Operator

Ladies and gentlemen, please stand-by. Good day, and welcome to the American Airlines Group First Quarter 2015 Earnings Conference Call. Today's call is being recorded. At this time all participants are in a listen-only mode. Following the presentation we will conduct a question-and-answer session. [Operator Instructions].

Now I would like to turn the call over to your moderator, Managing Director of Investor Relations, Mr. Dan Cravens. Please go ahead.

Dan Cravens

Thank you, Jake, and good morning, everybody. Welcome to the American Airlines First Quarter 2015 Earnings Conference Call.

Joining us on the call today is Doug Parker, our Chairman and CEO; Scott Kirby, our President; Derek Kerr, our Chief Financial Officer. And also in the room for our question-and-answer session is Robert Isom, our Chief Operating Officer; Elise Eberwein, our EVP of People and Communications; Bev Goulet, Chief Integration Officer; Maya Leibman, Chief Information Officer; and Steve Johnson, our EVP of Corporate Affairs.

As is our normal practice we are 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 quarter and provide some color on our guidance for the remainder of 2015. Scott will then follow with commentary on the revenue environment and our operational performance; and then after we hear from those comments we'll open the call for analysts' questions and lastly questions from the media.

But 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, and 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 March 31.

In addition we'll be discussing certain non-GAAP financial measures this morning, such as net 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 also be found or can be found on our website at aa.com under the More About American Airlines Investor Relations section. Webcast of this call will be archived on our website and 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'd like to turn the call over to our Chairman and CEO, Doug Parker.

Doug Parker

Thanks, Dan. Thanks everyone for being on. We announce this morning record results for the first quarter of $1.2 billion in earnings excluding special charges, which is over three times the prior record of $400 million which we just set last year's first quarter. So obviously pleased with those results, pleased with the improvement year-over-year. The credit belongs to the 100,000 hardworking team members of American Airline. They are coming together exceptionally well to take care of our customers, and to restore America as the greatest airline of the world. That's evidenced by the great work that's being done by the team on integration. Most notably of late combining our frequent flyer programs into one single frequent flyer program, re-banking our DSW and Chicago hubs and getting to a single operating certificate from the FAA. So we have a lot of work ahead but the results today give us confidence we're on the right track and we're looking forward to the remainder of 2015 and beyond.

With that said as Dan said I'll turn it over to Derek, then to Scott and then we'll open it to questions. Derek?

Derek Kerr

Thanks, Doug and good morning, everyone. As is our custom we filed our first quarter 2015 10-Q along with our press release this morning. As Doug said in our earnings release we reported a record net profit, excluding special charges of $1.24 billion or a $1.73 per diluted share. This represents an $841 million improvement versus our first quarter 2014 net profit excluding special credits of $402 million or $0.54 per diluted share.

Our first quarter 2015 pretax margin, excluding special charges, was 12.4%, up 8.6 points year-over-year. On a GAAP basis we reported a first quarter net profit of $932 million or a $1.30 per diluted share and this compares to a net profit of $480 million or $0.65 per diluted share at the same period last year. In the first quarter we did take delivery of 20 Mainline aircraft and retired 30 Mainline aircraft. On the regional side we took delivery of 16 aircraft and we removed from service and parked five Embraer 140 aircraft.

We will continue our fleet replacement program throughout the year by taking delivery of 55 Mainline aircraft and 38 regional aircraft and retiring 73 Mainline aircraft and 17 regional aircraft.

We have worked with our partners at Boeing in restructuring our 787 delivery schedule. Under the new revised agreement we'll reduce the number of aircraft delivered in 2016 by five aircraft. Four 787 aircraft that were scheduled for delivery in 2016 will now be delivered in 2017 and one aircraft will be deferred until 2018. We expect this revision to reduce our 2016 wide body capacity by approximately 2.5% and our system capacity by approximately 0.6% and it will also reduce our estimated 2016 gross aircraft CapEx.

Total capacity for the quarter of 2015 was 62.8 billion ASMs down 0.9 from the same period in 2014. Mainline capacity for the quarter was 55.9 billion ASMs, down 1.7% and regional capacity was up 5.7% to 6.94 billion ASMs due to larger gauge aircraft, our longer stage length flying offset in part by fewer departures. While core demand remains healthy first quarter 2015 revenue was negatively impacted by industry capacity growth in some of our core markets, a stronger U.S. dollar and economy softness in Latin America.

Total operating revenues were $9.8 billion in the first quarter of 2015, down 1.7% from the same period last year. Passenger revenues for the quarter were $8.4 billion, down 2.6% year-over-year with yields down 1.2% on a 0.9% decrease in system capacity. Cargo revenues were down 5.9% in the first quarter of 2015 to $194 million, due primarily to the impact of the strengthening U.S. dollar, weaker overall Latin demand and a declining cargo capacity.

Other operating revenues were $1.2 billion in the first quarter, up 6% year-over-year primarily associated with our affinity card program which had a higher volume of new card acquisitions and increased average spend by existing card holders. Total RASM for the quarter of 2015 was $0.1565, down 0.7% driven principally by a decline in passenger revenue which was $0.1344, down 1.7% as compared to first quarter of 2014 and Scott will go into lot more detail in his comments after I finish.

Helped by substantially lower fuel prices the Airline's operating expenses excluding net special charges for the first quarter of 2015 were $8.3 billion, down 11.7% year-over-year. We continue to see a material financial benefit resulting from the steep year-over-year decline in crude oil prices as we remain un-hedged. Average Mainline fuel price, including taxes for the first quarter of 2015 was a $1.83 per gallon, a 41% decline versus $3.10 per gallon in the first quarter of 2014.

Driven primarily by the lower fuel price, Mainline operating CASM per ASM excluding net special charges was down 10.8% year-over-year to $0.1226 on the 1.7% decrease in Mainline ASMs. We recently announced that we had reached new five year joint collective bargaining agreements with our flight attendants and pilots. The costs associated with these agreements are reflected in our first quarter results and in our guidance for the remainder of the year. Excluding net special charges and fuel our mainline cost per ASM was $0.0949 in the first quarter, up 5.8%. This increase is due primarily due to higher salaries and benefits costs resulting from these contracts which increased our first quarter mainline CASM excluding special charges and fuel by approximately 3.6 percentage points.

Regional operating cost per ASM, excluding net special charges and fuel was $0.1647 for the first quarter of 2015, which was 0.9% lower than 2014 and excluding net special charges and fuel, our consolidated CASM was up 5.2%.

We ended the first quarter with $9.9 billion in total cash and investments, of which $757 million was restricted. The company also has an undrawn revolving credit facility of $1.8 billion bringing our total unrestricted liquidity to $11 billion, $644 million of which was held in Venezuelan bolivars.

As talked about on our last call we took advantage of historically attractive financing rates to fund a portion of our aircraft deliveries. During the first quarter of 2015 we completed two transactions including the issuance of $500 million of unsecured bonds, priced at 4.625%. and a $1.2 billion EETC at a blended fixed rate of 3.425%. In addition in early April we refinanced our $750 million 2014 slot, gate and route term loan reducing the margin by 50 basis points to LIBOR plus 300. This refinancing also reduced the collateral acquired under the loan and improved our future collateral flexibility. We are pleased with the economics associated with these transactions and continue to look for attractive opportunities in the market.

During the first quarter we generated $2.5 billion in cash flow from operations and $1.1 billion in free cash flow. We also paid down $746 million in debt, including prepaying $460 million in high cost debt. Looking forward we will continue to give priority to prepaying high cost debt when the opportunity arises. The company also returned $260 million to shareholders through the payment of $70 million in quarterly dividends and the repurchase of $190 million of common stock or 3.8 million shares. This brings our shares purchased since the merger up to 27.2 million shares The company's first quarter weighted average fully diluted share count reduced by a net 7.8 million shares as compared to the fourth quarter 2014 primarily due to the effects of our share repurchase program. In addition the company's Board of Directors has declared a $0.10 per share dividend to shareholders of record as of May 4, 2015.

Turning now to 2015 guidance, in our last IR update two weeks ago we lowered full year overall system capacity guidance by a half of a point and are now forecasting it to be up approximately 2%. This growth is primarily driven by one, an increase of gauge from aircraft deliveries, higher seat density through aircraft reconfigurations and increased stage length.

As of today we are currently working on our fourth quarter schedules and we will update second half 2015 guidance in early April with a bias to continue to reduce capacity. Domestic capacity is expected to be up approximately 2% to 3% in 2015 while international capacity is expected to be up approximately 1%. By quarter mainline capacity in ASMs breaks down as follows; $61.9 billion in the second, $63.7 billion in the third and $58.9 billion in the fourth. Regional capacity breaks down as $7.6 billion in the second, $8 million in the third and $8.1 billion in the fourth.

For the full year 2015 we are forecasting total CASM ex-special items and fuel to be up approximately 4% versus 2014. The increase is driven primarily by three items; the cost of a new labor contracts for both flight attendants and pilots, investment in new aircraft and costs dedicated to improving the reliability of our operation. Mainline CASM excluding special items and fuel is projected to be up approximately 3% to 5% in 2015 while regional CASM excluding special items and fuel is projected to be down approximately 1% to 3%.

By quarters for Mainline CASM second and third, up 2% to 4% and in the fourth quarter up between 4% to 6%. Regional CASM in the second quarter will be flat to up 2%, third quarter flat to down 2%, and the fourth quarter down, 3% to 5%.

As I mentioned in my earlier comments we have seen a substantial financial benefit as a result of significant drop in crude oil prices. Using the April 21 fuel curve we are forecasting our 2015 consolidated fuel price to be in the range of $1.89 to $1.94 per gallon which we believe will be the lowest economic price in the industry. Based on these prices we expect our 2015 consolidated fuel expense to improve by approximately $4.35 billion year-over-year. By quarter, the second quarter we believe will be $1.84 to $1.89, third quarter $1.93 to $1.98, and the fourth quarter $1.95 to $2. Regional fuel price will have the second quarter 186 to 191, third quarter 196 to 201, and the fourth quarter, 198 to 203.

Using the midpoints of the guidance we have provided along with the PRASM guidance that Scott will give, we expect a record second quarter pretax margin excluding special items of between 18% and 20%, up by more than 600 basis points as compared to the second quarter of 2014. For the remainder of 2015 we continue to expect a large increase in operating cash flow driven by lower fuel prices. Going forward we will remain disciplined in our capital allocation process with a continued bias towards completing the integration, investing in the airline, paying down high-cost debt and returning excess cash to our shareholders.

In terms of capital expenditures, we are forecasting total gross aircraft CapEx to be approximately $5.4 billion, of which approximately $1.4 billion will occur in the second quarter. In addition we expect to invest $1 billion for non-aircraft CapEx and make $2.1 billion in debt repayments in 2015. In conclusion, thanks to the efforts of our more than 100,000 team members we are very pleased to report another record quarter with our financial results. We were also able to complete several key milestones in our merger integration. While a lot of hard work remains as we complete our integration we continue to make tremendous progress and look forward to reporting strong financial results in the second quarter.

With that I will turn it over to Scott.

Scott Kirby

Thanks, Derek, and I'd like to start by thanking all the people of American Airlines for the great job they continued doing operationally during the difficult first quarter and effectively managing all the change we have, like re-banking two hubs during the middle of some challenging weather events.

On the revenue front, our first quarter PRASM was down 1.7%, the stronger U.S. dollar had over a one point impact on our system PRASM declining international surcharges had a 0.4 point impact on system PRASM and Venezuela was approximately a 0.5 point drag on system PRASM.

Domestically the PRASM was down 1%, which given the significant capacity -- competitive capacity growth we have seen in Dallas and some of our other markets, a small decline in Q1 PRASM is indicative of healthy underlying domestic demand. Across specific PRASM was down 7% on 36% capacity growth. Currency and surcharge changes had a particularly large impact in this region and given our level of capacity growth combined with the currency effect we continue to be pleased with absolute demand at Asia.

Latin was down 6% but it really is the tail of Brazil and Venezuela versus the rest of Latin America. Despite double-digit industry growth Mexico and the Caribbean were essentially flat on RASM, meaning that demand grew rapidly to keep pace with the large capacity increase. Argentina appears to be recovering, leading to positive year-over-year PRASM but we experienced large PRASM declines in Brazil and Venezuela.

And finally the Atlantic was our strongest region for PRASM, up 3% year-over-year. In the Atlantic we were also pleased with the absolute demand given the currency and capacity headwinds. We made some significant progress this year on integration and some of the recent integration highlights, which Doug talked about as well included our pilots ratified a new five year contract, we received our single operating certificate from the FAA on the very day and schedule that we originally planned a year and half ago and we have successfully completed one of the most technically difficult integration projects that we have to do and we combined into a single frequent flyer program and we rebanked both the DFW and Chicago hubs and our teams are doing a great job operationally so far with the new schedule.

We have a lot more hard work left in 2015, including combining to a single reservation system in the fourth quarter, so we can’t rest on our laurels but we are very proud of all that the AA has done so far and the first few months of 2015 saw us achieve some significant integration milestones.

Turning to the outlook going forward, the comps are more difficult in the second quarter than any other quarter this year. We also have some big headwinds including an expected two point system PRASM impact from currency, 0.7 point impact from the continuing decline in international surcharges and 0.5 point impact from Venezuela. And of course the continuing pressure from industry capacity growth in all regions.

At American we saw the supply demand imbalance beginning to build last year and have now reduced our international capacity versus prior guidance for four quarters in a row. And while our proactive approach to international capacity is helping our PRASM result it's not enough to overcome the currency and capacity headwinds.

Given all of this we expect PRASM to be down in all regions of the world with the largest declines occurring in the Pacific and Latin America and we forecast that our overall system PRASM will be down 4% to 6% year-over-year in the second quarter.

As we move beyond 2Q, the comps do get easier and we'll overlap the Venezuela drawdown, so all of us [indiscernible] would expect the year over year -PRASM comparisons to improve as well. While we never like to see negative PRASM we do believe that demand remains fundamentally strong in almost all areas of the world with the exceptions of Brazil and Venezuela. Currency and surcharge changes unfortunately mask some of that core demand strength and high single digit capacity growth in all region pressures otherwise growing demand that while healthy is not growing as fast as capacity.

In conclusion we're very encouraged with the operating integration and financial results at American Airlines and while there are some near term capacity and currency headwinds, demand environment remains strong and we remain positive about the long term demand trends.

Doug Parker

Thanks Scott. Thanks Derek. Operator we are ready for questions.

Question-and-Answer Session

Operator

[Operator Instructions]. And we'll take first, William Greene with Morgan Stanley.

William Greene

Good morning. Hey, Derek can I ask for some commentary on the cash side. I realize you've got still some big milestones to come on integration, but can you talk about your appetite to return more to shareholders, going forward. It feels like there is going to be a pretty big build here that could still drive some pretty big buybacks but how are you thinking about that?

Derek Kerr

Yes, I think as we go through this, as I said earlier that we do, as you said too, is make sure we get done with the integration. So we have set aside a certain amount of cash to get through the integration. We do have a lot of aircraft coming in. So we do want to have cash to pay for that aircraft and then past that, I mean as you saw in the first quarter and you've seen what we have done over the last, since the merger, buying back in over 20 million shares, we do plan on returning cash to the shareholders.

We did do $190 million in the first quarter and we do have the $2 billion program that's out there and we plan to do that over the next two years. So we do -- that is our plan, how fast we do that is a question but as of right now we want to keep more cash than we need to get through the integration and get through the merger and then begin doing that. But you've seen we've done a significant amount, over $2 billion worth of share repurchases going back, including all of the other things that we've done. So we plan on doing it and we plan on continuing to return throughout the year.

William Greene

Okay. And then just one follow-up here on the fleet you mentioned you've got a lot of aircraft coming in. Can you also talk a little bit about your thoughts on some of your peers sort of trying out a used aircraft strategy, is that something that intrigues you at all or is that just we've got fleet plan we're going to stick with it.

Derek Kerr

We have a fleet plan and we're going to stick with it. We have a lot of aircraft on order to replace all of our older MD 80s, 75s and 76s, have plans in place and we plan on going down that path. We have enough aircraft on order for replacement and that's the method we're going to go down for the next three or four years.

William Greene

That's great. I appreciate the time.

Doug Parker

Thanks Will.

Operator

And now we'll hear from Jamie Baker with JPMorgan.

James Baker

Hey good morning everybody. First question for Scott, can the A321 in your low density configuration operate Trans continent [ph] at LaGuardia without taking a C Block and what are your views on potentially lifting the perimeter rule.

Scott Kirby

Yes, we could operate out of La Guardia and our views on LaGuardia perimeter rule are that the facility we have a challenge handling all the customers we have in the facility today. And if the perimeter rule is lifted we would have a lot of large aircrafts with long haul flying out of LaGuardia of course. And so we need the facility to be prepare to handle those customers before you really even consider to enter. So I think our issue is mostly focused on the logistics of having the facility able to handle that number of people before you -- before you consider changing the parameter rule and having a much higher volume of customers.

James Baker

But you're not taking the position against the possibility with the port.

Scott Kirby

No, but our view would be that we need to get the facility work done first.

James Baker

Yes, got it. And a follow up for Doug, Doug good morning your closest international partner is on the exact opposite side of you as it relates to the issue of Middle Eastern competition and illegal subsidies. And how contentious are your discussions these days with Willie Walsh on this topic? I mean are you just sort of reluctantly holding him to Delta and United on this issue, or from a modeling perspective, I'm sure we don't need to model for an outright divorce from British Air. But might this disagreement nonetheless represent a spat that could potentially strain profitability?

Doug Parker

Well to your last question, no, you shouldn't model anything and we're working even more closely with British Airways on ways to improve the profitability of the joint venture. We do have a disagreement to this issue but it doesn't have -- has no effect on our relationship or certainly on our -- on the joint venture. This is -- and as to whether or not Americans are reluctantly holding hands, no we're all in on this. We think the situation in the Middle East is serious and needs to be addressed and if it's not addressed it could have material consequences to our industry overtime.

We believe it will be addressed so all those things and BA just has a different perspective for different reasons but the other European carriers have seen severe impact to their profitability because of the growth of these subsidized airlines and we don't care to see that happen in the United States. So that's our position, we're all in all on it but it has no impact whatsoever on our relationship with British Airways.

James Baker

Okay. Thanks a lot for the color. I appreciate it, Scott and Doug. Take care.

Operator

And now we'll move to a question from Hunter Keay with Wolfe Research.

Hunter Keay

Thanks, good morning everybody.

Doug Parker

Good morning.

Hunter Keay

Hey Scott, wondering we haven't talked about synergies in a while, wondering if you can give us an update as sort of where we are on that, if you have captured really any on the revenue side and wondering if at this point you want to maybe revise the target higher or even lower. Is it to too soon to think that revenue synergies might manifest themselves and some driving outperformance is really for third quarter?

Scott Kirby

So I think there are a lot of synergies and I know that there are a lot of synergies in our numbers today. Although some of the big ones won't come until after we get to a single reservation system. So some of the biggest things are the connectivity of the network, moving aircraft around re-gauging the airline and putting the right sized aircraft in the optimal market, those kinds of revenue synergies can't occur until after you get to single operating certificate or a single reservation system in the fourth quarter. So those things are yet to come but they probably won't be third quarter impacts, they will be 2016 impacts.

Hunter Keay

Okay good. And that’s sort of a good segue into next question. As you think about 2016, how many of the deferred 787 deliveries relate just directly to the issue at the seat manufacturer versus you guys actually saying there is a little bit too much supply that’s mismatched with demand in international markets. And how did the aircraft deferral sort of translate into how you're thinking about overall 2016 capacity growth? Thanks.

Scott Kirby

So the deferrals have absolutely nothing to do with the seat manufacture. We think it will be back on time long before these aircrafts are delivered. And so this is all about trying to do more to match supply to demand. And while we haven’t given 2016 capacity guidance I mean clearly we’ve been -- it’s the fourth quarter in a row we’ve been ahead of the view of supply and demand not being in balance or being imbalanced and so I think that philosophy will continue to guide us as we move into 2016. The only thing we’ve done that’s concrete so far is this pushing back aircraft deliveries but we’ve actually accelerated retirements of some of other aircraft MD 80s and 767s which will impact 2016 capacity and we’ll have more to come on 2016 capacity but that -- as long as we look at a world where supply and demand are out of balance and you’re having negative PRASM our bias will certainly be to the downside.

Hunter Keay

Thanks a lot, Scott.

Operator

And Julie Yates with Credit Suisse has the next question.

Julie Yates

Good morning, with the competitive capacity additions on the Trans-Atlantic this summer and with the currency headwinds do you expect that you can return to positive unit revenues in the Trans-Atlantic in Q3?

Doug Parker

I don't have a forecast for Q3, so can't really specifically comment on that. But Trans-Atlantic, even in 2Q, which has the big bump in the competitive capacity out of Heathrow, in particular and also has the headwinds from the currency, we expect to kind of be neck-in-neck for being the best region in the world, tied with domestic for us. And so it's certainly not inconceivable it would be positive in 3Q but we just don't have a forecast that's very accurate that far out.

Julie Yates

Understood and then in your Q4 schedule overview are you also considering cutting any domestic capacity in response to the competitive pressures that you're seeing?

Doug Parker

Well, we look at everywhere and look at every market that we serve but when you look at the competitive markets for competitive capacity, our capacity is up, they're probably not the kind of markets where we're going to cut just because they are highly profitable markets and they are places that when you have a lower fares, actually demand is higher. So it's fine, happens in the normal kind of schedule review process in some of those markets while we don't add flights we would have a tendency to up-gauge flights so a 737 becomes an A321 and so those markets typically just in the normal course process become higher capacity markets. That's capacity that moves from some of the markets into those markets just because absolute demand in terms of number of customers is higher.

So we haven't done that, we don't have specifics yet for domestic market but I'd be surprised if we had a material change in the domestic markets. We're much more focused on the international.

Julie Yates

Okay, understood. Thank you.

Operator

We'll now take a question from Mike Linenberg with Deutsche Bank.

Mike Linenberg

Hey, good morning everybody. Hey, Derek when you were going over the aircraft deferrals, I think I missed this what was the -- you talked about a reduction in gross CapEx, what's the rough number you may have said?

Derek Kerr

We didn't say a number, just because then you know what the amount we pay for the aircraft is.

Mike Linenberg

That's right, five airplanes. Okay, not a problem.

Derek Kerr

Boeing doesn't like that.

Mike Linenberg

Not a problem.

Doug Parker

And it did, Mike just so you know, obviously it is most of '17 and '18 so…

Mike Linenberg

That's right, very good. And then just my next question then just looking at your regional cost reduction, I mean you can see how the restructuring of Envoy [ph], looks like it's really starting to take hold and I just -- I wanted to know, have you now fully allocated all of the regional aircraft that you're looking to deploy over the next couple of years? I mean are we done with Envoy and the regional fleet restructuring or is there more to come because I feel like that there's been significant -- the opportunity to generate some real savings from this side over the next couple of years because I do think you're probably going to have some of the lowest regional cost lift of any carrier out there?

Scott Kirby

Well, the restructuring will continue in terms of going from 50 seaters to 76 seat aircraft and so that so -- is going to run and will continue over the next at least 12 to 24 months.

Mike Linenberg

Okay, very good. Thanks Scott.

Scott Kirby

Thanks, Mike.

Operator

And now we'll hear from Helane Becker with Cowen & Company.

Helane Becker

Thanks operator. Hi guys. Thank you very much for the time. So Doug, I'm very impressed that you decided to just get all your compensation in equity instead of cash and equity. So how are you thinking about that?

Doug Parker

Thanks Helane, thank you. The thoughts are, one it seems to be that my compensation should be paid in the same currencies we ask our shareholders to accept because we should have interests that are highly aligned. In the end I think though to the extent you all can infer [ph] what this means, I think it's one more piece of the evidence that it's been really different this time and investors keep asking is it really different this time, you guys have said in the past, everything you get profitable so this is [ph] times you remain profitable. I wouldn't be doing this if I thought we were still the same order line business because it is not and I don't think anybody, I don't think any executive over the last 15-20 years would have been willing to take all their compensation in equity because we all knew the equity had an enormous risk, we are not suggesting there is not still risk in the airline stocks but we are really bullish on what the outlook is for years to come.

So I am more than happy to be compensated the same way you are.

Helane Becker

You know I thank for you response. I just feel like, listening to you and all of your competitors talk about competitive capacity growth it is hard to get over -- it is not the same old airline industry because you are still seeing a lot of capacity going into markets that probably shouldn't be there. So I applaud your decision. I just wonder about the competitive market and how it's going to be…

Doug Parker

Yeah, I guess, now you got me scared.

Helane Becker

It wasn't the intent though.

Doug Parker

No, I am just kidding. It is not the same. It is nothing like what we saw in the past when airlines got first with the profitability and then use that to say well, I had, if I could be profitable with 100 airplanes just think how profitably it would be with 150. This is what's going on now again we can only now look at it and say the demand is growing faster -- I mean supplies is growing faster than demand and in some cases it is. But the rates of growth we are taking about are nothing like we see in the past.

Where the growth comes from is nothing like we saw in the past, and people aren't looking to start up new hubs in different parts of the country. People are growing their strength into markets. Again maybe in excess of the near-term demand but that's nothing like what we saw in the past and where you just saw all these wild changes in year-over-year profitability we will find out when you get in the next down cycle but I am really confident that what we'll see is, yes, still a cyclical business but the peaks are much, much higher than they were before and therefore the troughs are going to be really much, much higher and I think the swings are going to be much less.

Helane Becker

That's great. I hope you are right. So I appreciate that. Thank you very much and have a nice day.

Operator

And we will now hear from Duane Pfennigwerth with Evercore.

Duane Pfennigwerth

Hey, thanks for taking the questions. I wanted to ask some follow-up on your Venezuela commentary. Obviously you are comping against some capacity cuts when RASM is really high there. But was your comment about

Venezuela specific to a comps issue or you are seeing incremental demand weakness there?

Scott Kirby

I don't know it is hard to sort that, it's a such a big decline that I am not sure if it is incremental demand weakness or just the year-over-year effect. But it is clearly -- got some challenges right now.

Duane Pfennigwerth

Yeah, I guess the point is you feel like you get beyond those year-over-year cuts by the third quarter and that minimum it should be less of headwind in the second-half of the year.

Scott Kirby

It is certainly less of the headwind, the capacity issue and the selling in bolivars issue is less of a headwind. By the time you reach the third quarter and by the time you are at third quarter that will be the kind of organic question you are asking of what's happening to demand and I suspect that Venezuela will still be down on a RASM basis because it has got incrementally weaker but the impact that our system will be a whole lot smaller than it's been for the last 12 months. The year-over-year impact will be much smaller. Even though it maybe down a lot, it will be on much more capacity base and it will be down less than it was in first quarter and second quarter because you won't have the bolivar dollar ticket selling issue.

Duane Pfennigwerth

Got it, thanks. And then just following up on the pace of capital return, can you provide any detail on -- obviously you had a huge statement in the fourth quarter which may have gotten people's expectations pretty high in terms of the run rate there and then a much more modest level in the first quarter. Can you quantify or just give us some thought process, details on how you thought what the level into the first quarter?

Doug Parker

It's Doug. Look we would just encourage you not to make strong conclusions based on the quarterly reports of our share repurchases. The facts are we have announced a very large share repurchase program. We demonstrated overtime our commitment to return excess cash to our shareholders. But look for obvious reasons we got to be careful what we disclose about the program and what our intent is on the program, what we will disclose is how much we actually purchased each quarter and that's what we can do. But know this we are not going to be systematic or ratable in our purchases quarter-by-quarter but we are absolutely committed to returning excess cash to shareholders because it is your cash. But really we just ask you not try and make strong conclusions based on quarterly reports on the program.

Duane Pfennigwerth

Okay very fair, thank you.

Doug Parker

Thanks.

Operator

Now we will take a question from Dan McKenzie with Buckingham Research.

Daniel J. McKenzie

Hey, good morning guys, thanks. With respect to the buyback, can you talk about the longer term balance sheet goals; on the one hand the cost of debt lowers the cost of capital. So it makes sense to keep more of it, which suggests potential larger share buyback than investors perhaps appreciate, and so I guess I am just wondering what is the right level of debt looking ahead?

Doug Parker

Okay, it was my turn again, anyway I have reasonably strong views on this. So our view is that the best thing for our shareholders is not to go try and target any particular debt-to-equity ratio, target rating. That's not to suggest to the rating agencies or to our debt holders that we are not concerned about such things. What we know is though in our business, certainly at American it seems at this point in time that the right thing is to be, given that we can borrow at the rates we are borrowing, which don't seem to reflect the credit rating that we have today.

We think the right thing to do is to borrow, certainly on aircraft which is the debt we have coming, or as much as we can and because the rates we are getting are sub-4% and borrow at those rates and continue to lever, if you will, and it's to the extent -- because we can generate higher returns than that for our shareholders. And with the cash that we don't -- though we are generating returns which we return to our shareholders because [ph] you can generate higher returns than that.

So that's our view on this that the -- this focus on de-levering and could be contrary to our shareholders' best interest. So our goal is to make sure that we are actually doing this intelligently and making sure that to the extent that we have the ability to borrow at rates below what we can earn or that we can return to you, we should continue to borrow irrespective of what that may do to some ratio. So anyway that's a long winded way trying to answer your question Daniel but we are not heavily focused nor we can give targets to you on credit ratios.

Daniel J. McKenzie

Understood, thanks Doug. And then Derek what percent of the aircraft are you financing this year exactly and is that a fair run rate going forward as we think about 2016 and beyond?

Derek Kerr

I think our value [ph] in the WTC transaction it was around 80% of the aircraft. So I think I would use that number as you move forward. What we have in the cash flow guidance today is only transactions that have been completed versus transaction that are contemplated just so you have the right numbers in there. But the run rate that we did in the first quarter on those deliveries is probably a pretty good run rate going forward.

Daniel J. McKenzie

Fantastic, thanks guys.

Operator

And now we will take a question from Savi Syth with Raymond James.

Savanthi Syth

Hey good morning. I wondered if you could provide a little bit more color on what you are seeing from a corporate demand perspective and maybe particularly out of Dallas?

Derek Kerr

Well, corporate demand is strong. Revenue results are down at Dallas because of the capacity situation, fares are down and there is a lot more competitive capacity. So revenue is down but corporate demand in total is strong and given the capacity situation in Dallas, I think we view demand in Dallas as strong as well.

Savanthi Syth

Got it. And then to follow up, on the Latin front given the weakness that you're seeing in the market in maybe specifically two countries, is there anything that you're doing on the capacity front to address that or is it something you are just going have to absorb?

Scott Kirby

So we cut capacity to Brazil or to Venezuela by over 70% and we've cut capacity to Brazil about 20%. So we've done that and to this point not a lot more left to have to come from American Airlines.

Savanthi Syth

Got it and just on that, just following up on the U.S. dollar strength, how much of a benefit is that on the cost side from -- that offsets the revenue pressure?

Derek Kerr

There was about -- in this quarter there was about $36 billion of benefit on the expense side.

Savanthi Syth

All right, great, thank you.

Operator

And next we'll take a question from Joe DeNardi with Stifel.

Joe DeNardi

Hey, thanks. Good morning. Derek, maybe just a quick one on the 787, did any of that deferral have to do with the kind of the economics of that airplane, given lower fuel or was it strictly a capacity decision?

Derek Kerr

Strictly a capacity decision.

Joe DeNardi

Okay, and then on some of the rebankings you guys have gone through, I guess we only have maybe a few weeks of data. But has the revenue improvement met your expectations at this point and maybe what are the cost impact as well?

Derek Kerr

It's too early for us to try to measure the revenue impact there particularly when the first two weeks of it are overlapping last year, and a change in the Easter. So it's early to measure the revenue impact and probably too early to really measure the cost impacts. Operationally I'll let Robert talk.

Robert Isom

Operationally it's been a tremendous success on all the important metrics, whether it's starting the day out or departing and arriving on time throughout the day, connecting customers and baggage. We've been very pleased with the results, certainly in Dallas and especially in Chicago.

Derek Kerr

And Joe, this is Derek, from a cost standpoint we added costs into those areas which is built into our CASM guidance or about there. It's probably about a quarter point of CASM with the headcount and another things that we put out at those airports. So that is already build into all the guidance that you have from our kind of CASM numbers.

Joe DeNardi

Okay and Scott I think you spoke recently at a conference about some of the competitive pressures you're seeing from some ultra-low cost carriers. Has that changed the way that you are planning on competing against them going forward given some the share that they have in certain of your markets.

Derek Kerr

I guess it depends on, I'd say the final change from -- we're competing using a lot more of the tactics, I think that perhaps we had used it US Airways where we had a bigger overlap with low cost carriers than American did. So probably as a level that is more aggressive perhaps in terms of competition. But were you really using a similar playbook that we used there but we were -- we had a whole lot more low cost carrier competition than American had had historically and now our network at American looks a lot more like level of competition that US Airways used to have particularly because of the changes here at Love Field.

Joe DeNardi

Okay, thank you.

Operator

And now we'll move to a question from Darryl Genovesi from UBS.

Darryl Genovesi

Good morning, guys. Thanks for taking my question. I guess just one for Scott. Some of the U.S. Airlines are taking the domestic up-gauging strategy a little bit further than just adding some line seats and replacing 50 seaters with 76 seaters. I guess you've had the 717s coming in at Delta and then United, I guess now bringing in 757s and in particular the 777 in the domestic market. At what point do we start to worry that the domestic up-gauging is going too far and I guess are you contemplating any similar moves to perhaps bring more wide bodies into the domestic market.

Scott Kirby

Well, I think Up-gauging within a class makes all the economics sense in the world for an individual airline. But going from 50 to 76 seats, going from an A-320 to an A-321, up-gauging in terms of wide body size 787-8 to -9 because the marginal cost of those is much lower. We're talking about going between classes. We certainly aren't going to spring wide bodies out [ph] domestically. It's lower cost to provide two narrow bodies than it is to provide a single wide body for the same amount of seats.

So that's not something that we're planning to do. But we are doing the same thing as others on -- as we get to trend that and it's really the higher profitability. It is pressuring RASM, on the cost system but we will get -- every airline is supporting record profitability in the first quarter and second quarter for the full year. And one of the things that's helping everyone report profitability, record profitability is up-gauging and getting more seats on aircraft. It's also one of the important ways that we can compete more effectively with ultra-low cost carriers. There is real advantages cramming as many seats as possible on an airplane. So we fly bigger airplanes and spread the cost of flying the aircraft out over more seats, it makes us that much more competitive with ultra-low cost carriers.

Darryl Genovesi

Great, thanks for that. And then I guess Derek, maybe just if you wouldn't mind can you provide an update on I guess the current view on when, if you even have a current view on when you might think about reversing the valuation allowance on the NOL.

Derek Kerr

Yes, I think we're going to take a view and look at that at the end of the year. So I think that is probably the timeframe. We want to get through the integration and get through the res migrations, which happens in the fourth quarter and then I think for modeling purposes I believe the val allowance will probably be reversed at the end of the year and then have book taxes in 2016 but no cash taxes until the NOL of about $10 billion runs off.

Darryl Genovesi

Okay, and then on the fuel guidance I guess fuel has been pretty volatile here. I guess I was expecting it to move up a little bit more than it did. Can we think of this fuel market being kind of as of today, or is this sort of already stale just because of some of the volatility we've had in recent days.

Derek Kerr

That's pegged as of April 21st. So I think it was pegged like a couple of days ago.

Darryl Genovesi

Great. Thanks a lot. Appreciate it guys.

Operator

Tom Ken [ph] with Goldman Sachs has the next question.

Unidentified Analyst

Thanks. Scott I have a follow-up to a comment you made earlier about maintaining an elevated cash level during the integration. So given your operating cash flow outlook which is very bullish and your $10 billion in cash, can you help us understand why you wish to maintain an elevated level during the integration, like what are some of things that you're concerned about that drive this?

Derek Kerr

This is Derek. We put aside cash to integrate the airline and we said it was going to be $1.2 billion, $1.25 billion to integrate the airline. We still got a lot of work to do. We still got a lot of integration to complete, a lot of capital to deploy, as we re-do the hubs and things that we just, that we've talked about earlier. So a lot of that cash is earmarked for those kind of things as we move forward and is built into our long range plan, which would have us elevated levels this year and maybe a little bit into next year.

Doug Parker

This is Doug. To be clear we haven't said that the existing level is the right level. We said all the while it was simply that we think we -- which is accurate we believe as we go through integration we should hold more than other airlines our size or relative or similar sizes we're not trying to suggest that the existing level is the proper level, that's really sure. I just want to be clear on that. That's not the point we're trying to make, it's simply that we should be holding more than others as we go through integration and they aren't.

Unidentified Analyst

That's fair enough. Would you be able to give us a sense of like what you think the right cash to revenue figures should be long term, like obviously you're at north of 20% now.

Derek Kerr

It's hard to say long term when we're so focused on the near term again through integration. Other airline, you can look where other airlines, again similar size to us what their ratios are and my guess is they're being prudent. So you could view that perhaps as a prudent level but we haven't come to such conclusion yet. We're focused right now in going through the integration.

Unidentified Analyst

Okay and then just with regard to pricing can you frame out how much international PRASM decline in the first quarter was due to FX translation and how much might have been related to international fuel surcharges?

Derek Kerr

Yes, it was a little over a point for currency and about half a point, I think four points in the first quarter for surcharges.

Unidentified Analyst

And then can you sort frame that for your 2Q guide as well?

Derek Kerr

Yes, it's two points for currency and 0.7 for surcharge.

Unidentified Analyst

Thanks a lot.

Operator

And we'll now take a question from Mike Kardarshian [ph], Sterne Agee.

Unidentified Analyst

Hi, yes, it’s Sterne Agee, [indiscernible] just merged there.

Doug Parker

Congratulations Michael.

Unidentified Analyst

Good to talk with you. I want to go back to [indiscernible] question, Doug as a large shareholder I'm sure one of the things in mind was your current valuation being as low as it is and certainly your confidence in management and executing its business plan, if you might have some insight information of that. And I'm curious about the comment about, we really won’t know it’s different until the next recession. I'm not so sure that’s correct and I just wanted to explore that one with you. I mean certainly one could do a sensitivity analysis and say that the fed goes crazy and all of a sudden we have a recession next year. I mean it would take an incredibly large drop in RASM next year for you guys to go into the red. I think you would agree with that.

So and obviously a lot of other things have happened changes to your business model that are permanent changes, they’re not going to go away in the next recession. They will actually get a buffer thing. So I'm just wondering if you, particularly as a shareholder you are looking at valuations which are really being negatively affected by this perception that you guys are going to lose billions of dollar again in the next recession, if you can add some color to that.

Doug Parker

Mike, I can’t agree with you more and you said it better than I did. If -- I'm sure I said what you said is which is we won’t know next recession that, what I believe is we will prove it in the next downturn. What I believe is what you just said, which is if anyone doesn’t believe it yet, we’ll prove it in the next downturn, is what I was trying to communicate. I believe exactly what you just said, which is anybody that really takes the time to study the industry and where it is now versus where it’s been in the past knows that it’s different.

I certainly know that it’s different therefore I'm confident doing what I have done. And I think not to suggest that people that first thing I'm not sure yet, I haven’t studied that properly but I think I just want it heard [ph] to look at what’s happening today versus what’s happened in the past and not come to conclusions it is different. Where the level of earnings is much higher than it’s been in the past and it’s unclear. I don’t think this is peak.

So the peaks are certainly higher and the volatility is less and the things that we worry about are much less dramatic than the kinds of things we worried about in the past, in terms of supply versus demand growth. So I'm with you completely and like I said you said better than I did. So I wasn’t trying to congest that this is an open question in our mind and we’ll find out in the downturn, what I meant to say what I should have said was it has changed and if you don’t believe it yet I guess we have to wait until there’s a downturn to prove it to you, but we’ll prove it to you then. But those who figure out now will reap the benefits of that instead of ebbing away.

Unidentified Analyst

Thanks Doug, well said.

Doug Parker

Thank you for helping me say it better.

Unidentified Analyst

That’s what I'm here for.

Doug Parker

All right, thanks Michael.

Operator

And now at this time we would like to invite the members of the media the opportunity to ask questions. [Operator Instructions] And we will hear first from Mary Schlangenstein with Bloomberg News.

Mary Schlangenstein

Hey Scott can you clarify for me, did you say that American has revised capacity downward four quarters in a row or were you just talking about international capacity?

Scott Kirby

It would be both, it’s been on the international side but overall capacity has come down four quarters in a row from our prior guidance.

Mary Schlangenstein

Okay and if you can clarify for me a little bit, a couple of time as you'd referred to demand being strong but capacity additions outstripping demand. So when you do something like the further Dreamliners is it on just because you don't want to add capacity to a market that already has too much or is it that the demand itself is slowing so you're seeing lower demand as well?

Scott Kirby

No, it's really more the former, that while demand is still growing it's not growing as fast as supply.

Mary Schlangenstein

Okay, and is that worldwide?

Scott Kirby

It's mostly worldwide yes.

Mary Schlangenstein

Okay, great, okay, thank you.

Operator

And now David Koenig with The Associated Press has the next question.

David Koenig

Hi, good morning, folks.

Doug Parker

Hey David.

David Koenig

I guess as a follow-up or maybe rephrasing Michael Derchin's [ph] question, are you going to be able to keep growing the profits, when you start lapping the collapse fuel prices and if so how?

Scott Kirby

Well we certainly hope so. We will have to get there and when we start getting to a point in time where fuel prices are up year-over-year, that really means is we will have to have RASM growing and because that's just the way math works. We will have to get to a world where RASM is growing and I hope that will be a guess.

David Koenig

But I mean how do you do that beyond just you know scaling back your planned increases in capacity?

Scott Kirby

Well we there's all kinds of things we do to try to manage the business and have always historically done to try to increase revenues and we will continue to do all of those things. It is not just about capacity, we will continue to -- we will continue -- we will get synergies from the merger, we will continue to have -- win new customers from the great product that we are putting out there. And there is a lot of things that we can do that are independent of the macroeconomic environment to make American Airlines a better airline, the preferred airline of our customers and that can lead to higher revenues even if we have macroeconomic challenges.

David Koenig

Okay, thank you.

Operator

Andrea Ahles with Fort Worth Star-Telegram has the next question.

Andrea Ahles

Hi, good morning.

Doug Parker

Hey, Andrea.

Andrea Ahles

I wanted to ask a very profitable [ph] question about Dallas/Fort Worth. Can you talk a little bit more about the competitive pressures you are getting from Southwest and their continuing growth, I believe they aren't even done adding all of what they have announced and if you are considering any capacity cuts, then domestically at DFW because of the competition you are seeing and the capacity increases you are seeing just in our local market here.

Scott Kirby

So I may have answered this question less directly to one of the analysts that I thought it was referring to -- though he didn't say DFW and the short answer is no. We are not planning to cut capacity in DFW markets. What actually might have happened is when fares go down one, these are all important markets for us, profitable markets, markets that are critical, the DFW hubs that connect customers from all the other destinations we fly and there is no chance that you pull any of these roots out the network.

So why is that happening is you have lower fares, you will see you have absolute levels of demand that are higher. So at lower prices economics one-on-one you have more customers that want to buy the ticket at those prices and so you have more people showing up. So typically what happened is in many of these routes we'll wind up actually having more having more capacity not by adding more frequencies or adding more flights but by simply up-gauging to larger aircraft, that these are [indiscernible] as we are taking more large aircraft like A321 and as we do that we have the opportunity to put them in routes and serve a larger segment of the customer in those markets. So no chance to reduce -- no plans to reduce capacity in those markets.

Andrea Ahles

So the softness that you are seeing on the fare side because you are lowering fare to compete and the softness of it, is it still sort of on that promotional softness side or are you sort of seeing, at least some stabilization on -- out of this market?

Scott Kirby

Yeah, I don't know if it is promotional or if it's permanent, I tend to be more in the camp of this is the new equilibrium point when the supply curve moves that much, economics one-on-one the price, the clearing price changes and I tend to think that we are near the clearing price. I don't know if we, for sure we are not, but we are pricing to the demand and supply as it exists in the market today.

Andrea Ahles

All right, thank you.

Operator

And Jeffrey Dastin with Thomson Reuters has the next question.

Jeffrey Dastin

Thanks. Could you break out any capacity change to Japan and clarify the timeline for Brazil and Venezuela capacity front?

Scott Kirby

No change to Japan that we have, and Venezuela capacity cuts were last year in the third quarter of last year and Brazil has been coming online in the beginning in the third quarter, really fourth quarter of last year through today.

Jeffrey Dastin

Okay, but might there be capacity cuts to Japan in the coming quarters?

Scott Kirby

If there was we wouldn't be able to tell you in advance if they are but there is nothing loaded or planned.

Jeffrey Dastin

Got it and if I just may one completely separate question. How is American preparing for fed rate hikes?

Scott Kirby

For what?

Jeffrey Dastin

For Federal reserve rate hikes.

Scott Kirby

We're not doing anything specific for the federal reserve rate hike.

Jeffrey Dastin

Okay great. Well, thank you very much.

Scott Kirby

Thank you.

Operator

Now we'll hear from Edward Russell with Flightglobal.

Edward Russell

Hi yes. I've been looking at the loads on your new flights in Dallas/Fort Worth Hong Kong and Shanghai last year. And I noticed that they're significantly below where it was when you launched that in 2013. Can you give me -- do you have any view on how it's performing and whether you potentially plan to down gauge Hong Kong as you have done in Shanghai?

Scott Kirby

Those routes are doing really well and we're happy with them and that's at best very imperfect to way judge a route performance. It depends on what the fares are in the market and in particular how much premium business, you look at market like Hong Kong actually and it’s our best premium market across the Pacific. So those routes are performing above expectations and we're happy with how they're doing.

Edward Russell

Okay, thank you.

Operator

And ladies and gentlemen this does conclude your question-and-answer session. I'll be happy to turn the call back over to your host for closing remarks.