

## **Operator**

Good morning and welcome to the American Airlines Group First Quarter 2017 Earnings Call. Today's conference 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. [Operation Instructions]

And now, we would like to turn the conference over to your moderator, Managing Director of Investor Relations, Mr. Dan Cravens. Please go ahead, sir.

## **Daniel E. Cravens - American Airlines Group, Inc.**

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

Like we normally do, we're going to start the call with Doug and he will provide us an overview of our first quarter 2017 results. Derek will then walk us through the details on the quarter and provide some additional information on our guidance for the remainder of the year. 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.

But before we begin, we must state that today's call does contain forward-looking statements, including statements concerning revenue, our future revenues and costs, forecast of capacity, traffic, load factor, fleet plans and fuel prices. These statements represent our predictions and expectations as to future events but numerous risks and uncertainties could cause actual results to differ from those projected. Information about some of these risks and uncertainties can be found in our earnings press release issued this morning in our Form 10-Q for the quarter ended March 31, 2017.

In addition, we will be discussing certain non-GAAP financial measures this morning such as net profit and CASM excluding unusual items. A reconciliation of those numbers to the GAAP financial measures is included in the earnings release and that can be found on our website at aa.com. A webcast of this call will 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.

So thanks again for joining us, and at this point, we'll turn the call over to our Chairman and CEO, Doug Parker.

**William Douglas Parker - American Airlines Group, Inc.**

Thanks a lot, Dan. Thanks, everybody, for being on the call. This morning, we reported our pre-tax earnings excluding special items of \$491 million. We are extremely excited about the near and long-term prospects for American Airlines and our shareholders. We are in the midst of transforming American through investments in our product and our team and it is working. Our unit revenues are increasing at a faster rate than our competition and the outlook is strong. Robert will talk more about that in a minute. Before that, I just want to talk a little bit about an initiative we put in place last night.

Many of you have heard us talk about the mission at American, which is to validate the trust that is placed in us. That is a trust our customers place in us and when they choose American for their travel, and it's a trust all of you put in us when you select American as an investment choice. And at American, building trust for us starts first with our own team. We announced yesterday something that impacts our expenses, but it's also a very important step as we rebuild trust at American with our team.

The announcement yesterday was that we would make mid-contract pay increases for our pilot and flight attendant groups. It's an unprecedented move because those two groups have close to two years left on their existing contracts and to the best of our knowledge, something like this has never been done in our industry. And so therefore, it's a move that might surprise or even dismay some of you because it adds costs to the airline. We couldn't be more convicted about doing it and here's why. When we merged, we knew we were creating not only the largest airline in the world, but we set out to build the best. And that's best defined by a global network, a best-in-class product and an engaged and enthusiastic team.

With our industry profoundly changed, we made a commitment when we merged, the new American would have pay rates for our team that were at or near the top of our competitor's pay rates. And I'm happy to report that we've lived up to that commitment in every joint contract we negotiated thus far.

Also, the reason last fall, in spite of not having reached an agreement for our mechanics and fleet service workers, we moved their pay rates to industry leading rates in an unprecedented move as those contract negotiations have continued. But it's the right move for the new American. So we're going to keep leading this way because it's the right way to lead any service organization and certainly the right way to lead American

Airlines. There's a history at American that's bred some mistrust, and we're working hard to change that culture, and the team is making great progress in that regard. We recognize pay alone won't build trust, but we also know it's an important step in the right direction.

As outlined in our 8-K last night, the expense add is about \$350 million annually for something less than two years – I'm sorry, less than – a little over two years, as our contracts were amendable at the end of 2019 and early 2020. That's certainly a lot of money of our shareholders but in the bigger picture and taking the longer view, as a service organization, investments in our team are investments in our product. And the leverage at American today is in closing our unit revenue gap, and we believe this is an investment that will help us do that and therefore help our shareholders.

We think it's precisely this kind of investment in our people is going to make the difference in our service, and while this won't happen overnight, we also think it's the kind of investment that will continue to drive revenue outperformance for American. And as that happens, all of you will be the beneficiaries of those returns.

So in closing, we're tightening the revenue gap quickly, and our investments to accomplish this are going to continue. Because we work for all of you, you can be assured we're using your money to create an airline for the long-term. We couldn't be more excited about our prospects.

And now, I'll turn it to Derek for the financials and then Robert will talk more specifically about how we're doing in the operation and in our revenue progress. Derek?

**Derek J. Kerr - American Airlines Group, Inc.**

Thanks, Doug, and good morning, everyone. Before I begin, I'd like to thank our 120,000 team members who continue to do an exceptional job of taking care of our customers. Because of their hard work, our integration efforts and financial performance have been outstanding. As Doug mentioned, we filed our earnings press release this morning. In that release, our first quarter 2017 GAAP net profit was \$234 million, or \$0.46 per diluted share. This compares to our first quarter 2016 GAAP net profit of \$700 million or \$1.14 per diluted share. Excluding special items, we reported a net profit of \$308 million in the first quarter 2017, or \$0.61 per share versus first quarter 2016 net profit of \$765 million or \$1.25 per diluted share.

The significant year-over-year decline in earnings is due primarily to a 37.8% or \$472 million increase in first quarter 2017 consolidated fuel expense. Our GAAP first quarter 2017 pre-tax profit was \$365 million.

Excluding net special items, our first quarter pre-tax profit was \$491 million, resulting in a pre-tax margin of 5.1%.

Our revenue performance continued to improve in the first quarter 2017 as total operating revenues were up 2% year-over-year to \$9.6 billion. Passenger revenues were \$8.2 billion, up 0.8% on a yield improvement of 2.4%. This marks the third consecutive quarter that our unit revenue performance has been the best of the six largest U.S. carriers. Robert will give more detail on our revenue performance later on the call after I'm done. Cargo revenues were up 6.3% to \$172 million due primarily to higher volume.

Other operating revenues were \$1.3 billion, up 9.3% versus the same period last year due primarily to revenue associated with our new credit – co-branded credit card agreements. Total GAAP operating expenses for the quarter were \$9 billion, up 11.4% versus the same period last year due primarily to higher fuel prices and salaries and benefit expense resulting from the investment in our team. Had our first quarter 2017 fuel prices been flat to last year's \$1.21 per gallon, our consolidated fuel expense would have been approximately \$500 million lower.

First quarter CASM was \$0.1402, up 12.6% year-over-year. Excluding fuel and special items, our consolidated CASM was \$0.1116, or up 7.6% year-over-year due primarily to salaries and benefits, increases provided to our team members, which is about worth three points, higher depreciation and amortization resulting from increased CapEx in our aircraft – new aircraft, about a point, and maintenance timing of about a point.

We ended the quarter with approximately \$9.1 billion in total available liquidity, comprised of cash and investments of \$6.7 billion and \$2.4 billion of an undrawn revolver capacity. The company also has restricted cash position of \$543 million.

During the quarter, our treasury team raised \$983 million to finance 24 aircraft deliveries at a fixed rate blended cost of 3.93%. We also re-priced \$1.8 billion term loan at an industry leading rate of LIBOR plus 200 [bps]. In addition, we also closed two private mortgage transactions to finance four more aircraft.

In the first quarter of 2017, the company returned \$563 million to its shareholders, including quarterly dividend payments totaling \$51 million and the repurchase of \$512 million of common stock or 11.7 million shares. Including share repurchases, shares withheld to cover taxes associated with employee share distributions and equity awards and the cash extinguishment of convertible debt, our share count has dropped by over a

third from 500 – excuse me, 756.1 million at merger close in December 2013 to 495.7 million shares as of March 31. The company did declare a dividend of \$0.10 per share to be paid on May 30, 2017, to stockholders of record as of May 16, 2017.

In April, we also made a \$279 million contribution to the company's defined benefit plans, of which only \$25 million was required, which are now fully – the plans are now fully funded as of April 17, 2017 under the Airline Relief Act. In addition to our earnings release, we also filed our investor update this morning. Consistent with our previous guidance in the second quarter of 2017, we expect our system-wide ASM growth to be up approximately 1.5%.

For the full year, we expect consolidated system capacity to be up approximately 1.5% and domestic consolidated capacity to be up approximately flat year-over-year. We expect international capacity to be up approximately 4%, primarily due to the continuing impact of the 777-200 retrofit program and the year-over-year impact of new Pacific markets that we added in 2016.

Over the past two years, we have made significant investment in our people, our product and our operation. And as Doug discussed in his remark, we are offering mid-year contract, hourly base pay rate adjustments of approximately 5% to our flight attendants and an average of 8% to our pilots. The estimated pre-tax income on the company's 2017 salary and benefits expense would be approximately \$230 million in 2017 and \$350 million in 2018 and 2019. So those are numbers that come off the base that we are at today. So the total impact is \$350 million.

We are happy to be able to fulfill the commitment we made to our team members and continue to believe these investments are vital to improving our product and operation. With these pay rate adjustments, we now expect our second quarter of 2017 year-over-year consolidated CASM, excluding special items to be up approximately 7%. The mainline is in the range of 6% to 8%, and the regional is in the 3% to 5% range.

We continue to expect higher year-over-year fuel prices in 2017, based on the forward curve as of April 24. We expect to pay between \$1.63 and \$1.68 per gallon consolidated in the second quarter of 2017, which is approximately 16% higher year-over-year. Using the midpoints of the guidance we just provided along with Robert's revenue guidance, we expect our second quarter 2017 pre-tax margin, excluding special items, to be between 11% and 13%.

For the full year, we expect gross aircraft CapEx to total \$4.1 billion. This includes the delivery of 57 mainline aircraft and 16 regional aircraft, while

retiring 46 mainline aircraft and reducing the overall regional fleet count by 9 aircraft. In addition, we expect to invest \$1.6 billion in non-aircraft CapEx, which includes projects to improve our product and operations, as well as investments to complete our integration.

With respect to our fleet, we announced in our release this morning that we reached a new amended agreement with Airbus to defer delivery of the 22 A350 XWB aircraft the company has on order. Under the new amended delivery schedule, we expect to take delivery of the first two A350 aircraft in late 2020 instead of 2018, as previously expected. We now expect to take delivery of these A350s from 2020 through 2024 with an average deferral of 24 months.

In addition, we also reached agreement with Boeing to defer the delivery of two 787-9 aircraft from the second quarter of 2018 to the first quarter of 2019. These changes, as well as the impact of changes to net pre-delivery payments, reduced the company's planned capital expenditures by approximately \$500 million in 2018 and approximately \$300 million in 2019 and 2020 and provides us with additional wide body capacity flexibility.

So in conclusion, our team produced outstanding results in the first quarter and we look forward to more of the same as we move into the peak summer travel period. I would like to, again, thank our 120,000 team members for the great service they provide to our customers.

With that, I will turn it over to Robert.

**Robert D. Isom - American Airlines Group, Inc.**

Thanks, Derek. Good morning, everybody, and thanks for joining us. I would like to start by recognizing our 120,000 employees. My colleagues have done outstanding work over the quarter and we've asked a lot of them over the last few years and they've really delivered. The first three months of the year, we saw continued improvement across the enterprise, including operational improvements, fleet refresh, customer experience and team member engagement. We continue to make smart long-term investments in things like customer service training, facilities improvements for both our employees and customers and technology to improve the overall customer experience. These investments are starting to pay real dividends, and we're really excited about the trajectory that we're on.

Our operation continued to take big steps for the first quarter. Despite the impact of Winter Storm Stella in March, which disrupted the operations at stations in the Southeast, Mideast and Northeast, American team members set new post-merger operational records in February for mainline, on-time departures, on-time arrivals and mishandled baggage. We had eight days

without a single mainline cancellation in the first quarter, which is more than any year that we've had since the merger. These accomplishments demonstrate our progress in creating a consistently reliable operation for our customers and team members.

While much of the integration work is already complete, there's several noteworthy projects in the works that will refine our network and make us even stronger for our customers. Some of these projects include the March announcement of new service to eight cities from our hub in Chicago, as well as one new route in Dallas-Fort Worth and Miami. None of these 10 new additions will serve cities that have flights to other American hubs and have historically performed well.

In addition, the bank patterns at our Miami hub have been redesigned to facilitate better connections, more efficient gate utilization and faster processing through customs and immigration. One critical part of refining the network is focusing on the areas where we can maximize the value of our resources and we're building up service in profitable cities, improving the efficiency of the scheduling process and making structural changes at our hubs. These are just a few of the examples of how we're striving to invest our resources to create a seamless operation for our team members, the best product for our customers and the highest return for our owners.

On the commercial side, we rolled out the new Basic Economy product in 10 test markets in early March with encouraging results. In the 10 launch market, half of the eligible Basic Economy passengers have bought up to the main cabin, which is right in line with our forecast. We plan to continue to roll the product out to the remainder of our domestic and short haul international markets in a phased approach with more markets coming in May and June.

At the end of March, we started selling Premium Economy with our first departures on May 4. We expect to have nine widebody aircraft configured with Premium Economy by the second quarter and more as time comes in the future. We also announced an agreement to invest \$200 million in China's largest carrier, China Southern Airlines. Later this year, we expect to begin codeshare and interline agreements that will give our customers approximately 70 more destinations in China, beyond Beijing and Shanghai.

Lastly, we entered into an arrangement with Scandinavian Airlines to obtain two slot pairs at London's Heathrow Airport, strengthening American's presence at a key international gateway for American and our joint business partner, British Airways.

Turning to revenue, we're very pleased with the revenue performance in the first quarter. Our first quarter consolidated PRASM was up 2%, and our first quarter TRASM was up 3.1%. This is the third consecutive quarter where our unit revenue performance was materially better than the rest of the industry. And not just the industry average, but better than each of the six largest U.S. carriers. We believe that this outperformance can be attributed to the significant investments we've made in many years of business from our people to our product and to selling, revenue management, our AAdvantage program and our mobile platform and aa.com.

And customers are noticing. We recorded our highest customer satisfaction rating since the merger, the fifth consecutive month of sequential improvement. And last week, the Harris Poll named American Airlines its Full Service Airline Brand of the Year. And earlier this year, American was named the 2017 Airline of the Year by Air Transport World.

Turning to domestic, our consolidated PRASM was up 2.3% and importantly, improved in every month in the quarter. We have been implementing a number of revenue management initiatives for the Premium cabin and they have proven very successful. Our sales initiatives are also bearing fruit. We continue to see a positive trend in corporate share in the first quarter with strong results across the network. This trend is continuing as we enter the second quarter as well.

Our Latin America performance overall was very strong, with PRASM up 7.7%. Although Brazil led the way, up 43%, strength (20:14) broad-based also. The balance of South America had positive unit revenue growth as well, while other areas within the region had low single digit declines.

The Atlantic was our weakest performing international entity with PRASM down 5.9%, but that number overstates the decline in actual performance. It requires some explanation. While our results did decline as a result of industry growth in a soft pricing environment, half of the decline that we saw is due to an out of period adjustment that positively impacted last year's results. And another point and a half is due to the decline in UK currency and our exposure to that.

Across the Pacific, PRASM was positive. This is the first positive result since the third quarter of 2014 and is a sign that we're turning the corner around our capacity build-out in the Pacific. We expect this region to continue to improve as we lap the additions of Haneda, Sydney, Auckland and Hong Kong throughout the year.

First quarter cargo revenue improved 6.3% year-over-year on strong growth, a positive trend that we've seen since the latter half of 2016. The



focus that our cargo team members have placed on improving cargo's operational performance and efforts to deliver best-in-class customer experience are paying off and being recognized by the industry. American Airlines Cargo was voted Air Cargo News 2017 Cargo Airline of the Year for the third straight year. And American is the only U.S. based carrier to have been recognized with this honor in the award's 34-year history.

So looking forward, the revenue environment at American is very strong, and we expect this momentum to continue. The June quarter will mark the sixth quarter in a row of sequential improvement unit revenue and the third consecutive quarter of positive unit revenue growth. Based on published guidance, we expect to outperform the industry in the second quarter as well, for the fourth quarter in a row. We continue to expect positive revenue improvements for each quarter throughout this year.

Regionally, our domestic PRASM is expected to strengthen in the quarter due to a number of initiatives focused on Premium cabin pricing and yield management and continuing gains through our investments in our sales organizations. In Latin America, we expect another quarter of strong year-over-year improvements with every entity having positive unit revenue. The Pacific entity is expected to perform in line with the first quarter.

Lastly, the Atlantic region has continued to show modest signs of improvement due to easing comps from past terror events. However, it remains challenged, as low priced carriers continue to grow and the British pound remains weak. As we look to the second quarter and beyond, we're excited about our operational commercial investments, and we expect our second quarter total revenue for ASM to be up 3% to 5% year-over-year. We rolled out our new Basic Economy product, our Premium Economy product as well, and early results are encouraging.

While we have a lot of work to do, we look forward to reporting on future successes. With that, I'd like to turn the call back over to the operator and begin our Q&A.

## **Question-and-Answer Session**

### **Operator**

Thank you. [Operation Instructions] And we will take our first question from Kevin Crissey with Citi.

### **William Douglas Parker - American Airlines Group, Inc.**

Hello, Kevin.

**Kevin Crissey - Citigroup Global Markets, Inc.**

Hey. Good morning. Thanks. Can you provide evidence that cultural investments are more than recouped through higher revenue? Having worked at JetBlue, I can assure you that investors are unconvinced by this argument.

**William Douglas Parker - American Airlines Group, Inc.**

Yeah. Kevin, what I'm certain of is that we – the leverage in this airline is in closing the revenue gap that we have. And I'm equally certain that our ability to do that, while asking our team to work for less than their peers is a big challenge and one that I'm certain either is fair to our team nor to our leadership because it makes it increasingly difficult. So I don't know that I can directly answer your question but I'm highly confident that it is correlated. And would note, again, this isn't about us making a bet that, oh, if we can go get to rates that are – pay levels that are higher than others, that will get us something that will allow us to generate higher revenues than others. I don't think I would make that argument.

This is about us getting our team to the levels that are currently in place at our competitor airlines and consistent with the commitment we made to our team at the time of the merger that we would compensate them in line with their peers at other airlines, a commitment again that we've made consistently with each and every contract. But in the case of these two contracts that were done shortly after the merger and were put in place on five-year terms, which is also worth noting, longer terms than the other airlines are putting in place today. It just got to where the gap was too big and it was going to be in place for too long and that didn't feel right to any of us.

So I feel good about that commitment. It's a commitment we're happy to make, not just in this case, but to any of the rest of our team to the extent we see large discrepancies in our pay rates, our base pay rates versus competitors, other airlines and there's still significant amount of time and we can get that addressed through contract negotiations. You should expect us to correct it because that's the right thing to do for our team and I think – and I do believe, Kevin, what happens so long as we do that, we have an engaged and excited team that is seeing the trust they placed in us validated and they go take care of our customers and that's the best way to take care of our shareholder.

**Kevin Crissey - Citigroup Global Markets, Inc.**

Thanks. But isn't this taking your number one cost item and handing it over to the most aggressive competitor effectively? Whoever thinks that they can

pay the most goes out and signs a contract and your labor rates are going to go to that optimistic or arguably the dumbest management team out there is an argument investors could look at. You've taken it out of your hands and put it in the hands of others and that doesn't feel like what well run companies do.

**William Douglas Parker - American Airlines Group, Inc.**

Yes, I would beg to differ. Again, given the experience levels here, and what our teams have been through. And look, we're comfortable with the commitment. You're right, in one sense, I suppose, that if you want to look at our commitment and figure out what it means for the industry, the answer is you've got to go ask others in the industry because we're, indeed, not leading this charge. We're just making sure we're staying – we're catching up. So where it goes in the future will be dependent on what others do in the future.

But look, I feel, I think again, I think this is – what you're seeing here is the maturing of an industry and an industry that has seen the people work in this business go through incredibly difficult times and what we needed to have happen was that get corrected. And I think look – and I think it's largely corrected. We were encouraged to hear Delta, apparently at their Investor Day, mentioned that they put in place a 6% pay increase for all their team, for all their non-union members, which at Delta is everyone, I believe, except their pilots and their dispatchers. So the vast majority of the airline they increased 6% again this year but note on their Investor Day they thought that was their last industry reset and they would see inflationary increases in the future.

So I don't know that I agree with your premise but I certainly agree with our commitment and that is we're going to make sure, because it's important that our team who is an incredibly important part of our product is excited and engaged. And it's hard to do that if they see others that do the same job they do and don't do it as well at other companies, getting compensated more on an hourly basis. So that's important to us. It will continue to be important.

I don't think it's dramatically different than if you saw another airline make some major enhancement to their in-flight product, you would see us match those because it is an important part of making sure that we're taking care of our customers. And these are the people to take care of our customers, the people that are on the frontline, not just our pilots and flight attendants, our mechanics, our fleet service employees, our reservations agents, our gate agents, every single one of them deserves the same commitment and we're happy to make it.

**Kevin Crissey - Citigroup Global Markets, Inc.**

Okay. Thank you.

**William Douglas Parker - American Airlines Group, Inc.**

Thanks, Kevin.

**Operator**

Moving next to Jamie Baker with JPMorgan.

**Jamie N. Baker - JPMorgan Securities LLC**

Hey. Good morning, everybody. Doug, you have this plan to achieve pre-tax profits mid-cycle of \$5 billion. Over the last year or so, it feels like you may have been retreating from that somewhat. Consensus estimates certainly don't embrace that outcome and now, of course, you're adding additional costs to your internal forecast. When do you think you'll be able to reverse direction and start moving towards that objective? Or are we doing the right thing by kind of just ignoring it?

**William Douglas Parker - American Airlines Group, Inc.**

Yeah, Jamie, I think you referenced some comments that we made at your conference and the rest of the group may not know what you're talking about, so let me try.

**Jamie N. Baker - JPMorgan Securities LLC**

Oh, I'm sorry.

**William Douglas Parker - American Airlines Group, Inc.**

That's quite all right. And I don't know, your conference is so well attended maybe everybody knows exactly what you're talking about but I'll try anyway.

**Jamie N. Baker - JPMorgan Securities LLC**

When it doesn't snow.

**William Douglas Parker - American Airlines Group, Inc.**

Yes, that did make it rough. So look, and importantly, I need to restate it because – I would restate it slightly differently than what you just said. Here's what I said and here's what we do. And it's a really important point so I'm glad you raised it. We believe the – we have a company today that

over – on average, over time in today's current environment, should generate pre-tax earnings of around \$5 billion. Now, look, it's a volatile business. We all know that. That hasn't changed. While that level of earnings is a number that no one has ever fathomed before, the fact is it's still volatile. So, we think it will average \$5 billion over time. We think the better years will look around like \$7 billion and the lesser years will look around like \$3 billion but over time, we should expect this company can generate over time \$5 billion.

Now, look, that is not just a statement that we make. That is how we compensate our every one of the employees at American Airlines that get an annual bonus, so everyone essentially manager level and above. That's why this is important. We use that formula I just said to fund our annual incentive pool, and we've done that since the merger. Now again, the \$3 billion and \$7 billion have moved around a little bit as we've gotten more comfortable with post-merger earnings, but the \$5 billion hasn't changed since the day of the merger. And maybe it will change one day but we're not changing it – we're certainly – nothing about what we're seeing today leads us to believe that should change.

So that's what I reported to you all is that – that's what we think about the earnings prospects of this company. And not only do we think that, that's how we fund our incentive pool. So, again, the way the incentive pool works, not that you care that much about our executive compensation, but I think it's really important to what you think about our expectations for the business. We fund the incentive pool by telling the team, look, if we have a year where we make \$5 billion, we're going to fund the incentive pool at target. If we have a year where we make \$3 billion, we're going to fund it at half of target, below that, there's no bonus. And if we have a year where we make \$7 billion that's the maximum, which is double the bonus.

So – and you're right, no one on the Street, I think, is forecasting \$5 billion for American this year. But we didn't change that formula for the team. So this – if indeed the Street is right, this will be one of those years that's slightly worse. And there will be years in the future that are slightly better. What's important about this point is that if we are right, and, again, we're not just throwing out numbers here.

This is how we're incentivizing our management team. If we're right, our stock is so undervalued it defies logic in my view. If we're right, and this company is going to – over time going to average \$5 billion pre-tax, really easy – really simple math and you guys are a lot better at this than me, but I'll go to the simple math, \$5 billion taxed is \$3 billion, \$3 billion and for a company today that is trading at somewhere around – has a market cap of about \$24 billion, that's eight times what I'm telling you I think is our steady

state earnings. Eight times steady state earnings when the average S&P company over the last 20-something years has had a multiple of earnings of something like, help me, Dan, 19 times.

Feels like people don't believe the \$5 million (sic) [\$5 billion] (34:05) number. And that's fine. But we do. So that's why we're so bullish on the company. And the investments we've made today only strengthen that view. We don't look at that and think, oh, gosh, now it's \$300 million harder to get to \$5 billion. We look at this and say this reinforces our view that we're going to continue the momentum we have in improving the revenues by these investments we're making, and we feel even better about that in the long-term. So that's what I said, and that's what we still believe.

**Jamie N. Baker - JPMorgan Securities LLC**

As part of that, it looks like it still takes considerably more American employees to get the job done than at Delta. And it's tough for me to accurately do that analysis. There's some outsourcing issues we have to account for, but there do seem to be opportunities for American to become more efficient, and your letter last night seems to imply as much but maybe that's just my interpretation. Can you quantify the opportunity to improve labor efficiency?

**William Douglas Parker - American Airlines Group, Inc.**

Well, look, I would say this. When you say it's difficult for you to do that, I would argue it's almost impossible for you to compare those numbers. There are enormous differences in the amount of work that American does in-house versus what some other airlines do outside. So you wouldn't see it in the head count or in the salaries, you'd see it, instead, in their numbers and their outside services, and we try to do similar analysis and you can't get there, I don't think. But I'll tell you this, as is the case in most mergers, when you're running two airlines, you need to have some redundancies in place that as you get through the merger, you can eliminate, and we still have some of that in place.

But rather than trying to quantify it, because I don't know that we know what it is yet and/or how we're going to manage it and over what period of time, I would just point you to the guidance that Derek rattled off on our cost trends. We had CASM ex fuel in the first quarter here of 8%. The second quarter we say 6% to 8%. The third quarter we say 3% to 5%. Fourth quarter we say 2% to 4%. That includes – again, those estimates include this adjustment that we made last night. So that's a rapidly declining year-over-year increase in cost. And while we're in no position to start giving 2018 guidance yet, I would certainly expect that that trend would continue

into 2018 and that is that number of 2% to 4%. And fourth quarter 2017 would be even lower for the full year of 2018.

So it's coming down. The rate of growth is certainly slowing. But look, we recognize that our job is to make sure we're running the airline efficiently, and we believe we're doing so today. There are some things that because we're still running in some cases two separate airlines that may have us doing that less efficiently than we'll be able to do over time, but we'll make sure we get there as quickly as we possibly can. I think you'll start to see most of that in 2018 and, again, nothing to report now on how big that will be because I don't think we know. I know we don't know because I don't know.

**Jamie N. Baker - JPMorgan Securities LLC**

Okay. Yeah. Doug, I appreciate you taking my questions this morning. Thanks.

**William Douglas Parker - American Airlines Group, Inc.**

Thanks, Jamie.

**Operator**

We'll go next to Andrew Didora with Bank of America.

**Andrew George Didora - Bank of America Merrill Lynch**

Hi. Good morning, everyone.

**William Douglas Parker - American Airlines Group, Inc.**

Hey, Andrew.

**Andrew George Didora - Bank of America Merrill Lynch**

Doug, on that note, in terms of the \$5 billion, kind of, run rate pre-tax earnings, I guess, when you consider that, and given the permanent step-up in labor, does it change your view at all of capital allocation? With these higher fixed costs, would you consider more debt pay-down over share repurchases going forward? And if not, why?

**William Douglas Parker - American Airlines Group, Inc.**

The short answer is no. And again, I come back to the overriding point, which is this increase in our near-term expenses in no way changes our view about our long-term prospects. Indeed, it gives us more confidence that

they're achievable. So nothing about this makes us think anything about – and, again, let me make one other point on that because this seems to be a theme – a recurring theme that I'm having trouble getting across. We look at this longer term than – and on the long-term, this was an expense that was coming. There's no way when we got to 2020 and did new contracts, of course, that we're going to go sign new contracts with our team that were going to keep in place this sort of a gap.

So we accelerated an expense. Again, not something we do lightly and not something we had to do, something we thought we should do. But none of this, to us, feels like any sort of change in the long-term prospects, and when we think about things like share repurchase and capital allocation, we think about it in the long-term. So no, no change in that. We're really confident with our current capital allocation. We think we're doing the right thing for our shareholders, we're happy yet again, as Derek noted, to make some purchases in the quarter that were a good bit less than the price at least as we opened today, and so we feel good about that. We think we – another thing worth noting again on the capital allocation piece is, yeah, our debt is higher, but it's because our assets are better.

Another point that I think sometimes gets lost, maybe our fault for not mentioning it enough, but this higher levels in debt versus our competitors is driven by the fact that we have a much younger fleet, and that fleet is a lot more valuable. There's a fleet they have in place and that drives higher debt, of course. So we feel good about the capital allocation, and we will continue to do what's best for our shareholders and our team as we go forward.

**Andrew George Didora - Bank of America Merrill Lynch**

Got it. Understood. I guess, maybe kind of changing gears a little bit, maybe one for Robert. Can you talk a bit more about what you're seeing on the Trans-Atlantic, given kind of this onslaught of low cost carrier capacity into the summer? Have you adapted the way you manage inventory in response to this at all? And kind of what are your expectations for demand on Trans-Atlantic as we head through the summer?

**Robert D. Isom - American Airlines Group, Inc.**

I'll let Don give some more color. But we're optimistic about what we're seeing close in. But as you note, have concerns about capacity in the long run. Don?

**Donald B. Casey - American Airlines, Inc.**



Yes. I mean, we – clearly, there's a lot of capacity growth, and there's a pretty active pricing environment. The industry did a big reset in terms of pricing last year heading into the fourth quarter where we've been more – a bit more aggressive versus low cost carriers. We do have easing comps. So as we go forward, I think we're going to see the comps get a bit easier. We also ran last year at relatively low load factors, U.S. point of sale demand was not as strong as we had hoped last year. Although we're seeing some weakness coming out of the UK, overall, the U.S. point of sale seems very robust this year, and we expect, as we go through the summer that we're going to run materially higher load factors than last year.

**Andrew George Didora - Bank of America Merrill Lynch**

Great. Thank you, everyone.

**William Douglas Parker - American Airlines Group, Inc.**

Thanks.

**Operator**

We'll take our next question from Hunter Keay with Wolfe Research.

**William Douglas Parker - American Airlines Group, Inc.**

Hey, Hunter.

**Hunter K. Keay - Wolfe Research LLC**

Yes. Good morning. So I know, maybe it's a question for Derek, since Derek is the one that made this comment last quarter. I know you said, obviously, it's early to guide to 2018 CASM, but just last quarter you said you think you'd be able to keep CASM ex under 2% over the next couple of years. I'm not sure if you were referring to an average number, or each of the two years? But given the new labor cost increase, do you still feel like that's doable?

**Derek J. Kerr - American Airlines Group, Inc.**

Yes, I still feel like that's doable for each of the two years, not just over the two years but for each of the two years.

**Hunter K. Keay - Wolfe Research LLC**

All right. Good. And then just to be totally clear, I think, Robert, you said you expect continuing positive improvements in RASM each quarter this

year. You weren't saying the 3Q growth rate was going to get better than 2Q or just saying it's going to be above zero, right?

**Robert D. Isom - American Airlines Group, Inc.**

Yes.

**Hunter K. Keay - Wolfe Research LLC**

Okay. Do you want to give us maybe an early quick read on how you're thinking about 3Q, anything we should know about in terms of like calendar weirdness, or capacity or anything you're lapping, just to kind of give us an early thought, how to think about that sort of second derivative growth rate?

**Robert D. Isom - American Airlines Group, Inc.**

No, there's really – there was a lot of pricing action in the domestic market last year that kind of got sorted out in July that had an impact on some of the bookings through August in particular. October actually was a bit of a weak month for just about everybody last year. But other than that, I think it's nothing stands out as being dramatically impacting the last half of 2017.

**Hunter K. Keay - Wolfe Research LLC**

Okay. Thank you.

**William Douglas Parker - American Airlines Group, Inc.**

Thanks, Hunter.

**Operator**

We'll take our next question from Duane Pfennigwerth with Evercore ISI.

**Duane Pfennigwerth - Evercore ISI**

Hey. Thanks.

**William Douglas Parker - American Airlines Group, Inc.**

Hi.

**Duane Pfennigwerth - Evercore ISI**

Just on the combination of CapEx and pension funding, can you walk us through that this year, 2018 and 2019?

**William Douglas Parker - American Airlines Group, Inc.**

Yes.

**Derek J. Kerr - American Airlines Group, Inc.**

Yes. So in this year, we'll have \$4.4 billion in combination, so CapEx of \$4.1 billion. Pensions, we did \$279 million. In 2018, CapEx – aircraft CapEx is \$1.6 billion, and pension right now we're forecasting \$1.1 billion. But one thing I want to note on that, that's an assumption that the mortality tables do change. If the mortality tables do not change, that'll be reduced by about \$400 million, so we have the most conservative number in there. So it's \$1.6 billion in aircraft CapEx and \$1.1 billion in pension payments. And then in 2019, aircraft CapEx is \$2.8 billion and pension payment is right at a \$1 billion.

**Duane Pfennigwerth - Evercore ISI**

And is that \$1 billion level – for a longer-term model, is that \$1 billion level kind of what we should be thinking about?

**Derek J. Kerr - American Airlines Group, Inc.**

No, it drops in – in 2020 it drops to \$600 million; and 2021, it drops to \$600 million. And those are all assuming the mortality table changes. If those don't change, then those could be modified, but it goes down to \$600 million in 2020 and 2021, so I'd say the run rate is more \$600 million past to the 2019 timeframe.

**Duane Pfennigwerth - Evercore ISI**

Okay. And we should add \$1.5 billion in non-aircraft to those numbers?

**Derek J. Kerr - American Airlines Group, Inc.**

Yes.

**Duane Pfennigwerth - Evercore ISI**

Okay.

**Derek J. Kerr - American Airlines Group, Inc.**

At least through 2020 and then I think it'll come down to about \$1 billion to \$1.2 billion in 2021.

**Duane Pfennigwerth - Evercore ISI**

Thanks for that detail. Have you looked at – I know at least one competitor was able to go into the unsecured market and get very attractive rates to

sort of advance fund some of that. Have you analyzed that? Is that something you could even do, given the higher leverage?

**Derek J. Kerr - American Airlines Group, Inc.**

We have analyzed it. We could do it if we want. We think we're – we don't have any requirement to do any payment until 2018 and don't believe we should go forward with that. I think the \$1.1 billion we're doing in 2018 will get us to 80% funded which is exactly where one of my competitors went to. So that's the reason we're going to 2018. We only have to do, I think it's \$60 million in 2018, so the \$1.1 billion is significantly over what we're required to do in order for us to get to that 80% funded once the Airline Relief Act comes off. So, well, it's similar to what they're doing, we just don't need to do it until 2018.

**Duane Pfennigwerth - Evercore ISI**

Thanks very much.

**William Douglas Parker - American Airlines Group, Inc.**

Thanks, Duane.

**Operator**

We'll go next to Rajeev Lalwani with Morgan Stanley.

**William Douglas Parker - American Airlines Group, Inc.**

Hello.

**Rajeev Lalwani - Morgan Stanley & Co. LLC**

Good morning. Thanks for the time.

**William Douglas Parker - American Airlines Group, Inc.**

Good morning.

**Rajeev Lalwani - Morgan Stanley & Co. LLC**

Robert and Don, this'll probably be for you. You – your updated RASM guide points to sequential improvement that's relatively modest versus peers and relative to just what you posted in 1Q, and you've highlighted a lot of revenue opportunities that are impressive out there. What do you think is the driver there in terms of the lack of an acceleration, given all the things that you've got going on?

**Robert D. Isom - American Airlines Group, Inc.**

I'm not so sure I'd characterize it like that because in all honesty, what we're seeing is a lot of demand for our Premium cabin, and that I think is a sign that the kind of investments that we're making are taking root. We see that strength holding strong forward in the business market and from a business perspective as well. And I think that our outperformance is going to continue. It – we've got a good impressive string here, and that's what we see going forward. Don?

**Donald B. Casey - American Airlines, Inc.**

Yes...

**William Douglas Parker - American Airlines Group, Inc.**

Go ahead, Don. I'm sorry.

**Donald B. Casey - American Airlines, Inc.**

Yeah. I mean, I – first of all, let's not, I guess, confuse guidance with performance. Guidance is guidance and not everybody hits their guidance. So we'll see how the actuals come in when we get through the second quarter. Although on the – from a guidance perspective, this looks like a – sequentially we're not increasing as much. But this will again be the fourth quarter in a row where our performance is better than everybody else's, and so we'll just have to wait and see where the actuals come in, in terms of year-over-year versus others.

**William Douglas Parker - American Airlines Group, Inc.**

Yeah. Thanks, Don. That's what I was going to say. And again, the others may meet their guidance and we may exceed our guidance. If you're asking us to forecast the gap versus the others, we're certainly not forecasting that that gap will narrow in the second quarter. We just think we probably have – we may have different biases in our forecasting. Ours might be more conservative than theirs. But if the second quarter actuals come in and that gap closes, that's, I don't know, we'll look at why that happened if that happens, but we certainly don't expect that.

**Rajeev Lalwani - Morgan Stanley & Co. LLC**

Point taken. And the other question, a bit more nuanced, can you talk about the outlook for the LatAm market? Robert, I think you provided some color for 2Q but I was looking for more, just beyond, as far as puts and takes in

regard to supply demand, what South America is looking like, Mexico, Caribbean, et cetera.

**Donald B. Casey - American Airlines, Inc.**

Okay. This is Don. We had, obviously, a very solid first quarter performance in Latin America, Brazil led the way. We had positive unit revenue in all of South America and low single digit declines in the rest of the South America market. As we look forward into the second quarter, we see continuing strength, actually strength improving. And in the second quarter, we expect a positive year-over-year unit revenue in every entity in Latin America that it looks very, very robust at this point.

**Rajeev Lalwani - Morgan Stanley & Co. LLC**

And just broader puts and takes as we look beyond 2Q as far as what you're seeing or thinking on the supply side?

**Donald B. Casey - American Airlines, Inc.**

We're not really seeing anything dramatic on the supply side in LatAm, overall. We're seeing affirmative growth in Mexico but we're seeing a lot of demand growth as well, but nothing that we see that's going to change our current outlook.

**Rajeev Lalwani - Morgan Stanley & Co. LLC**

Very helpful. Thank you, gentlemen.

**Operator**

We'll go next to Darryl Genovesi with UBS.

**Darryl Genovesi - UBS Securities LLC**

Hi, guys. Thanks for the time. Hey, Doug, you've alluded a couple of times to this opportunity to go drive some relative revenue improvement relative to your peers over the next few years. I mean, I guess, I was just hoping that you'd help characterize where do you think the relative revenue discount is coming from today? I mean, is it network or is it on-time performance? And can you help us understand, sort of, what are the components of that you think are addressable versus those that perhaps aren't as addressable?

**William Douglas Parker - American Airlines Group, Inc.**

I'll let Robert try and do that probably more in terms of the things we think we can do to close as opposed to what drivers are. Go ahead, Robert.

**Robert D. Isom - American Airlines Group, Inc.**

Darryl, I'd just like to point out that I think there are a number of things that are benefiting us that are certainly due to the investments we've been making, but in all honesty a lot of catch-up and I do think is – will benefit us and it's going to be unique to American. Some of the things that are just taking root now, as we've talked about, we are still confident that between our Basic and Premium Economy products that we're talking about a \$1 billion worth of incremental revenue, which is sizable.

I think everybody – I think you know that we haven't really had a premium product for our widebody long haul flying that's been consistent out in the marketplace. And so, this year we will finally have a lie-flat product across all international entities, which is fantastic.

We think that we have some density issues with our narrow body fleet that we will be addressing in the coming years as well that I think will have benefits in terms of overall revenue production and also will help us from a unit cost perspective as well.

Don and team have been making improvements in revenue management. And I want to underscore the work that we're doing with our sales team as well. And I'd like to say that a lot of that's baked into the current numbers, but I'm glad that as we look forward that that is just coming on, and we think is going to continue to drive outperformance versus the industry.

**Darryl Genovesi - UBS Securities LLC**

Okay. So you think all that stuff, and I realize that it is difficult to see this, but if you were to take all of that stuff you that just mentioned there, which seem relatively addressable in nature and add them all up that that's enough to offset both the discount, for instance, from Delta that you're achieving today as well as what I'd call probably a positive or relatively positive impact from you already having to do a fleet in the industry. Is that a fair characterization or is there something structural about the network that's also causing you some difficulty?

**Robert D. Isom - American Airlines Group, Inc.**

When we take a look at the list of initiatives that we are pursuing, we think that that will definitely make us competitive.

**Darryl Genovesi - UBS Securities LLC**

Okay. Thanks very much, guys.

**William Douglas Parker - American Airlines Group, Inc.**

Thanks, Darryl.

**Operator**

And please limit yourself to one question and one follow-up question. We'll go next to Joseph DeNardi with Stifel.

**Joseph DeNardi - Stifel, Nicolaus & Co., Inc.**

Yes. Thank you very much. So, Doug, back in 2007 when you were running Airways, you said at the time you were talking to some bankers to get a sense of what the loyalty program could be worth. We've spoken to a couple of guys in private equity and they would use about a 15 times EBITDA multiple on it. That puts the valuation somewhere around \$30 billion to \$40 billion. Your market cap is half that. So two questions, would that surprise you, that valuation, and if it made sense to see what it was worth back then, why doesn't it make sense to do the same thing now?

**William Douglas Parker - American Airlines Group, Inc.**

Well, first off, I can't believe I said that in 2007, but if you say I did, okay. This has been an issue, at least from our perspective is it's part and parcel of the airline and part of running the airline and part of inventory management and something that at least in my recollection I've never considered as a particularly good idea to spend out – maybe when we forgot exactly how we financed survival it might have been something we were looking at.

But so, anyway, rather than trying to figure out why I said something in 2007, I'll tell you what we think now, which is. Yes. Well, first up to your larger question, would it surprise me to learn that's the value of the advantage program? I would have to say, yes. Because that is greater than the value of American Airlines in total as we sit here today. But I am not arguing with you. You guys are better at doing valuations than we are, and the market will decide.

I find it odd that simply separating something that is inside the airline today and putting it into a separate entity with the exact same cash flows would somehow generate that much incremental value, but again, that's something that you guys can figure out better than we can. But actually, I should be careful on that. If we believe that, then of course we would be spending perhaps more effort trying to figure out how to spend it out. What I believe is the advantage program is really valuable. It's an incredible part of our



airline. It's a significant reason that we feel so good about our future. And we maximize the value for our shareholders. And whether or not that is done in-house or in a separate entity, that's going to be the case. And the value will be created.

So we agree with you, there's a lot of value there. We agree with you that perhaps that's another reason the airline is undervalued, I just think we're undervalued for all sorts of reasons. I think people don't appreciate what's happened in this industry or this airline, and how it's going to make a difference in the long term. And that's where we're focused.

As I told you last time, we agree with your pointing this out, and we will continue to try to do a better job of pointing out to investors as best we can the value of the advantage program. But it's part and parcel of the airline and a really important part of the airline and one that we're happy with the way it's being managed and the value it's producing. And it's in our – in the results of the airline today and in the future.

**Joseph DeNardi - Stifel, Nicolaus & Co., Inc.**

Okay. I mean I guess, Doug, I would just say that the past two years at Jamie's conference, you've made your – making the lead presentation and talked about why there's less cyclicity in the business and the credit card and loyalty program isn't a part of that. So I'm just wondering, do you not mention it because you don't believe that it's an important part of improving cyclicity? Or are you just hesitant to talk about it because it seems like the first rule of having an airline cobrand card is you don't talk about the airline cobrand card?

**William Douglas Parker - American Airlines Group, Inc.**

Okay. Fair enough. It's not that. So, yes, okay, fair enough. We should probably spend a little more time pointing out that that stream of our earnings is a little less volatile than other streams. So noted.

**Joseph DeNardi - Stifel, Nicolaus & Co., Inc.**

Thanks, Doug.

**William Douglas Parker - American Airlines Group, Inc.**

Thanks.

**Operator**

Moving on to Helane Becker with Cowen & Company.

**Helane Becker - Cowen & Co. LLC**

Thanks, operator. Hi, team. Thanks for taking the question. As I think about your domestic route network. I know you're focused on Los Angeles, and maybe you can give us a update on facilities and what you're doing there in terms of have the new facilities opening and so on. And then when I think about the growth that's occurring in Fort Lauderdale and the other side of the country, you guys have the big hub in Miami, I get it, in Latin America and so on. But do you worry about the huge increase in capacity an hour and a half north of one of your major, most important hubs and just wondering if you can comment on kind of those two issues?

**William Douglas Parker - American Airlines Group, Inc.**

Steve Johnson will take the LA piece.

**Stephen L. Johnson - American Airlines Group, Inc.**

Sure. Thanks, Helane. Just with respect to facilities in Los Angeles, we – I think everybody knows that earlier this year or late last year, we actually opened the connector between the Bradley Terminal and Terminal 4, which is in use. I got to use it personally just the other day. It's a great way to get from international connection to our domestic service or vice versa. And that's been a big hit with our customers.

Then, very recently, we moved our limited operation that was in Terminal 6 to Terminal 5 and to adjacent to the tunnel that goes between Terminal 4 and Terminal 5. So those gates are now much more adjacent and much more convenient for our customers to use. And then finally, we're in negotiations with LAWA for a long-term lease at LAX that will change the face of our facilities there. Those negotiations are confidential beyond that, so I won't say anymore, but we're hopeful that we can get those completed in the next four or five weeks.

**Robert D. Isom - American Airlines Group, Inc.**

Yes. And, Helane, I'll talk a little bit more about South Florida. So, we understand the competition and then also the nature of the markets, and so there's always appropriate consideration. But look, Fort Lauderdale, it's a nice, local market operation. We view Miami differently. We do view it as the ideal connecting opportunity and hub for American, but not just American, of any carrier to the South America. We've got a nice position there. And a lot of the work that we're doing is really to try to maximize the flows and over the long run, we do think that that is something that is going to set us apart. And you may have noticed recently that's actually helped us in markets like Cuba, where we can do things because of the connecting power of the hub,

and we're going to continue to make sure that we maximize utility of that operation.

**Helane Becker - Cowen & Co. LLC**

Okay. Great. Thank you.

**William Douglas Parker - American Airlines Group, Inc.**

Thanks, Helane.

**Operator**

Moving next to Michael Linenberg with Deutsche Bank.

**William Douglas Parker - American Airlines Group, Inc.**

Hey, Michael.

**Michael J. Linenberg - Deutsche Bank Securities, Inc.**

Hey. Thanks, guys. Just two quick ones here. Bob, you talked about positive improvement in corporate share when you were talking about domestic PRASM. Any particular sectors or regions where you saw some share gains that you can elaborate on?

**Donald B. Casey - American Airlines, Inc.**

It's Don. I mean, to be honest with you...

**Michael J. Linenberg - Deutsche Bank Securities, Inc.**

Hi, Don.

**Donald B. Casey - American Airlines, Inc.**

We saw improvement across the board for our – in corporate markets. And this, again, marks a kind of high-water mark for us since the merger. And in the first quarter, we had our best performance in terms of both share and share gap, and our trends heading into second quarter are also very strong.

**Michael J. Linenberg - Deutsche Bank Securities, Inc.**

Okay, great. And then just second, just a clarification on the CapEx deferral to Derek. Is that – so is that \$800 million or \$1.1 billion? I'm not sure if it's \$300 million in two years or \$300 million per year?

**Derek J. Kerr - American Airlines Group, Inc.**

\$300 million per year. So it's \$1.1 billion over the three years.

**Michael J. Linenberg - Deutsche Bank Securities, Inc.**

Perfect. Thanks.

**Operator**

Savi Syth with Raymond James has our next question.

**Savanthi N. Syth - Raymond James & Associates, Inc.**

Hey. Good morning. A question on the – in the last few years, I think American has been a little bit more exposed to some areas that have seen greater pressure, be it South America, be it some of the aggressive pricing on low-cost carrier markets, and we are seeing that reverse. I was just wondering if you had any thoughts on how much more we could see, or how much more there is to go? And maybe some that might not come back in the near-term?

**Robert D. Isom - American Airlines Group, Inc.**

Okay. I mean, basically clearly we had some kind of unique headwinds that affected us, right? The Southwest growth at Love Field, the OCC growth Brazil, Venezuela. But we really kind of came out from under all that at the end of the second quarter of last year. And so, Brazil's clearly one area where we're seeing some year-over-year improvement, but the rest of that really doesn't really drive any year-over-year change. So the real value we're seeing and the uptick in our revenue performance, although Brazil is a piece of that, it's really being driven by all of the other initiatives we have out there in the marketplace.

It's the new airplanes, it's the new product, it's the restructuring of our Advantage program, it's the investment we're making in sales, and the investment and change we're making in revenue management. All the things we're doing, which is a long list, right, is really what's driving the benefit. It's not just some lucky, fortunate year-over-year comparison. It's really kind of fundamental, the fundamentals that are getting better for us.

**Savanthi N. Syth - Raymond James & Associates, Inc.**

Sorry. And I meant, not necessarily a comparison issue but maybe a reversal issue of some of the pressures that you saw. Finally a follow-up on Mike's question on corporate, was – are we seeing corporate revenue and yields up now year-over-year? Is that firmly in that trend?

**Robert D. Isom - American Airlines Group, Inc.**

Actually in the fourth quarter we did see yields come up. In the first quarter of this year, we saw yields actually for corporate flattish.

**Savanthi N. Syth - Raymond James & Associates, Inc.**

Great. Thanks very much.

**Operator**

Moving on to Jack Atkins with Stephens.

**Jack Atkins - Stephens, Inc.**

Hey. Good morning, everyone. Thanks for the time. Just kind of going back to comments earlier around the revenue initiatives, specifically some initiatives around improving the density on the narrow body fleet. Can you just expand on that for a moment in terms of when you think that could begin to impact results and sort of the opportunity there?

**Robert D. Isom - American Airlines Group, Inc.**

So those are things that we look at on an ongoing basis. And again, some of the things that you will see showing up is the work that we've done with our wide body, our 777 reconfiguration program where we're moving to a standard configuration. So that's on that front. And we think that there's opportunities with the narrow bodies as well. And that is something that you'll see in 2018 and beyond.

**Jack Atkins - Stephens, Inc.**

Okay. And then just kind of following up on that as well. Thinking about your prepared comments on Basic and Premium Economy, just sort of curious if you could update us in terms of how you're thinking about the portion of your domestic flights that will have those two additional classes of service on them by year-end. And then, just what sort of revenue impact that's expected to have in the back half of the year as comps perhaps get a little bit more challenging?

**Robert D. Isom - American Airlines Group, Inc.**

So in terms of Basic, that's something that we anticipate for – it will be something that we offer throughout our network.

**Jack Atkins - Stephens, Inc.**

Yes.

**Robert D. Isom - American Airlines Group, Inc.**

So for Basic, it's really just the timing of the rollout for us, right? So, we have more markets coming in May and June. These are still, I guess, I would view as kind of test markets, the next two tranches similar to the first tranche. But we're going to end up expanding this broadly across the whole network eventually, right, and pacing item for that is really going to be our training and staffing. But we're committed to roll this out everywhere, and we're quite encouraged by the initial results.

Premium Economy is the next thing. And we don't really kind of get to a critical mass of airplanes on our roll-out of Premium Economy probably until we get in first quarter of next year. So we still kind of consider what we're doing right now kind of a test, and we're very focused on this. A lot of it is channel education. We're the first U.S. airline to have this product, and so we need to make sure that all of our distribution, all of our selling channels know what the product is. And we need to make sure we work with our third-party distributors as well to make sure that the product is being appropriately displayed in all the systems, so people will understand what it is and what they're buying. And that's what we're focused on right now for Premium Economy. But, again, it will be critical mass by the first quarter of next year.

**Jack Atkins - Stephens, Inc.**

Okay. Thanks again for the time.

**William Douglas Parker - American Airlines Group, Inc.**

Thanks.

**Operator**

And Brandon Oglenski with Barclays has our next question. Sorry. Dan McKenzie with Buckingham Research has our next question.

**William Douglas Parker - American Airlines Group, Inc.**

Hey, Dan.

**Dan J. McKenzie - The Buckingham Research Group, Inc.**

Hey. Good morning. Thanks, guys. Doug, help us understand why the \$5 billion pre-tax target is realistic from your perspective. You're saying it's the right hurdle for executive compensation, and I know you. You're not pulling that out of thin air. Why is that? So from where you sit, what are the larger revenue opportunities over the cycle that gives you confidence you can

offset the labor headwinds this morning, and what are the new initiatives worth over the coming one to two years?

**William Douglas Parker - American Airlines Group, Inc.**

I think Robert laid those out pretty well. He can lay them out again for you, if you'd like, as to what the initiatives are. And as to the value themselves, we mentioned that as well.

**Robert D. Isom - American Airlines Group, Inc.**

Basic and Premium Economy we mentioned.

**Dan J. McKenzie - The Buckingham Research Group, Inc.**

Right. So look, that is the value that gives us confidence. All you need to do is look at the current gap in revenue per ASM as soon as we close that, you easily get to numbers like \$5 billion as a run rate number. So, look, but that's not how we go about coming up with this number. The way we come up with this number is knowing what we do about where the industry is today and where American Airlines is positioned in that industry, both of which we feel good about and both of which feel dramatically different than they've ever been before.

And based upon that view, that's what this feel – that's what the company feels like to us. I don't want to portend or pretend that we go and that – those numbers I said to you are the basis of some enormous analysis that's laid out for the next 15 years. It's where we believe this company is today. And look, the facts support it. Since the time of the merger, we have had earnings in that range. This is a worse year than others, and it's still in the range.

One of the things I do like to point out to people when they – part of the reason – part of the explanation, at least, I get sometimes, Dan, from investors as to why it is even if you believe what we – why it is that that we are so undervalued relative to other industries. The reason I get is, well, it's because investors are afraid you guys are going to do all the things you've done in the past to eliminate value.

And as someone who's been around through all those years, I know what those things are and were, and the things that are rattled off, as you know, you're going to grow faster than – once you start making money, you'll grow faster than demand. Once you start making money, you'll give more to labor than you did when you were making less money, and they'll take some of the upside that should go to shareholders. Fuel prices will go up, and you guys won't be able to react.

I would just point out this: In the last three years, all those things have happened. And that is unit revenues of – capacity has grown in excess of demand in the last couple years; and as a result, unit revenues have fallen at rates that we haven't seen in this business since 9/11. Probably more than they've ever fallen over a two-year period at any point in time. So unit revenues have declined because we've added more capacity than there is demand. Employee pay has increased at a rate that no one – that has never been seen before. And so that's happened. Fuel prices, indeed, have increased from where they were a year ago at 20%, 30%.

So all that stuff has happened, and yet here we are – and indeed, that has an impact on earnings and the earnings are lower. But while they are – they're lower, they're at the lower end of the range I talked about – actually, not lower end of the range – just lower than target. So I feel really good about that target over time. All those things have happened. All the things people are worried that we would go do indeed have happened. I don't think those are any surprises, by the way. I don't think that's bad management. I think all those things are the right things to do. The reason capacity has grown in excess of supply is because we do have a different business. And when fuel prices fell as much as they did, the economics changed dramatically and more capacity rightfully came in because it was profitable capacity.

The wages and benefits of employees in the airline business were a big part of how this – how the industry has survived and those had to be adjusted as the industry got past survival. So look, all of that stuff's happened. All the things that I think people were worried about we've done and we still have a business that is producing returns like it's never seen before. And also, I believe all of those things have gotten to a point where you – where we start to move into an area where you see kind of a more mature industry behave like a mature industry. But look, we will see over time, but I can't stress enough how bullish we are on the future.

**Dan J. McKenzie - The Buckingham Research Group, Inc.**

Yeah, thanks for that. And I guess maybe I didn't ask my question – and maybe I'd have to wait for the Investor Day, but I guess I kind of want...

**William Douglas Parker - American Airlines Group, Inc.**

Also, you – I rattled off on my tirade and I didn't – and we didn't answer your question. So Robert, what are initiatives for Dan?

**Robert D. Isom - American Airlines Group, Inc.**



No, I just – yeah, the fortunate thing, again, as I said before is I think we've got some catch-up items and a number of things that we can improve on. So the list of items is long and it is something that is part of a plan that we are working through. So as I take a look, right, we have both fleet and network simplification and optimization activities that are going on right now. Some of them have been held up by integration, but the good news is, is that we have more in the hopper coming on both network and fleet.

I mentioned to you about Basic Economy. We think that, that has legs throughout our system and it's just in its infancy. We think that Premium Economy will have tremendous benefits for our international network. I mentioned to you about wide-body interior improvements, notably the 777s in terms of finally getting lie-flat and density that's appropriate. I think that as I said, we have narrow-body density opportunities as well to pursue. Don has talked a lot about the RM improvements that have been made and will continue to be made and are being felt in the results that we have today.

We are just now getting started on our re-launch of our sales activity and bringing on a full force of sales reps that, quite frankly, has been lacking over the last three years as we focused on other things. We are re-designing our AAdvantage program that we think will bring a considerable benefit as well. And as we've talked in the past, we think that there is a lot of benefit coming with our cobrand card as well. The list is long. And, again, we're just getting started. And a lot of this, fortunately, benefit is going to come to American.

**Dan J. McKenzie - The Buckingham Research Group, Inc.**

Okay. Thanks.

**William Douglas Parker - American Airlines Group, Inc.**

Thanks, Dan.

**Dan J. McKenzie - The Buckingham Research Group, Inc.**

All right. Thanks, guys.

**William Douglas Parker - American Airlines Group, Inc.**

No, go ahead. You got another question?

**Dan J. McKenzie - The Buckingham Research Group, Inc.**

Well, I was just going to say, taking what you rattled off, over the course of the cycle, these initiatives are worth what in terms – X billion dollars, \$2

billion, \$2.5 billion? If you can just help size it for us or, again, maybe we have to wait for the Investor Day. I'm not sure.

**Derek J. Kerr - American Airlines Group, Inc.**

Wait for the Investor Day. We haven't – outside of Basic and Premium Economy, we haven't sized it and we'll be happy to shed more light on it later this year.

**Dan J. McKenzie - The Buckingham Research Group, Inc.**

Okay. Thanks, guys.

**William Douglas Parker - American Airlines Group, Inc.**

Thanks, Dan.

**Operator**

And we'll now go to Brandon Oglenski with Barclays.

**Brandon Oglenski - Barclays Capital, Inc.**

Yes. Good morning, guys. Thanks for getting me in at the end of the call here. Sorry, there's a few overlapping today. But, Doug, I missed your opening remarks here but you've been a huge proponent that this industry has changed. We just heard you respond to Dan's question about how the industry did add capacity. We are paying up labor. Earnings and margins have come down for two years now.

So if you want to be getting a better evaluation like a more stable consistent industrial company, don't we need to reduce earnings volatility? And part of that process is, obviously, managing cost inflation with price inflation or the opportunities in your market. So I don't want to come across as being unrespectful to your front line employees, which definitely work hard and deserve increases but as a manager of this business, how do we talk to a shareholder that says we need to take the costs up-front, margins need to come down now but trust us. What's the inflection point that drives that better in the future?

**William Douglas Parker - American Airlines Group, Inc.**

Yes. Thanks, Brandon. Thanks for asking. And, again, with – I did try to address this earlier in the stuff you may have missed but I'll try again. The – I do think volatility of earnings are dramatically different than they used to be, and more importantly, the level of earnings at which we – the mean level from which you vacillate is much, much higher, and I don't – and that

is different this time, and it's an enormous difference and I don't think that's been appreciated. So, but as to your volatility point, again, this is what we're doing today in terms of taking a group of our team members who was going to be, for two and a half years, paid a good bit less than their peers at other airlines, who were doing the same functions, is entirely consistent with my view that earnings are less volatile.

This is getting to a level of compensation across the industry that needed to occur. And once you get to that level, I think you'll see, as you do in other mature businesses, that labor costs, certainly one, you get efficiencies over time, as good businesses do. But, two, labor costs per employee increases at rates commensurate with inflation. And I think it's what you'll see in this business. But all of us had to get to a point where we got to what, really, team members in this business deserve and none of them were there because of everything we had to do to survive. So that's what I think is happening here. It doesn't affect by any means our view about the long-term value; indeed as I said at the outset, it increases our confidence in our ability to go create that value because we can't do that without an excited and engaged team.

We're making huge progress in that regard. We've got some momentum with this that has us very excited and we were concerned about our ability to maintain that momentum for the next two and a half years, while asking our team to live by a contract that they just happened to sign earlier than the rest of our team, and as a result found themselves further behind their peers than the rest of our team. So that didn't seem right to us, and that's – so when we see things that don't feel right, we correct them, we don't live by contracts we have in place, and that's what we did. And we feel extremely good about that, and it makes us feel even better about the long-term prospects.

**Brandon Oglenski - Barclays Capital, Inc.**

I appreciate that response, Doug, and Wall Street can be fickle. So hopefully this works out.

**William Douglas Parker - American Airlines Group, Inc.**

Okay. It'll work for the long term. Thanks.

**Operator**

We'll pause for just a moment. We'll go first to Andrea Ahles with Fort Worth Star-Telegram.

**William Douglas Parker - American Airlines Group, Inc.**

Good morning, Andrea.

**Andrea Ahles - Fort Worth Star-Telegram**

Good morning, Doug. This question might be more for Robert. I was wondering if you could talk on the Basic Economy side. You mentioned how from a revenue standpoint, how customers are – or 50% of them are choosing main cabin over (79:41) and they're offered both. But I was wondering if you could talk more on the operations side of, how is it going for your gate agents, your flight attendants to implement this new fare that has restrictions on it for customers on the planes this past March? How has that gone so far on those 10 routes?

**Robert D. Isom - American Airlines Group, Inc.**

Well, thanks, Andrea. I think – look, we're benefiting from the tremendous amount of work that went in to planning. So we spent months and months prior to launch, prior to announcement, and did extensive training. And fortunately, I think our metered approach is working. And what we're seeing is that by and large, our customers understand the restrictions that are on the Basic Economy fare, and are complying with what our practice is at the gate. And so we're not seeing a lot of difficulty and really no issues to talk about.

And I think that that's really evidenced by the kind of results that we're producing from an operational perspective, there hasn't been any impact to reliability, there hasn't been any impact on on-time departures. And I think what you'd hear from our in-flight crew is that they appreciate the benefit that comes with having fewer bags that are being brought on to the aircraft. So overall, I'm really pleased, but we're going to continue to take a measured approach and make sure that we're not surprised.

**Andrea Ahles - Fort Worth Star-Telegram**

Are you concerned at all about the summer travel season when these fares are introduced, when you have fliers that maybe typically don't fly as often? Maybe this is their once-a-year sort of trip and aren't as familiar with the changes. Are you a little concerned about how that might work at the gate?

**Robert D. Isom - American Airlines Group, Inc.**

Well, we'll be ready for it, and I think that's the key, is making sure that we let people – making sure that people are clear on what they're purchasing and certainly making sure that our team is ready to help and assist in any way possible. And at the end of the day, again, given the loads expected and

strong demand, we anticipate that this will actually make things a little bit easier on the aircraft because of fewer carry-on bags.

**Andrea Ahles - Fort Worth Star-Telegram**

All right. Thank you.

**Operator**

We'll go next to Mary Schlangensteen with Bloomberg News.

**Mary Schlangensteen - Bloomberg News**

Good morning. Hey, this might be for Derek, I'm not sure. I wanted to ask, is there a place in your fleet for the A350?

**Derek J. Kerr - American Airlines Group, Inc.**

Yes. No, I think there is. I mean it's – but we're going to – we had a lot of wide-bodies come in. We had 787s and we had A350s coming on top of each other, so we needed to manage our delivery schedule and where our wide-bodies are. So at this point in time, yes. So we just pushed them off two years to make sure that we had a – didn't have too many wide-bodies coming to us at one point in time.

**Mary Schlangensteen - Bloomberg News**

Are you considering at all maybe converting those to another Airbus model?

**Derek J. Kerr - American Airlines Group, Inc.**

Not at this time, no.

**Mary Schlangensteen - Bloomberg News**

Okay. Thank you.

**William Douglas Parker - American Airlines Group, Inc.**

Thanks, Mary.

**Operator**

Moving next to Ted Reed with TheStreet.

**Ted Reed - TheStreet, Inc.**

Thank you. I have two questions about consumer perception. The first is consumer perception of the airline industry seems kind of low, and I just wonder if you made – if that was a consideration in these pay increases.

**William Douglas Parker - American Airlines Group, Inc.**

Well, look, we've been working on this for six-seven months so if you're talking about recent incidents, absolutely not. If you're – if you're asking do we think paying our team in line with our peers helps us do a better job of taking care of customers, absolutely, I absolutely believe that. But, yes, if you're asking if this is related to some high profile consumer events of recent times. Absolutely not, we've been working on this for several months.

**Ted Reed - TheStreet, Inc.**

All right. Thank you. Second thing; in the case of the stroller incident, it seems from the video that a passenger assaulted a flight attendant. Are there any plans to have criminal charges against that passenger?

**Daniel E. Cravens - American Airlines Group, Inc.**

You lost us on that. But no.

**Ted Reed - TheStreet, Inc.**

Any reaction to the – to the video and the way the passengers – the way that the male passenger acted?

**Elise R. Eberwein - American Airlines Group, Inc.**

Which video are you talking about?

**Ted Reed - TheStreet, Inc.**

The stroller video with the passenger in first class seeming to assault and approach the flight attendant sort of maliciously.

**William Douglas Parker - American Airlines Group, Inc.**

Yes, Ted, we don't have any comment on that. We're – the – we've commented on the incident itself. It was – and did everything we could to make sure we apologized to the customers involved. We have an amazing team of people in American Airlines which is why we like to do the things that we do today. And they are out there doing incredible things every day.

We sometimes, because of our policies and procedures, put them in difficult situations, we are going to work to make sure we minimize those, but we

are really happy with the job they do. And we are focused – and very proud of the job they do. And obviously our customers – we look to provide great service to our customers in the same way by giving our team the tools they need for their jobs because all they really want to do is take care of our customers. So anyway, that's where we are on that, and nothing new to report.

**Ted Reed - TheStreet, Inc.**

All right. Thank you.

**William Douglas Parker - American Airlines Group, Inc.**

Thanks Ted.

**Operator**

Moving on to Conor Shine with The Dallas Morning News.

**Conor Shine - The Dallas Morning News, Inc.**

Good morning, guys. Excuse me. My question was just on Basic Economy again. Do you guys see the commercial value of that coming more from new passengers you'd attract who might otherwise fly just (85:56) other low cost carrier? Or is it more of what it enables you to do with your standard economy fares and what you're able to charge for those with this new bucket on the low end?

**Donald B. Casey - American Airlines, Inc.**

This is Don Casey. The value comes – we know that there are many customers that are willing to spend a little bit more to fly on American because of the great product that we have. And under the current distribution models in the industry, it's very difficult to display anything other than the lowest fare.

So by having two different products and different product attributes, this allows customers to actually make a choice which product is right for them. And we believe there are many occasions where customers are willing to pay just a little bit more to fly on American and the great product that we have. And if all they're really interested in is just having the lowest fair, that's the only thing that's really important to them, then we have a good product for them as well.

**Conor Shine - The Dallas Morning News, Inc.**

Thank you.

**Operator**

We'll go next to Dawn Gilbertson with The Arizona Republic.

**Dawn Gilbertson - The Arizona Republic, Inc.**

Good morning. Robert, you mentioned, or you and Don mentioned expansion of Basic Economy in May and June. Can you talk about those routes or markets?

**Robert D. Isom - American Airlines Group, Inc.**

We're not – we're not naming any of those right now. But, again, Dawn, this is – this is something that eventually will be out to the entire network.

**Dawn Gilbertson - The Arizona Republic, Inc.**

You're not – you won't name them and May starts next week?

**Donald B. Casey - American Airlines, Inc.**

That's when they're going to get loaded, so you'll see them soon.

**Dawn Gilbertson - The Arizona Republic, Inc.**

Okay. Why so secretive?

**William Douglas Parker - American Airlines Group, Inc.**

There's no secrets behind it. This is the way, that we're launching and you'll see more about it as time comes.

**Dawn Gilbertson - The Arizona Republic, Inc.**

Okay. Thanks.

**Operator**

And that concludes the question-and-answer session. I'll turn the call back over to your speakers for any closing remarks.

**Daniel E. Cravens - American Airlines Group, Inc.**

Thank you all very much for your interest. We appreciate it. And we – if you have any additional questions, investors, call Dan Cravens. Media, call our corporate communications. Thank you very much. We're done now.