**Operator**

Good morning and welcome to the American Airlines Group Fourth Quarter 2017 earnings call. Today's call is being recorded. At this time, all lines are in a listen-only mode. Following the presentation, we will conduct a 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 sir.

**Daniel Cravens**

Thanks Alan and good morning, everyone, and welcome to the American Airlines Group fourth quarter 2017 earnings conference call. In the room with us this morning is Doug Parker, our Chairman and CEO; Robert Isom, President; and Derek Kerr, our Chief Financial Officer. Also in the room with us for our Q&A session is Elise Eberwein, our EVP of People and Communications; Maya Leibman, our Chief Information Officer; Steve Johnson, our EVP of Corporate Affairs; and Don Casey, our Senior Vice President of Revenue Management.

We're going to start the call today with Doug, and he will provide an overview of our financial results. Derek will then walk us through the details on the fourth quarter and provide some additional information on our 2018 guidance. Robert will then follow with commentary on the operational performance and revenue environment and then after we hear from those comments, we'll 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 followup.

Before we begin, we must state that today's call does contain forward-looking statements, including statements concerning future revenues and costs, forecasts 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 those 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, 2017.

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 to those numbers to the GAAP financial measures is included in the earnings release and that can be found on our website at aa.com.

A webcast of this call will also be archived on our 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. Thanks again for joining us.

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

**Doug Parker**

Thanks, Dan. Thanks, everybody, for being on. Like this 2017 was a great year for American Airlines from a financial perspective as we announced this morning. We made excluding special items $3.8 billion pretax, that's $2.4 billion after tax or $4.88 a share. In terms of accomplishments, the teams did a phenomenal job through sometimes difficult circumstances.

In regard to creating a world-class customer experience we produced record-setting operational reliability to American and we did that where we continued the most aggressive and successful aircraft modernization program in the history of commercial aviation. We've introduced the best lounge product ever created by a U.S. carrier with flagship lounges in Miami, LAX, JFK, and improvements in Chicago. We successfully rolled out our basic and premium economy products. We expanded our network where we have strategic advantage which is in and out of hubs and it's all working.

Our customer survey data on likelihood to recommend is the highest of American Airlines history and our year-over-year growth in revenue was industry leading. As to making culture a competitive advantage we started the year by giving each team member two round-trip positive based tickets in appreciation of their work and allowing American Airlines to win the Air transport World's 2017 Airline of the Year award. The first time American won that since 1988.

We ensured our team member pay remained competitive through initiatives such as the unilateral mid-contract pay adjustment for our pilots and flight attendants. We invested several $100 million in team member facilities throughout the system as well as equipment improvements. We brought some maintenance work back in-house. We launched the first team member survey in over a decade and now we ended the year by sharing the long-term benefits of the recent tax cuts and jobs acts by issuing $1000 payments to all of our non-officer team members.

All that added up to help ensure some long-term financial strength we returned $1.7 billion to shareholders through repurchases and dividends. The totals versus 2014 now is $11.4 billion. We announced up $3.9 billion in revenue and cost initiatives that are expected to be realized by the end of 2021.

And then finally in terms of thinking forward and leaning forward, we forged strategic alliance with China Southern. We strengthened our relationship with our other key global partners and made important advancements in next generation technology and we improved our long term strategic position in critical airports like LAX and Chicago. So we are extremely proud of what our team accomplished and our 120,000 team members that made it happen. We entered 2018 with great momentum and we are bullish about our future.

So with that said, I'll turn it over to Derek, who will give you some more detail on the financials and then we'll go to Robert who has some more color on the revenue and the operations fronts. Derek?

**Derek Kerr**

Thanks Doug, and good morning everybody. Before I begin, I'd like to thank our team members for the great job they did in 2017 taking care of our customers. Our company continues to take great strides forward and the progress we've made is entirely due to their efforts. We filed our fourth quarter and full-year earnings press release this morning. In that release, our fourth quarter 2017 GAAP net profit was $258 million or $0.54 per diluted share, down $31 million from our fourth quarter 2016 GAAP net profit of $289 million.

On a full year basis our GAAP net profit for 2017 was $1.9 billion or $3.90 per diluted share compared to our 2016 GAAP net profit of $2.7 billion. Excluding net special items we reported a net profit of $455 million in the fourth quarter 2017 versus our fourth quarter 2016 net profit excluding special items of $475 million. Our diluted earnings per share excluding net special items were $0.95 per share which was up 3.5% from $0.92 per diluted share that we had in the fourth quarter of 2016.

For the full year our 2017 net income excluding special items was $2.4 billion or $4.88 per diluted share versus 2016 at 43.2 billion or $5.71 per diluted share. On a pretax basis, GAAP fourth quarter 2017 pretax profit was $425 million. Excluding net special items our fourth quarter pretax profit was $739 million resulted in a pretax margin of 7%. For the full year our GAAP pretax profit of $3.1 billion if we exclude special items the number is $3.8 billion and a pretax margin of 9.1%.

For the sixth consecutive quarter our fourth quarter revenue performance led the industry. Total operating revenues were up $8.3% year-over-year to $10.6 billion. Passenger revenues were up 8.1% to $9 billion primarily driven by a 4.4% yield improvement. Our cargo team continues to produce great results. Cargo revenues were up 19.7% to $232 million in the fourth quarter due in part to a 12.2% increase in volume. Other operating revenues were $1.3 billion, up 8.1% year-over-year primarily driven by higher bank fees and frequent flyer revenue.

Total GAAP operating expenses for the fourth quarter of 2017 were $9.9 billion up 9.8% versus the same period last year. This increase was driven by higher consolidated fuel expense which was up 23.5%, higher salaries and benefits expenses as a result of the mid-contract base pay increase given to our pilots and flight attendants in April 2017, and higher revenue related expenses and depreciation. As a result consolidated CASM was 14.71 cents up 7.1% year-over-year and our consolidated CASM ex-fuel and special items was 11.25 cents up 3.8% year-over-year due primarily to the expense increases I just mentioned.

We ended the year with approximately $7.6 billion in total available liquidity comprised of cash and investments of $5.1 billion $2.5 billion in undrawn revolver capacity. The company also had a restricted cash position of $318 million. Our Treasury team continued to be busy in the fourth quarter completing five aircraft mortgages and two sale/lease back transactions. In addition, we successfully repriced two term loans bringing our entire term loan performance portfolio to an industry-leading rate of 200 basis points over LIBOR. All of these transactions helped contribute to the long-term financial strength of American.

During the fourth quarter the company made dividend payments of $48 million and repurchased 4.6 million shares at a cost of $227 million. Total capital return to shareholders in 2017 was $1.7 billion, $1.6 billion in share repurchases and $200 million in dividends and since mid-2014 as Doug said our total is $11.3 billion of capital returned to shareholders. As a result of these repurchases, our share count outstanding as of December 31, 2017 was 475.5 million a reduction of 37% from the merger close in December 2013.

In addition to our earnings release, we also filed our investor update this morning. As discussed at our Investor Day in September we will now provide guidance on a consolidated basis and longer-term CASM CapEx and fleet guidance. We also disclosed in our updated that due to the adoption of new accounting standards on January 1, 2018 relating to revenue recognition as well as the income statement classification of certain pension and benefit costs, we would provide recast numbers for 2017 reflecting those changes.

Under the new revenue standard our 2017 pretax income received a non-cash benefit of $311 million. The reclassification of certain pension and benefit costs resulted in a net $138 million gain moving from operating to non-operating expense and has no effect on the 2017 pretax income. The recast financial statements are included along with the investor update we filed as an 8-K this morning and should be used as a baseline for your models.

We continue to expect our 2018 capacity to be up approximately 2.5% on a schedule over schedule basis which is consistent with guidance provided on our third quarter 2017 earnings call and in line with anticipated GDP growth. The hurricanes that hit Florida and the Caribbean last September which resulted in more than 8000 flight cancellations is expected to add approximately 50 basis points of this guidance on a schedule over actual basis. The full year growth is driven by an increase in utilization of about two points, completion factor increase of about half a point, and engage of about a half a point.

By region we expect 2018 system capacity to be up approximately 3% both domestically and internationally. By quarter we expect first quarter consolidated capacity to be up 666.2 billion ASMs, second quarter to be 73.4 billion ASMs, third quarter 76.76 [ph] billion ASMs and the fourth quarter to be 69.1 billion ASMs. As discussed at our Investor Day and reiterated on our third quarter 2017 earnings call, we continue to anticipate that our unit cost growth rates will trend lower throughout the year and expect 2018 full-year nonfuel CASM to increase by approximately 2% excluding the impact of any new labor.

This guidance includes approximately $250 million of cost reductions from our One Airline initiative which is $50 million higher than what we had outlined at our Investor Day. We expect our first quarter consolidated CASM excluding fuel and special items to be up approximately 3% to 5% on a year-over-year basis with the increase driven in part by the rate increases given to our pilots and flight attendants last April which is not in our 2017 first quarter base, higher depreciation and amortization, increases in revenue related expenses and increases in rent and landing fees.

For the remainder of the year we expect our CASM growth to trend lower. In the second quarter CASM was up 1.5% to 3.5%, third quarter 0.5% to 2.5% and fourth quarter will be up approximately 0 to 2% versus 2017. Based on the forward curve as of January 22, we are forecasting a 24.1% year-over-year increase in consolidated fuel expense in 2018 or about $1.8 billion year-over-year. We anticipate paying between $2.06 to $2.11 per gallon for the year. By quarter in the first it is $2.07 to $2.12, second quarter $2.07 to $2.12 [ph] also in the second quarter and the third quarter $2.06 to $2.11 and in the fourth quarter $2.03 to $2.08.

Following the passing of the recent tax cuts and job act our book tax rate has been reduced from approximately 38% to approximately 24%. As a result of tax reform the company recorded a special non-cash tax benefit of $7 million to reflect the impact of the lower rate on our deferred tax accounts. In addition, under the new law we expect to receive cash tax refunds of approximately $170 million in both 2019 and 2020 related to the repeal of the corporate alternative minimum tax. While we currently do not pay federal cash income taxes, the new law will substantially reduce the company's tax bill in the future when we do become a cash taxpayer which will be a significant benefit for all of our American stakeholders.

Robert will talk more about our fourth quarter 2018 TRASM forecast increase of $2% to 4% but when we combine the cost guidance we just gave we expect the first quarter 2018 pretax margin excluding special items to be between 2% and 4%. In addition, we also are providing long-term earnings per share guidance at this point. We expect our 2018 earnings per diluted share to be between $5.50 to $6.50 and we will intend to tighten that range as the year progresses.

Our capital plans for 2018 include a decline in spending from previous years due primarily to lower aircraft CapEx. Our fleet renewal program will continue in 2018, but at a much slower rate. For the full year we expect gross CapEx to total $1.8 billion as compared to $4.1 billion in 2017. This includes the delivery of 22 mainline and five regional aircraft. These will replace older Super 80s, Dash 8s and CRJ 200 aircraft.

We also expect to commit $1.8 billion in non-aircraft CapEx to continue the merger integration and complete projects to improve our product and operations such as narrowbody retrofit programs, the ongoing installation of premium economy on our wide-body aircraft and improvement in our clubs and new campus facilities.

With respect to our pensions, on our last call I had estimated that our 2018 pension contribution would be approximately $780 million which will fund our pensions to 80%. However, in 2017 our pension assets had strong investment performance and as a result we now expect to make pension contributions of only $465 million in 2018 to reach that 80% funded level. This amount is significantly more than the minimum required contribution of abruptly $35 million in 2018.

So in conclusion I'd like to once again congratulate our entire team for another excellent year and thank them for getting our customers where they need to go safely and on time.

With that, I will turn the call over to Robert.

**Robert Isom**

Thanks Derek and good morning everybody. Before I begin my remarks I'd like to echo what both Doug and Derek said and thank our entire team for taking care of our customers throughout the year. They worked through hot temperatures, cold temperatures, rains, snow, ice, hurricanes and even earthquakes and demonstrated to the world what teamwork at American Airlines is all about. So from all of us I'd like to offer sincere thank you for a great year.

In 2017 we worked hard to validate the trust placed in us by our customers, team members, and shareholders. Our efforts were focused on key areas that would help us earn and maintain that trust, such as improve reliability and revenue performance, service to important new markets, customer experience enhancements and improve team member relations.

As we look at our operations, the investments we made in prior years are starting to pay off. We've reduced schedule churn, implemented airport service management tools at key hubs, brought innovated automation tools online and enhanced our maintenance processes. All of these changes are evident in our operating stats as our performance was significantly better in 2017 versus 2016.

In 2017 we posted our best full year results in on-time departures, on-time arrivals and baggage handling since our merger closed in 2013. Our completion factor would have set records too, but was significantly impacted by the back-to-back-to-back hurricanes in September that impacted the Caribbean and Southeast United States. In November we set records in each of the core metrics and equally important, our operational performance during the peak summer and holiday periods were significantly improved versus 2016.

Our full year 2017 revenue performance finished well ahead of 2016 with a 3.9% year-over-year TRASM improvement. Our investments in our product and our team members together with highly effective marketplace execution across all commercial areas set us apart as we outperformed the industry in every quarter during 2017. We continue to innovate in revenue management with our focus on the premium cabin which delivered a full 2 points to system unit revenue improvement.

We attracted nearly 24,000 new small-to-medium sized corporate accounts through revitalized sales efforts and investments and saw improvements in our revenue share premium to fair share in the business agency channel of 2.6 points. The effective launch of our basic economy and premium economy products in 2017 were well accepted by the marketplace and we're looking forward to expanding those products further in 2018 and beyond.

2017 also brought the highly anticipated opening of the flagship lounges in JFK, Miami, Chicago, Los Angeles, which have been met with enthusiastic reviews. Flagship lounges will be added to DFW, Philadelphia, London Heathrow in the future. We also opened new Admirals Club locations in Orlando, Houston, Los Angeles Terminal 5 and Toronto with refurbished clubs opening in JFK, Chicago and Los Angeles Terminal 4.

In 2017 we also introduced several new customer service tools with dynamic re-accommodation, customer bag notification, Notify All and a refreshed mobile app. All of those tools will help to provide a smooth customer journey, both on the ground in the year. We're also enhancing the customer experience in Main Cabin Extra. As we announced in September, we'll be adding free drinks and easier to use overhead bin space in Main Cabin Extra. The new placards will go on to the overhead bins next week and that free drink is coming in the spring.

On the fleet side, 2017 was the final year of our Accelerative Fleet Renewal Program where we inducted more than 400 mainline and 100 regional aircraft. We added an average of 97 aircraft per year from 20 14 to 2017 and expect to only induct 27 aircraft in 2018. We also made good progress on several projects that will improve profitability and enhance the customer experience.

The 777-200 retrofit program which involved updating the aircraft interiors, adding new IFE and Wi-Fi was completed in mid-2017 Premium Economy officially launched in early May on the 787-9 aircraft and customer response has been very positive. More than half the planned widebody fleet now features this highly differentiated product and all planned aircraft will have it installed by the fourth quarter of this year. The 777-200 fleet, the high density 777-200 fleet and the 330-200s are fully installed and work is underway on the 777-300 fleet as well. In addition, the narrowbody satellite Wi-Fi project that we outlined at the Investor Day in September commenced in the fourth quarter.

And lastly, we completed the mainline livery repainting project in the fourth quarter. So all mainline aircraft that are planned to stay in the fleet have now been painted.

Turning to revenue, the demand environment continues to be strong. Our fourth quarter consolidated PRASM was up 5.4% and our fourth quarter TRASM was up 5.6%, marking the fifth consecutive quarter of positive unit revenue growth and the sixth consecutive quarter where we outpaced the industry average growth rate. Improvement was broad-based with every entity in a positive territory for the quarter.

In fact we closed out the year with every entity with positive unit revenue growth for the entire year. We had another quarter of strong performance in the corporate segment and forward outlook remains positive as our sales investments and initiatives continue to take hold. Corporate revenue continued to improve quarter over quarter ending the fourth quarter 2017 with the highest year-over-year growth of the last eight quarters.

In the domestic, our consolidated PRASM was up 5.7%. We were able to deliver both load factor and yield improvements with continually improving revenue management execution in both the trough and peak periods. DFW and Phoenix led the way and improved performance. The improvements were broad-based with every hub exhibiting unit revenue growth. Our Latin America performance was very strong with PRASM up 6.3%, notwithstanding Brazil unit revenue being flat year-over-year. The rest of South America, the Caribbean and Central America, all had double-digit revenue - unit revenue growth.

Atlantic unit revenue was up 7.7%, the best result we've seen since the merger. Improved execution of low-cost carrier price matching together with strong premium cabin performance due to our premium cabin initiatives were the primary drivers and the UK led the way with double digit growth.

Across the Pacific, PRASM was up 1.2% year-over-year in line with performance from previous quarters, while growing capacity by 7.5% with the launch of Los Angeles to Beijing, again our strong premium cabin performance made the material difference.

Fourth quarter cargo revenue improved 19.7% year-over-year on both strong volume and yields, continuing a positive trend that we've seen since the second half of 2016. We expect our year-over-year TRASM to be up 2% to 4% in the first quarter. This will mark the sixth quarter in a row of positive unit revenue growth. Consistent with 2017 we expect all four entities to have positive unit revenue growth led by Latin, followed by Atlantic, then Domestic and Pacific.

As we look to 2018 we continue to be encouraged with the revenue environment and are excited about what that means for American. Over the past few years we've made significant investments in our team, our product, and our operations and those are all paying off. We're proud of what our team has accomplished so far and we look forward to the future and with that, I'd like to turn the call back over to the operator and begin our question-and-answer session.

**Question-and-Answer Session**

**Operator**

Thank you, sir. [Operator Instructions] And we will take our first question from Michael Linenberg with Deutsche Bank.

**Michael Linenberg**

Okay, good morning guys. Two questions here, just on the guidance in the non-operating [ph] it looks like you're getting a $300 million benefit there and it does look like I guess Republics in there. Is some of that what just been with the pension I know you've had a pension benefit that ran through the P&L is that showing up in there? What's driving that number?

**Derek Kerr**

Yes that's all, Michael most of that is the pension benefit. The Republic, since we're 25% ownership we do have to use the equity method of accounting, but that's a small portion. In 2017 it was only $14 million. So, most of this is the pension credit, the 138 coming down to that bottom line.

**Michael Linenberg**

Okay and so that you know under the old accounting Derek, that pension piece would have just shown up in salary and wage expense?

**Derek Kerr**

Correct it would have been a credit to salaries and then wages.

**Michael Linenberg**

Okay perfect and then second question on, I really appreciate the fact that you guys are providing a fleet plan all the way out to 2020, this is great. I'm curious on two things, it looks like the A330- 300s do they go away and I'm curious if they are going to be offset by other widebodys, it looks like you're widebody fleet actually shrinks in 2020, are we going to see international capacity down? And then the E190s also look like they go away at the end of 2018 am I reading that right?

**Derek Kerr**

Yes, I think two things to look at. I think you know focus more on '18 and '19 because we know where we are on those two. The plan is to take the Embraer 190 fleet and the MD-80 fleet out by the end of '19 and that's firm in the plan. We are working from a widebody perspective as we talked about on the call as before, you see the A350s coming in in 2020, you know we've had conversations about that. Those would replace - they are currently set to replace aA330-300s and other widebodys as they come in. We have talked about that. We're working with Airbus and Boeing on other options from a widebody perspective just to see where we go with that.

So I think this can change out in the farther years in 2020. I think the fleet plan over the time period should stay pretty flat. Right now we have it going down a little bit in 2020 because this just represents the transactions that we have in place today and that are firm. Nothing other than that.

So I would expect probably from an aircraft standpoint that the 951 we have at 2018 you know probably stays pretty flat in that 940 to 950 range through 2020 and then as we see on the regional aircraft we do stay within the 600, 590 to 600 range. So there will be some tweaks and we'll continue to update you as we move forward on each of these. But I would assume that this fleet stays pretty flat over the next to two to three years.

**Michael Linenberg**

Okay great, thanks Derek.

**Derek Kerr**

Thank you, Mike.

**Operator**

And we will take our next question from Kevin Crissey with Citi.

**Kevin Crissey**

Good morning, thanks for the time. Kind of an off, unusual question I think and maybe it's for Derek or I'm not sure who should answer this. If we think about the return on invested capital of the underlying airline, it's improved significantly, and while cargo has improved, you know, you mentioned that how well cargo was doing on a year-over-year basis, I wanted to get an understanding of how cargo return on invested capital fully allocated compares to that of the airline because it might – sense is historically is that it hasn't had you know it may be was contributing when the airline was weaker, but it may be not be meeting that standard now, so I wanted to understand how you think about cargoes return relative to the airline? Thanks.

**Doug Parker**

Hey Kevin, I'll start and then Robert can just give you more color if you'd like on the cargo business of it. Trying to put a return on invested capital on the cargo business, you know which basically assumes that capital is dedicated in the cargo businesses [indiscernible]. We invest in capital through our people and cargo and we invest in their plans and a lot more for people than for cargo. So you need to put them together and it's impossible. It's really difficult and we certainly don't intend to put our returns on just the cargo business. They come together when you acquire the capital and aircraft.

We certainly don't think there's enough return in that business for an airline like American to go invest in freighters for example. That's someone else's business, but because we invest, because we do a really nice job of connecting people around the globe, we can indeed fly around our cargo and then again that business is as you noted, as we noted is picking up, anything to add Robert?

**Robert Isom**

No this is just that, that belly space on those aircraft are going to be flying around no matter what we do and the cool thing about the fleet renewal program is that as we take a look at 767s leaving the fleet and bringing on things like you know 787s, the capacity that comes with that is really helpful.

So we're seeing benefit from that, both in the opportunity to put more cargo on the plains and at the end of the day I'm really confident that the profitability, the marginal profitability of that product is well worth being in the business.

**Kevin Crissey**

How was it that you determined the appropriate pricing levels then forward if it's seen as like basically free belly space?

**Robert Isom**

It's free belly space. Of course there's equipment and people in that and we price it to achieve, you know and we're not going to get into that today, but we price it to achieve what we consider a significant margin and you know a margin that in many cases exceeds what we would see from aspects of our passenger revenue.

We've got a great cargo team led by Rick Elieson, who was appointed earlier this past year taking over from Jim Butler. We're returning to levels of production that we really haven't seen since 2014. And when you take a look at, you know, what we've actually produced over the last couple of quarters, it's both volume and yield based, so you know all good.

**Kevin Crissey**

Thanks for taking the kind of offbeat question.

**Robert Isom**

No problem, thanks Kevin.

**Operator**

And we will take our next question from Hunter Keay with Wolfe Research.

**Hunter Keay**

Hey thank you guys, Good morning. Doug, I appreciate your leap of faith on the earnings guide, I really do, but then I probably know the answer to this, but was this the same EPS range that you expected to provide a couple of days ago, before United announced their, let's just call it ambitious capacity plan?

**Doug Parker**

Yes.

**Hunter Keay**

Okay, thank you. And then just a quick followup, does this include buybacks or no? I would guess it does right?

**Doug Parker**

It was arranged for a reason as an EPS.

**Hunter Keay**

Okay, fine and then Robert, in the opening remarks, funny you cited effective LCC price matching is a tailwind to your transatlantic RASM, it's funny. You get – calling price matching is the reason your RASM was good. Can you, if I am not misinterpreting the comment, can you just elaborate on what you meant by that and maybe feel free to talk about that entire LCC transatlantic dynamic for a second while you're at it? Thank you.

**Robert Isom**

We'll, I would like to start on that, but go ahead and share, just as there is a price matching and you know the industry ended up much more comprehensively matching the Atlantic LCCs in October 2016, so we're kind of lapping the period where we started the matching and over the kind of the year we've become - as we looked at the results more affective at where we match, and how the yield management system views those fares and when we are open and closed. So this is really a benefit associated to better execution, right of the strategy that when the industry started to employ in October 2016.

**Hunter Keay**

I see, thank you, Doug.

**Doug Parker**

Thanks [indiscernible].

**Operator**

And we would take our next question from Jamie Baker with J.P. Morgan.

**Jamie Baker**

Hey, good morning. Doug, followup to Hunter's question, why should we believe the 2018 guide? Why should we believe anything Derek just said about aircraft? Why shouldn't we expect an incremental aircraft order, in order to offset what United is doing? I'm obviously trying to bait you, but I'd appreciate a detailed response.

**Doug Parker**

Yes, okay. Yes, I'll try not to take the bait, but I'll try – let me try and help. So I know it's important, obviously. You know, American Airlines shareholders got caught up in this yesterday too is as important, you will all have a chance to always understanding somewhat our view. But look you know we're not going to pine on other airlines capacity plans. That's for them to decide what to do to and to describe to you their plans. What I can tell - what we're happy to talk about is Americans growth which may or may not provide some insight into what's going on in other airlines and again maybe help or maybe not but I can talk about what we're doing.

So you know, Derek told you that we estimate at American that we're going to grow you know schedule to schedule only about 2.5% of growth in 2018 versus 2017, 3% when you include the fact that we had the Hurricanes in 2017. That number by itself is somewhat meaningful, but it's really important I think to understand and to try and understand what type of growth we're talking about in that 2.5% or 3% and how it relates to our existing set of assets.

So, you know, and to be clear, you know as we discussed at Investor Day, our network assets, our privileged set of assets is our [indiscernible] system. So, you know if we were to tell you for example, or that 2.5% to 3% here is what we decided, we are one of the biggest airline in the world, so we think we should serve the largest point of one [ph] market the United States.

So we're going to go out and [indiscernible] some airplanes and we're going to start adding service to San Francisco, Minneapolis, to Atlantic Houston, because those are really big markets, we will serve them non-stop. And like – and again we're a big airline, we think we should be in big markets. That would be growth outside of our core asset base and that would in engender a certain competitive response from those carriers that do have a strategic advantage in those markets because they always do have hubs on the other in those markets.

And over time we lose a good bit of money in those markets because we don't have local traffic and our competitors that have flow traffic filling up most of their seats and that would be not good growth for our shareholders. So look, well that's an example based on today's world. It's indicative of the kind of things we all used to see in the old days and I think again we're still a victim of our past when people just hear growth they think, well here they go again. And indeed that's the kind of stuff that happened.

It might be not so much that example, but what happened in the old days when in a less mature business, we airlines without real network assets were looking to use the good times to build some network assets and to take out the weakest when they did that. And that kind of growth tended to have much different kind of competitive impacts, competitive ramifications than what we're talking about here with our growth.

So let's talk about what we are doing. So we're not doing that at all. What we're doing is we're taking existing aircraft, increasing the utilization and redeploying aircraft from markets that maybe aren't doing quite as well to places where we know we can do well where we have real strategic advantage.

We're growing where we have a competitive advantage. We're creating better connecting markets. We're doing it in three ways; new cities and first off and this is, I know you noticed some changes from all those - we announced a couple weeks ago a schedule change through the summer which defines most of where we're going to be where that expansion is. So you can see it there, but we're some new cities and look there are some that get some attention and there are a little more exciting like regular [ph] Budapest and Prague, but you know the three cities that the three cities in the United States are South Bend, Missoula and Panama City. That’s where we can create better connecting markets.

We connect - we don't fly to Panama City. We had Panama City to Dallas, we open up markets to the people of Panama City and people who want to get to Panama City that don't really exist today and certainly give them better connections than they have today. So, yes, I mean look, that's going to have - that means whoever is flying to Panama City today maybe lose a little share, but it doesn’t start fare wars, that doesn’t start. There's not an ability to – that doesn't engender some sort of enormous competitor response so what do you do. We're flying - we're just making our existing asset stronger and we're providing better service and better utility to customers as a result. So that's part of it, but it's not most of it.

The second thing we do is adding - add frequency to existing cities. That's a good bit of our growth. A lot of these cities have one or two departures a day. We take them up to three, you know, cities like Stillwater and Lake Charles get up to three departures a day instead of one or two. It has the same sort of effect and we just make the connections. We create more connections for our customers, make the hubs even stronger.

And then lastly and the biggest one is connecting existing cities to new hubs and this – look this is really, this is much of the promise of the merger. For example, American Airlines has always done really well in Oklahoma City for obvious reasons, proximity to Dallas. And we have a pretty strong base of customers there. But we've never flown from Philadelphia to Oklahoma City and that's one of the routes we announced.

Once we do that, we'll go certainly create unique connections to Europe for a customer base that flies a lot already. Similarly you know we flew Wilmington to Charlotte. We can fly to Dallas. So in our announcement you see new nonstop from Wellington Dallas, this just opens up customers and connections to places like Mexico, Ski markets, Hawaii, all of which are one stop markets a customer has never had. So of the 52 two new routes we added 47 of them fall into that category, existing cities and new hubs.

So look, that's where we are at American. We think it’s smart efficient growth where we have competitive advantage. It doesn't result in yield decline, doesn’t result in fare wars. It does mostly I think better and we're not spending enough time to suggest that his is all stimulus and it's not. But it just doesn't engender the kind of response that it feels like people seem to think, we're just looking at a number because we're doing what we think makes sense given our competitive advantage.

And again, I think one way to characterize this, we talked a lot about how we think the domestic U.S. airline market has become mature. I do believe that it's mature because we have three hub and small carriers that compete aggressively against each other that can take people all over the world with a lot of between national low cost carrier like Southwest and a lot of other competitors like the Jet Blue's and Alaska Spirits of the world intensely competitive but feeling very mature. Growing out hubs is just a continuation of that mature and perhaps kind of the final stages of that maturing business.

Because once you get to a point that those are your assets it makes sense I think to strengthen them and some of us are further along in that than others. So along when we saying look the number matters, but it - I think it always makes sense to go figure out where the growth is coming from and sometimes you can get over reactions to a number and just what encouraged people to go and look at where, what people are saying about actually where they intend to grow. So that's what we think. I don’t ask if we changed our estimate based upon what we heard we have not - it doesn't - nor have we changed, nor do we have any plans to change.

Everything I just rattled off about our growth plans were in place before and remain in place now and we don't have any intention to change those based on what we know. And look we'll where people grow. We'll see where people decide to compete we will obviously respond where we think it makes sense, but it's always going to be around our core strategic assets.

**Jamie Baker**

Doug, if I were to para – that's very helpful exceedingly helpful. If I were to paraphrase that into a sound bite, do you characterize OA growth provided its hub centric and not uniquely damaging to the American Airlines franchise, yes or no?

**Doug Parker**

I'm not going to opine on other airlines growth. I spoke for five minutes and you gave me seven but I didn’t say, so make your own conclusions from what I told you about Americans growth, but you know, look we're not here to talk about what other people are doing their networks. That’s for them to decide and again we know who we are, we know the assets we have. We feel good about our growth and look all I'm pointing out is you can look at our 2.5%, 3% growth and so guess why do you guess it makes sense and I just gave you the answer.

**Jamie Baker**

Sure. My follow up will be American centric okay? So shifting this spotlight back to and thank you to indulging me, it's what people needed to hear, so forgive me for that first question.

**Doug Parker**

No problem

**Jamie Baker**

The high end of your 2018 EPS guide still falls around a billion short of that mid cycle $5 billion target. Revenue trends are looking good at the moment, labor pretty much industry wide has been remarked, but capacity is starting to creep, margins appear to have stagnated. I don't know it just sort of fuels mid cycle to me right now. So I'm wondering what's holding you or holding American back from achieving that $5 billion mid cycle target or should we just assume that the 3, 5, 7, needs to be downwardly adjusted maybe by a billion for each post?

**Doug Parker**

Absolutely not, on the last point. We continue to believe 3, 5, 7 are at range. We continue to - and again don't take our word for it. We just said our – we had our board meeting yesterday to set our 2018 objectives and our management teams bonus payments are based upon that in fact is our formula.

So that's how we're paying ourselves on short term incentive based on our ability to - not by the way, you're right our guidance doesn't have us there, so I'm not suggesting that our guidance has a setting, what I'm saying is it's still in the range up 3, 5, 7, and this feels like a year at least looking at it right now isn't one of the - is somewhat a below average year for our kind of steady-state [indiscernible].

The reason I believe that is, because kind of fuel prices have run up so quickly. And if you look, you know, as Derek stated I mean you're right, your numbers are right of course if you take them, I guess at the midpoint of our range kind of year-over-year earnings are pretty flat in our forecast.

Our pretax basis of course, after tax because the tax rate they're up a good bit, but on a pretax basis they are pretty flat. But look our fuel price alone is driving $1.8 billion our higher expense, so for us to be producing flat earnings on one of our - what's become again our largest cost going up by $1.8 billion, so it's a good bit. Now again, you should rightfully say, well gosh, if it's a real business that like you've been saying that we'll figure out a way to pass its cost increases along to customers like why don't you pass it on, there definitely is a lag on things like this. We saw it in, what year it was 2014 when prices fell really quickly?

How long it took for kind of capacity to respond to the new economics? And when prices go up this fast, it does, it takes a while to respond. So as we sit here today if oil stays where it is, I happen to believe you'll see the industry and you'll - the fares are too low for oil prices this high, and over time you'll see that adjust, but it takes time. part of it is that requires some capacity refinement, part of it is people have to believe it's there. This has gone from oil, but it's gone from what 50 to 70 in five months? 40% increase?

And it took a while for us all to think that 50 was a real number when it had fallen from 100 down to 50. It may take a while for people to really understand that if 70 is the real normal the new normal, you certainly will see I think us get to a point where we can produce the kind of earnings that you're talking about in $70 oil, but we've done it in $100 oil in the past. So any way long way we're saying it's - I'm not saying just because oil is $70 we can't make those numbers, what I'm saying is it's run up so fast it makes it hard to get there. If it falls back down quickly, we're absolutely right back in that range.

**Jamie Baker**

Doug, thanks for taking so much time. It's certainly appropriate if you want to dig my advantage account by 20,000 or 25,000 miles in light of the time totally fair. Thanks.

**Doug Parker**

Thanks Jamie. We'll do that.

**Operator**

And we will take our next question from Helane Becker with Cowen and Company.

**Helane Becker**

Hi, team. Thanks for the time. It's kind of hard to follow that, thanks. That was a great explanation. I just have two questions, one can you say I know you don't report traffic, but I'm wondering if you can say what your loads are looking like and maybe you're bookings. How they're coming along for the rest of the quarter or as far along as you're willing to comment?

And then the other question is, is there a shift in mix that you are seeing like on the Atlanta kind of are you seeing more, I think you said maybe more premium traffic and a shift, but can you talk about the buy up that you may be seeing from like basic economy into the forward section of the cabin?

**Don Casey**

Okay, it's Don, so let me just start with the buy up. So we've had basic economy in the market now, but broadly domestically since September. We rolled it out to the Caribbean, the subset of Caribbean and Mexico markets in late November. The product is working entirely as we expected and so we're seeing the buy up rates that we expected to see and we're seeing the sell up amounts that we expected to see, so basic economy is really at this point working as designed.

In the Atlantic the premium market, we saw very strong premier performance last year. This was a combination of the product improvements that we've made. We didn't get to a fully life like product across our entire widebody fleet until June, July '17 and now we can have that product consistently in the marketplace. In addition to that we've changed some of the infrastructure that we use in revenue management to have more inventories which has led us to be more effective at pricing. And the combination of those changes have led to very strong Premium Cabin performance and in fact for the full year of 2017 revenue in the Premium Cabin was up 15%.

**Doug Parker**

And Helane, as you take a look at kind of the strength of bookings, yes we're seeing just a continuation of what we saw in December and so it's relatively flat, but that was a pretty good spot to be in.

**Helane Becker**

Okay, and then can I just ask a different cargo related question, because your volumes are up a lot and you're - obviously you reported a very strong number and you commented on Kevin's question, but I'm kind of wondering what are you carrying? Is this packages for Amazon, is it packages for the postal service which would be Amazon, do you know what's in those? I mean you must have to know what's in the bellies right? Because you have to know your customer.

**Doug Parker**

We do know the customer and I guess what I think…

**Helane Becker**

That didn’t come off the right way.

**Doug Parker**

I guess what I would tell you is, we've seen strength across the board especially from Asia, but the kind of things that you see out of Asia, phones and phone parts, when you think about telecommunications going down into Buenos Aires is another big one. We're seeing commodity like products, fish and salmon out of South America and Central America coming up that's adding revenue. We're seeing meat out of the South Pacific that are coming into the U.S., wine as well from Europe.

The air bags as everybody knows is still a driver of volume. So it's broad based and it's everything from technology to more food and perishables and so and then as well I would note that just general mail has been pretty strong too.

**Helane Becker**

Okay, great. Thank you so much for your help. I appreciate the team.

**Doug Parker**

Thanks Helane. Hopefully you’re impressed by that answer because I know I was. All right, thanks.

**Operator**

And we will take our next question from Daniel McKenzie with Buckingham Research.

**Daniel McKenzie**

Hey, good morning. Thanks guys. Yes, Doug thanks from me as well for the wonderful response earlier here, it's very helpful to investors. But leave it to me to kick a dead horse here, so just going back to the opening remarks of strategic advantage of your hubs, how do we think about strategic advantage in those markets where American is not dominant but obviously important? So just reverting back to your opening remarks of investments in Los Angeles and Chicago, what's the key to achieving strategic advantage in these more competitive markets?

**Doug Parker**

Yes, first off, Daniel and strategic advantage doesn't mean we have to be number one. It means we have to have an advantage. In LAX we today are the largest, it's a definitely a fragmented market, but a very large market. Americans is the largest carrier there and we have the ability to continue to expand there as much as we're able to. The issue is LAX's terminal space and you know my comments were directed around the fact that we have been able to work out the situation with the Airport Authority we'll be able to expand there.

And Chicago is one more story, we're not the largest hub carrier in Chicago, but we're awfully close and another enormous market where we do well even though we're not the absolute largest and the good news is, we've just worked with the Airport Authority and five more gates there which allows us to become even stronger.

**Derek Kerr**

Yes, I'd just add one more thing. In a place like you know New York where we have great assets but same thing fragmented market highly competitive important for us to be there. We have to be different in some ways and we've done that with things like the shuttle product, the 321Ts, having three class domestic Transcon service and then making sure that with our partner BA that we're doing the best that we can with our JFK-Heathrow franchise.

**Daniel McKenzie**

Okay, I appreciate the perspective and then second question really is for Robert. The earnings release, well the cloud hosting and machine learning to speed time to value in the earnings release, so for those that are not AI programmers, can you help give us an idea of what the technology means for the income statement at this point, what could it mean at some point down the road? You know, my sense is that it is driving better non-fuel costs and better revenue, but is it material and you know can it become material at some point?

**Doug Parker**

Hey Dan, I'm going to let Maya Leibman, our CIO answer that for you.

**Daniel McKenzie**

Okay.

**Maya Leibman**

Hey Dan. Really the goal around adoption of these next generation technologies is the fact to that, we have so many fantastic ideas of things that we want to achieve and frankly there are just more ideas than we have the capacity to actually get through. And what we have found is that there's been this explosion in new technologies that allow us to basically take some shortcuts and get things done more quickly than we were previously able to do.

If we really adopt them in a thoughtful way, so cloud technology allows us to sort of circumvent the hosting process because it provides infrastructure ready to go. And machine learning and artificial intelligence allows us to create algorithms that are smarter and that learn as the context around them changes. And so we're really aggressively looking at these next generation technologies in order to work through this list of amazing ideas we have that ultimately generate value for the airline.

**Daniel McKenzie**

Got it. More on the cost side, more on the revenue side, if you could just help us understand?

**Maya Leibman**

Yes, on the revenue side we have a lot of fantastic opportunities that we're working with Don Casey's group on. On the cost side we have opportunities to really streamline our processes and the product that we provide. And a lot of it is really just better customer experience and we're very focused on providing things to our customers that really make the whole experience with American better.

**Doug Parker**

Yes, and Dan I would say for us to get the $3.9 billion worth of initiatives that we're talking about, this work will help us bring it in quicker and do what we need to do. Some of that is required a lot of IT help to get us done. We can't get there without the IT group helping us get through this and what they're doing is really helping us get through it quicker and figuring out ways to bring things in the market quicker on both the revenue and the cost side.

**Daniel McKenzie**

Thanks for the time guys.

**Doug Parker**

Thanks Dan.

**Operator**

And we will take our next question from Brandon Oglenski with Barclays.

**Brandon Oglenski**

Hey good morning everyone and thanks for taking my question. And Robert, I appreciate because we've gotten more airfreight discussions here on this call that I've heard probably in ten years of [indiscernible] calls.

**Robert Isom**

We're ready to go more.

**Brandon Oglenski**

Well, I'm going to ask a more nerdy analyst question about your EPS outlook, so we do appreciate the range, but to get to 650 if I just put in your guidance on cost, I'm getting to like a 7% to 8% range on revenue. And now my math is not perfect, but I think that's implying like a RASM north of 5% hit the top range assuming your TRASM stays where you've guided. So can you talk to - should we be thinking the upside of EPS as more cost base or do you really think significant revenue acceleration in this market is achievable?

**Robert Isom**

Well, first off, you should work with Derek and Dan. I think we don't have that type of number in order to get to the top of the range. It was like 3% to 4%, 3 at the bottom, 4 at the top, but points still now, but we have to make sure we're all working with similar math. Yes, based on what - where we closed the year and what we' think, the ASM growth is going to be next year, you would need 3% to 4% RASM growth. And but, we wouldn't have given that as our EPS guidance and we didn't think that was reasonable revenue guidance. We just grew a quarter 5.5%. So yes, it's and again if fuel prices stay where they are we think that well within the realm of possibilities.

**Brandon Oglenski**

Okay, I appreciate the details there and then I do want to nitpick a little bit on CapEx because it looks like since your analyst meeting you've taken up the fin level about $0.5 billion for the next two years. Can you talk to you know it was this driven by tax reform or is just incremental opportunities that you found even before the tax rates came down?

**Derek Kerr**

Yes, I think there's two things. One is from an aircraft standpoint we did announce that we were bringing in ten more E175 aircraft to replace an outsourced contract that we had and take out some CRJ200s. So that's the increase on the aircraft CapEx side. From a non-aircraft CapEx side as Maya said there's just so much demand going on out there. Half of the project - there's seven projects that make up half of that ’18 and ’19 number. They are just major projects that we have announced and that we want to do as quick as we can which is we talked about Wi-Fi or [indiscernible] some facility projects.

We still have three big integration projects that we want to complete with our HR systems, our pilots, flight attendants and tech ops. So we're trying to bring those in as quick as we can and bring those in earlier. So we've raised the CapEx in ’18 and’19 by $200 million each year for non-aircraft CapEx mainly due to those projects and facility projects and trying to get those brought in as fast as we can moving them forward. So those are the two big differences from the Investor Day. That's the ten new Embraer 175s and then just bringing projects in earlier in ’18 and ’19 and the major - the big projects that we have on our plate that make up half of each one of those years.

**Brandon Oglenski**

Okay, I appreciate the discloser and the discussion in this call. It's been very helpful.

**Doug Parker**

Thanks, Brandon.

**Operator**

And we will take our next question from Duane Pfennigwerth with Evercore ISI.

**Duane Pfennigwerth**

Hey thanks. I certainly respect the dynamic inputs to your planning process and fuel in particular, but I wonder if you could talk a little bit about how fuel is an input to your planning process and how you think about route profitability. In the old days we thought about red eye flying to leisure destinations as the first candidates for capacity trends. Of course this would put some upward pressure on your unit cost as you shrink today, but can you talk about how higher fuel impacts network planning and if it has started to lead to any cuts and if so what profile of markets that would include?

**Derek Kerr**

I'll go ahead and start with that. Right now, we have within our flight profitability system which gives us great detail in terms of where we are making money and gives us different views as to what expenses are more fixed and flexible in the long run. We've got a pretty good idea of where we're doing well and not and you know what the impact of variations of fuel expense are. So it's something that we look at certainly every month if not more and especially as we take a look out into the longer term.

So we've got a pretty good handle on it and at the end of the day we feel really confident with the schedule that we have built right now that we're profitable at these levels and that we're flying to where we ought to be. So I think we've got a good handle on both the short and long range plan for it. It's part of the process that we put the team through as we built the schedule. This is about what I can tell you.

**Doug Parker**

And Duane look, I remember the old days and the old days the reason you'd cut that point was because it was cash negative and it made sense to cut it as oil prices got to a certain level it was running close to that in today's world. So if we were to cut flying because oil prices ran up from 50 to 70 we would reduce profits and instead it turns into a $4 billion year instead of $5 billion year and over time we adjust pricing and capacity over time and adjust to where we think we're in the world fuel price starts to spell out. But yes, this is an entirely different world. It would be so from American's perspective going and reducing flying because oil prices went up from 50 to 70 would reduce the profits of the firm.

**Duane Pfennigwerth**

I appreciate that commentary and then just as a follow up maybe some data thinking as well, but with regional aircraft which have the highest fuel intensity, the highest sort of gallons per passenger if you want to think about it that way, obviously a lot less 50 seaters than there used to be and you're growing with 76s which are more fuel efficient, but where do you start to see the break points on fuel for regional lift? Is it 80 bucks, is it 90 bucks, where does that become more of a focus? Thanks for taking the questions.

**Doug Parker**

Yes, hard for us to answer. I don't know, we can't Duane. Again, whenever near the point of looking at - believing that fuel prices are at a level that we should be reducing, flying because it's all profitable and the regional fleet in particular because of what we said how it helps us create connections is among some of the best flying on a cash basis irrespective of where fuel prices are.

**Duane Pfennigwerth**

Thank you.

**Doug Parker**

Thanks.

**Operator**

[Operator Instructions] And we will take our next question from Mary Schlangenstein with Bloomberg News. Please proceed.

**Mary Schlangenstein**

Hi, good morning. Hey Derek, can we go back to your comment about the A350s? And you said you're working with Airbus and Boeing on another option from a widebody perspective and where to go on that. Can you talk a little bit more in detail on what you're looking at, what you're considering?

A - Derek Kerr

Yes, I mean we mean we currently have an order for 22, A350s that come in 2020. We're just looking at other options. There's nothing to announce right now. Whether, I mean our options are to take the A350, turn that into A330-900 or the other option is a 787-9. So there is - we have the order in place. The A350 is a great aircraft.

But it does add complexity to our fleet by a new aircraft type. So it's not about the aircraft, it's about the complexity that it brings to our operating group for having more aircraft. So we haven't made a determination yet. We may take the A350, but the other two options are A330-900 or 787-9 for that widebody lift.

**Mary Schlangenstein**

Is there a date by which you need to make that decision?

**Derek Kerr**

There is no date that we need to make that decision. I mean the first delivery is not till 2020.

**Mary Schlangenstein**

Okay, thank you.

**Operator**

And we will take our next question from Conor Shine with The Dallas Morning News.

**Conor Shine**

Hi, good morning guys. Thanks for taking the question. I just want to - what the, you know obviously you've ruled out basically I mean this last year, what the plans for 2018 will be for that, did you see that changing in terms of giving customers more options to buy some of the things that have been subtracted out of that product? And then also do you see it expanding to other markets beyond domestic and then that near Caribbean stuff you guys did a little bit ago?

**Derek Kerr**

Yes, Conor as Don said earlier, the product has been out about six months now. It's meeting expectations which is great, will always take a look at ways to refine and optimize. And then I think as we've said before, we'll look at opportunities for you know application in other places. And so as you take a look internationally is it something that might be appropriate for transatlantic probably in a different form, but you know those are the kind of things that we think about there, but we don't have anything to announce. We like what's going on right now and we're staying the course with it.

**Conor Shine**

Thank you.

**Operator**

And we will take our final question from Alana Wise with Reuters.

**Alana Wise**

Hi, everybody. Thanks so much for taking the question. And I’m sure we’ve talked a little bit about this already, but United or others speaking out seemed that they were going to be adding capacity at a fairly rapid clip, obviously, can share it down quite a bit and so concerns of the growing industry fare war. My question is just how are you at American addressing these concerns to shareholders and just what's the general view on capacity growth and how it's affecting the market.

**Doug Parker**

Yes, thanks. We did talk a little bit about this and the comment for the record is we're not going to pine on another airline. Growth plans, we're confident and Americans growth and very bullish prospects for American Airlines knowing everything we're going to do.

**Alana Wise**

Thank you.

**Doug Parker**

Thank you.

**Operator**

And that concludes today's question and answer session. At this time I'd like to turn the call over to our presenters for any additional or closing remarks.

**Doug Parker**

We appreciate everyone's interest and thank you for tuning in. If you have any questions and you are an Investor, cal, Dan, if you have any questions and you are in the media call corp.com [ph]. Thanks so much.