Operator

Good morning. And welcome to the American Airlines Group Third Quarter 2020 Earnings Call. Today's conference is being recorded. At this time, all participant lines are in a listen-only mode. Following the presentation, we will conduct the question-and-answer session [Operator Instructions].

And now, I'd like to turn the conference over to your moderator, Managing Director of Investor Relations, Mr. Dan Cravens. Please go ahead.

Dan Cravens

Thanks, operator. Good morning, everyone. And welcome to the American Airlines third quarter 2020 earnings conference call. In the room on the call this morning, we have Doug Parker, our Chairman and CEO; Robert Isom, President; and Derek Kerr, Chief Financial Officer. Also on the call for our Q&A session are several of our Senior Execs, including Maya Liebman, Chief Information Officer; Steve Johnson, our EVP of Corporate Affairs; Vasu Raja, our Chief Revenue Officer; Alison Taylor, our Chief Customer Officer; and David Seymour, our Chief Operating Officer.

Like we normally do, Doug will start the call with an overview of our quarter and the actions we're taking during this pandemic. Robert will then follow with some remarks about our initiative. And after Robert's remarks, Derek will follow with the details on our liquidity and cost outlook. After Derek's comments, we will open the call for analyst questions and lastly questions from the media. To get in as many questions as possible, please limit yourself to one question and a follow-up.

Before we begin, we must state that today's call does contain forward-looking statements, including statements concerning future revenues, costs, forecasts of capacity, fleet plans and liquidity. These statements represent our predictions and expectations as to future events, but there are numerous risks and uncertainties that could cause actual results to differ from those projected. Information about some of these risks and uncertainties can be found in our earnings release issued this morning and our Form 10-Q for the quarter ended September 30, 2020.

In addition, we will be discussing certain non-GAAP financial measures this morning, which exclude the impact of unusual items. A reconciliation of those numbers to the GAAP financial measures is included in the earnings release and that can be found in the Investor Relations section of our Web site. A webcast of this call will be also archived on our Web site. Information that we're giving you on the call is as of today's date and we undertake no obligation to update the information subsequently.

So thanks again for joining us. And at this point, I'd like to turn the call over to our Chairman and CEO, Doug Parker.

Doug Parker

Thank you, Dan. Good morning, everybody and thanks for joining us. So there is no doubt, this continues to be an unprecedented time for our entire industry, our team and our customers. At American, we continue to take actions so we can manage this pandemic and position our airline for success when demand returns.

So I'm going to start with a quick summary of our results for the quarter, which were improved early in the year but still reflecting extremely challenging environment we're in today. Our third quarter pretax loss excluding net special items was $3.6 billion. Our revenues were down 73% year-over-year. In this environment, we continue to focus on controlling what we can, reducing costs and cash burn are at front and center.

In total, we removed approximately $17 billion in costs from our business, and our cash burn rate declined markedly versus second quarter. We ended the quarter with a proforma liquidity balance of approximately $15.6 billion, which is much more liquidity than we've ever had before and more than double where we began this year. And customer confidence is gradually beginning to return. We continue to evolve in this new era of travel.

The foundation of all that of course is our incredible team. These are difficult times for sure and we couldn't be prouder of how the American team is handling this situation. Our team is out there keeping our company moving, safely transporting hundreds of thousands of people around the globe every day. And we're doing an excellent job of generating revenue in this environment, which is making a difference both for American Airlines and the United States in general.

That's why it's so difficult to see our October 1st pass without having the payroll support program with the CARES Act extended, both in support of our team and the commercial aviation infrastructure, it's going to be critical to an economic rebound. There's enormous bipartisan support for an extension but unfortunately, our elected officials still haven't been able to get it enacted, because they've been unable to agree on broader COVID relief legislation. So without the extension we had to furlough 1,900 of our team members beginning October 1st and we did continue to service numerous markets around the country.

We remain hopeful that our elected officials can come together on this important legislation on behalf of our team, our industry and working Americans in our economy at large. Elections matter but there's nothing pulling higher than support for a COVID relief stimulus package. And PSP extension will be an important component of any such package. Robert and Derek is going to talk more about our results and our path forward. We know that every action we took in the third quarter, centered around on our aggressive plan to bolster liquidity, conserve cash and ensure that customers can fly with complete confidence when they travel with American.

On the liquidity front, American, as I said, ended the third quarter with approximately $13.6 billion of available liquidity and $15.6 billion when you pro forma for an additional $2 billion and authorized capacity through the CARES Act loan program, which was finalized just this week. And also this morning, we announced, on top of that authorization to issue up to $1 billion of equity in an aftermarket offering. As a conserving cash in this environment, we're focusing on what we can control. To that end, we've been -- we worked relentlessly to rightsize all aspects of the airline. This has been done primarily through cost savings resulting from reduced flying and long-term structural changes to our fleet and our infrastructure.

We continue to realize the benefits, both financially and operationally, accelerating the retirement of more than 150 aircraft from our fleet. And thanks for these efforts, I look gradual improvements in the revenue environment. We continue to bring down our daily cash burn. Our burn rate improved by approximately $14 million per day during the third quarter from $58 million down to $44 million, and we expect our fourth quarter burn rate to be improved even more to between $25 million and $30 million per day, and we expect that number to continue to drop going forward as demand for our travel continues to gradually improve.

Also during to the third quarter we continued our focused plan to capture the travel demand that does exist. Remarkably, one in every three domestic passengers flew in an American Airlines flight during the third quarter. And if we could say one thing to every American Airlines customer is that it’s safe to fly. Others have shared this data as well but certainly worth repeating, IATA we estimates that 1.2 billion people flown so far in 2020 and among that group, there are only 44 cases of COVID-19 in which transmission is believed to have been associated with air travel.

So it's clear that our efforts are working as an industry, even with our team members, being on the front lines and working through the pandemic to support our communities and serve our customers. Our team has a lower rate of COVID-19 infections than the national average. And notably, we've seen fewer cases with our airborne team members, our pilots and flight attendants than with our other work groups. And I’ve personally been flying multiple times every week and I see it everywhere I go, the level of cleaning, the safety measures and the diligence from our team and our customers. It’s truly incredible and we are greatly appreciative.

So in closing, we know we have a long road ahead of us. But our entire team remains fully engaged and we couldn't be prouder of the amazing work they're doing each and every day. We're focused on not just getting through this pandemic, but making sure we're prepared to succeed as demand returns and we're highly confident that we're going to adjust that. So with that, I'll turn it over to Rob.

So with that I'll turn it over to Rob.

Robert Isom

Thanks, Doug, and good morning, everyone. I want to second my appreciation to the entire American Airlines team. Despite this year’s remarkable challenges, they continue to rise to the occasion and delivered for our customers and each others when it's most needed, and we're incredibly grateful.

Taking care of our team and customers continues to be our top priority. We're taking additional steps in recent weeks to provide customers further peace of mind as they returned to the skies. We upgraded our clean commitment by adding SurfaceWise2 to our safety program. SurfaceWise2 is approved by the EPA as a long-lasting product to help fight the spread of the novel coronavirus, and it will be applied to America's entire fleet in the coming months.

We've also made travel easier and less complicated by eliminating change fees and allowing customers to stand by on earlier flight on the same-day at no charge. These customer-focused initiatives, along with changes to our basic economy product and new advantage leap benefits, give travelers tremendous flexibility when they fly American. Additionally, we launched a new travel tool to help customers quickly see the current COVID-19 travel guidelines for domestic and international destinations.

As we entered the third quarter, the U.S. saw an increase in COVID-19 cases, which was followed by a slowdown in demand. We responded quickly and efficiently in a way that maintains scale at our largest connected hubs in DFW and Charlotte. Our approach has paid off as evidenced by our passenger revenue results. Notably, DFW and Charlotte were our best performing hubs year-over-year.

Our cargo team continues to do outstanding work driving revenue and supporting the global economy during the pandemic. We more than doubled our cargo only flying from August to September and operating more than

1,900 flights, serving 32 destinations during the third quarter. To date, these cargo flights have helped our customers move more than 85 million pounds of critical goods around the world amidst the COVID-19 outbreak. And despite a nearly 60% reduction in system capacity in the third quarter, our cargo revenue was effectively flat year-over-year.

During the quarter, we started to see signs of a slow but steady recovery in passenger demand. Although domestic net bookings finished the quarter down 50%, this was an improvement from the first part of July when bookings were down 80%. During the month of September, 45% of domestic flights had a load factor greater than 80% compared to just 25% in July.

As we look ahead with one third of our flights being actively managed by our yield management system, we see improving yield curves in the coming months. And we aren't just waiting for customers to come to us, we're taking steps to reopen markets to travel through pre-flight COVID-19 testing. Testing options are now available to customers traveling to Hawaii and Costa Rica, with Jamaica and the Bahamas following soon. And we're engaged in efforts to expand that program across the Caribbean.

These testing programs are important because they will ultimately help to reopen markets by further inspiring confidence in travel. The pandemic has changed our business in many ways that we could have never expected but the American team has reimagined how to deliver a safe, healthy and enjoyable travel experience for our customers. Pre-flight COVID-19 testing is a great example of that and it's going to be an important part of advancing the industry's recovery from the pandemic.

Our approach to fourth quarter capacity is straightforward. We'll continue to focus on our large connecting cuts at DFW and Charlotte and to put capacity in markets that are showing positive recovery, such as the Sunbelt, Mexico and the markets that are opening in the Caribbean. We expect our fourth quarter system capacity to be down slightly more than 50% year-over-year with long-haul international capacity down approximately 75% year-over-year. While we're encouraged with the trends we're seeing in our net bookings, we'll continue to remain as flexible as possible and let demand serve as our guide for future capacity levels.

As we look across the competitive landscape, we believe there is no network better positioned than Americas. First, our network is big in the markets where customers want to go. With our Sunbelt hubs in Charlotte, Miami, DFW and Phoenix, we have seen demand resilience throughout the pandemic. This combined with our easy access to mountain and sea destinations provides an outlet for customers to redefine the meaning of working remotely or just get away.

Secondly, we have the best short-haul international network with the largest presence in Mexico and the Caribbean. Demand for this region has been strong. And based on current trends, we expect our fourth quarter revenue for this region to reach 70% of 2019 levels. Third, now is the time to be creative and find smart ways to strengthen our hubs in key markets.

With our recently announced domestic partnerships with Alaska and JetBlue, we are raising the competitive bar and expanding our network in an asset-light manner while providing customers with more choice and a world class product. Importantly, our extensive engagement with leisure operators is delivering results in the segment that is leading a recovery. And to that end, American was recently named Airline Partner of the Year by the American Society of Travel Advisers for the second year in a row.

So in conclusion, we remain committed to making sure our customers feel safe and comfortable and have flexibility when they travel. As we continue to manage the current environment, we remain focused on being flexible and nimble in all parts of the organization. And with that, I'll turn it over to Derek.

Derek Kerr

Thanks, Robert, and good morning, everyone. This morning, we reported a GAAP net loss of $2.4 billion or $4.71 per share in the third quarter. During the quarter, we recognized $540 million of pretax net special items. Net special items included a $2.1 billion credit resulting from the payroll support program financial assistance, which was offset in part by $875 million of severance costs associated with our voluntary and involuntary headcount reductions and $742 million fleet impairment charge. Excluding net special items, we reported a net loss of $2.8 billion or $5.54 per share.

With the prolonged decline in passenger demand, our primary focus has been to ensure we have the financial strength for a range of recovery scenarios. We have moved quickly to raise incremental liquidity, reduce cash burn and become as efficient as possible. On the revenue front, our third quarter total revenue was $3.2 billion, down 73% year-over-year on a 59% reduction in total capacity.

While our revenue was down materially, it was nearly double what it was in the second quarter. We expect fourth quarter to be down approximately 65%. While our current booking trends are positive, they're still down significantly and we continue to plan for a slow recovery. As Robert mentioned, we expect our fourth quarter capacity to be down slightly more than 50% year-over-year.

We have worked hard to rebuild our fleet into one of the more efficient to operate and offers our customers a consistent and improved product and experience. Our team has been actively engaged with Boeing and Airbus to provide flexibility in how we manage our fleet, giving us ample opportunity to adjust as demand conditions warrant.

As announced this morning in our earnings press release, we have reached an agreement with Boeing to secure deferral rights on 8 of our 2021 Max deliveries and all 10 of our Max deliveries in 2022. If the deferral rates are ultimately exercised, these aircraft can be deferred to the second half of 2023 through the first quarter of 2024. To avoid exercising these deferral rates, we would need to see substantial improvement in the demand environment.

During the quarter, we finalized a series of sale-leaseback transactions to finance our remaining A320 aircraft deliveries in 2021. As a result, we now have financing for all of our planned aircraft deliveries through 2021. As we have spoken about in the past, our long-held strategy has been to drive efficiencies through the simplification of our fleet. With the permanent retirement of our A330-200 fleet announced this morning, we now have only four aircraft types in our mainline fleet: 737, the A320 family, 787 and 777. Aside from the scale and fuel efficiencies, the operating efficiencies on the crew, maintenance and schedule are permanent.

We also continue to pursue the harmonization of our 737 and A321 fleets and expect to have all of our 737 aircraft operating in the same configuration by the end of the first quarter of 2021. We expect to have our A321 fleet harmonized by the spring of 2022. When combined with our fleet simplification strategy, these steps provide significant opportunities to improve revenue production and reduce costs now and well into the future.

Lastly, we retain inexpensive optionality in our total fleet count as we have 51 aircraft with lease expirations through the end of 2022. In addition, we have more than 200 older owned mainline and regional aircraft that could be efficiently part should demand conditions deteriorate. We continue to take a zero based approach to our expense planning and have moved quickly to better align our costs with our reduced schedule, producing the $17 billion reduction in 2022 expenditures that Doug talked about.

As we look to our team members, in addition to the cost reduction efforts we've outlined in the previous quarters, more than 20,000 team members have opted for an early retirement or long-term lease. This is in addition to the painful but necessary process of furloughing 19,000 team members. We are extremely grateful for the sacrifice and contributions these team members have made to our airline.

Finally, on liquidity. We continue to take proactive steps to reduce our cash burn rate, improve our total liquidity position. In the third quarter, our operational cash burn rate was approximately $36 million per day and our debt principal and severance burn was approximately $8 million per day. In total, our third quarter average cash burn rate was approximately $44 million per day, which improved sequentially from the second quarter burn rate of $58 million per day.

During the quarter, we closed both Goldman Sachs Merchant Bank secured notes financings totaling $1.2 billion, in addition to the CARES Act loan, Doug mentioned, that provided $5.5 billion of loan capacity. We also received the final payments of our allotted PSP funds, including an incremental $168 million of previously unallocated funds identified by the U.S. treasury.

This week, we were able to increase the amount available under the CARES Act loan to $7.5 billion. When combined with our third quarter ending liquidity balance of $13.6 billion, we ended the third quarter with a pro forma liquidity balance of approximately $15.6 billion. This morning, we also announced the authorization to issue up to $1 billion of equity in an aftermarket offering to further bolster liquidity. We view this as another lever that the company has available at any time.

As we look to the fourth quarter, we presently expect to end the quarter with more than $13 billion of total available liquidity, which excludes any proceeds from the ATM offering I just mentioned. This resulted in an average cash burn rate of between 25 million and $30 million per day, which includes debt principal and interest and severance payments. Our goal remains to get our daily cash burn rate to zero as quickly as possible. The timing of reaching this goal continues to be dependent on the demand recovery time line as many of our cost reductions have already been finalized.

In terms of our debt obligations, we believe the market is underappreciating our balance sheet flexibility and efficiency. Approximately 40% of our outstanding debt is prepayable without penalty and we don't have any large non-aircraft debt maturities until our $750 million unsecured bond matures in 2022.

Lastly, thanks to the tireless efforts of our treasury team, our weighted average cost of debt is just over 4% despite higher coupon COVID-related financings that we completed this year. While we continue to be pleased with the outcomes of our recent financings, the incremental debt to our balance sheet and dilution to our shareholders has been significant. However, with the flexibility that I've outlined, we have the ability to proactively repay debt and delever our balance sheet over the next several years when we return to a normalized revenue environment.

To conclude, we still have a long road to recovery ahead of us. However, the actions we have taken to conserve cash, bolster liquidity and support our team members and customers give us confidence that we are well prepared when demand returns. And with that, I'll open it up the line with analysts for questions.

Question-and-Answer Session

Operator

[Operator Instructions] Our first question comes from Brandon Oglenski of Barclays. Your line is now open.

Brandon Oglenski

Look, I know it's a really difficult environment right now, and a lot of airlines are still burning through cash. But as we look forward, this is a real ability for the industry to rebuild itself and more specifically, American. But I guess, what is the strategy going forward, guys? Because you will have a pretty large debt balance. And I think competitor down across the city there won't have that much and a lower cost structure. So in that type of environment, how do you navigate to differentiate and have the ability to pay down debt and be profitable? What's the new American going to look look like?

Doug Parker

We're going to be more efficient. That's for certain. We're using this opportunity. It's really -- it's horrific as all this is, it does provide some amazing opportunity to think largest airline in the world and effectively shut it down and build back on that, that makes sense. We've done things like reduce 30% of our management. We're not going to bring that back. We've accelerated the retirement of 150 aircraft and aircraft types that aren't going to come back. So and more and more, like as we do and as we build back the schedule, we're going to build back flying that is profitable and take out a lot of what used to exist that was less so.

So we feel really good about how we will emerge from this, both vis-à-vis where we used to be and vis-à-vis our competitive positioning. We do indeed have higher debt levels we did before this because we had gone and modernized our fleet. So that's behind us. We don't have, as Derek noted, large amortizations in the near term. We certainly don't think once we to where we're generating cash, you're going to see us needing to do any more in terms of raising more. And we'll do as we move to cash positive as we'll use those proceeds to pay down the debt. And I think you'll see from our competitors. But we feel really good about our ability to compete in the future as the industry gets cash positive, and as American gets cash positive, we'll use our proceeds to pay down debt first.

Brandon Oglenski

And I guess if we are going to be a more leisure-oriented market for a few years, is there a fear that the fair structure in the industry could walk lower? Do you think you're going to have a cost structure to compete in an environment like that?

Doug Parker

Yes, of course. Because we have a route network it can do that. I'm going to get Vasu expand more or Robert. But the reality is we have a huge competitive advantage in terms of our ability to connect customers around the United States and internationally when that rebounds the sub and spoke network of ours that there's many other carriers can't compete with, couple can but not all, that's a great revenue generator. We of course will need to have our cost in line with that. Like I said, we're going to get our costs down through the efficiencies I spoke. But now, again, like I said, our cash burn number now is being similar to where our competitors are. As the industry gradually rebounds, we'll rebound at a similar rate. You'll see our cash levels, and therefore, our earnings -- our cash burn levels and our earnings rebound as the industry does. Vasu, anything else you want to add…

Vasu Raja

What I'd just to add to it, Brandon, is look those exited historically thought business and leisure is having a very different yield performance as across our system that is not always the case indeed in our airline business style revenue, there's a people who don't stay at Saturday nights, midweek travel, single person in the itinerary about a third of our revenue but only about third of that comes from the large global corporates that are most likely to delay travel.

And even -- so one, we're actually less exposed to that historically have been than what may mean BI, but two, the replacement value that traffic is very different for American Airlines and our largest hubs, such as Dallas Fort Worth, Charlotte, the non-corporate traffic that's on the airplane can often produce yield that are between 70% to 75% of the corporates but indeed the non-corporate yield that what you might call the leisure yield in some of these hubs outperformed corporate yields in some of the big coastal metro areas that are there.

So really the strength of the American Airlines business is that so much of what we do we create connectivity for customers that really wouldn't exist if it weren't for American Airlines flying in some of these markets. So that's a core attribute of our business model. That will be something that takes us through this crisis and will absolutely be part of what powers the revenue production of the airline on the other end of it.

Operator

Thank you. And our next question comes from Mike Linenberg of Deutsche Bank. Your line is now open.

Mike Linenberg

Hey, good morning, everyone. Two very quick ones here. Derek, the $25 million to $30 million of burn. What is that number if we were -- or you could just tell us roughly what -- is the piece that's related to debt interest principal payment and severance? Just to do an…

Derek Kerr

In the fourth quarter, it's $8 million. It's the same in the third and fourth quarter. So it's $8 million in principle and interest payments in that $25 million.

Mike Linenberg

And then just second, you guys have done a nice job on the cost side, pulling down costs, I think ex fuel profit -- ex fuel and specials I think you’re down about 30%. What do you feel -- where the things shake out for the fourth quarter, given the fact that you will have a bit more people off the table, et cetera. What should we be looking at?

Derek Kerr

We had reductions in costs as we look at, it was 40% in the third quarter. And as we add --we're adding back a little bit of capacity. So we said 59% down in the third quarter and close to 52%. So we add probably a little bit of cost due to capacity coming back in. So we should be in a similar range, maybe 38% -- 36% to 38% range cost down in the fourth quarter.

Operator

Thank you. And our next question comes from Joseph DeNardi of Stifel. Your line is now open.

Joseph DeNardi

Derek, you talked about balance sheet flexibility and efficiency and your ability to pay down debt, you need to generate cash, obviously, to do that. Part of that is [CapEx]. So if you want the market to better appreciate your ability to repair the balance sheet, can you provide some visibility around CapEx over the next few years?

Derek Kerr

Yeah. As we look at CapEx, I mean we've already pulled down '21 and '22. So we were at 17 and we pulled $800 million out of '21, we pulled $200 million out of '22. So we would be at about $1 billion dollars is the run rate and we can take that lower also. We just -- right now we're at that run rate and we and we definitely can take it lower if there's -- if we need to. From a CapEx perspective, we're sitting at about $1 billion in 2021 and about $1.7 billion in 2022.

Now I also said that we have deferral write down aircraft and we can push that, that would reduce those two CapEx numbers out in the years. And as you know, we don't have many deliveries in '23 and '24. So the CapEx profile is much, much smaller than we've had over the past years and we will be able to use that cash that was going to buy aircraft and integrate the airlines and for paying down debt.

Joseph DeNardi

And then thought why was American’s earnings power and margins so much lower than peers pre-COVID and why will that change on the other side of that? Thank you.

Unidentified Company Representative

I think its a great question, and there is a range of answers for it. But I will at least pick on one that we are experiencing emerging in the trends right now, which is just how we adjust capacity across our network. As you look at 3Q results right now, our relative PRASM performance in the system is strong versus our competitors that kind of an empty victory in the environment we're in but it's an important lesson. Because what we see right now is that about 75% of our airlines capacity is in our four biggest hubs. And if those hubs were producing basically what we see today 30%, 40% RASM premiums to the industry. Our smallest hubs that we see today are 10% of our capacity and still producing around the deficit. While in the old days that was a much bigger mix. The things that weren't outperforming on a RASM basis were in some cases as big as Dallas, Fort Worth, our largest hub.

So look what that means for us is as it relates to an earlier question is that as we come out of here, one of our really guiding principles is that we will produce a revenue premium to the industry. The way we go about doing that is first and foremost that we worry more about organic assets in the markets where we can produce an outsized level of value for customers, which as we see today produces an outsized level of revenue for the airlines that too through many of the partnerships that we've created, not just with Alaska and JetBlue but with British Airways, or IAG, or JAL, or many others around the world in markets where we can't produce outsized customer value alone. We're going to work with these partners to make sure that we produce that value and get the returns that come with it.

And third and very important too, we need to go and increase across our commercial divisions, give our customers really good reasons to want to fly more and have some more, which sounds very simple and indeed it is. But we think that by doing that there's a real path out of it where American can produce at a different level than it might have before.

Operator

Thank you. And our next question comes from Helane Becker of Cowen. Your line is now open.

Helane Becker

If on the stimulus program, if nothing's opened and people don't travel by March, won't the industry be in the same place as it is now and need more stimulus money? Isn't it better to work with governors to open, and then get more stimulus money rather than getting it now?

Doug Parker

Helane, again -- let me separate two things. Stimulus of course, entire COVID repay is what has stimulated the economy. I think it's really important. And I think the sooner the better, I think our country needs it and that would help in many ways too, I think. As to the payroll support plan extension, that's not about stimulus in our view, that's about keeping critical infrastructure in place. That's about the importance of the airline industry to that economic recovery is entirely what the PSP program was put in place to do. What it does is it has airlines keep more people employed than we would otherwise. Basically existing demand has us serve markets we wouldn't serve otherwise, it's basically existing demand. And the concept was that the government as a pass through gives money to airlines to pay those people and to fly those flights that we wouldn't fly otherwise.

So as the economy returns that critical infrastructure is in place. I think that's good policy. I think it's been great policy up to date and I think it's good policy that should be extended. And I'm not alone in that and there's enormous bipartisan support for that, for exacting those reasons. It's not about getting money into airlines. It's about making sure that critical infrastructure stays in place. So yeah, I think that's really important to keep in place now. I feel that absent an extension you will see some of that infrastructure decline. And as the economy looks to rebound, we won't be prepared as well as we should be to facilitate that rebound. So that's what it's about.

And so therefore I don't think it makes sense. We'll have that critical infrastructure get harmed or to go lower again, like I said, we're not alone on that than others. Virtually everyone we talked to that agrees that should happen. So I guess part of the question -- there's another question we sometimes hear, which is well okay that's all well and good. But if things won't be better six months from now that you're going to need it again. I don't think so. I happen to believe we're seeing now even in this environment gradual return of revenues. We expect that to continue. I think six months from now certainly you'll see a better environment than we have today irrespective of what may or may not have happened as it relates to the pandemic itself, because people are getting more and more comfortable with travel and cities are opening up and business is returning somewhat.

So I think six months from now that certainly we've got -- and from an airline cyclicality perspective, we'll be headed into a summer, which is always -- has higher demand. So anyway at least our view any way is that six months and PSP extension would be the less PSP extension you would need to keep that infrastructure in place. But after that we're not going to be in a good position to do what people want us to do, which is to be here to help the economy rebound.

Helane Becker

And then my other question, how many aircraft are actually being scheduled right now?

Unidentified Company Representative

Helane, the easier way to do it is how many how many airplanes are we not flying, and that that number is the order of magnitude of about 200 jets. We have a couple of airplanes that fly on relatively lazy like good. It makes some of the maintenance of the operations of the airline easier [Multiple Speakers]…

Doug Parker

200 out of…

Unidentified Company Representative

Out of 1,350.

Operator

Thank you. And our next question comes from Hunter Kay of Wolfe Research. Your line is now open.

Hunter Kay

Derek, your revenue in 3Q was like $3.2 billion. What were your cash receipts maybe net of refunds in the quarter?

Derek Kerr

Revenue was about 75/25 from a revenue perspective. So we did burn some of the store value during the quarter. Our ABL still has about year-to-date about $4.9 billion at the end of the third quarter, and there's about $2.5 billion that is still stored value that was from refunds and other things that were given out during the early part of COVID.

Hunter Kay

And then I've had a question for Alison actually. I'm asking you this question given your comment of the importance of TMCs and the press release you put out with the new Sabre deal. How much did you spend on TMC commissions in 2019, just roughly? And how much is your budget -- how much are you being given to spend on agency commissions in 2021 and 2022, relative to what you said about the importance of agencies as business travel recovers and of course obviously the elephant in the room, the competitiveness of the corporate travel landscape that has evolved over the next couple of years.

Alison Taylor

So, it's a tricky one for our TMCs and our agencies, and we believe and always making sure our agencies are accordant partners for us, but there's still a tight important new corporate business. We're still working out what that would be, because as you know we still are looking at the return of corporate business on the hope of the larger contracts global accounts being later in '21. So it's little hard at the moment to predict what those commissions will be. Although, I would say it continue to be important for us and we believe once again they will be robust partners in the latter half of '21. We are also working with them to open up markets like the cargo between the UK and the USA. And so they are also facilitating in those markets, it’s something as the important initiative for them.

Derek Kerr

So Alison with the kind of charter, we haven't gone through the budget process for 2021 and we will go through that process and figure out the right amount that we need to do for -- to get the corporate back.

Doug Parker

Yes, and Hunter, just one thing. Given our scale of American and our ability to serve corporate customers, it is really American that is out there increasing commission rates in an effort to attract business travel. So don't think you will see that would be the case in the future for that but we do all the major match others are and we need to be competitive. But it’s not happened and Alison is not but one who is out there creating up commissions in general.

Operator

Thank you. And our next question comes from Jamie Baker of JP Morgan. Your line is now open.

Jamie Baker

Couple for Derek presumably and first based on the October 1st furloughs and the accompanying service suspensions, what's the estimated level of cost savings there either on a quarterly or annual basis?

Derek Kerr

I think we’ve got as we put together how much of savings we have got from a management perspective, it was about half a billion dollars that we had in the management side of things. The amount from efficiencies and other things that we got out from some of the management -- some of the labor was about $400 million. So from a headcount perspective, we're right around billion dollars of permanent efficiencies and headcount from those two areas. So on $17 billion, a billion of it is definitely stuff that doesn't come back.

Fleet reductions is another area where we will see significant savings. And then the other part is as we add back in the cost, as Doug said earlier, as we add back in the flying how do we do that more efficiently to drive those costs down, and keep most of the -- keep everything we can from the savings that we've had in 2020 permanent as we move forward.

Jamie Baker

But the aircraft savings, I mean, you're not counting that as part of the PSP exercise. I mean what I'm getting at is that in the event of another round of PSP, certain costs are going to be added back to the P&L but then effectively taken out by the PSP. So what I'm really trying to calculate is what impact PSP would have on liquidity. So your air craft comment is helpful, but that's separate. Correct?

Derek Kerr

Yes, that is separate from PSP. PSP is all headcount related.

Jamie Baker

And we should be assuming, so your net number on that was about a billion annually. Correct?

Derek Kerr

With the amount of reductions from furlough, that's about $1 billion, $1.5 billion annually.

Jamie Baker

And then again, so on the planned retirement, I guess you're out of five aircraft families all together? What level longer term of cost, is that permanently removed? And if your estimate net of any revenue inefficiencies, maybe this is question for Vasu, that might occurs since you all just had somewhat fewer options in terms of aircraft gauge?

Derek Kerr

From a cost perspective, I think there's two things. One is from a cost perspective, we should have a permanent reduction in those aircraft coming out, because you have maintenance coming out, you have all the stuff coming out. So that could be anywhere from -- I mean, we haven't calculated '20 and '21 plan yet. And as we just retired the 330, 200s this morning and we still have some 737s that are on the ground, whether they come back up as we move forward. But that's half of billion dollars in this year and then that stays in next year from a maintenance and a cost perspective as we go forward. I know Vasu can add to that…

Vasu Raja

Jamie, from a revenue perspective the really nice thing about the retirement is that we've really accelerated where we wanted to be down the road. So I think one of the things that we had said before is that we were looking for efficiencies just because of the different number of aircraft type seating configurations, and also when you take into account regional partners, the number of operators as well. So over the course of last five years, we've gone from really over 50 different sub fleet types down to now about I think 23 or so.

And in terms of being able to serve the marketplace, we're ending up with fleet families that really worked well. So from a 320 family perspective, what we -- we're not losing out on anything in terms of retirements like the 75s. From 787, 788 and 789, we're not losing out on anything from a 76 and 330 perspective. So with the various -- in the different fleet types and the same holds true for our regionals, I think we've got the fleet to serve the spectrum of demand needs and doing it in a way that's incredibly efficient.

Jamie Baker

And Derek, just remaining unencumbered assets number and then I'll be done.

Derek Kerr

We have about $4 billion of unencumbered assets and we have $7 billion of first lien capability. So around $11 billion.

Operator

Thank you. And our next question comes from David Vernon of Bernstein. Your line is now open.

David Vernon

I wanted to ask the post-COVID cross question in a slightly different way. If you were to take a look at the actions you've taken on the fleet side that assumes some normal level of utilization. How would the gauge shifts, like if you were to just take a snapshot in 2019, what does our gauge look like pre-COVID? What's it going to look like in the future? And then if you think about the reduction in hourly operating costs from all the simplification. Is there a way that you can frame kind of a cost reduction potential just on the variable hourly operating cost of the new fleet? Investors are really trying to get their heads around this issue of, okay, American's margins were ex before the crisis, what are they going to be after the crisis. And I think, getting some more tangible data points around exactly what the fleet is going to look like could be helpful here.

David Seymour

This is David Seymour and I will start and other can join in. What makes this a little bit complex is we're still in the process of setting what our 2021 capacity is. So as Derek mentioned, we’ve got 737s on the ground, we have 50 seaters that are on the ground depending on how those come back or not that will impact our future gauge. So let me give you more of a conceptual answer. But if you think about it right we've taken out -- and all the fleet simplification that Robert and Derek just spoke about, we have taken out roughly 50 wide bodies from December until June of this year. And what all that is, is taking out some of our lesser -- lower gauge airplanes, such as 757, 767.

And now have more of our wide-body fleets are in higher gauge, higher density products, like the 787. But of course lead for the narrow body fleet certainly versus last year and years prior, there's a material impact in upgauging. First we have the 190 and the MD-80s coming out, replaced with larger gauge 737 and 321neo that are coming in. And in the regional side, we have more 50 seaters coming out, being replaced with dual class regional jets. And so all of that is a pretty material impact and in the months ahead we’ll get a better sense for that average gauge year over year. But just doing the basic fleet math and you can probably get a pretty good sense for what that impact is.

Unidentified Company Representative

And we kind of looking at over '19 just because the '20 is so strange. But I hate we’ll have -- our average seat in '19 from a main line was about 167. And as we do the Oasis projects and all the changes of the aircraft that should go up somewhere in the neighborhood of 5% and five seats and then regional as we make that change on the regional you’re going to get about three more seats as we make the change there. So there will be a significant -- as we look into 2021 departures should be down and gauge should be up, so that will give us a cost benefit from a CASM perspective as we fly less departures at higher gauge at lower cost.

David Vernon

And then maybe just as a quick follow-up. Could you talk a little bit about kind of rebuilding the regional footprint and the seater footprint? Is there going to be a shift in the old model versus the contracted model? Or how do you -- are you thinking about kind of how to start to rebuild fleet traffic as you start to look at what the network is going look like post-COVID?

Unidentified Company Representative

We've done a really nice job over the years of following a strategy that speaks to simplification, in terms of fleet types and simplification in terms of number of operators with PSA and Envoy and just really, at this point, a few partner carriers. We feel like we’re in a really good spot and with carriers that are established and all fighting on the basis of quality and efficiency. So we feel pretty good about it.

In terms of building backs, of course, putting the larger two class regional jets in the service is really important. I take a look to 2021 when demand recovers, and that we open-up a new regional facility and DCA, and think about the kind of changes that we talked about with upgauging and what that will mean for the airline. It’s going to be positive, not just from a cost efficiency perspective but also from revenue perspective -- but also from a passenger perspective in terms of quality of service, we're going to be able to provide them a product that they really want.

Operator

And our next question comes from Joe Caiado of Credit Suisse. Your line is now open.

Joe Caiado

Derek, quick question for you and apologies if you answered it in your prepared remarks. But would you consider using some of the billion dollars of the equity raise to retire near-term at a significant discount? I think you mentioned your 5% unsecured notes due 2022 are sort of your next big maturity. And those are trading at about $0.70 on the $1. So is that something you would consider or do you really want to see the cash generation drive the debt pay down?

Derek Kerr

It is something we consider as we look out to planning for 2021 and see where our cash needs are. But it's something we would consider.

Joe Caiado

And then just one more quick one. Did we say that there is retrofit in aircraft mod activity taking place today as part of the fleet harmonization initiative, so that stuff is no longer on hold? Is that right?

Derek Kerr

Correct. Yes, for us we had not put it on hold. When I talked about our CapEx being what it is in 2021, almost 40% of that is actually that project. We've continued to push it. With aircraft on the ground we've been able to speed it up, which I think is the right decision to get the 738s done as quick as possible and the 737s -- sorry the 7378s get done as quick as possible and then speeding up the A321s to get that project done. While the aircraft are on the ground we can speed it up, save costs and get the benefits sooner. So those have been in the numbers and remain in the numbers as we move forward.

Operator

Thank you. And our next question comes from Duane Pfennigwerth of Evercore ISI.

Duane Pfennigwerth

So you obviously have some improvement in the cash burn level here into the fourth quarter. Another way to say $25 million to $30 million a day is $10 billion annually, which is still a pretty big number. So maybe going back to Jamie's cost questions, all of the OpEx savings that you've realized, how much of that run rate is being reflected here in the fourth quarter? And if it's simply timing, absent revenue recovery which we can model, where would that kind of $10 billion a year kind of cash burn go to based on the cash savings you've realized?

Derek Kerr

Well, the way -- we've said we had $17 billion of savings throughout the year, and the $16.2 million of that $1 billion is expense. Now some of that is volume. So as we add volume back in, those expenses are going to go back in. Some of the permanent stuff is what we talked about, which is the management headcount, the efficiencies, the fleet, a lot of the stuff we're doing will be permanent as we move forward to reduce that. What we have all said is that to get us back to cash positive, the cash burn to be breakeven needs -- we've all said it's a demand recovery and we need the demand to come back.

So we are holding flat expenses third quarter over fourth quarter. Everything as we add back in capacity, so being more efficient, but the burn difference is coming from the revenue recovery. And where we're seeing it exactly today is what we've modeled out as we go out into the fourth quarter. So I think as we look into next year and as we look forward that it's the demand recovery that gets us back flying our entire fleet, getting the revenue back and being as efficient as we can to cut those costs out in 2021.

Duane Pfennigwerth

Just for a follow-up there. This morning on the CNBC interview, I think it was mentioned that there's nothing more -- we've done virtually everything we can on costs at this point. I guess my question would be, are you at a structural disadvantage for some reason? Or what would you need to see in terms of this recovery for that view to change? Thanks for taking the questions.

Doug Parker

Yes, again, what I said, look, we haven't done anything we cannot -- we haven't got all the cost we can. By now, we sure have showed out. So as you've heard, I think from all the airlines right now, that's where we've gotten to. We've reduced all the costs we can at this point. Clearly, as we ramp back up, as Derek and others have already said, we don't expect you should see the same kind of cost rate going forward. But your question is, of the fourth quarter estimate of 25, 30 cash burn number, how does that get better? We don't want to get the impression that it's going to get a lot better because we're going to further be able to reduce cost for the existing cost levels.

Just as our other large competitors, these cash burn numbers are virtually exactly the same in the fourth quarter, aren't going to be doing anything about it. Those numbers will get better for all of us at similar rates as demand recovers. And that is what's required. If it doesn't, we all stay at these kind of burn rates. I don't think anyone expects that to be the case. It hasn't been the case through this year or anything close to it.

So we've gotten the improvement in these burn levels from the third to the fourth quarter -- there's some of that is cost savings because we get to sort of furloughs. But by far, our biggest driver is revenue improvement and that's what will be the improvement as we go forward and if we will get this industry back to being cash positive again.

Operator

Thank you. And our next question comes from Andrew Didora of Bank of America. Your line is now open.

Andrew Didora

As Derek maybe told -- to ask Duane's question a little differently on costs, maybe put it on the revenue side. So what level of revenues versus 2019 do you feel like you need to be at in order to reach cash breakeven?

Derek Kerr

I mean, we've said from a revenue perspective, we building the airline back up and getting it where we've got our aircraft back in and we get loads in about 65% to 75% -- 70% range it's kind of where it's going to take to get us back to breakeven. And that -- getting all aircraft back in is capacity much lower than where we were in 2019, because we've taken out 157 aircraft, and it will be much lower than what we had planned. So we're all going to take capacity out in 2021. The industry will be smaller. But getting most of our aircraft back up, getting loads in the 65 to 70 range, which will drive the revenue recovery and get the revenue back in is kind of where we see where we would be breakeven from a cash perspective.

Andrew Didora

And then just my second question maybe for Vasu. Can you maybe just talk about how your discussions have gone with global authorities and how you're thinking about potentially the reintroduction of the long-haul international network. Maybe what regions or kind of routes do you think could come first, particularly when you think about your new -- how your new fleet plan plays into all of this? Thanks.

Vasu Raja

And so we mentioned earlier, we are actively working with a number of global regulatory bodies, no more so than with the UK seeing really our largest international connect point is indeed our hub in Heathrow. So between ourselves and IAG, we are closely working with the UK government to really create an air travel corridor, which could be not just the basis for further reopening in long-haul services to the UK but indeed the template for how we can do long-haul reopenings more globally.

Now other than that, while that impacts primarily our European to some degree our Asian network, really in many ways our South America network is already coming back. Most all of our Miami to South American schedule is in place and doing quite well. And by the time we get into December that will continue. So a big part of our long-haul network, which is South America, we expect to be back certainly by new years or so. And then the other big chunk of it, which is Heathrow we are working on to reopen.

And then we have some confidence, it's good for the global aviation community but more critically it's good for customers everywhere to figure out a really smart way to get a market reopened and that can be a template for doing it elsewhere. So that's how we're thinking about it.

Operator

Thank you. And ladies and gentlemen, this does conclude our Analyst Q&A [Operator Instructions]. Our first question comes from Alison Sider of Wall Street Journal. Your line is now open.

Alison Sider

Just curious how you're thinking about sort of changes in the competitive landscape seeing some of your competitors starting to announce plans to go into new cities, including some of your hubs, Chicago and Miami. Just curious how you're seeing that playing out and how you all respond?

Robert Isom

We welcome the competition. We've got incredibly strong network as we've talked on the call today and assets that will serve our customers really well. So look we're excited about the potential for return of demand and we can do when it does come back, and we're ready to take on competition no matter where it comes.

Operator

Thank you. And our next question comes from Leslie Josephs of CNBC. Your line is now open.

Leslie Josephs

Just want to ask about the advantage program. Do you have any sense of where revenue is going? Is it recovering? And what's your outlook for co-brand card spend going forward, maybe even in 2021?

Vasu Raja

We are indeed -- there is so much has changed in our business such as say the crises. Indeed our co-brand program has -- our revenues haven't fallen nearly at the rate of overall passenger revenue, simply because people continue to keep spending out there. Indeed, as we look at consumers more broadly, savings are up, people are spending, they're spending on different things. And so, we were actually -- one of our major priorities in the year and years ahead is to work even more closely with our co-brand providers, Citi, Barclays but even MasterCard as well, to ensure that our card is on top of mind and they're are driving increasing amount of spend for our customers and revenue for the Airlines.

Operator

Thank you. And our next question comes from David Koenig of Associated Press. Your line is now open.

David Koenig

Can you discuss Thanksgiving, Christmas bookings and what kind of look back you are expecting for those holidays? And also to clarify, Derek. Derek are you saying 65 to 70 load factors of breakeven even with the current mix of business and leisure being heavily in leisure?

Vasu Raja

This is Vasu, and I can answer both, so the second one first. Really the simple way to think of it is maybe 65% to 70% of 2019 revenues, which Derek was giving you is holding our yield comps and think about load factors. So that's really the simpler way to think about your second question. And then to your first question, yes, we do anticipate that the Thanksgiving period and the December second half period will be relatively stronger, one, because we have seen the last several holidays, Columbus Day, Labor Day, July 4th and Memorial Day, become sequentially stronger.

And indeed, what we're finding more and more is that, as consumers start resuming life, returning to spending in full service restaurants, going back-to-school, things like that, shortly thereafter searches resume and air travel spending resumes too. And even with current rates of case growth, we continue to see that at least in many geographies which is the Sunbelt that are most critical for American Airlines. So we do see that as we get into the Thanksgiving week as Robert mentioned in his opening comments, more than half of our flights are being yield managed in some ways, which means that the airline is holding out anticipating higher revenues closer to departure. And so that's a promising thing, which we hadn't seen in the past. Now this is a volatile environment, the recovery will be choppy and shifting change will respond accordingly. But right now things are better than they were but far from sustainable.

Operator

Thank you. And our next question comes from Justin Bachman of Bloomberg. Your line is now open.

Justin Bachman

I want to know if you could clarify a bit on the timing around the 737 Max deferrals that you announced. As far as what really is your thinking that sales will come? And are you thinking about any other aircraft deferrals if the business is not returning as you're hoping? Thank you.

Unidentified Company Representative

The deferrals we have 18 deliveries in 2021 and we have deferral rights on eight of those aircraft. And then we had deferral rights on all 10 aircraft that come in 2022. We'll make those decisions down the road as we look at the demand environment as they come back. Those can push to 2023 and 2024. So that's where we're at on those. We have also been working with Airbus on just making and respreading the delivery stream there. We have moved some of the ones that were coming in 2021 to 2022. So we've pushed a little bit. And at this point in time, we're pretty firm on where we are from the delivery schedule with Airbus and Boeing.

Operator

Thank you. And our next question comes from Edward Russell of TPG. Your line is now open.

Edward Russell

I was wondering if you could talk a bit more about the Max return to service, there were some reports earlier this week that you'll be flying it around the Christmas time, but I know those dates have slipped repeatedly. How confident are you about that return timeline?

Unidentified Company Representative

It really just depends on what happens. The aircraft is going to be returned and ungrounded when the FAA says it's okay, and after we and our team gets to take a look at it as well. Based on what we're hearing that would allow for an ungrounding sometime in the month of November. If that holds true, we’ll likely have the aircraft up in service a month or so after that. So potentially by the very end of December. But it all remains to be seen and we're incredibly flexible in terms of any type of time, it's just as we have done over the last -- over the course of the last year or so.

Operator

Thank you. And our next question comes from Kyle Arnold of Dallas Morning News. Your line is now open.

Kyle Arnold

I know that Chicago and New York, New Jersey, Connecticut expanded some of their travel quarantines. How problematic are the travel here domestically? And is there anything to be done that can stimulate travel in those areas on the west coast and the Northeast where it's not as strong as some other areas of the country?

Unidentified Company Representative

Travel will come back when there are things that are open and safe for people to do. Certainly any type of restrictions, quarantine, are not helpful. Again, we're trying to make things easier on customers where there are any type of difficulties, such as the work that we're doing in the Caribbean and the work that we are doing in Hawaii and as was mentioned earlier, the work that we’re trying to do in Europe and especially the UK and trying to open up travel corridors. But the real key for all of this is having things for people to do. One of the things that we have talked about is great indicator restaurants being open is a good indicator of people being able to go to travel to those destinations and it’s just a critical key.

Unidentified Company Representative

And we’ve worked with many of our partners, with the travel association and travel partners, have regional companies as well, that can make sure that we’re all looking to get our current fleets to bring back tourism. One of the things to reduce confusion with our customers as you quite rightly said, when an area may close and then stop quarantine, et cetera is we have just placed on our aa.com, a site where you could place a new destination and it can tell you what requirements to travel are in place for that space, for that countries is exploitable and this is really helping our customers understand and ease their travel as well and help them with bookings going forward.

Operator

Thank you. And this does conclude our media Q&A. I will now turn the call back over to Doug Parker for closing comments.

Doug Parker

Thanks everyone for your interest. And any further questions you can just contact Investor Relations or corporate communication. We appreciate your time. Thank you very much.