Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Third Quarter 2019 American Airlines Group, Inc. Earnings Conference Call. At this time, all participant lines are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator instructions]. Please be advised that today's conference is being recorded. [Operator Instructions].

I would now like to hand the conference over to your speaker today, Mr. Dan Cravens. Sir, you may begin.

Dan Cravens

Thank you and good morning, everyone, and welcome to the American Airlines Group third quarter 2019 earnings conference call. With us in the room this morning is Doug Parker, Chairman and CEO; Robert Isom, President; and Derek Kerr, Chief Financial Officer. Also in the room for our question-and-answer session are several of our senior execs, including Maya Leibman, our Chief Information Officer; Steve Johnson, our EVP of Corporate Affairs; Elise Eberwein, our EVP of People and Communications, Don Casey, our Senior Vice President of Revenue Management; as well as Vasu Raja, our Senior Vice President of Network Strategy.

Like we normally do, Doug will start the call with an overview of our financial results. Robert will then following with commentary on operational performance and our commercial activities for our 2019 and 2020. Derek will then walk us through the details on the third quarter and provide us some additional information on our guidance for the remainder of the year and some preliminary guidance for 2020. And then after we hear from those 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 and costs, forecast of capacity, traffic, load factor, fleet plans, and fuel prices. These statements represent our predictions and expectations as to future events but numerous risks and uncertainties could cause actual results to differ from those projected.

Information about some of these risks and uncertainties can be found in our earnings press release issued this morning and our Form 10-Q for the quarter ended September 30, 2019.

In addition, we will be discussing certain non-GAAP financial measures this morning, such as pre-tax profit and CASM excluding 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 website.

A webcast of this call will also be archived on the website, the 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 this morning.

At this point, I'll turn the call over to our Chairman and CEO, Doug Parker.

Doug Parker

Thanks Dan, good morning everybody and thanks for joining us.

Today we announced pre-tax earnings excluding special items of $835 million or $1.42 per share, that's a 16% increase in year-over-year pre-tax earnings and a 20% increase in EPS. But we know these earnings and the increase in earnings should have been even better.

Our third quarter results reflect two major challenges that impacted our business. First, 737 MAX fleet remaining grounded throughout quarter of course negatively impacting our pre-tax earnings by an estimated $140 million in this quarter alone. Second, we had significant operational challenges in American, in the first half of the quarter as we continue to work on negotiating an industry-leading contract we [want] [ph] for our TWU and IAM teams.

As it relates to the 737 MAX that situation is of course ongoing. We have two goals for the MAX. First, of course is for Boeing to complete the FAA's required recertification process and ensure the aircraft is safely flying again. Second, is to ensure that American is compensated for the loss revenue that the MAX grounding has caused. We missed deadlines and extended grounding for our customers, our team members, and our shareholders. So we're working to ensure that Boeing shareholders bear the cost of Boeing failures not American Airlines shareholders.

Turning now to our second main challenge TWU-IAM contract. We've seen significant improvements in our operational reliability as our negotiations are resumed. We've been remediated talks through the National Mediation Board since early September, those are our first talks since April. And both parties are agreed not to discuss the content of those talks publicly at the request of NMB but you should know that we're very focused on reaching an agreement, which is fair to all involved and ensures our operations back on track.

Now, we recognize that beyond these two factors the status quo is not an option. We're committed to urgently improving performance and enhancing shareholder value. We want to talk about building the trust of our stakeholders and creating value for the long-term. We also appreciate in many respects, the long-term map. We know we need to do better and we will.

As we knew at the end of 2019, we're committing to deliver on three key areas will create value for our shareholders in 2020, operational excellence, efficient and profitable growth, and significant free cash flow generation.

I'll talk a bit about each of those. First and foremost, we must restore American’s operational reliability to the standards of excellence that our customers and our team members deserve. Importantly, we believe the issues that impacted our operations for much of the summer are now behind us. We had an excellent September, and that performance has continued into October.

Too months don’t make a trend, we won't rely entirely on our recent performance, or our forward confidence. As Robert will discuss in more detail, we're executing on specific plans to improve our operating reliability beyond reaching a labor agreement and specific goals that we will meet. We simply will not allow our customers and team members to experience another period like this past summer again.

Second, we're going to grow American's network in 2020 by approximately 5% through efficient and profitable growth. We anticipate much of this growth will be at or above system average unit revenues because it's driven by gates we've been able to acquire in Dallas, Fort Worth, and Charlotte. These are two of our highest margin hubs. And as we've already experienced in DFW this year, routes that are added into these large connecting hub operations immediately produce [yearly] [ph] revenues in excess of our system-wide average and it will be efficient growth.

For example, [many of the cost] [ph] of our 737 MAX aircraft are already in our cost structure. Our operational reliability improvements will also drive some of the growth and these improvements, increase flying and reduce costs. Combining those factors with our previously announced cost initiatives give us confidence that our above average RASM growth will be added at below average incremental unit costs. Derek will provide some high level CASM estimates in his remarks and will provide more specific details on the fourth quarter call once we complete our budgeting process. But just now we're excited about our prospects to grow and to grow efficiently and profitably in 2020.

Lastly and importantly, we are confident we will begin to produce significant free cash flow for our investors in 2020 and beyond. Much of that confidence is driven by the earnings improvement we expect from the first two [indiscernible] discussed, and we expect those initiatives to improve profitability over where it would be otherwise.

But at the same time that's happening, we are reaching the end of an unprecedented program to invest capital into American Airlines. The $30 billion in investments we've made over the past six years have been necessary to integrate and upgrade two airlines that had suffered a lack of investment, and most importantly, to modernize an aging fleet. That work is now done and we anticipate our CapEx requirements will fall from the over $5 billion per year for the past six years to $3.7 billion in 2020, $2.1 billion in 2021, and should average approximately $3 billion thereafter.

What that means for our investors, is if our estimated 2019 earnings are unchanged in both 2020 and 2021 -- in both 2020 and 2021 and this is not an earnings forecast, just an earnings constant analysis, then our free cash flow would be approximately $2.5 billion in 2020 and $3 billion in 2021. That's $5.5 billion in free cash flow in just two years at a company that has a current market capitalization of approximately $12.5 billion or a 44% free cash flow yield over just two years. And again, that's on constant 2019 earnings. None of us will be pleased with constant 2019 earnings into 2020 and 2021.

So as we said in the past, as we generate that significant free cash flow, we will naturally delever our balance sheet. We will repay debt as it becomes due and the need to raise new debt against new aircraft will now be much lower. We anticipate debt requirement and adjusted debt will be significant. We expect adjusted net debt will fall by approximately $3 billion to $4 billion in the next two years and by $8 billion to $10 billion over the next five years.

And we will of course, continue to return cash in excess of our needs to our shareholders, ensuring a period of significant free cash flow generation will facilitate that initiative.

So in summary, we're pleased the two large issues that have impacted our performance should be addressed as we enter 2020. We are not of the view that correcting those two items alone are sufficient for our customers, our team members, or our shareholders. As it relates to our shareholders, for example, we know we have a profitability margin gap versus our largest competitor and we're committed to narrow that gap in 2020 and beyond. We're excited about our prospects for the future, and are grateful to the 130,000 hardworking team members of American Airlines, and the amazingly great work they do every day to take care of our customers.

With that, I will turn it over to Robert Isom.

Robert Isom

Thanks, Doug, and good morning, everyone.

Before I begin, I will add my thanks to our team members for doing a great job of taking care of millions of customers during the busy summer travel period. Their hard work was instrumental in our ability to generate record revenue in the third quarter and grow margins despite the challenges that Doug highlighted. Importantly, we continue to execute on a number of initiatives to improve the trajectory of our business going forward.

As we look at our business, the economy is strong, and our demand for our product remains robust. And we look forward to a strong holiday season.

We reported another quarterly record, with third quarter revenue of $11.9 billion, 3% higher than the third quarter of 2018. This also marks the 12th consecutive quarter of unit revenue growth and we expect to produce our 13th next quarter. Derek will talk more about the revenue environment in his remarks.

Global sales and distribution continue to win in the marketplace. During the quarter corporate revenue outpaced system revenue growth on healthy corporate demand, a great result given our operational challenges.

As we look at our operations, we have already seen a significant improvement in our operating reliability. Since June, we have seen consistent month-over-month improvement. And for the full third quarter, our on-time metrics improved in both our mainline and regional operations. In fact, our September on-time arrival performance or A14 was the seventh best month in American’s history, and our best A14 performance since November of 2017. As Doug mentioned, this improvement continues into October.

We continue to strengthen our operations with ongoing enhancements, including retiring older aircraft, simplifying our fleet and schedule, and fortified our maintenance and airport resources. Our underlying execution is solid and we are committed to returning American to a position of operational excellence. And as a result, we expect our 2020 completion factor to increase by one to two percentage points and to see a significant improvements in all reliability metrics, including on-time performance, baggage handling, and customer satisfaction.

We know we can't allow our customers and our team members to experience another period like this past summer ever again. So if for some unforeseen event in 2020 lead us to question our ability to meet our reliability standards, we will reduce our schedule rather than let our operations become the buffer. We don't believe that will be required of course. We also know it's a commitment we need to make to ensure that we restore operational excellence.

Now with perspective the MAX, we have extended to cancel our cancellations through January 15. We continue to work closely with FAA and Boeing to have built flexibility into that date. Regardless of when the aircraft is recertified, we plan to be prudent as we reintroduce the Max back into our network. Before it begin commercial service, we will continue our collaboration with the APA and APSA accomplish training and conduct multiple flights with our pilots, flight crews, executives, and other team members to make sure that we are all comfortable that the aircraft is ready for our customers. And only then will we gradually place the aircraft back into our schedule.

As part of our faced approach to reintroducing the 24 MAX aircraft that we have in storage today, we'll begin with five aircraft flying in the first two weeks, that's 22 departures per day. Two weeks later we'll add 12 more aircraft. The remaining seven will be faked into service two weeks after that and we'll add additional MAX aircraft as they become available. And note by year end 2020, we have planned to take delivery of an additional 26 MAX aircraft for a total of 50 in our fleet. While 10 of those 26 aircraft had been built we don't know exactly when they'll be delivered or when the remainder will be built.

Restoration of operating reliability will drive customer satisfaction, but there is much, much more that we're doing to make the journey more efficient, easier, and more enjoyable for our customers.

In fact, here are several enhancements that launched in the third quarter, which demonstrate a steady and consistent focus on improving the customer experience. First off, we put - we've added rich digital content, which has helped drive a 25% year-on-year improvement in premium economy ticket sales on aal.com. We created unique opportunities for our customers to upsell into the premium cabin, thereby significantly growing ancillary revenue and approved system that makes it easier for families to secure seats together has been added. And we've recently launched board notification to reduce the wait time at the gate for customers. And we're speeding customers' boarding through biometrics, biometrics boarding at DFW for international departures.

And when there are disruptions, we've added the ability for customers to change flights and receive compensation before traveling to the airport. And we've automated hotel, meal, and transportation vouchers delivered electronically to customers during disruption.

The steady stream of customer-focused deliveries provide better experience for our customers, for our team members, and certainly better results for our shareholders. We have a pipeline of additional customer friendly features that we expect to launch in 2020.

The foundation of customer preference begins with our network. We continue to be extremely excited after seeing the results from our network expansion plans with growth targeted our most profitable hubs. This effort began in May, where we added 100 daily departures out of our DFW hub. With nearly two full quarters under our belt the results have exceeded our initial expectations.

During the third quarter, we grew domestic capacity at DFW by 9% to produce fragile growth at the hub of 3.5%. This is the largest capacity expansion at any hub in the United States in more than a decade. It sets the stage for additional plant expansion next year in Charlotte and at Reagan National in 2021.

On the partnership side late in the quarter, while Tom notified us of their intention to leave the OneWorld Alliance and a formal relationship with Delta. Well, that's disappointing, but not surprising given the regulatory challenge our proposed joint venture fate. Our vast South American network will ensure that we recaptured the majority of the potential coacher revenue on our own aircraft, and that's already proven to be the case. There has been no revenue impact since the announcement. American remains the largest U.S. carrier to Latin and South America, and we were committed to providing the best service to the region for our customers.

Recently, we announced additional frequencies between Miami and Lima, Sao Paulo, and Santiago. And we're confident that with the strength of our network, we'll track other partners to -- in the region.

In the Pacific, we are moving quickly to realize the opportunities provided by our new joint business agreement with Qantas. It was approved by DOJ in July. This agreement allows for commercial integration between American and Qantas delivering new routes, and ultimately significant customer benefits, including more seamless integration with traveling on the American and Qantas networks.

So in conclusion, we have a great foundation built and our core business is strong. We made investments to improve the product; our fleet renewal is -- program is nearing completion. And we continue to refine our network to add margin accretive growth. We're confident that will deliver improve results in 2020 and beyond to benefit our shareholders, our customers and team members.

And with that, I'll turn it over to Derek.

Derek Kerr

Thanks, Robert and good morning, everyone.

During the quarter we were able to grow both pre-tax margin and earnings per share for the second successive quarter. Our third quarter results came in towards the high-end of the guidance range we provided in July. For the third quarter, our pre-tax profit excluding net special items was $835 million, resulting in a pre-tax margin excluding special items of 7% compared to 6.2% in 2018.

Our third quarter 2019, pre-tax net profit excluding net special items was $630 million; a 15% increase over the third quarter of 2018. And our diluted earnings per share excluding net special items in the third quarter was $1.42 per share, up 20% from $1.19 per diluted share in the third quarter of 2018. As Robert mentioned, the revenue environment remains strong with third quarter top-line growth of 3%.

Passenger revenues grew by 4.1% to $11 billion a record for the third quarter.

LATAM was the best performing entity during the third quarter with year-over-year unit revenue improvement of 5.9%. Brazil and Mexico led the way with double-digit improvements in yield, while we improved load factor in the entity overall by 6.5 points.

Pacific unit revenue also continues to show improvement aided by our China restructuring last year with unit revenue up 1.6%. Specifically Japan and Australia were up year-over-year, while we faced challenges in Hong Kong and Korea.

Atlantic unit revenue declined by 4.6%. This decline was driven by transfer payments related to our joint business agreement of about 2.3 points and currency effect of about 1 point. International point-of-sale remains challenging but we successfully shifted to North American point-of-sale and grew load factor by 3.2 points.

Domestically, we saw and continue to see broad-based strength with unit revenue growth of 4% and improved unit revenue across every hub. We continue to see weakness in our cargo business, weaker demand due to trade concerns across the system drove cargo yields lower by 4% for the quarter. When combined with year-over-year international schedule reductions, the result was cargo revenues fell 19.9% to $208 million.

Total operating expense in the third quarter were up 2.1% at $11.1 billion. When fuel and special items were excluded, our unit costs increased in the third quarter by 4.8% compared to 2018 due primarily to higher salaries and benefits, maintenance and regional expense, and lower than planned capacity.

Turning to the balance sheet, we ended the quarter with approximately $8 billion in total available liquidity well above our target liquidity balance of $7 billion. During the third quarter, we paid dividends of $44 million and repurchased $200 million of stock or 7.3 million shares. As Doug talked about, we have begun to delever the balance sheet as our CapEx requirements have reduced this year.

We expect our adjusted debt position including pensions to decrease by $1.5 billion this year.

On October 10, we announced we had removed the 737 MAX from our schedules through January 15, 2020. We now expect the 737 MAX grounding will have a negative full-year 2019 pre-tax income impact of approximately $540 million based primarily on loss revenue from scheduled reductions.

Now that we have removed the MAX from 2019, we expect capacity growth of approximately 2.7% for the fourth quarter and 1% for the full-year. This is less than half the full-year capacity growth we had expected at the start of 2019. Despite this capacity level, our expectations for full-year cost per ASM, excluding fuel and special items is unchanged from previous guidance at approximately up 4%.

For the fourth quarter, we continue to expect that our CASM, excluding fuel and special items will grow by approximately 3% despite the additional reduction in ASMs due to the MAX grounding in the fourth quarter.

Looking forward, we see no signs of macro softness there for bookings. We expect domestic demand to remain robust and Latin to again be the best performing international entity.

We expect our fourth quarter year-over-year TRASM to be flat to up 2% and PRASM to be about a point better than TRASM.

We also expect that our pre-tax margin excluding net special items to be between 5% and 7%, the mid-point of which would represent the third consecutive quarter of pre-tax margin expansion.

Given our expectations for the fourth quarter, we believe that our full-year earnings per diluted share excluding net special items will be between $4.50 and $5.50. We have tightened the top-end of our previous guidance of 4.50 to $6 per share due to the additional $140 million reduction in earnings from the deferral of the MAX in 2020.

Our total projected capital expenditures for 2019 is expected to be 4.3 billion comprised of 1.7 billion in non-aircraft CapEx and 2.7 billion in aircraft CapEx. The slight change from previous guidance is due to the timing of the MAX deliveries moving from 2019 to 2020.

Finally, I would like to give some preliminary guidance for 2020. We're still working on the final budget and there is still a measure of uncertainty over when our MAX aircraft will be introduced to service and new aircraft delivered and available for use in our fleet. As Doug mentioned, we plan to grow our network with efficient and profitable growth.

At this point, we anticipate total 2020 year-over-year capacity growth of approximately 5%. This is higher than the year-over-year 2020 growth we had anticipated in the beginning of 2019, but there's entirely due to the grounding of the MAX and the cancellations resulting from the disruption of our operations, which reduced capacity in 2019.

Importantly, our year end 2020 absolute capacity is in line with our expectations from the beginning of 2019. Given this capacity guidance, we have tightened our estimate for CASM ex-fuel special items and new labor agreements to be approximately flat in 2020.

With that, we'd like to turn the call back over to the operator and to begin a question-and-answer session.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions].

And our first question comes from Joe DeNardi from Stifel Nicolaus. Your line is open.

Joe DeNardi

Yes, thanks. Good morning. Doug, whatever coffee you had this morning, I would like some of that. I'm wondering if you could just talk about kind of expectations for earnings next year. If you've lost $500 million or $600 million from the MAX and maybe a couple hundred million more from the mechanics issues, how much of that can you kind of recapture next year? Why shouldn't kind of the base level of earnings for the business be somewhere closer to $4 billion next year? Thank you.

Doug Parker

Sure, Joe. Again, we won’t be able to give you a much better guidance as we get through our budgeting process just begun. We can do a better job of giving you estimates next quarter, but with the two headwinds that you mentioned that we faced this year certainly should not be headwinds next year. And the amounts you described the one you showed just a little bit down is the MAX and they're not all back in January 1, as Robert described it, they phase in over the course of the year. So to the extent, whatever that headwind was in 2019 I don't think you should build all that in for 2020. But our run rate earnings are right and I'm not by any means trying to give you an earnings estimate, but absolutely agree that whatever earnings are going to be in 2019, they're going to be a good bit better. They're going to be better for the two reasons you suggest.

Joe DeNardi

Okay. And then you've never really talked about the free cash flow outlook that bullishly. I don't think, in terms of how much it is relative to your market cap, I just want to make sure I kind of understand, I mean, from a leverage standpoint, nothing has changed, the leverage will kind of come down naturally. But we should assume that the free cash flow is primarily used to repurchase stock. Is that the idea going forward?

Doug Parker

Yes, again let me expand a little bit then. You're right, we haven't disclosed the numbers Joe really, I mean, not because they're dramatically different than we would have said in the past versus now a year. We have -- we consistently said in the past, we're going through a period of high CapEx once we get through it, you should expect to see us generate free cash flow. When we do that, we will naturally de-lever all those statements I hopefully you would agree, we always said. What we haven't been able to do or we kind of wanted to really I’m going to just tell you three years from now, here's what the numbers will be. And now and now it's upon us. And as that free cash flow gets generated in 2020, we can give you more clarity on that, so we’re happy to.

The $5.5 billion of free cash that I mentioned again is simple math on steady state earnings; we can all decide what earnings might be as we go forward. But that's what that is. And again, we certainly aren't going to be happy if 2019 earnings are the earnings in 20 and 21.

The debt paid down numbers that I gave you are reasonably simple math. Just looking at what we what we know amortizes over the next few years and what we believe we needed to add as we do have additional requirements, but obviously, the amortizations exceed the requirements. So that's -- that number again is nothing -- it's a number we go from here giving because it's what the math is telling us.

And then to your point, to the extent that first number the free cash flow generation is greater than our needs to run the airline or retire debt, we believe that cash certainly in excess of our very high cash balances is best used by returning it to our shareholders, it's their cash, us holding more than we need is a horrible use of capital. And we should return that to you as efficiently as possible. And we believe [indiscernible] by repurchasing our shares. So that's what you should expect to see from us.

Operator

Thank you. Our next question comes from Brandon Oglenski from Barclays. Your line is open.

Brandon Oglenski

Hey, good morning, everyone and thanks for taking my question. Doug, I guess just looking back on the last couple of years I mean, I understand that the MAX definitely was quite disruptive this year, and you guys do have some good things going on in the network. But even giving credit for that, it does look like your Op income is still down on like a two-year basis and what's been a pretty robust economy. And not that we're necessarily comping every day to your peers, but their Op income is up in that same time period. So what retrospectively looking forward, what can change in this dynamic where American can start to really leverage the economy?

Doug Parker

Sure, thanks, Brandon. Again well I don't have those numbers in front of me, what I do know is first off I would always argue that for airlines operating incomes is a tough measure to look at if you're trying to really look at just the operating performance and I encourage you to look at EBITDA, I know we always encourage you to capitalize our operating leases on the balance sheet.

And you should do the same thing by not including the operating leases in your operating cash flows and it makes a difference. So, when you do look at EPS, so I'll suggest when I look at the numbers myself is part of what you're seeing in deterioration relative to others is what I just talked about, which is our fleet modernization, which is now done versus theirs, which is about to come.

But putting it aside, I don't disagree with your point and none of us should that we've underperformed elsewhere not just in the ownership costs. And as we look to that, the primary reason is related to the issues we talked about. We have seen our properly adjusted [indiscernible] adjusted, unit revenue gap certainly versus delta which was widening as we - every year since the merger, I'm sorry, which is narrowing every year since the merger, starting to widen the last six quarters. And that's not what we should be doing. We should be narrowing that gap, not widening it. Again, there are a number of reasons as to why it is but the biggest ones tend to be that we haven't executed on an operation. But I'm aware there's no doubt that 737 MAX issue certainly has led to the widening of that gap. But as opposed to trying to explain what it is, what I'll tell you is we're committed now to going forward and we feel very good about that.

Brandon Oglenski

Okay, I appreciate that. And I mean the relationships still kind of hold on EBITDAR basis, but that sounds good. I guess on the upside though, you guys did call out. I think Dallas in the second quarter, RASM being up a 1.5 points, I think now you're talking about in, and correct me if I'm wrong, but the hub being up about 3.5 in the third quarter. So it looks like maybe incrementally as your hubs scaling here, it's getting better performance. Is that right? And do we think that Charlotte can be the same in 2020?

Doug Parker

Vasu Raja is here and we'll let him take that one Brandon.

Vasu Raja

Yes. And so a little bit of the effect that you see is really the effect of the peak of summer happening more in the third quarter. That said we do see a significant benefit as we improve the connectivity of our hubs. We see that not only the marginal revenues of our new flying is coming in well above the system average it's having a meaningful impact on all the flights that remain.

So for example, the new flights, the new routes that we added, the new frequencies came in about 85-plus-percent marginal PRASM, we're expecting to come in at 75% but had a meaningful impact on our big trunk routes, DFW-LA, DFW-Vegas. We do anticipate an effect like that in Charlotte.

And indeed we expect a meaningful effect in Charlotte because while we grow the hub and departures and improve the connectivity, we will also up-gauge the hubs. So we will have more seats on all of those, those are really [the bench] [ph] connection.

Operator

Thank you. Our next question comes from Jamie Baker from JPMorgan. Your line is open.

Jamie Baker

Nice to hear the renewed vigor. Are there any triggers with Boeing in the contract or potentially with lessors that would allow you to alter the delivery schedule once the MAX pipeline resumes? Also on the 5% capacity growth, what metrics do you look towards next year in determining if that's the right rate for example, would you tolerate margin contraction in 2020 after all with the pace of the buyback, you could still take out some earnings growth and free cash flow but at lower margins, would that be deemed acceptable by the team?

Doug Parker

Let me try [indiscernible]. Irrespective what the contract, may or may not do, we want these airplanes. We want, if we refine them all today, we'd be doing. So as soon as they can be as soon as they're certified, and we have got pilots trained, we'd like to get them into service as quickly as possible. What Robert described you is what we believe is as quickly as possible. So that's, and that's the great thing to do is so we're not looking to change the delivery schedule and if anything we'd like to accelerate the delivery schedule. We feel really good about our growth prospects. Second part of the question, sorry, I think I might have answered already but go ahead.

Jamie Baker

Yes. Would you tolerate margin contraction next year after all, and not that be involved into a modeling discussion, but still get the earnings growth and free cash at lower margins. Would you accept that outcome?

Doug Parker

We -- we're not -- anyway -- we‵re going to try and maximize value at all times, not so much try to manage earnings as much as maximizing value.

We believe the way to maximize value is to continue to expand our network. We have fewer players today than we would like. That's a rare situation for American Airlines. But I'll tell you, every meeting we have with our planning team; they're looking on the table asking for more aircraft not fewer. We want to get those airplanes into the system. Again, this is not, this is growth you should be happy about that we work on the table for. This is in our core markets filling out something that is very rarely able, we are able to do. We just take hubs Dallas/Fort Worth and Charlotte where we have gauged and add more flights into those hubs, that's really, really good growth. And we want to do it as quickly as we can and irrespective of what that may do next year's margins earnings I don't know. What I know is that [indiscernible].

Jamie Baker

Okay. And second question, does the free cash flow commentary for 2020 include or is it predicated on Boeing competition?

Doug Parker

It is not. I told you - again what's predicated on is, to be crystal clear, it is predicated on flat earnings year-over-year, so that's what it is.

Jamie Baker

Perfect.

Doug Parker

And again that's not an earnings forecast. It's giving you a free cash flow number, if we had flat earnings, you should do your own earnings forecast. We'll do our best to give you a better guidance on that next quarter.

Operator

Thank you. And our next question comes from Darryl Genovesi from Vertical Research Partners. Your line is open.

Darryl Genovesi

Hi, good morning everyone. Thanks for your time. Doug, if I just take your $540 million number from the MAX that you laid out. I assume some of that -- I think some of that would probably reverse in 2020 even if the MAX doesn't come back at all, just because it's no longer a surprise that you don't have it. Is that accurate? And can you help us break out sort of the impact of having to sort of manage the schedule on a day-to-day basis the way you did versus the impact of just having less capacity overall. Does that make sense?

Doug Parker

Yes. I think I understand the reverse side of it. What we have to remember is, I mean this is really total revenue that we lost on this is about $700 million. If you take the proposal that's the 540. So really we were lower ASMs by about 1.8%. So we just didn't fly those ASMs right. We don't get those back. So that revenue doesn't come back. Now the expenses that we had and we spent on there, those are going to be there. So you should have not see, when we put this growth back in, you shouldn't see the CASM go up as much because of the fact that the expenses were already there. So the 540 is really a number where you take about $700 million of revenue due to the not flying offset by some costs that gets you there. And you're right; the costs that are embedded in the airline today are here already to fly the aircraft when they come. So that should be, I shouldn't have to add those costs as those planes come back in. And I think that's what you're asking. Right?

Darryl Genovesi

Actually, I was kind of asking more about the scenario where, you sort of don’t -- you kind of don't get it back, right. I mean, suppose, you know, January 15th ends up being way optimistic. I'm just trying to get a sense of how much I should expect this, how much I should expect this flat CASM ex guide to move around based on the fact that I think, there are probably, for instance, I mean you're probably not going to be asking, pilots to be on schedules and getting hit by that to the extent that you did early on in this process. And so I guess I was thinking that there's probably some CASM ex relief associated with just not kind of having to manage things on a day-to-day basis like that.

Doug Parker

Yes, you're definitely right on that. This is assuming the MAX coming back at the schedule that Robert had talked about. There could be changes to that just depending as we go forward. But this is assuming the MAX schedule that Robert talked about where they phase back into the early part of the year. And the deliveries do come in.

Robert Isom

Hi Darryl, I'll just add that. The pilots are here, the flight attendants are here, the gates are here. So for the most part, we're ready to fly these aircraft. If we want to hear something from Boeing that was just incremental changes there's not on a heck of a lot that you can build that. To the extent that there would be something that say you don't give us much more visibility long into the future. Of course we would make adjustments. But right now it's really just around the edges that we can cut back.

Darryl Genovesi

Okay. And have you slowed your hiring at all? In submission [ph] that just keeps that this continues to linger?

Doug Parker

We slowed early in the fall here, but then we're hiring back up to meet the schedule needs for early part of the first quarter. So we're back making sure that we can fly the schedule that Robert talked about with the aircraft coming back, so that when they come back, we're ready to roll.

Operator

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

Doug Parker

Hey, Hunt.

Hunter Keay

Hey, Doug good morning. I actually have a question for Derek and a question for Vasu. Derek, can you just help me understand the accounting of how you guys will realize the concession payments from Boeing don't care how much it's going to be just want to know if it's going to impact the P&L is my main question?

Derek Kerr

We do not have an answer on that yet. It all depends on how we get it back. The accounting is if you get it against the aircraft price that would just go into reduced aircraft price and wouldn't hit the P&L. If it comes back as lost earnings, it possibly could hit the P&L. So we don't -- we do not know yet. We're in negotiations with Boeing and have continued to talk with them. And as we continue to go through that, we will update everybody on where it will hit P&L and if it will hit the P&L and what that number is going to be.

Hunter Keay

Okay. Great. And then Vasu, the 5% capacity growth. I'm surprised that's so low, it implies only about 3.5% core growth in 2020. Can you help me? Can you peel that back for me a little bit? I mean, how is this so low and maybe you can talk about a mix of domestic and international gauge anything like that I was expecting you guys to show more like 4% or 5% sort of core growth. So is that a conservative number, any color on that would be great from your perspective. Thank you.

Vasu Raja

Yes, hey Hunter first of all, we're still working through our high level of operations for next year. But I'd say the simple way to think of it is that about a quarter-and-a-half or so is just the bring back of the MAX. The remainder of it is the growth of our core business. And of that remainder, it's pretty evenly split between just a variety of gauge initiatives and an actual departure-based growth.

As far as the domestic and international split we're still kind of working through that right now. Of course, we've announced a lot of international receiving probably backs off for some of it. But we anticipate that domestic will moderately outgrow International, but it'll be pretty close. But we're refining it more in the next quarter.

Operator

Thank you. And our next question comes from Duane Pfennigwerth from Evercore. Your line is open.

Duane Pfennigwerth

Hey, thank you. Derek, sorry, if I didn't hear it correctly. But does your flat CASM outlook or preliminary flat CASM outlook include or exclude new labor agreements?

Derek Kerr

It excludes labor agreements.

Duane Pfennigwerth

Okay. And how would you handicap probabilities. And I know you don't want to talk about terms but timing on mechanics and pilots next year?

Doug Parker

Hey Duane, I will talk on that one. Again I said in my comments I’ve agreed NMB’s request not to discuss, we’re under negotiations and that starts to do it. I know it's important to you. We hopefully understand, we're much more focused on getting the negotiation done. I don't want to jeopardize that. So if you don't mind, what is telling you that we're happy to run negotiations, we're happy that the NMB has asked us in post live not to talk about it. We think that helps the negotiations rather than hurt them and we don't want to violate that when we do have a contract. We will absolutely let you know the answers to those questions.

Duane Pfennigwerth

Totally fair, sorry for asking.

Doug Parker

Okay, not a problem.

Duane Pfennigwerth

Appreciate the surprise that was kind of dumped on you by the Chilean courts, which catalyzed this change with LATAM. But can you talk about how you're going to replace that feed? For example, would you envision a JV across multiple airlines in South America?

Robert Isom

I'll go ahead and then start on that. The great news is that our network by far the best in the South America, there's a lot that we can do to augment that on our own. And while again, LATAM was disappointing you also have to realize the nature of what that was and what it could be. So for now, customers are choosing to purchase American and fly American. And as we take a look at what goes for of course that network we have in South America could be really attractive to a lot of partners. And so we're busy working and exploring and evaluating the opportunities that are out there right now so, good things to come.

Operator

Thank you. Our next question comes from Savi Syth from Raymond James. Your line is open.

Savi Syth

Just a question on the International growth here in the Trans-Atlantic. I recognize you had some individual items and FX that was kind of hurting it, what’s driving the kind of the double-digit increase and would you expect that to moderate, given the unit revenue pressures?

Vasu Raja

Yes, hi this is Vasu. Look a lot of what's really driving our capacity growth that growth was just simply the growth of capacity. As Derek mentioned in his opening remarks in the last year, we did a lot to go and restructure international network, we cut something in the order of 17 or 18 routes across the system that were really long-term money losers, and we turned them into 22 new routes, much of which was growth in Trans-Atlantic and all of which is coming at a really attractive revenue clip.

They are having some issues in 3Q with foreign exchange and things like that, as Derek mentioned, but the marginal profitability of the routes we've added in Trans-Atlantic has been pretty impressive. And indeed, year-to-date, our Trans-Atlantic unit revenues on an absolute basis have been higher than they've been in any point since the merger. So we're encouraged by it. It's been really great utilization for our airplanes, and all together margin positive for us.

Savi Syth

Thank you. And then if might ask on the network side question, just curious on your view on Chicago, it's -- you've made some changes there. And one of your competitors is definitely kind of refocused in that hub and now is -- is they kind of introduce the 550 some of those the leadership that you had with some of the kind of the taking advantage of your larger great regional aircraft opportunity there. That advantage seems to be eroding as we look forward in the network. Any thoughts on how you view kind of the performance in Chicago and your positioning in Chicago?

Robert Isom

Yes, we're actually really excited for our future in Chicago on a number of levels that I mean for one, and I've talked about this probably in lot of forum, removing Chicago to Asia, for us has been actually a big benefit to the Chicago hub. A lot of that was not just unprofitable flying in and of itself, it was claiming space off of domestic airplanes and things like that that could have otherwise gone to other customers in the Chicago local market or people connecting from other parts of business.

So that alone has been a big change in Chicago. And also as we look forward though, our principal competitor there is indeed rolling out the new product, the reality is, we still will be able to offer more First Class seats to the Chicago customer. We absolutely intend to continue doing that.

One of the major things that we're excited for, as we go into next year and work through the MAX situation is it will have a lot more flexibility to do things like bringing the A319 into Chicago, which will enable us to kind of upguage regional jet markets to vary our capacity more through day of week, create a lot of variability in the schedule that ultimately goes into tracks the key business customers in the Chicago and Greater Midwest area that our principal competitor seems to be targeting.

So we very much like our chances out there, we very much will continue to do that. And even going forward looking longer run as we ourselves continue to aggressively replace single class 50 seat RJs with 2-class airplanes, Chicago will be a place where we'll continue to thrive and be able to produce some improving results.

Don Casey

This is Don. I will just add one more data timeframe and we really have performed the domestic business in the third quarter we have 12% and our best performing hub for unit revenue was Chicago.

Operator

Thank you. Our next question comes from Rajeev Lalwani from Morgan Stanley. Your line is open.

Rajeev Lalwani

Hi, good morning gentlemen. Thanks for the time. Doug, a question for you, I appreciate the enthusiasm this morning but what makes this time different versus before? I mean, we've heard relatively bullish pitches from you and I'll stay down in Dallas a couple of years ago, so what stands out this time versus then the story get the buy-in from investors and analysts alike?

Doug Parker

One, you haven’t heard from us before these cash flow initiatives, other cash volumes, sorry generation because we couldn't say it before. Again, that's not anything I feel pretty badly about. We needed to invest in this company. And we were describing the time to our investors and it was going to be significant. And the reality is, while we were making record profits, we weren't generating cash flow because we were spending it on upgrading our fleet of that $31 billion I talked about in the last six years, $23 billion of that was spent on new airplanes. So that's behind us, so that's a new message, hope it gets a change in bullishness, it's a new message and one that I think is important to our investors. So that's point one.

And the other only what I'd add to the bullishness piece is our bullishness at the moment is not driven by us seeing anything differently than anyone else, it's driven by our absolute understanding that we -- our earnings this year were hindered by two circumstances that we fully expect to be behind us early in 2020 and our commitment to ensure that we have operational excellence and the growth prospects all of that as we try in Chicago, in conclusions that’s what we are.

Rajeev Lalwani

All right, that’s helpful. And as a follow-up, just maybe for Derek as well broadly on labor, I don't want to talk about specific contracts but broadly on labor, do you believe that you've got a step-up in wages to get the buy-in of employees? I mean, that was sort of a strategy united it seems to be successful for now. But maybe I'm not thinking about it or approaching it the right way that that may be needed to deliver on some of what you're describing?

Derek Kerr

Yes, look as we talk to our employees, the biggest thing we need to do for our team is provide our live operation. We and thanks to some frontline leadership have done a really nice job of taking care of our team we have, as you're well aware needed to increase compensation across the board to get our wage levels to where their peers in other airlines are because they certainly deserve to be paid relative as much or more as those that are doing similar jobs at airlines.

But this the issue we're dealing with now as it relates to the team is, we need to give them the tools they need to do their jobs, which they do so incredibly well. That's go and take care of customers. And we haven't been doing that. We don't run, we don't have operational excellence; our team ends up bearing the brunt of that. They end up not being where they're supposed to be, they end up having inventory over time, they end up having unhappy customers, all of which impact the runoff. So what we're -- what we know and further is operational excellence is to our customers and to our shareholders. It's really important to our team, and that's all those reasons why we're so committed to making sure it happens, and we believe doing that will do more for our team than anything else we can do right now.

Operator

Thank you. Our next question comes from Mike Linenberg from Deutsche Bank. Your line is open.

Mike Linenberg

Yes, hey Doug. Hey, two quick questions here, I guess on fleet, Doug, the $8 billion to $10 billion reduction in net debt over the next five years. Presumably, there's no major fleet decision for American probably out till

2024, 2025. That's kind of implicit in that. And if that is the case, what is the next aircraft type in the fleet that you're looking at that, you then have to address? What's the timing on that? Thank you.

Doug Parker

I would add, I'll let Derek to add. Yes, that's Mike. [Indiscernible] we will have the MDAs were gone out, the A190 were gone out of the fleet, the 760 were gone out of the fleet, 75s will eventually go out of the fleet. So the next real big decision for us is in the A319 category. Everything else will those aircraft are and on average 15 years today. So as you said, we don't have any decision to make until, 2025 timeframe, we might talk earlier, but I think it's really in that category, the 319 category and what will be the replacement for that and our 320 at the bottom and 150 seat range to 130 seat range.

Derek Kerr

And Mike I've got the data points for you and everyone else. As we look at our fleet now, only 10% of our fleet, only 10% of our fleet was 20 years or older as compared, contrasted to our two large competitors have about a third of their fleets 20 years or older. So anyway, it'll be a while, we feel very good. And indeed, over half of our fleet is zero to 10 years. So we again, it took us a while to get there, we had to spend a lot to do it. But we feel really good about where we are with our fleet and certainly relative to our cash needs versus our competitors going forward.

Mike Linenberg

Agreed, great position to be in. And then just my second follow-up on, on the A321 NEO, I mean, you're obviously taking delivery of them now and into 2020. Given that you are I think Airbus you may be their largest customer for the A320 family right now just looking at your fleet and the potential, any chance that you can have those airplanes deliver out of Mobile rather than Europe as we move forward?

Derek Kerr

Yes. I would say, this is Derek and we have already a schedule out through the mid of 2020, where we'll have nine coming out of Mobile, six of them are Hamburg today. And then we have still six to be determined. So we'll do everything we can, we have 21 deliveries for the next two years, we're doing everything we can to talk to Airbus, to try to get them out of Mobile and make sure that those aircraft come from that manufacturing facility instead of Hamburg. But as of today of the 21, we have come in six come from

Hamburg, nine from Mobile and six yet to be determined, which are late in 2020 that we will continue to work to get to those out of Mobile.

Doug Parker

Hi Mike, impliciting your question, I think is that if we didn't do that that we would be paying the tariffs, as what you have been saying that, let me assume we did.

Mike Linenberg

Yes, definitely.

Doug Parker

Look what we know don't think no that the USTR place the tariffs with the level it did to ensure that the burden didn't get borne by U.S. airlines but by the French. So we're happy to work with airbus to mitigate that amount. But I don't think you should assume that if it's not mitigated that American Airlines would be -- would be a worse borne.

Having said that, what we really hope is that it never get to that point, the answer this is not to keep escalating and having tariffs on both sides. The answer to this is for the European Commission, USTR sit down and work this out in a way that doesn't have tariffs going places. But if they can't do that, this again, we're certain that the goal of the USTR was not to have these tariffs paid by U.S. airlines, and then passed on to U.S.

Operator

Thank you. Our next question comes from Helane Becker from Cowen. Your line is open.

Helane Becker

Thanks very much operator. Hi, everybody. And thank you for the time. I just had two questions. My first question is with respect to how you're intending to use Envoy on some of your other regional airlines for the capacity growth that you're doing in Dallas, in Charlotte. And then my other follow-up question is, as you think about growing Latin America, which you’ve talked about in your prepared remarks relative to taking up that capacity that you're kind of losing with LATAM, is there space at Miami that do the same thing you're doing in Charlotte, DCA and in Dallas? Thank you.

Vasu Raja

Hey, Helane, this is Vasu. Let me take your questions in reverse order. First of all, space in Miami. Yes, we have the space in Miami to grow in any number of ways adding the three flights that Robert mentioned earlier and is all accommodated within the capacity footprint that we have there. We have a really great position in Miami, a really great relationship with Miami airport and community at large. And so the way we see this is Robert says that we will always have the biggest and the best Latin American network, it is at the very heart of our competitive advantage as an airline. And that's one thing that that even through all of this stuff we will continue to do and will continue to be able to go and operate in Miami and grow there, though it doesn't have the profitability of markets like DFW and Charlotte, there are routes out of Miami that are among -- are most critical for our customers and certainly and in certain days a week in times of year, it was really attractive marketplace for us and you'll see us take full advantage of that in the year ahead.

To your first question about Envoy growth, which I think in part you meant Envoy maybe you meant kind of regional versus mainline. I'll speak to both, our growth this past year has been heavily driven by the regional operations. Next year it will be more heavily driven by our mainline operation. Our growth in Charlotte especially is less about growing our regional jets. It's about one improving the connectivity of the hub making more O&D market and very critically having more seats on all those O&Ds. So you'll see a few things like bring the 737s in the larger degree, turn more regional jets in the mainline, we endeavor to do the same thing in DFW as well. Now that said our regional jet network is a very critical part of our airline that does, as we say the little jets make the big jets go. And so we -- there will be a big dose of regional jet growth as well. It'll just lag the mainline next year, whereas this year it kind of outpaced the mainline.

Operator

Thank you. And our next question comes from Dan McKenzie for Buckingham Research. Your line is open.

Dan McKenzie

Hey, good morning, thanks for the time here. If possible, I would love to clarify the messaging on 2020, so CASM ex-fuel flat next year, you expect to grow earnings investors are going to interpret that as your base outlook for either revenues to be flat or up despite a pretty high capacity picture. So not asking for 2020 revenue guidance, of course, but just trying to make sure there is just no flaw here in the preliminary? Thank you.

Doug Parker

But you are asking for revenue guidance. If we take out the CASM is flat [indiscernible] earnings are up, sounds like that revenue guidance. But look I wanted to go back to what we said so far Dan and we are not yet prepared to give you real guidance on earnings in 2020 because we are doing our own work and so we will let you know more as we know more ourselves. Certainly in the next call, we want to give you better guidance on 2020. Earnings forecast but and you should do your own work on what you think about and thinking on revenue and where we are relative to that, right now we can't give you much more than this.

Dan McKenzie

Yes, understood. Okay, had to try of course. Okay, so good commentary, free cash flow demand, solid revenue backdrop, there is worry that the parallel universe that the consumer today goes the way of the industrial sector tomorrow, I've had more than one conversation with owners about what Americans earnings would look like in the downturn. And again, I know that's not your message today, but can you talk about the fleet flexibility, so both narrow-body, wide-body and is there a way to get ahead of the economic data points as they start to worsen?

Derek Kerr

Yes, Dan we have a significant amount of fleet flexibility. We have unencumbered aircraft, some 264 aircraft, almost 100 of those mainline, 172 Regional, we have 65 deliveries to come next year which we could, we could deal with if we needed to lease extensions, there's about 47 of those that would come off and then older aircraft, we have 53 of those, which most of those are in the unencumbered category. So and we have upwards 300 350 aircraft, fleet flexibility that if something happened, we could take the fleet down, if required if there was some type of a recession or anything like that, but as I said earlier, we're not seeing anything like that in our bookings, and things just continue to stay strong.

Operator

Thank you. And we'll take our last analyst question from David Vernon with Bernstein. Your line is open.

David Vernon

Hi, guys, thanks for taking the time. Question for you on the focus for 2020. Obviously, Rob and Doug you talked about getting the anti-performance and the basic execution done and improved. I'm just wondering if there are specific things in the revenue pipeline that will help you to narrow that gap that you mentioned before on the unit revenue side with some of your peers.

Don Casey

Yes, this is Don. Again, if you go and look at our past year’s unit revenue performance this year in 2019, we did better than our [indiscernible] by 1 point based on guidance for 4Q that was based on the readiness in the pipeline this year, which also included our growing operation in Dallas, which we had in place, 1st of July. So as we look forward into 2020, we continue to have a pipeline of revenue initiatives.

Obviously next year, big part of that is going to be the annualization of growth in Dallas, adding the growth in Charlotte, and we are going to be updating and adding seats to airplanes, which is going to be great thing to our revenue performance in 2020.

David Vernon

Anything on the product set specifically that you can talk to around whether it's some of the premium products or some of the other work you've been doing on the cabin side that would help us kind of look for scale to get some update?

Doug Parker

Don you can chime in here, but hey one is that we're finally getting to the point of being able to offer instant upsell in higher level cabin. So as we've been improving our affiliate segment, whether it's through main Cabin Extra or premium economy type seats, being able to offer that to customers in a convenient way, is something that we finally have the technology to be able to do and that was launched earlier this summer, expanded throughout the domestic and now we're looking to move that that to international and also into other channels as well.

So that's something that will absolutely help us take advantage of the product offerings that we have out there.

And to Don’s point, in terms of being able to harmonize our cabins and ensure that we have the configurations we want. We had to take a hiatus because of operational issues this past summer on those programs, those have been restarted and we anticipate that our 737 classic fleet will be fully upgraded by the summer of 2021.

David Vernon

Okay. And then maybe just a quick follow-up on the deleveraging that's going to happen over the next couple of years. Is there anything you can tell us about the rates on this that you'll be retiring versus the rates you're paying on more recent debt like is there going to be any sort of shift in the effect of interest rate as you are modeling out the next couple years for cash flow?

Derek Kerr

I would say -- this is Derek. I would say no, I think our average debt is around 4% right now. So most of the higher price that we've paid off, it might be slightly higher of the old things we are going to pay off because most of it is aircraft that will include pension too. So we're going to take the pension down by about $3 billion in that calculation. So from an aircraft standpoint, it will be older aircraft that that is probably up in the 5% range, little bit higher than what our average cost of debt but not significantly higher.

Doug Parker

Just for clarification, $3 billion in the $8 billion to $10 billion.

Derek Kerr

Yes, $3 billion is in the $8 billion to $10 billion sorry of the -- over the five-year period.

Operator

Thank you. And we will now open up the lines for media to ask questions. [Operator Instructions].

Thank you. And our first question we will take is Alison Sider from Wall Street Journal. Your line is open.

Alison Sider

Hi, thank you so much, hi. I was wondering if you could tell us anything about sort of the tone of the discussions you're having with Boeing around compensation. Is there progress being made or from your comments this morning, is there concern about an impact there?

Doug Parker

Alison I will start. Again the discussions are underway, but I guess I characterize it as early. I think not just -- no reason for us to be concerned at this point, but also no real clarity at this point. Much of the reason being, from the standpoint of Boeing still not certainty as to when the aircraft will be recertified. So talks are underway but they're early, but we feel highly confident that the losses that American Airlines have incurred, won't be incurred by American shareholders but will be borne by the Boeing shareholders.

Alison Sider

Got it. And are you concerned at all about any additional delays in return to service timing and I guess, broadly do you feel like Boeing, the leadership changes this may lately have gone far enough or do you think the company might have to do more?

Doug Parker

We were asked to return to service. The answer to that question asked to return to service. Our -- the date that we have January 15 is based on the best information we have from talking to not just Boeing but the FAA. We were encouraged to see Boeing announce I think earlier this week that they believe the aircraft will be certified in the fourth quarter.

So, that information, I guess is probably -- it's probably safe it is probably best described that information in best case given what we've all seen over the course of this process, but it's a reasonable case. And therefore, we, if indeed, that is -- that situation is correct, if indeed the aircraft is recertified in the fourth quarter, we absolutely, we will be able to have our five airplanes as I described, certified flying revenue as early as January 15. If indeed that doesn't tend to be the case, we will once again, need to adjust. And we've unfortunately are getting really good at that, we have designed this one in particular, to be easier to do than others in that regard.

So, yes, we're frustrated. But it is hopefully getting to the point. It certainly feels as though the delay that we hear about seem to be shorter delays. The confidence seems to be higher. But we don't take that as certainly close to it. But based on everything we know today, certainly seems reasonable to have these aircraft and our schedule to five airplanes January 15 and we are highly to be the case. If indeed that has not been the case, we will adjust and let our customers know well in advance.

Alison Sider

Got it, thanks and on leadership.

Doug Parker

Okay.

Operator

Thank you. And our next question comes from Dawn Gilbertson from USA Today. Your line is open.

Doug Parker

Hi Dawn.

Dawn Gilbertson

Hi, good morning. Hey, two questions. One Robert you mentioned under your consumer initiative, new technology, I think you said related to helping families sit together. Can you go into any detail on that? And my second question is seat fees are really prevalent right now. And I'm wondering where that you can give any sense of the revenue opportunities there and where that ranks right now in terms of ancillary revenue? Thanks.

Robert Isom

Hey Dawn, I didn't hear the second part of the question. The first part is just in terms of sitting families together, I'll just say this, we've always had a technology to help, we've improved our algorithms. And ultimately, we're getting a much better hit rate of making sure that we protect and we reserve seats for those families. And so there's good things, there's good things on that front, but all technology-based and really enhancements to processes that we have in place today. But now as it works, the second part of your question was I didn't appear there was seat fees, did you said that?

Dawn Gilbertson

I wanted to get a sense of the scope of you started these preferred seat fees and every all airlines have them now pretty much to one degree or another. And it seems to me that's got to be a pretty big revenue. You're bringing a lot of money from these preferred seat fees. And I'm just wondering if you can give us any sense of the scope of that, where you plan to take that and where that ranks now in kind of in the ancillary hierarchy?

Don Casey

Yes. This is Don Casey. We've done quite a bit on the seat service. One is just introducing different products; the main Cabin Extra we're going to relaunch with enhanced benefits a year ago, that has proven to be very successful. And again there are customers do have the willingness to pay right a bit more for their product. And that's what we're finding out in the marketplace. So we're continuing to expand the product portfolio for better products out there and provide better capabilities for customers to buy out into those better products. And we're seeing good demand. Seat fee revenue today is now our second largest ancillary revenue stream after bags.

Dawn Gilbertson

If I could just ask just a quick follow-up related to that, when you say on seat fee revenue, does that include so that includes your preferred seat fees, where you get nothing extra and also main Cabin Extra? What's in that basket?

Don Casey

It’s basically every additional charge that customer is willing to pay for a better seat on the airplane. So in the case of preferred seats, those are aisles and windows and close to the front. And they have an extra, extra leg room, free drink and better dedicated access to games and [indiscernible].

Operator

Thank you. And our next question comes from Tracy Rucinski from Reuters. Your line is open.

Doug Parker

Hi, Tracy.

Tracy Rucinski

Hi, good morning. Doug, I was wondering what is your own position on the Boeing employees’ instant messages about MCAST and the simulator and the emails that referred to not including mention of MCAST in the flight manual?

Doug Parker

We don’t have a position on that. Our position is we're highly interested in having the airplane. Boeing meet the requirements of the FAA and get the airplane recertified. I will note that we think the FAA is doing a fantastic job with this process and it’s showing real leadership. They always do on safety in aviation, and we feel really confident that once the FAA recertifies this airplane it’s one of the safest in the world. And we're looking forward to that date.

Operator

Thank you. And our next question comes from Edward Russell from The Points Guy. Your line is open.

Edward Russell

All right, thank you. Vasu I need to ask about your comments on Chicago, you mentioned offering more first class seats than competitors and then you talked about shifting to more A319s in 2020. However, my understanding it's been, it's eight first class seats versus some of your 12 seat aircraft at 12 instead of offering 10 on their new door aircraft, door class aircraft, talk a bit more about what's the strategy is to attract business travelers in the Chicago market?

Vasu Raja

Yes, Ed, great question. And importantly, the 319 eight first class seats anytime we're taking out a single class 50 seater, and replacing with bigger jet. Of course going from zero first class seats to something more than that, regardless of what it is. So with that in mind, really, there's multiple things that we plan to do in Chicago. One of which is look, we have a luxury in Chicago that our competitor doesn't have, which is that we have a gigantic East West Hub in DFW for our competitor that is the best East West Hub that they have. And so what we're really interested in doing is being able to provide the best product and schedule to the customers of Chicago to the world.

And we will increasingly do this as we move through a number of our fleet initiatives and product initiatives too. We will have better schedule on the key days the business travelers go; we will vary the capacity levels that we have in the course of the week. And then over the long-term, what will increasingly do is as we do more 50 seat replacements, you'll see more and more two-class services, whether it's larger, RJ319, or 737s coming into Chicago.

Don Casey

I will just ask Don that customers right now, I mean they like our product in Chicago and we're seeing it in the numbers. I mentioned earlier in Chicago is the highest in any hub we have and we grew our corporate passenger volumes in Chicago in the third quarter by 7%. So customers like the product we have there right now.

Edward Russell

Okay, thank you. So just to be clear, I'm understanding the 50 seaters will come out 319 this year and seat markets will step up to 76 seaters and those [indiscernible] that's kind of the idea of sort of the cascade going on for Boeing?

Robert Isom

Yes, Ed. Over time they will, we're working through what that looks like. I think at this point, we're probably not yet ready to reveal all of it. But that is our long-term plan, as long been our fleet plan and marketplace Chicago, is kinds of things we have in mind for it.

Operator

Thank you. And that does conclude our question-and-answer session for today's conference. I now would like to turn the call back over to Doug Parker for any closing remarks.

Doug Parker

All right. Thank you all very much for your interest and we appreciate it and if you have any questions, either contact Investor Relations or Corporate Communications, we will be happy to answer. Thank you very much.