itineraries which by the way that's a big deal for business travelers, its been a lot of money and no bank fees a great loyalty program and so on and so on.

So we have a great product for the business traveler. But the GDS channel is a channel where we've never truly competed. But as you'd expect, once we did go live in this channel we intend to compete very hard to win the business traveler.

We are targeting to have our GDS capabilities up and running by mid 2020 and we expect initial ramp-up will contribute $10 million to $20 million of EBIT contribution for the second half of 2020. The initial revenue impact is very modest. We also know there's a big opportunity to grow this piece of our business substantially over the next several years.

So we're building out our technology literally as I speak. And we're also well into the build out of our Southwest business sales team and our business to business service capabilities.

So at the end of the day, Southwest will have strength in three business to business distribution channels; first, self service through our new SWABIZ platform, which is largely targeted at small and medium companies. Second, direct connect distribution through the ATP co-exchange platform. And third, our full function GDS capabilities which go will live as I said in mid 2020. So a lot to come out on this, we will talk about this more going forward. So that's it for Q3.

Let's jump in to Q4. So for me flight schedule perspective, we've been very focused on maintaining the integrity and the strength of our network and spite of the fact that we have significantly fewer aircraft than originally planned.

And that phrase is not just a throwaway phrase. When I say we want to maintain the integrity and strength of our network what it means is, we want to maintain the depth and frequency of service in key markets. It means we want to maintain our high degree of point to point direct flying. It also means we want to maintain our high quality connecting itineraries.

And I think our network planning team as Gary alluded to has just done an incredible job of adjusting and republishing -- and republishing our schedules multiple times. And to a very large extent, they've done just that. They maintain the integrity and strength of our network throughout the process.

Same can be said for our revenue management team, they've done an equally incredible job managing the revenue environment. In the second and third quarters they were successful in offsetting the yield dilution of the MAX related rebooking of customers.

Now in terms of the removal of MAX flights in the fourth quarter we've had our work cut out for us. We'll have a 68 aircraft deficit by year-end which is double the number of MAX aircraft were grounded in mid-March. And as you know Q4 always has most complex set of schedule simply because of the seasonality and the peak versus off-peak nature of the quarter.

Our working assumption as we are building these schedules months ago was that -- the MAXs have been back in service for all the fourth quarter. So that was our base assumption and based on that we published 9 separate flight schedules covering the November and December timeframes. And these are very well optimized for the holiday and non-holiday time periods.

The reality of today versus our base schedule assumptions are quite different and the result is that our flight schedule adjustments in Q4 are very unique set of challenges in comparison to what we were solving to in Q2 and Q3. So we're now solving to a deficit of 68 aircraft in a highly seasonal period.

Most practical approach for us was to revise our public schedules in such a way as to smooth our flying during the fourth quarter versus our original plan of optimizing around quick peaks and troughs.

The net effect is, you will have less flying and what's optimal during peak and has to do lack of aircraft and more flying what's optimal during the non-peak periods, simply to ensure the connectivity between the flight schedules. This isn't ideal and it's certainly not an optimized schedule, but it does satisfy the three important criteria that we centralized a team; and those are, first we wanted to minimize any disruption to our customers during the holiday travel.

Second we can assure that we had a schedule that was operationally feasible as efficient as possible. And third we wanted to meet or to contain and minimize the impact on operating income. So again this isn't optimal. We have been able to achieve these objectives, maintain the quality of our product and our operation, while producing strong financial results.

The estimated fourth quarter revenue penalty from the MAX grounding is expected to be greater than the third quarter. That's simply because we had more MAX aircraft built in the original plan.

And unlike Q3 we had 2 point temporary RASM benefit during -- or due to the MAX we expect any fourth quarter RASM benefit to be immaterial. The 2 points or 2 points of estimated RASM benefit removal of the MAX Whites will be offset by the RASM drag from the unoptimized schedule regions in the slightly higher off peak flying.

But that being said, our fourth quarter base business trends continue to be very solid. We are continuing to see healthy leisure and business travel demand. That's across the booking curve and we're expecting a solid fourth quarter RASM performance year-over-year in the range of flat to up 2%.

All-in with our fourth quarter RASM outlook, this puts us well above our 2019 RASM growth goal in excess of 3%. And all things considered, that's a result that we are very proud of.

Just a few of the things, I'm sure that you saw we recently implemented systemwide $5 one-way fare increase. And based on where we are in the booking curve for the fourth quarter I think this likely helps 2020 more that will through the remainder of this year. But we do continue to see solid demand across the booking curve and we do believe the revenue environment continues to support yield momentum and yield strength.

And just a few quick comments on Hawaii, with the recent announcement of more Hawaii flights we will now be up to 12 daily California to Hawaii flights and we also have 34 daily inter-island flights. The demand for our service to Hawaii continues to be very very strong and our load factors continue to exceed our system average. The demand for our inter-island service is also very strong. And this also includes a very strong mix of local customers which we're thrilled about.

Our brand and customer experience scores continue to perform above our total system Net Promoter Score. And that's true for both our long-haul flights to and from Hawaii as well as for our inter-island flights.

As far as our stance on beginning service from originally announced California cities, we still have San Diego left to connect, and we'll do that in the near future. And we're planning for additional flights in 2020 to continue building off our initial success.

So looking forward to 2020, we obviously still have some uncertainty related to the MAX return to service date, and Mike and I are very close on this. And as he said, once we can return the aircraft to service, we will be focused on a measured ramp-up of the MAX aircraft. And we're anxious to get the ASMs back in the schedule in a smart way as we begin to restore and grow our network.

We will not restore every flight that we've removed due to the MAX grounding, but will certainly want to restore the vast majority of our network, which we'd expect to produce favorable results almost immediately. You can see from our flight schedules published through mid-April that we are very focused on continued investment in Baltimore, Denver, Houston, California and Hawaii.

And beyond these cities, we have a very long list of attractive growth opportunities and we will be focused on strengthening our depth and frequencies between strong non-stop city pairs. Next week, we'll be publishing our next set of schedules that take us out through June 6. So stay tuned for that.

So with that, I'm going to pass over to Tammy.

Tammy Romo

Thank you, Tom, and my thanks to everyone for joining us today. We had another solid quarter of earnings and EPS growth along with margin expansion, which is notable considering the extraordinary challenges resulting from the grounding of the MAX. I'm very grateful for the incredible resiliency and hard work of our employees, and extremely proud of how our Southwest family rally together to produce strong results despite an unanticipated six point to 6.5 point reduction in our capacity this year due to the MAX.

Gary, Mike and Tom outlined most of the challenging -- the challenges we're managing through. So I will round out our remarks with commentary on our cost performance, fleet and capacity plans and balance sheet and cash flow, including the related MAX impact.

Turning first to our non-fuel cost performance. The largest driver of the 7.6% year-over-year increase and our third quarter CASM excluding fuel and profit sharing or CASM-Ex was an estimated six point to seven point impact from the MAX groundings and resulting flight cancellations.

Our third quarter year-over-year capacity growth was approximately eight points lower versus our plan, which will also be the case in fourth quarter. Excluding the MAX related unit cost pressure, the remaining modest year-over-year increase was driven largely by increases in salary wages and benefits as well as maintenance expense. While these cost pressures were anticipated, we did come in favorable to our latest guidance of 8% to 10%.

In addition to good cost control across the Board, we saw cost efficiencies and labor cost related to the strong operational and on-time performance that Mike covered earlier. We also received some favorable airport settlements during third quarter as well as lower than expected airport rate increases.

Overall, I'd like to commend our employees for executing our cost plan to keep us on target this year excluding the significant year-over-year unit cost pressure from MAX related flight cancellations.

We started the year expecting fourth quarter 2019 CASM-Ex to decrease around 2% year-over-year. We've had about one point of year-over-year CASM-Ex shifting from earlier periods into fourth quarter, and we are expecting a fourth quarter unit cost penalty from the MAX groundings to be approximately six point. Therefore, we now expect our fourth quarter 2019 CASM-Ex to increase in the 4% to 6% range year-over-year.

The key drivers year-over-year are increases in salary wages and benefits, maintenance expense and airport cost. It is worth noting that we have taken actions this year to mitigate what impact we could, including on the cost side. As I said previously, our fourth quarter capacity is about eight points lower than it would have been absent the MAX groundings.

However, we expect that we will be able to offset about two points to three points of unit cost inflation due to the benefits from higher off-peak flying in fourth quarter, which nets us to our six point penalty.

We will continue to focus on these areas to less than the unit cost penalties, but despite our best efforts, the impact to our overall unit cost inflation in fourth quarter continues to be significant.

Looking at our full-year non-fuel costs, we currently expect CASM-Ex to increase approximately 8% year-over-year. With some unit cost mitigation in fourth quarter, the MAX groundings are now expected to drive five points of year-over-year inflation to full year 2019, slightly better than we previously estimated. And again, our employees have done an incredible job executing on our plan to control cost pressures.

Excluding the impact of the MAX groundings to our 2019 costs, our core year-over-year unit cost performance is in line with our original plan to keep CASM-Ex inflation to 3% to 3.5% for 2019. And that includes factoring and the incremental $10 million of maintenance expense to keep seven of the 737-700 aircraft that we were going to retire as well as the $42 million bonus for our mechanics. Both of which occurred after our initial three point to 3.5 point unit cost guide back in January.

A quick note on first quarter 2020, we expect continued year-over-year unit cost inflation due to the level of fixed cost we carry regardless of the depressed capacity from the MAX grounding currently out to February 8, 2020. And as we gradually ramp back up in addition, we estimate incremental return to service cost in the tens of millions next year.

Moving on to fuel, our third quarter fuel price was $2.07 per gallon, near the lower end of our guidance range. Market energy prices spiked following the Saudi Arabia oil attacks around the time of our mid-September 8-K update, and then moderated in the second half of September.

The recent volatility in the energy markets served as a reminder of the importance of having meaningful insurance with our fuel hedge program. We are approximately 65% hedged for fourth quarter 2019; for 2020 we are nearly 60% hedged; for 2021 we are around 50%; and we have been adding to our 2022 hedging positions, putting us at around 25% protection.

For fourth quarter 2019, based on market prices as of October 18, we expect our fuel price to again being in the range of $2.05 to $2.15 per gallon.

The fourth quarter crude oil forward curve is slightly lower than third quarter, but fourth quarter heating oil cracks are currently estimated to increase around 20% sequentially. Our fuel efficiency continues to be significantly impacted by the MAX grounding. We came into 2019 expecting a solid year-over-year improvement and fuel efficiency, largely driven by the operating performance of the MAX aircraft, which is expected to produce 20% fuel burn improvement over our retired classic fleet and a 14% improvement over our next generation our NG fleet.

Third quarter ASMs per gallon declined 0.9% year-over-year and fourth quarter ASMs per gallon are also expected to decline year-over-year in the range of down 1% to 2%. Once the MAX returns to service, we expect to reverse this trend and get back on track with our fuel efficiency improvement goal.

Wrapping up the income statement, as you read in the highlights of our press release, we did record a $31 million reduction to income tax expense late in the quarter, which related to a clarification of regulations that allowed an increase to the amount of tax bonus depreciation relating to our 27% tax return when the rate was 35%.This represented $0.05 per share that was not factored into our previous guidance. Even excluding the tax adjustment, the quarter was a solid feet to expectations.

Now turning to fleet and capacity. We have not taken delivery of any aircraft since the MAX groundings in mid-March. We retired one 737 aircraft during the third quarter to end the quarter with 752 total aircraft.

We haven't officially updated our contractual delivery schedule with Boeing at this point, which continues to have 44 total MAX deliveries this year with 41 remaining as of the mid-March grounding.

Based on Boeing, targeted regulatory approval of MAX return to service in fourth quarter 2019 Boeing has proposed to revise MAX delivery schedule that has us receiving seven MAX aircraft during fourth quarter 2019. That would result in the remaining 34 MAX deliveries shifting out of 2019 and into 2020.

We continue to expect to retire 10 more 737-700s this year for a total of 11 versus our original retirement plan of 2018. We postpone the retirement of seven of our owned -700s to help with our 2019 aircraft deficit.

Assuming seven aircraft deliveries in fourth quarter 2019 and netting out our 11 retirements this year, we expect to end 2019 with the total fleet of 749 aircraft. For 2020 based on Boeing's targeted return to service timeline, we expect to be back on our aircraft delivery schedule around mid-2020. This would result in 72 MAX deliveries in 2020 and we currently expect to retire 20 to 25 of our 737-700 aircraft next year, resulting in a total fleet of approximately 800 aircraft by year-end 2020.

Our third quarter available seat miles declined 2.9% year-over-year. For fourth quarter 2019, we expect our capacity to decline in the range of 0.5% to 1%, which would put our full year 2019 capacity down approximately 1.5% year-over-year.

With ongoing uncertainty of the MAX return to service date, we are not ready to provide annual 2020 capacity guidance at this point. We have published flight schedules through April 13th of 2020, which includes the removal of the MAX through February the 8th. And based on those published schedules, we currently expect first quarter 2020 capacity to increase in the 2% to 3% range year-over-year.

Now, turning to the balance sheet and cash flow, we ended the quarter with very healthy cash and short-term investments of approximately $4 billion. Our cash balance is higher than usual as we haven't been making aircraft delivery payments since a mid-March.

Due to a lower number of expected aircraft deliveries in fourth quarter 2019, we now expect our 2019 CapEx to be in the range of $1.1 billion to $1.2 billion with aircraft related CapEx of approximately $300 million. Our 2019 aircraft CapEx is down approximately $700 million from our original CapEx plan, which will shift to 2020 assuming our aircraft delivery delays are caught up next year.

As a result of the MAX groundings, we've incurred $435 million operating income penalty year-to-date. Still, our cash flow generation has been very strong. For the first nine months of 2019, we generated $3.2 billion in operating cash flow and $2.4 billion in free cash flow with $1.45 billion of share repurchases and $372 million in dividends. Our current $500 million accelerated share repurchase program wraps up next week and we have $1.9 billion remaining on our current share repurchase authorization.

In closing, I'd like to extend another huge thank you to all of our employees. Despite the significant impact from the MAX groundings on our operations and financial results, we generated record operating revenues, record RASM and record net income and earnings per share in third quarter.

Our margins and returns on capital were solid considering a two, three point impact to each from the MAX groundings. Absent the impact, we would have expanded margins even further and grown returns in third quarter year-over-year. Our balance sheet and cash flows remained very strong and we continue to provide meaningful returns to shareholders.

Overall, I am pleased with our strong financial results this quarter and I am very happy with the execution this year especially considering the $435 million year-to-date operating income penalty for the MAX grounding and resulting flight cancellations.

Excluding the MAX impacts thus far on a unit basis, we remain on track to achieve our unit revenue and unit cost goal for this year. This is simply outstanding and a true testament to the unwavering fortitude and secret of our Southwest family.

All-in-all we have a lot to be proud of and we are eager to get the MAX back in service and resume our growth once the FAA deems to do so.

With that, Chad, I'll turn it back to you now to take analyst questions.

Question-and-Answer Session

Operator

Thank you. We will now begin the question-and-answer session. [Operator Instructions] Our first question comes today from Duane Pfennigwerth with Evercore ISI. Please go ahead.

Duane Pfennigwerth

Thank you. Appreciate all the uncertainty around next year. But based on what you just outlined if we assume you hit your stride by the third quarter is low-teens growth in the ballpark of what your plan would be?

Gary Kelly

Low – yeah, give me a number. You mean like 12%...

Duane Pfennigwerth

13% 14%.

Gary Kelly

No. We'd be below 10% easily. You agree Tammy.

Tammy Romo

Yeah. For the full -- yeah, for the full year.

Gary Kelly

You're talking about for the year or for the quarter, Duane?

Duane Pfennigwerth

For the third quarter, for the back half essentially. Yeah.

Gary Kelly

I don't have a number in my mind. What do you think?

Tammy Romo

And it is premature. Yeah, it is premature. And yeah, we're not prepared Duane to give you capacity guidance at this point for all the obvious reasons. I'd be happy to kind of walk you through kind of how we're thinking about the full year 2020? But…

Gary Kelly

Well, I would just say, we -- I think Tammy and Mike have both said that, Mike is assuming five to 10 airplanes a week. I don't know whether we can do that or not. I mean, this has never been done before. It's just not a routine thing and we don't have -- we are in the midst of updating our plan for next year to take the MAX off of January 6 return to service. And don't have a plan yet for February 8th.

And to be honest with you, we're just going to wait a little while here and see if that's realistic before we go to yet more work to do that only to throw that away and do get another plan. So I think all I was trying to help you with earlier is to say that, we will be something less than 10% for the year, and we'll judge the rate of return based on several factors.

I don't want us to pay for airplanes and then have them sit. So some of this we'll have to just work out with Boeing. But we've said, we can restore the fleet between two and four months, but I think there is a lot of assumptions in that. And especially, if you look at the way things have gone, so we're dependent upon our people Boeing and the FAA to return each airplane to service. And there is just -- I'm just meeting to everyone that there is uncertainty with regard to exactly how that's going to get done.

Duane Pfennigwerth

All very fair. I agree with your comments and your praise for your planning and you're replanning teams. Can you talk a little bit about how the network response evolved from the initial shock to the system of the grounding and maybe here to the fourth quarter? It feels like initially you were giving up all sorts of traffic, and over time it feels like you figured out how to retain your highest quality traffic. And maybe the share that you're giving up is pretty low quality in nature would appreciate your thoughts. Thank you.

Gary Kelly

Well, Tom, do you want to -- you want to comment on that first?

Tom Nealon

Yeah. I think we've been looking for a -- I know we're actually to come from myself, but we've been pretty, pretty diligent about trying to trim out some of the longer-haul flying where we can. We've put -- we haven't taken it all out by the way, we've seen some out and what that allows us to do is connecting traffic hence we're maintaining the presence in the markets, we're trying to seasonalize a little bit. We pulled some out of the international, just as an example.

And what you're seeing us do is invest in more short and medium-haul flying, in fact, you look at what we just published you're seeing Denver and Baltimore, a little bit in Houston you're seeing more short and medium-haul flying we're getting lot of aircraft utilization. And that's pretty high quality flying and it's really being directed toward city pairs that are very strong for us.

So I think we're doing a pretty good job of optimizing the network given what we have to worked with right now.

Gary Kelly

Yeah. I think – Duane, I think your idea there is a decent one. In other words, I don't think it would be correct to assume that we have lost share on 100% of our system. I agree with your logic there.

Without studying a little bit more sort of market-by-market. I'm reluctant to just readily agree that there is a large percentage where we haven't lost, because I do have a sense that even where we've been able to sustain frequencies and markets that there may be a shift between locals and connects, and because I agree with Tom, we've taken long-haul segments out and have tried to serve those city pairs on a one-stop basis.

And so I just -- it's just more complicated than that, but we've at least been able to sustain for the most part as an entity our short-haul routes or medium-haul routes. We've shaved some long-haul in international, which Tom mentioned.

So it's not across the Board, but still we're not happy with the fact that we're eight points below where our capacity would have been. And clearly, we're temporarily losing some share, which we don't like and we've heard our competitors, which they're right to do share that they have picked up some traffic as a consequence.

Duane Pfennigwerth

Thanks for the thoughts.

Operator

The next question comes from Hunter Keay with Wolfe Research. Please go ahead.

Hunter Keay

Hi everybody. Thanks.

Gary Kelly

Hi.

Hunter Keay

Two questions on the same topic what are the gating term -- gating items if we're getting your fares on Sabre and how much of an incremental pre-tax income should we expect if you're able to come to terms with them?

Gary Kelly

Well, the gating issues with Sabre. Well, we've worked with Sabre for a long time. We know Sabre pretty well. They know us pretty well. And obviously, they are the largest US GDS players. So their importance and we certainly you're right it would be crazy not to talk to them as we're going through this, but very simply we just weren't able to get to commercial terms of Sabre, which is unfortunate.

I'm thrilled we have two very good partners in Travelport and Amadeus. And there are lot of corporate customers out there. I guarantee who want access to Southwest's content and they will be able to get through those two. So where things go with Sabre I do not know. So we've got a good plan and good set of partners in place right now. So--

Hunter Keay

Okay. Tom and to that, you said there's a lot of corporates that want your products and TMCs that books through Sabre, but what about the TMCs themselves and how willing are you to play in the commission game if the TMCs are not going to be swayed simply by your product alone? Thanks.

Tom Nealon

Well, TMC -- thank you for the question, Hunter. I think the -- first of all, we'll be paying our segment fees as we -- as you'd expect the GDS and we're competitive they are pricing. I think it's competitive I don't think its best in industry, but I think that's what we need to do. And I think that part of the play with the TMCs is on the customer side, the customers are going to be asking for that content. So, I think the strength is not just what we think of our product, but I think the strength is what the travel managers think of our product and what the travelers think of that product. And I think that's going to be pull to get the TMCs showing the Southwest content.

And by the way to be honest with you, historically, we have not spent a lot of time with TMCs. We just haven't had to -- we didn't. So, we are out there right now with our sales team. And we just -- in fact we had a pretty big group in this past week or two weeks ago. And so we're starting to work with the TMCs and with the travel managers. And there is a real pull for the Southwest content. I guess that's what I can tell you.

Hunter Keay

Okay. Thank you, Tom.

Tom Nealon

Sure.

Operator

The next question comes from Jamie Baker with JPMorgan. Please go ahead.

Jamie Baker

Hey good afternoon everybody. So, Tammy given the current return to service assumption, the five to 10 aircraft, are we getting back to sort of hitting your fleet stride by midyear? It sounds like ex-fuel CASM challenges are going to persist fairly materially in the first half of next year. How confident should we be that those pressures don't subsequently bleed into the second half as well?

It just feels like RASM takes a hit as soon as the additional capacity picks up but cost relief is stickier and the markets assumption is that you're going to experience material ex-fuel cost release next year. But given what you've said about the first quarter, the return to service guidance, I'm not convinced that ex-fuel CASM only improves that much. Thoughts?

Tammy Romo

Yeah sure. Well, we're obviously going to work really hard to mitigate any costs as we return the MAX to service here. And we'll just have to remain nimble and adjust as we need to.

What -- as you -- as you said and what we do know at this point is that we do expect to have a ramp-up unit cost penalty in the first half of 2020. And while we do -- while we'll do what we can to mitigate the financial impact, the penalties are significant and certainly grow as the fleet deficit grows.

Of course our discussions with Boeing are ongoing in that regard. But our long-term unit cost target remains unchanged and that's to keep our annual unit cost growth excluding fuel and oil expense and profit sharing to below 2%. So, we haven't lost sight of that goal. And while they are likely to be some inefficiencies as we focus on the safe return of the MAX to service in the short-term, we'll be laser-focused on achieving our long-term cost goal.

Jamie Baker

Can you put any numbers on first half or second half ex-fuel CASM?

Tammy Romo

It is honestly -- it's just too early to do that.

Jamie Baker

Okay.

Tammy Romo

We don't even have a return to service plan. So, I just think it's just premature to do that. Obviously, once we have more certainty around return to service, we'll come back and walk you through and give you as much guidance we can. But as we've always said we want to have a measured approach to bring the MAX into service. And we've got a lot of objectives that we're balancing here and certainly hitting our financial targets is one of those objectives.

Gary Kelly

Jamie I think the issue is the timing of achieving the spirit of what you're asking. So, I think we're all reluctant to say; yeah, third quarter is going to be really clean. We just don't know. But I think once we get to the point where we are clean, yes, I think that the parameters that you're thinking about without getting specific yet. It makes sense to us. Here is what that's going to be.

Jamie Baker

Got it. And Gary for my second question. I saw the headlines -- saw you on CNBC before, the Board looking at a second fleet type. You can obviously achieve that in one of two ways; you can go get in line for deliveries and start from scratch or you can buy an existing fleet and immediately get scale with the aircraft, albeit with some other baggage that inherently company's consolidation.

So, is it safe to assume that if the Board is debating a second fleet type as you said today, it's also debating consolidation or is it somehow possible to divorce those two topics because in my mind they're highly intertwined.

Gary Kelly

Well, you are a brilliant mind. So, I do think that they are -- they are potentially intertwined, but they could also be disaggregated. I think it just depends on how one wants to think about it. But I'll just give you a straight answer. We are -- as I did say earlier we are focused on two fundamental things. We're focused on settling up with Boeing and we're focused on getting the MAX back into service.

The comment that I made about evaluating the question in a single fleet type is -- that's not new news. I've shared that before and we've done it. And they also ask me well what would Herb do and I know what Herb did do because we did this. We looked at it very carefully on several occasions.

Mike led that effort as late as 2011 when we agreed to launch the MAX. We gave a very serious look to an alternative. So, I was simply sharing that if -- and the people do. There are people do have this question. Is it time for us to look at the question. Yeah not now, but next year, maybe the following year. It is time to look at that question yet again.

I wouldn't prejudge the answer at all. We've been extremely successful for 48 years with a single fleet type. I know that our Vice President of Flight Operations would agree. It certainly makes for a more reliable and arguably safer operation when we have the expertise that we do in this year one.

So, there are plenty of good arguments for just I really feel like it's just acknowledging the obvious and I feel like we have a duty to look at the question and especially in light of what's going on right now. So, hopefully that answers part of the question.

As you know to say today understanding that we're not entertaining this question today. So to say today does that make us enthused about consolidation. For that reason absolutely not. It's irrelevant. It's because that is -- in that sense they are two different questions.

If we got to the point where we said, we want a second fleet type then I would admit you would -- you might want to think that through in terms of that as a means to get to a second fleet type, but I would quickly add. And all I'm doing is repeating our AirTran experience just because we buy another airplane doesn't mean that Southwest instantly have the capability to operate it.

So regardless of the path that we do -- that we go through with that hypothetical, we would still in Mike's shop and with technology support have to construct the capability to operate a second fleet type. And that would all have to be factored into whether we think that's the right priority. So those are all really complex questions and not anything that we are thinking about or talking about at this point in time.

Jamie Baker

Okay. That's very, very helpful. And thank you for the kind words by the way I hope that some made off the hook for having this build Southwest a couple of quarters ago. Thank you very much.

Gary Kelly

No, Herb always said here I wish all timers, which means he always carried the grudge. Thank you.

Jamie Baker

Okay.

Gary Kelly

There's lot of truth.

Operator

The next question comes from Michael Linenberg with Deutsche Bank. Please go ahead.

Michael Linenberg

Yes. Hey good afternoon guys -- just guys and Tammy. Question here on I think Tom you mentioned about some of the growth you would be focused on Denver, Baltimore and Houston and it does seem like on one hand you may be targeting the markets that are particular competitor, but I suspect that those markets are focused because you can get gates there. And I'm just curious if that is what's driving that decision on one hand and then as we look out are there other airports that are key to Southwest where you do see additional gates coming on maybe over the next 12 to 18 months?

Tom Nealon

You know I think that your comment about we're going after the airports where the competition like I say, I think we're looking at this strictly from -- look at the proximity of where Denver is, where Baltimore is, where Houston is and how they fit with our networks. Our intent is to do really begin to use these as cornerstones if you will and drive more connectivity and tightened up the spider web over a point to point network. And that's what's driving it. Now there is a competitive response in all of those by the way. So that's part of it as well. But this is really primarily about strengthening the core of the network.

And I do think that there is value to us in adding in more medium and short-haul flying in conjunction with. We're not moving away from long haul at all back the MAX eight great long haul aircraft. But with more medium flying in and out of Denver, Houston, Baltimore it really does give you much greater number of itineraries, it gives you greater operational reliability and recovery. And just a really efficient network structure for us. So I think we're just building on our core point to point network is what you're seeing. Nashville is another one that you see us growing in quite a bit. So that's kind of I'm thinking about it.

Michael Linenberg

Okay. And then anything on as it relates to infrastructure, as we look out maybe over the next 12 to 18 months airports that you do -- that are key to you where you do see gates coming on where you're currently constrained?

Tom Nealon

No that seems to be where -- we see things great in many places. California we have made constraints obviously. Denver we have capacity coming on it's a ways out. Mike or Gary you guys want to step on it.

Gary Kelly

Well Mike, yeah I think you probably know what the corporates are. So I don't -- I don't know that we have anything new to share on that point today. But except to agree with you that they are constraints. Fortunately, we have a vast enough array of opportunities to grow that we can work around them and then in the cases where at least the constraint can be remediated. We're working on those, but LAX is a prime topic and we're very desirous of adding nine more gates through what is envisioned as terminal 1E and we just don't have a timeline with LAWA yet. So that's one that's well under way, but still could be out there before there is a solution. I hope not, obviously we'd love to have that capacity. But yeah I know only thing I was going to quickly just underscore with Tom's answer is we're seeing a return of demand and short haul markets which obviously we have a real strength and we have limited aircraft resources and right now we have more of a focus both in 2019 and in 2020 in addressing that.

So it's and you see -- you see evidence of that with the fact that we trimmed a lot of long-haul flights because of the MAX here. So it's not to say that we don't like long-haul flights. It's more to say that we're short of capacity and will be for quite some time and we've -- we can at least address those OND city pairs on a one-stop basis. But if we don't put the flights into the short-haul markets, it's the obvious you're not serving that market. So the good news is we got a lot of opportunities and not as good news is we don't have enough airplanes, but hope to remedy that here soon.

Michael Linenberg

Great. Thanks, Gary. Thanks, Tom.

Gary Kelly

Sure.

Operator

The next question comes from with Savi Syth with Raymond James. Please go ahead.

Savi Syth

Hey, good afternoon. And just Tammy, I was wondering if you could help us understand I can -- I appreciate just how difficult next year's planning is right now. But I was wondering if you could help us understand just some of the bigger cost items that were pressures this year ex-MAX, how does those trend into next year, should we be thinking about like the airport cost, the maintenance cost, just generally how do you think they should be trending into next year?

Tammy Romo

Yeah, sure, Savi, I'll give you a little bit of color here. Just really going into next year the biggest penalty here starting at least in January and that will continue until we get the MAX return to service is related to the grounding of the MAX. Outside of that, I feel pretty good about our cost structure. We do have ongoing maintenance cost pressures and just our normal inflationary cost pressures with salary wages and benefits. And outside of that, we are always looking to balance our technology spend and make sure that any spend or investments that we make obviously have benefits to come along with that.

So as we kind of think past the MAX, we've got a lot of initiatives under way. And I feel really good about the efforts that we have. One obviously is our fleet modernization plans and that's been halted here obviously with the MAX grounding, but certainly once we get the MAX back on track, we'll be able to see the benefits there. And certainly on the fuel efficiency side, as I noted earlier. So, just looking past the MAX I really feel good about, where we are. But as always that always takes hard work, and but our people are up to that. So I'm confident, we'll deliver there. So, and again, I'll just kind of point you back to our long-term goals is to maintain inflation CASM-Ex sub 2%.

Savi Syth

That's helpful, Tammy. Is that kind of sub 2% does that include kind of – any kind of upcoming labor deals as well where you kind of target that again excluding that?

Tammy Romo

Yes. Thanks for asking that, Savi. Yes, we incorporate labor cost into that in all of our cost pressures. And what cost pressure as it mentioned simply because we – I think we alluded to that earlier is airport cost pressures. So, that's one cost pressure that we'll continue have to work hard over the longer term to control.

Savi Syth

All right. Great. And if I might just ask is it a quick clarification question on the growth. If I think about next year is Hawaii is still kind of a large part of kind of next year's growth assuming you can grow as you want to grow or how should we think about kind of the composition, if you can do what you want to do?

Gary Kelly

You know just keep in perspective Hawaii. There's a lot of people around Hawaii. We're pretty excited about Hawaii it's a very, very modest portion of our network. It's like less – point of our network. So you got to continue invest and we're off to a great start. We want to continue to build on the momentum, but even if we were to – I'm not sure exactly given what our status of our plan for next year is, but it's not going to be a massive portion of our capacity, it's just – which is not you will see focus on California as I've said California, Denver, Baltimore, Houston. Hawaii we're going to stay committed to we're absolutely committed to Hawaii by the way, if anyone wants to know we're going to back off Hawaii absolutely not. We've opened five stations in Hawaii. That's performing really well. So, we're not backing off. It may have to pace a little bit depending upon the MAX, but Hawaii is going to be a focus – was going to be a relatively modest piece of our capacity I think.

Savi Syth

Got it. Thank you.

Operator

The next question comes from Katie O'Brien with Goldman Sachs. Please go ahead.

Katie O'Brien

Good afternoon, everyone. Thank you so much for the time. So not to keep harping on the cost outlook here, but I guess just, if I think about you're 2% to 3% capacity forecast for the first quarter. And then just think about it. Can I assume that CASM growth is just linear with cost growth that would get me to based on what you're planning to do in the fourth quarter here. That would get me to a first quarter CASM-ex of around 3%. All else equal, I guess just starting there what are the puts and takes that would – that I should be thinking about to get me away from that number. Thank you.

Tammy Romo

Yes, just looking ahead to the first kind of going into the first quarter.

Katie O'Brien

That's correct.

Tammy Romo

Yeah. So just to just to make a few points in the first quarter, and I think this will help address your question. So excuse me, if I'm a little bit redundant. But keep in mind we've got the schedules out through first quarter 2020. And at this point, the MAX canceled through February 8. So, I just want to point out that we do have some conservatism built into our February schedule. We – and again all this is contingent upon the deliveries how those resume from Boeing but based on what they've indicated, they are targeting here in the fourth quarter, we would expect to have around 50 MAX aircraft in our fleet at the beginning of February. And that of course, includes the 34 MAX 8s that are currently grounded.

Yet, we'll only have 30 MAX aircraft worth the flying for sale in our February 2020 schedule and that ramps to 65 aircraft in our March schedule. And as you all know, there is strong demand, and we have pent-up demand here at Southwest. So, we'll want to ramp-up prudently but we certainly want to ramp-up as quickly as we can and to utilize our assets and to absorb some of the cost pressure that we're obviously experiencing here in the fourth quarter.

So, currently the largest step up of aircraft coming back in the service is from the seasonally off-peak February time period into March. And that's how we met to the current first quarter capacity number that you mentioned, which is up to 2% to 3% year-over-year. And but most importantly, we will want to be measured and deliberate in the way we introduce that MAX aircraft safely back into service. But all of these planning assumptions change, if we have to extend our flights cancellations further. So, hopefully you can appreciate how difficult it is to announce now down a solid plan and cost guidance for even this environment. But all that said, we're focused on delivering solid results and focused on mitigating those cost pressures as much as we can. And of course, as always our goal would be to have positive RASM in the first quarter.

So we're looking to balance all of that. So, we'll have to manage our flight cancellation impact of the schedule very carefully, as each time period has its own set of unique challenges, but again based on the current environment, I feel pretty good that we can do that. So we expect the year-over-year unit cost penalties to continue and will face those headwinds as we ramp back up, but will you know as we get past the MAX the penalties that we've shared as to you throughout the year, we would expect those to reverse and turn into tailwinds next year once we get past the return to service and we're back up to our normal capacity plans. So that was a long-winded answer, but that's just wanted to give you a little bit of color so that you can appreciate how difficult it is for us to nail down cost guidance.

Katie O'Brien

Yes. No definitely a lot of moving pieces here. It seems like an ever moving target on this return date. So, really appreciate all the work you guys and the employees that I've had to do. I guess, just maybe one quick follow-up to that question and then one more, so I guess is there. And again, I – as I just said, I really appreciate all moving pieces here, but I guess is there anything that we should think about as we go into the first quarter that would either prevent costs from improving on a linear basis or help costs improve even more than that. Just in terms of I know the return on service costs or some – or some good guides maybe we're forgetting about from earlier this year that will create a tailwind. And then just on non-aircraft CapEx, how should we think about that next year and going forward I know you got a lot of irons in the fire on the technology front. Thank you very much for the time.

Gary Kelly

Tammy, let me jump in here. I think there is way too much focus on the first quarter with your question. You know the cost performance here in the third and the fourth quarter looks really good to me. And so I feel like we'll be able to continue managing as best we can. The issue is a numerator and a denominator there is unabsorbed overhead.

And until we get the airplanes flying you're going to have that cost penalty rolling forward. And especially compared to a year ago. That's number one. Number two, as it is not linear. So what Mike has to do, if we're going to ramp up our flying he has to hire he has to hire in advance. So it is actually front loaded.

And now the question becomes a judgment on our part about how much we front-load. And to be honest with you, we don't know yet. We don't know how many people we're going to hire, at what point. In the first quarter, what Mike is trying to do is he has got two chances here, he can hit the peak for spring break or we'll miss that and then we'll try to hit the peak and I'm talking about flying.

And then we'll try to hit the peak flying for say June. And so we just don't know how it will ramp up yet. I think we will get much more visibility over the next 30 days. But we'll still have to continue to make a judgment about whether we're even going to hit this February the 8th date.

So I think, I know you want a number. I think basically what we're trying to do is make sure that we don't waste money here until we get back to something that is more manageable. But until we get there, and this is just our honest truth, it will be messy and we don't -- and we are not in total control. We're not in control of what Boeing can do. We're not in control of what the FAA can do to support our return to service. That's all assuming that we do we're on a path returning to service at that point.

Katie O'Brien

Just to apologize for the short-term nature of that question. And then just maybe Tammy on the non-aircraft CapEx, any comments there. And thank you again for all the time.

Tammy Romo

Yes, sure. And just to add one more comment on the call because I can't help myself is we are telling up all those damages and obviously have ongoing discussions with Boeing. And yes and on the -- on the non-CapEx aircraft CapEx 2019 is roughly in the $800 million range and so that not I'm expecting a significant departure from that for next year but as we've said many times we just have it wrapped up our plan for all the obvious reasons and once we do we'll come back and give you more precision around what we're doing next year.

Katie O'Brien

Thank you.

Operator

We have time for one more question. We'll take our last question from Joe Caiado with Credit Suisse. Please go ahead.

Joe Caiado

Hey, good afternoon, everyone. Thanks for the time. Gary and Tom, you've teased us with some new revenue initiatives that you have in the pipe for 2020. It sounds like summer are getting ready for primetime like the corporate travel initiative that Tom walked through in great detail. Appreciate that. Are there any other of these revenue initiatives for 2020 that are getting ready for primetime that you might care to share with us today?

Gary Kelly

Well, no, not today. I think the GDS is the big ones in the pipe for 2020. There is lots of work going on right now for -- there is a pretty rich -- there is a pretty rich revenue initiative pipeline and we always – take you through it. So I wish I could I'm pretty excited about it but we're going to pace it out. These are all -- they are kind of sequence in such a way one builds upon the other in terms of the technology foundation.

So it's not you just throw these all there one time they are very -- it's a very adds and kind of process but GDS is a big foundational piece for us. And we're going to put that in. And then we have words that follows that subsequent to that but I think we have really great pipeline I'm just not going to talk about today.

Joe Caiado

Okay.

Gary Kelly

The other thing is what is -- what's interesting for us next year is there is a lot of capacity that's on the sideline that's going to return at some point. And so I think we've made clear that we're not just going to put back in what we took out. So there is an opportunity there to up to optimize and Tom answer the question earlier about Hawaii.

Tom, I don't think with what we're going to add back next year there is that much development flying. I think it's and that's sort of the to reemphasize ,it sounds boring perhaps to you all but adding to Denver, adding to BWI, adding to Houston should generate strong returns quickly and that's part of our strategy for next year is a great revenue idea. It's not new but it is what it is -- what I wouldn't discount too much is the fact that we've taken the network. We've taken some capacity out. Now we're going to reoptimize that network we're forced to but we're trying to do it in a way that it produces a superior product and I'm really excited about that.

So whether we'll just have to get out and play the game and see how good that turns out but I'm -- the emphasis on the short-haul markets which are very quarter for Southwest emphasis on still retaining a presence and longer haul O&D markets and maybe on a one-stop basis. I'm pretty excited about all of that.

Joe Caiado

Okay, great thank you both. And maybe just a very quick follow-up for Tammy, clarification question really. The incremental cost sort of associated with the return to service -- explicitly associated with the return to service, are you going to include those in your 2020 CASM-Ex guidance when you do provide that or are you going to exclude them and adjust them out?

Tammy Romo

We would include that.

Joe Caiado

Okay, got it. Thanks, everyone.

Gary Kelly

Okay great. Well that wraps up the analyst portion of our call. And as always if you have any follow-up questions feel free to give me a ring. So thank you all for joining.

Operator

Thank you. Ladies and gentlemen, we will now begin our media portion of today's call. I'd like to first introduce Ms. Linda Rutherford, Senior Vice President and Chief Communications Officer.

Linda Rutherford

Thank you, Chad. I would like to welcome members of the media to our call today and we can go ahead and get started with our Q&A session. Chad if you'll just give them instructions on how to queue up.

Operator

Certainly. [Operator Instructions] Thank you very much. Our first question will come from Alison Sider with The Wall Street Journal. Please go ahead.

Alison Sider

Hi. Thanks so much. Just to ask quickly about the fleet diversification review and this sounds a little bit like more of a formal process in the ongoing kind of kicking the tires that you've described in the past. Is that right and what kind of factors and metrics you will be looking at as part of this review?

Gary Kelly

Alison, I'd say yes and no. In terms of the literal looking at different airplane, it's no different than what we've ever done. The only thing that we will -- I feel we are obligated to do is, just debate the wisdom strategically of having a sole source vendor and one fleet type. That is different. I don't know that we've ever focused on it with that kind of intensity. And I don't want to prejudge the answer to that.

They are -- but they are two different questions. You can say, we'd love to have a separate fleet type, but when we look at it, it just may be economically and operationally and feasible. And vice versa, we may find that even without the strategic necessity of having two we may discover, I doubt it, but we may discover that it's better to have two airplanes economically and operationally. So all of that will need to be thought through.

But again, it just addresses a question of -- the obvious question and we posted and our Board agrees with it and we'll study it at the right time. I've said next year, and I don't feel that is a deadline by the way, but it's mainly to make clear that with the questions that we've had so far on that topic. We've made clear, we are not thinking about that right now. We're not working on it. It is not an issue.

We have two things we're focused on and that's settling up with Boeing and getting the MAX return to service. That is our focus. And as you can tell from listening, there's a tremendous amount of work involved running the airline in the meantime with the uncertainty of when it comes back.

So at the right point in time we'll take a look at that. And as I tried to make clear this morning. That's not new news. What we've said that months ago that we would maintain these things as our priority and that we would look at that question later.

Alison Sider

Got it. Okay. Thank you. And if I can ask one more, one of your employees, Mark Forkner is the focus of the DOJ and correctional investigations for his role in developing the MAX and some messages from when he was at Boeing suggesting he may have detected some issues with MCAS or unintentionally misled regulators. Do you have any concerns about those messages or concerns with him working at FAA or MAX issues now that he is at Southwest?

Gary Kelly

Well, those are clearly issues unrelated to his Southwest employment. And so, that -- all of that investigation will have to run its course. And so it has nothing to do, as far as I am aware, with his employment at Southwest. So by all accounts he is a very fine man and does a fine job for us.

Alison Sider

Okay, thanks.

Operator

The next question comes from Tracy Rucinski with Reuters. Please go ahead.

Tracy Rucinski

Hi. I was wondering, what your internal research and bookings at February 8 are telling you about customers' willingness to fly the MAX. And to what extent that sentiment is playing into your planning for putting the aircraft back into your network?

Gary Kelly

Okay. This is challenge [ph], so I'll be glad to take that question. It's a good question. Obviously this is something that's getting media nearly every day, so the consumers are very, very aware obviously.

I think what it say is we do expect there to be some uneasiness, the early days in the aircraft return to service is very natural. You expect that it's natural given the nature of the situation. Just how much intention has been focused on by the media.

Having said that though we've been doing research every -- very frequently, so this thing has come -- has happened in March, rolling bands of research if you will and what we're finding is that there is very little difference originally versus what we're hearing today.

So what we are hearing is this. Southwest has a very, very strong reputation of being safe line to safer line of flight. They have confidence in Southwest and they trust us, number one.

We're also very consistent hearing that a majority of customers, not just our customers but travelers do not expect to change their flying behavior based on aircraft type. That's an interesting learning, which has also been very consistent. There are some travelers though who are saying and it is a minority, who are saying they will have -- they'll be looking for different aircraft when they fly. And they may try to avoid the MAX for a month to three months or six months but that is a minority.

But based on what we’re listening to and hearing from our customers, we feel like we have a pretty good understanding, you may have to figure out how do you begin to insert that into what do you plan financially from a business standpoint in terms of book away phenomena. So we're still working through that but we are sensing as that the customers really are -- they will come back, our core customers are very confident and loyal to Southwest and we feel pretty good about that.

Tracy Rucinski

Can you give us a little sense of when you said that there isn't much difference from originally versus today? Can you -- and you talk about the minority, can you give us a little bit more color on what that looks like in percentage terms?

Gary Kelly

Well, I'm not sure I have all the specific facts in my head, but I think the majority, I think it's kind of a super majority actually. And so I'm not going to give you a precise number, but it is a super majority or saying. This is not that bigger an issue for me. I'm not going to change my flying behaviors. I think, it's in the high '60s, and '70s very significant.

So, I'm not going to do justice by trying to give you all the little fact to it's. But it is a minority. Its real minorities opposed to a -- almost 50-50. And we feel good. Our customers feel very -- they aren't easy just like everyone else.

They want to see the aircraft fly. They want to be sure to say, but they really do have confidence in the way we're going to bring this back into service. And Tom may have mentioned this but the other thing to note or maybe repeat is that, when we survey our customers' do you trust southwest?

The trust factor is extremely high and higher than our competitors, quite frankly. So, I think, that all of this they -- all the research we've done suggests that time will address this. So the airplane comes back into service. It performs well.

And I think most people answer the questions by saying, well, I won't fly it for six months, for those who deselect flying it or I might not fly it for 12 months. And so, I think, we feel that the research supports, and our history supports, and our judgment would say that, that will be short-lived.

Tom Nealon

One just or little fact what kind of helps validate, what Gary's last comment was our customers do have the ability to see what aircraft they are flying. And you might think that given all the news in the MAX and all this stuff going on, that there will be a higher propensity to be checking those aircraft and that -- it's like less than a single-digits.

So it's actually less than 1%. So, I just don't think people are really as focused on it as we are being in the industry. I think, this is going to -- this will take care of itself I think right.

Gary Kelly

In other words we're taking bookings for the MAX now. It's in our schedule -- that's in our schedule, as of February the 8th. And there is nothing abnormal -- we're seeing no competitors, we see no book away.

Operator

At this time, we will take the last question that we have. And that is from Dawn Gilbertson with The USA Today. Please go ahead.

Dawn Gilbertson

Hi. Good morning, everyone. Good afternoon. Two questions unrelated. The first on the MAX, I don't know Gary or Tammy or somebody, can you give us an update on where you are in the negotiations with Boeing, for is there any timetable there for recovering damages.

And my second question has to do with fees? I'm wondering if you can give us an update on year-to-date EarlyBird revenue and upgraded boarding, and whether you might be considering any changes there to the fees. Thank you.

Gary Kelly

Well, Tammy is leading the -- she's going to work on your second question. She is leading a couple of negotiations for us but she is working -- she and Mike are working together with Boeing. The Tammy has got to lead on it.

And yeah, I'm impatient on that, I'm anxious for that to get wrapped up. So no, I can't give you a timeline other than to say, it's a major objective of ours -- of mine. And I want that ramped up quickly.

Tammy Romo

And on EarlyBird, I have the fourth quarter, our numbers which would be helpful kind of as you think about annualizing that maybe going forward. We had very strong EarlyBird performance in the fourth quarter.

And in the fourth quarter alone that was probably $112 million $113 million. And our upgraded boarding was about $20 million, both up significantly from the prior year. And our third quarter was -- our third quarter was up about 19%.

So, we're running on well over $100 million with respect to EarlyBird. So, it's been -- it's been a tremendous success and obviously a very popular product for our customers.

Dawn Gilbertson

Thank you.

Operator

Thank you.

Tammy Romo

I have a year-to-date number for you, just took us a minute to pull it, It was $342 million year-to-date.

Dawn Gilbertson

For EarlyBird or both of those?

Tammy Romo

It's for EarlyBird.

Dawn Gilbertson

Okay. Thanks very much.

Operator

All right, this concludes our question-and-answer session. I would like to turn the conference back over to Ms. Rutherford, for any closing remarks.

Linda Rutherford

Thank you very much. If you all have any other question or inquiries, you can contact our communications group 214-792-4847 or you can send in inquires through our online newsroom at www.swamedia.com. Thank you.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect your lines.