Operator

Good morning and welcome to the American Airlines Group Fourth Quarter 2015 Earnings Conference Call. Today's conference is being recorded. At this time, all lines are in a listen-only mode. Following the presentation, we'll conduct a question-and-answer session. [Operator Instructions]

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

Dan Cravens

Thanks, Anthony, and good morning, everyone, and welcome to the American Airlines Group fourth quarter 2015 earnings conference call. Joining us on the call this morning is Doug Parker, our Chairman and CEO; Scott Kirby, President; Derek Kerr, Chief Financial Officer also in the room for the question-and-answer session is Robert Isom, our Chief Operating Officer; Elise Eberwein, our EVP of People and Communications; Maya Leibman, our Chief Information Officer and Steve Johnson, our EVP of Corporate Affairs.

As is our normal practice, we're going to start the call today with Doug, and he will provide an overview of our fourth quarter and 2015 financial results. Derek will then walk us through the details on the quarter, and provide some details on our 2016 guidance. 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 analyst questions and lastly questions from the media.

Before we begin, we must state that today's call does contain forward-looking statements including statements concerning future revenues and costs, forecasts of capacity, traffic, load factor, fleet plans and fuel prices. These statements represent our predictions and expectations as to future events, but numerous risks and uncertainties could cause actual results to differ from those projected. Information about some of these risks and uncertainties can be found in our earnings press release issued this morning in our Form 10-Q for the quarter ended September 30, 2015.

In addition, we will 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 be found on our website at aa.com. A webcast of this call will also be archived on our website. The information that we're giving you on the call is as of today's date and we undertake no obligation to update the information subsequently.

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

Doug Parker

Thank you, Dan, and thanks, everybody, for being on. We're pleased to report our fourth quarter and full year results for 2015. It's hard to imagine just two years ago this American Airlines was emerging from bankruptcy. But we were in the first year, the company produced record profits of $1.2 billion, including special items that was the record that we set in 2014, which was more than double than Americans had ever made in it's past. This year we've exceeded that with the results being released day of $6.3 billion.

So a new record, beating last year's record for the quarter. A new record of $1.3 billion exceeded last year's $1.1 billion. This is all the result of incredibly hard work and great work by 100,000 employees who are just doing a phenomenal job at taking care of customers, while we work through an integration, particularly as it relates to integration, it was just a year ago the big concern over that was whether or not -- was how much disruption this airline might put upon its customers as we worked through integration as early on we said in the past, we had difficulties, our team hit the ball out of the park.

Accomplishing things like frequent flyer integration, single operating certificate, reservation system migration, all of those things done flawlessly and again great credit to really phenomenal team who is doing a great job. We still have a lot to do, we're well aware of that, but we are well on our way to restoring American as the greatest airline in the world, our team is doing a phenomenal job, we're extremely proud on the results. They're produced and very pleased with our outlook given the position we have today.

So with that said I will turn it over to Derek, who will give you a lot more details on the financials, and then Scott and I will follow with some other details primarily revenue related.

Derek Kerr

Great. Thanks, Doug. Good morning, everybody. In our earnings release filed this morning we reported record earnings, as Doug said for both our fourth quarter and full year 2015. Excluding net special credits, our fourth quarter net profit was $1.3 billion or $2 per diluted share. This represents a $182 million improvement versus our fourth quarter 2014 net profit, excluding net special charges.

Fourth quarter 2015 pre-tax margin, excluding net special charges increased 2.8 points year-over-year to a record 13.4%. Our 2015 net earnings excluding net special credits were up 50% year-over-year to $6.3 billion or $9.12 per diluted share and this compares to 2014 net profit excluding net special charges of $4.2 billion or $5.70 per diluted share. Our 2015 pre-tax margin excluding net special charges increased by 5.5 points to a record 15.3%. Total capacity for the fourth quarter of 2015 was $65.5 billion ASMs, up 0.6% from the same period in 2014 and mainline capacity for the quarter was 58.1 billion ASMs, up 0.5%. Regional capacity for the quarter was up 1.4% to 7.31 billion ASMs.

In 2015, we did continue our fleet renewal program by investing more than 5.3 billion in new aircraft, providing the company with the youngest and most modern fleet of the U.S. network airlines. In 2015 the company took delivery of 75 new mainline aircraft while retiring 112 aircraft and the company also added 52 regional aircraft to its fleet while we removed 31 regional aircraft from the fleet. This program will continue in 2016 when we take delivery of 55 new mainline aircraft while adding 49 regional aircraft. We expect to remove 92 mainline aircraft and 29 regional aircraft from our fleet in 2016. With these new deliveries our mainline average age will drop below ten years further widening the age gap between American and our network peers. Recently we've reached in agreement with Airbus, we deferred two of the six 2017 A350 aircraft deliveries to 2020. These deferrals should help us to match the space of wide body deliveries to our projected needs for international flights. This new schedule still has taking four A350s next year as we remain in the North American launch customer.

Our fourth quarter 2015 revenue was negatively impacted by large capacity increases in certain domestic part segments as well as weaker yields in international markets due principally to foreign currency devaluation. Lower surcharges and continued economic softness in Latin America also contributed to the decline in revenue. For the quarter total operating revenues were 9.6 billion down 5.2% year-over-year. Passenger revenues were 8.3 billion down 5.4%, driven by 8.9% lower yields on a 0.6% increase in system capacity.

Cargo revenues were down 17.3% due primarily to a 15.5% decline in yields and other operating revenues were relatively flat at $1.1 billion. Total RASM in the fourth quarter was $14.71 down 5.8%, driven principally by a decline in passenger RASM, which was $12.69, as Dough stated Scott will give us more detail on our revenue performance.

Consistent with the first nine months of 2015, our fourth quarter financial results continue to reflect a significant savings from our -- the year-over-year declining in fuel prices. Our average mainline fuel price including taxes for the fourth quarter of 2015 was $1.50 per gallon, a 40.6% decline from $2.52 per gallon in the fourth quarter last year. Total operating expenses were $8.6 billion down 7.9% versus the same period last year due primarily to the decrease in consolidated fuel expense. Operating expenses excluding net special charges in the fourth quarter of 2015 were $8.1 billion down 8% year-over-year, driven by lower fuel cost fourth quarter mainline cost per ASM excluding special charges was $11.48, down 8.3% year-over-year, if you exclude net special charges and fuel, our mainline cost per ASM was $9.22, up 6.3%.

This increase was due primarily to contractual rate increases for our new labor agreements. Our regional operating cost per ASM, excluding net special charges and fuel, was $16.01 for the fourth quarter, an increase of 1.5%. Total consolidated CASM in the fourth quarter was up 5.5% due principally to the contractual labor increases mentioned earlier and the increased flying under capacity purchase agreements.

We entered the fourth quarter with approximately $8.7 billion in total available liquidity comprised of cash and investments of $6.3 billion and $2.4 billion in undrawn revolver capacity. The company also has our restricted cash position of $695 million. These balances reflect the full write down of $592 million of Venezuela bolivars. During the fourth quarter of 2015, we did generate $674 million in cash flow from operations which is adjusted for the write down of Venezuela bolivars and paid $332 million in scheduled debt payments.

In the fourth quarter the company returned approximately 1.2 billion to its shareholders through the payment of 72 million in quarterly dividends and the repurchase of 1.1 billion of common stock or 25.6 million shares. When combined with the dividends and shares repurchased during the first three quarters of 2015, the Company returned approximately 3.9 billion to its shareholders in 2015 and reduced its shares outstanding by 85.1 million shares.

In addition, in 2015 the company elected to pay approximately 306 million to cover employee tax withholding obligations on equity awards, further reducing the share count by 7 million. Despite volatility in the capital markets during January 2016, the company was able to secure attractive financing rates to fund a portion of its aircraft deliveries. Earlier this month, the company issued approximately 1.1 billion in enhanced equipment trust certificates and a blending coupon of just under 4%. The proceeds from this financing were used to fund aircraft deliveries in 2015.

As we indicated on our third quarter call. We would like to provide you with our views on liquidity and leverage. Looking forward, 2016 and ’17 will be a peak period for capital expenditures as we spend approximately 4.5 billion on our fleet renewal program. Beginning in 2018 however, our aircraft CapEx will decline from 4.5 billion to approximately 3 billion each year. Our 2016 and '17 non-aircraft CapEx guidance is 1.2 billion each year and we expect this to decline to an annual rate of approximately 800 million starting in 2018, as we complete integration of our internal systems.

In today's earnings and interest rate environment liquidity is the first and most important metric we look at. We ended the year with 8.7 billion in available liquidity, which is more than we believe is required to run the airline. But given our leverage we believe it is important to retain liquidity levels higher than our network peers. So we plan to maintain an industry leading liquidity level of at least 6.5 billion for the foreseeable future. As to leverage, under our current plan, we expect our primary metric such as net debt to EBITDA to peak in 2016 and then begin declining each year going forward as our CapEx budget declines.

Turning now to our 2016 guidance, we're forecasting overall system schedule capacity growth to be up approximately 3% with full year the capacity growth of approximately 2%. While international capacity is expected to be up approximately 6% primarily growth in the Pacific. By quarter mainline capacity breaks down as follows 57.4 billion ASMs in the first quarter, 63.4 billion in the second, 65.1 billion in the third and 58.8 billion in the fourth. Regional capacity each quarter is 7.48 billion in the first, 8.29 billion in the second, 8.69 billion in the third and 8.46 billion in the fourth.

For the full year 2016, we are forecasting year-over-year total CASM ex-special items and fuel to be up approximately a 0.5% to 2.5%. This does not include the effect of labor deals currently being negotiated, but does include all contracts that have been ratified. Mainline CASM excluding special items and fuel is projected to be up approximately 1% to 3%, while regional CASM excluding special items and fuel is projected to be down 4% to 5%. By quarter mainline CASM should be up 1% to 3% for each of the four quarters. Regional CASM excluding special items and fuel, we believe the first quarter to be approximately flat and the second to fourth quarter down approximately 5% to 7%.

Based on the fuel curve as of January 27th, we expect to see another year with significant fuel savings. Well other airlines are just beginning to realize these savings we have directly benefited from lower fuel prices due to our lack of fuel hedges. We are forecasting our 2016 consolidated fuel price to be in the range of $1.20 to $1.25 per gallon. The first quarter is expected to be a $1.15 to $1.20, second a $1.16 to $1.21, third a $.1.21 to $1.26 and fourth a $1.25 to $1.30.

While it’s still very early in the year based on these prices we expect our 2016 consolidated fuel expense to improve by approximately 2 billion year-over-year. Using the midpoints of guidance, we have provided along with the PRASM guidance as Scott will give, we expect our first quarter pre-tax margin, excluding special items to be between 12% and 14%.

For taxes, as of December 31, 2015, the company had approximately 8 billion of federal net operating losses and 4 billion in state NOLs. Substantially all of which are expected to be available in 2016 to reduce future federal and state taxable income. The company expects to recognize a provision for income taxes beginning in 2016 at an effective rate of approximately 38%, which will be substantially non-cash as a result of having reversed the valuation allowance at the end of the fourth quarter of 2015.

In terms of CapEx, I talked about it a little bit, but we expect total gross aircraft CapEx in ’16 to be approximately 4.5 billion, of which 1.2 billion will be in the first quarter. Full year, we expect to invest 1.2 billion in non-aircraft CapEx, which included many investments to improve our product and operation. We also expect to make 2.4 billion in debt payments throughout the year.

In conclusion, thanks to the efforts of our more than 100,000 team members 2015 was another tremendous year for American Airlines. We successfully completed several integration milestones made significant investments in our product, our people and our fleet, all the while producing record earnings. We look forward to another great year in 2016.

Thank you for your time and I'll pass it over to Scott for comments on the revenue side.

Scott Kirby

Thanks, Derek. And I'd like to start by thanking all the people of American Airlines for really fantastic job that they've been doing in some unusually difficult weather conditions lately. The people of AA continue to make great operational progress in the fourth quarter and throughout 2015 with improvements in an almost all of our operating metrics. It seems like long time ago but it was just during the fourth quarter that we completed the most successful reservation system cut-over in airline history. Thanks again to the team for such a smooth cut-over.

And now as the rev system migration is behind us, the team has numerous initiatives underway to further improve our operational performance for our employees and customers. On the revenue front our fourth quarter PRASM was down 5.4%, domestically consolidated PRASM was down 3% and we saw the strongest year-over-year performance in Charlotte, the second strongest domestic performance was in DFW and that's in spite of all the capacity that has been added here.

The weakest performance was in Miami, although that's a really a function of declining connecting revenues coming from South America. Internationally, the strong U.S. dollar and declining international fuel surcharges account for 2.4 points of our total system PRASM decline. The Atlantic was our best performing international region with PRASM down 7%. Across the Pacific, PRASM was down 10% with weakness in both Japan and China, the positive year-over-year PRASM in South Korea and Hong Kong. Latin PRASM was down 17%, but as it’s been for a while now that weakness is concentrated in Brazil and Venezuela where PRASM was down 40% and 59% respectively.

Looking forward, the factors driving year-over-year PRASM declines remains very similar to last two quarters. Schedule capacity remains elevated in all regions, in Q1 we’ll actually see higher capacity growth than any quarter we saw last year. As we move into the second quarter and the back half of the year however, we expect capacity growth rates to moderate each quarter, while we're now overlapping some of the moves in the dollar from last year, the dollar does continue to strengthen against many currencies around the world, such as the Brazilian real. We project that currency and surcharge decline will impact system PRASM by 1.7 points in Q1 which is down from the 2.4 points in Q4.

As we experienced throughout 2015, we continue to see significant year-over-year competitive growth in dollar and we won't see that moderate until the fourth quarter. In the economy currencies and revenue environment in Brazil and Venezuela continues to deteriorate. We still don't realistically expect any improvement in South America until the Brazilian economy turns around. Given all this we expect our system PRASM to decline 6% to 8% year-over-year in the first quarter though as I said, we expect to see smaller declines in 2Q and beyond.

In conclusion, we passed a significant integration milestone in the fourth quarter. American Airlines team has done a great job, running the airline and we're busy making further improvement to be operation and product, now that we’re passed that integration hurdle. Revenue environment remains challenged by the same factors that we experienced in 2015, but we expect the first quarter to mark the bottom and the rest of the year is to see inflection in revenue results.

Dan Cravens

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

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] Our first question comes from Julie Yates with Credit Suisse.

Julie Yates

So, its look like in the fourth quarter you guys retained about 20% of the fuel benefit, how are you thinking about the retention rate in 2016 of that expected 2 billion of incremental savings and whether that changes versus what we saw in Q4, seems like we'd have to see let down in the pricing environment order to keep pace with the tailwind that's from the recent decline in crude.

Scott Kirby

I guess bit up early. I don't think about it as retention rate, that's an output, not what we're trying to drive to or trying to maximize revenue and maximize earnings in any given environment, and we feel pretty good about eight straight quarters of record profitability at the airline, we feel good about the trajectories that we're on in terms of getting the integration done, now that we're past the integration, it does give us the opportunity to start utilizing more synergies but also moving the ball forward in terms of our operations and in terms of revenue enhancements doing things like basic industry [ph] and economy and we grew the fire program, all kinds of other program.

So we're focused on maximizing revenue and maximizing earnings into the environment, it is true that what we have seen and everyone has seen that when oil prices go up, you supply go up and as a result that puts pressure on airfares, which put pressure on RASM, I expect that the reverse will happen as well, that when you see -- if oil prices go up that you will see airfares go up as well. But we are focused on maximizing earnings as opposed to trying to artificially manage to some retention rate.

Julie Yates

Okay, understood. Scott, is there anymore granularity you can offer just on the potential impact of segmenting your capital further in terms of timing or magnitude to revenues?

Scott Kirby

We don't, I probably won't give you a really good answer yet. Because we know it will be the second half of the year before we can roll out of the first phase of what we're playing to do with our basic economy product and premium economy product out. And we'll have more to come as we get better details around what the attributes of that product will be and exact timing.

But it's sometime in the second half of the year. But it is something that we're really excited about and I think it's transformative maybe too strong in the world. But at least a significant, I think as the change to ancillary revenue was back in the 2008 timeframe. And so we're really quite excited to move forward on those initiatives. But it will be later this year before they're rolled out and it will really be 2017 before you see a meaningful impact on revenues.

Operator

Our next question comes from Jamie Baker with JPMorgan.

Jamie Baker

Follow-up I guess to Julie, the implementation of the Q1 guide is that every single dollar of year-on-year fuel savings. In the first quarter is going to be handed back to employees and passengers. I suppose the good news is that you've got company adjusting for new labor, united the situation there is equally grim. I'm not debating the significance of your proper production Scott, you shared your optimism that higher fuel could lead the higher improved PRASM. But shouldn't an integrating network be showing positive relative outperformance to the peer set, as opposed to going the offset way. I mean that doesn't this also imply that integration synergies are just non-existing?

Scott Kirby

I don't think so. And look in 2015 is the network carriers, we actually had the highest profit margin of any of them, which is a pretty good result for your second year and we're going to have less year-over-year benefit in the first quarter from a margin perspective and others, because we didn't lose billions of dollars last year hedging fuel. So that affects the year-over-year comparisons. As we talked about last earnings call, you got to look at all the other factors that are going on.

So I think we are realizing synergies and are realizing benefit, but we don't have a new credit card deal some of the others have. We are exposed to what's happened in Dallas, plus huge increases in capacity and in particular we're exposed to Brazil. I mean an amazing statistic in Brazil. The first month after the merger closed Brazil was 6.1% of the combined airlines revenue. In November, it was 2% of our revenue. Just massive declines in both Brazil and Venezuela, Venezuela was something like 2.5% and that's 0.5% or something now.

So just massive decline those things don't have anything to do with integrations, but they do effective the relative results and so if you want to try to look at high level data to figure out how we're performing on relative basis, I think you probably have to adjust or those things. But in any event having the best margins of any of the network carriers in 2015, two years into the merger, I think it's a pretty good metric for how we're doing.

Jamie Baker

Second question maybe for Doug on operations and I won't mince words here, Delta is absolutely crushing it and they're doing it with a fleet that's older than yours with hubs that are also proven to nasty meteorological conditions. I don't have any background what so ever an operation. So pardon the ignorance of my question, but is it something about management, are there technological impairments, is it stuff that you inherited from standalone AMRs, something in the labor contracts, I'm not trying to be you up on reliability, I'm just trying to figure out that why if Delta can do it, why can't everybody?

Doug Parker

Yes, thanks Jamie. The biggest thing is we ran airlines through in 2015. Which is I can't stress enough how much hard that is than running one airline. And we're extremely proud of it of what we did and if you go look at what others did in their second year of post-merger, where our performance stands up to anybody and is better. So we were integrating and as we get through that, we will do better, but the fact that we were even ending in these considerations that with everybody else which we were, I think was phenomenal results by our people.

Look, things like connecting baggage when so many of your customer are travelling on codeshare. Is much, much more difficult than when they're all flying on one code. So those you'll see it get better as we move into in 2016 and our goal is to be the best in all these areas and we got ways to go. We made great strides for an airline, there was running two airlines. And you will see us further improving 2016. Robert sitting here as well, you want to add on it

Robert Isom

Jamie the only other thing I'd add is just -- look, we were disproportionally hit by weather and the vast majority of the completion factor difference between us and Delta is simply related to that. And of course with that is result in disruption as well. So we're certainly as Doug said improving on all front and we think we've got a great plan going forward, no matter what comes our way.

Jamie Baker

And I know you're shy of giving targets, but is it a 2017-2018 event where we should look for potential parity with on dispatch reliabilities, something like that?

Scott Kirby

I think the right thing to take a look at, is departing exactly on time. So departure within zero, you will see that, we are very, very close, it's not almost right on top of delta even today with all the difficulties that Doug described, that's really incredibly important metric and I think indicatively of where we're going to be headed. So, we're not in that far off and I think we're going to be closing the gap pretty quickly.

Operator

Our next question comes from Hunter Keay with Wolfe Research.

Hunter Keay

Scott, last July you were right and you said that industry PRASM wouldn't be positive until at least the second half of -- I'm sorry the third quarter of '16. You said 1Q is the bottom and that was a American specific comment, but assuming flat fuel or fuel stays around here or whatever, would you care to maybe update that and extended through the end of 2016 absent a material change in fuel prices, that we're going to have negative industry PRASM property through the end of this year too?

Scott Kirby

I'd prefer not to but I will because you asked, so look six months ago when I made that. Forecast isn't the right word but we're just say simple mathematical extrapolation of assume that demand environment doesn't change and I used to look out and see what the capacity environment looks like and supply was going to be growing faster than demand and so it seems like apparently obvious it's unpopular at the time statements to me. As you pointed out and we've said, there is a for better or worse, an inverse relationship between fuel prices and revenues. So, when fuel prices go down, a lot of that gets passed on as benefit to the consumer and fairs go down.

The reverse also happened when fuel prices go up, we see revenue go up because I made that original production in -- six months ago, we've seen a pretty big decline in fuel prices. So, I don’t have any data to suggest the demand has changed that all, but consistent with the view that you shared and I agree with that there a correlations with fuel prices and revenue and anything I'd say that was pushed up forecast back a quarter or two for when we turn to the point where PRASM is positive on a year-over-year basis. All that said, that's not really a forecast, that's not looking at data, I don’t have any data that’s better than yours and your forecast or anyone this call is equally as good as mine, it just assumes that the demand environment stays the same and in that environment I think just to move in oil would cause that date to push back, of course earnings would have gotten better because some of that benefit would have flown to the bottom line, if I had been projecting earnings six months ago, but just the decline in oil was likely to push that back by a quarters or two.

Hunter Keay

Okay. Good and then this industry is also [indiscernible] Scott too or Doug. This industry has a track record of truly self-destructed behavior on pricing, whether we talk about American value pricing the 90s or dealt with simple fairs last decade. I think each one of those things were good idea, until they were bad idea when the operating environment changed. So, when I see advantage fairs, which is strategy now that your competitors seem to be adapting to -- I kind of worry about history repeating itself, so can you help me understand how advantage fairs might be different from some of those other thing and why we shouldn't view them as maybe pricing a pricing cancer that can only be undone for some sort of industry restructuring if say fuel prices go up again.

Scott Kirby

Well, Hunter, look, there is a lot to low fares in the market, consumers are having a field say in this environment, particularly we’ll grow oil prices, whether it's there well fairs and but I usually like to answer all the question that I get asked on in earnings call, but on this one I'm going to [indiscernible] and does not make commentary about advantage fairs.

Operator

Our next question comes from Savi Syth with Raymond James.

Savi Syth

Good morning. Just one question on the domestic side and as I said unit revenue declines moderated here in the fourth quarter and I was just wondering if that was just a function of not -- your own capacity moderation or if you have seen improvements in either fair environment or how you are managing turret [ph].

Scott Kirby

Look, I think broadly in the third and fourth quarters and again in to the first quarter, the environment remained broadly the same, there might be small puts and takes here and differences in storms and holidays peak, off peak. But broadly the environment has been the same for about the last environment about the same for the last six months and expected to remain somewhere in the first quarter.

Savi Syth

Got it, thank you. And then just on going to that cabin segmentation, I was curious, what the technology investments would let you do that, just concurrently revenue management technology doesn't like to do?

Scott Kirby

I'm not sure, I understand the question but to go to something that basic economy is a complete change to our distribution system, it's not really as your management issue is, when you go to aa.com to buy your ticket you need to be offered a base economy or regular economy or premium economy, first class fair and we're just not set up to sell that way. So, it's more about distribution probably than anything else for us.

Operator

Our next question comes from Mike Linenberg with Deutsche Bank.

Mike Linenberg

Scott, you've talked about Venezuela and Brazil and I am just curious things have dramatically moved in Argentina as well and I think you're one of the carriers that are no longer taking, accepting Argentinean peso, I could be wrong on that with the devaluation, one, can you just -- can you give some color on that market, number one. Number two, do you have any cash that's in Argentina that obviously is subject to repatriate where there has been some sort of delay?

Scott Kirby

Sure, we're actually accepting Argentinean pesos for ticket payment. There have been times in the past where we had stopped, where we became unable to repatriate cash and then we basically keep an amount of Argentinean pesos down there that's working capital, it's in the $15 million to $25 million range and at the moment we're able to repatriate. We're also encouraged with the new administration, it won't happen overnight but that they're making positive changes that's going to set Argentina on the road to recovery.

Mike Linenberg

The PRASM decline that you're seeing down there, I mean are they at a similar magnitude to what you're seeing in Brazil, Venezuela now?

Scott Kirby

No, Argentina is actually flattish in terms of PRASM and South America, other markets are down a little bit, but it is mostly Brazil and Venezuela. I mean those two markets haven't bottomed yet and continue to deteriorate, that's the bad news. The good news for us is as I said the amount of revenue exposure we have because it deteriorates so much has really declined and it is remarkable I think that was our 6% of our revenue and it's dialed down in November 2% of our revenues.

That's an off peak month and a full year basis, it will be a little bit more than 2% which is -- it can only go to zero. And we've already experienced a part of the decline.

Mike Linenberg

Thanks on that. And just over Derek, I guess a question on your regional cost forecast for the year, I mean it's down a lot and I am just curious is that state, is that gauge moving more to just larger regional jets, what's driving that?

Derek Kerr

Yes, it's all driven by doing to large, gauge is up about 3.8% stage is up about 2.2%, so a lot of that increase is driven by that.

Operator

Next question comes from Darryl Genovesi with UBS.

Darryl Genovesi

I guess this one's probably for Scott and Derek, I mean just on your synergy targets, can you just provide us an update of what do you think that the alternatives are on the revenue and cost side now and how much you've achieved and how much you expected to coming through in 2016?

Scott Kirby

So I think on cost we're largely there in the numbers already and yet to come on the revenue synergies the big ones that we said we would do were better connectivity once we got the single reservation system and when we first started the merger, we said the totals of that 300 million, made it culture [ph] in place between the two so we thought that was kind of a 150 million left to come most of which we expect to realize this year. And then another roughly 300 million of route swaps right airplane in the right market. We are just now starting to do that that really won't get fully ramped up probably until halfway through 2017.

And we'll do more each month as each month goes along, but we won't beat the steady state for a couple of years on that one. I think the more interesting thing which is not technically a synergy is getting back to running the business and innovating that we were held up from doing because we all heads down focused on getting the integration done. So some of that is just blocking the attack money and whether it's an operation or revenue manage more IT, you have people who are depending on their job 50% of their time, working on the integration or more for some of them.

It's just doing their day job and getting back to the basics of yield management for example will be helpful, getting things implemented by new frequent flyer program, which will happen next year will be great, getting basic economy, premium economy done. Those are all things that we would have done already but have had the way. So that are technically synergies that I think are areas that create more upside for American Airlines than our competitors because we simply have a larger backlog of projects to get down because we were focused on integration for so long.

Darryl Genovesi

And then I guess just wanted to follow up on some of your comments around capacity growth in your markets, when I look at, when I look at the schedule in Dallas in particular, I mean it looks like you guys were observing something like 17%-18% ASM growth in Dallas for last few quarters call out and that's dies down pretty quickly here and when I look at what scheduled this and growth in Dallas is in the kind of first half of the year Q1, Q2 that number looks like about 4%, so it looks about 15% point slowdown. So I guess, I just wondered, how that kind of fits within that context of some of the commentary that you've made earlier?

Scott Kirby

Well, the capacity growth is still elevated in Dallas more than the rest of the system, through basically all of us this year. Once we get past all of this they'll be coming down, they're not as high as they were at this time last year. But they're still adding a capacity growth rate of -- even if it's 5% in Dallas versus 2% everywhere, it's going to put incremental pressure on Dallas compare to the rest of the system. So higher than everywhere else even if it was double-digit last year. But the good news, that's the bad news. The good news is we get to August and I think we get to a capacity environment in Dallas, that's going to be below industry growth rates, because we will have overlapped all the growth at Love Field and it's full.

Darryl Genovesi

Okay. And then if I can just squeeze one last one in. To what extent this year does your RASM guidance contemplate things like the -- well I guess two things really -- winter weather, what we have seen so far, and then also the Zika virus potentially impacting bookings down into Latin America and the Caribbean?

Scott Kirby

Neither is the answer. On the first point, we had really bad storm a week or two ago, but we had bad storms last year. So for now we're just assuming those things will end up or being similar on a year-over-year basis. And as to the Zika virus, it's obviously a little early to tell, if it will have any impact on travel, we certainly can't see anything in our data yet. But unlike some other virus is that have had short term impact on our travel in the past, Zika is not airborne, so there're not a danger of it being transmitted between passengers and so as yet, we haven't seen a material change in bookings. For what it's worth, it'd also being hard to tell very much, you're looking at place like Brazil where RASM is already down 40%, trying to sort out and incremental decline, because of the virus I think would be hard for us to tell. But today we don't see how much impact.

Operator

Our next question comes from Duane Pfennigwerth with Evercore ISI.

Duane Pfennigwerth

As we think about your integration and potential synergies, wanted to get your thoughts on the capacity footprint of the combined entity. When we look back at Delta, and obviously that was a tougher backdrop, they were about 2% smaller a couple years post-merger. United, actually in a pretty strong part of the cycle, was about 7% smaller two years post integration, and yet you guys are growing in what feels like a weaker RASM environment, at least for you. So why does that make sense?

Doug Parker

I think the comparisons are not accurate. If you look at what Delta did on their reductions, it was because oil price spiked to 145, and that thing wasn't really a merger, it was oil price spiked to $145 barrels followed by the great recession and every airline including non-consolidated airlines to reduced capacity. At American, we feel pretty good about our hubs and the fact that they are complementary, we didn't have dependent overlapping hubs that some others have, we didn't have Cleveland sandwiched in between Chicago and New York for example.

And so we feel pretty good about this level capacity that we have. Those airlines at the time they were reducing capacity, weren't producing the highest margins of the network carriers and we are, we did at least in 2015. They weren't producing 15% margins and in that environment, we don't plan to have the significant change to our capacity plans.

Duane Pfennigwerth

Okay. I wanted to follow-up on Hunter's question with respect to advantage fares. Can you talk about, and this might be something that you can't, but can you talk about the prevalence of those sort of currently relative to where we were three to six months ago? Because I actually feel like maybe there is -- they are less relevant now than they were.

Doug Parker

I'm sorry, but no, I can't.

Duane Pfennigwerth

Okay. Thanks for the time.

Doug Parker

Thank you.

Operator

Our next question comes from Helane Becker with Cowen & Company.

Helane Becker

On the A350 deferrals, is that just fuel related or financing related or why the deferrals?

Doug Parker

No, no. Not at all Helane, it's just trying to match-up wide body capacity that we have. In 2017, we have B787 deliveries and A350 deliveries. So we just wanted to do push out the delivery, straighten a little bit, but it as nothing to do with financing or anything of this sort. It's just matching capacity to what we believe we can fly in 2017.

Doug Parker

We have two, the other books at U.S. Airways and order book in America and you putting them together and they're a little heavy out there, a little high on wide bodies in that timeframe, Helene, so it's [multiple speakers].

Helane Becker

Okay, great. And then my next question as on the balance sheet. What is the restricted cash specifically related to?

Doug Parker

Mostly that is workers compensation.

Helane Becker

Okay. And then also I think in the notes you talked about repaying the advantage loan. So when we -- so I was looking at that, you have got three -- and I wanted to ask about the advantage loan and if that is kind of a prelude to getting a new credit card agreement, A. And B, you look at the balance sheet and in the last year you have managed to improve debt to equity just on balance sheet from 8 to 3-ish, while still raising $2 billion in debt. And I am kind of wondering, I know you said that we can expect I guess an increase in debt financing going forward for the next two years. But can you just kind of put some meat on that bone with respect to how we should think about the balance sheet? Is there a target leverage ratio we should think about? And then on -- and then using the money from fuel cost savings, I think you said $6 billion in total liquidity. So, as you get above that should we think about that as being share repurchase programs?

Scott Kirby

Well, I'll answer the first question then Doug will bead in on the second question, but the advantage payback happened early in '15 and really that was a loan on the previous at American Airlines on the previous credit card deals, so it has nothing to do with a new credit card deal, we were -- it had a rising interest rate over every month and it got higher than our 6% target of, as we said earlier that we want to pay-off any type of debt that is pre-payable and above 6% and we did that and we did it in early 2015. So it doesn't have anything to do with anything going forward, it was just debt on the books that we're able to pre-pay and we pre-paid that in early '15. And Doug, do you want to share

Doug Parker

Sure, I'll answer that. On the -- on your I guess broad question kind of how do we look at the balance sheet, look as bullish as we are we know we want very much to make sure that we've managed the company in a way that we can withstand any large shock, so we think the best way to do that is to ensure we have a large cash balance on hand. Our minimum cash balance that Derek talked about that we have established somewhere around above $6.5 billion, as a minimum is higher than any other our large players.

So, we're comfortable, we believe that's an important metric and one that we will continue to manage, we do end up as we're bringing on new airplanes and modernizing the fleet, we obviously -- that results into some capital out ways. In today's environment we can finance those at under a 4% and we don’t think it’s in our shareholders best interest to forego those rates. So we will, as long as those rates stay there we’ll continue to do that and if in fact over time they increase you may see us staring to pay cash, but it doesn't seem make any expense to doing thing but borrow at those rates.

So that's what we've been doing, so I expect, we'd continue to do, what the result of that, as Derek said in his comments is the kind of metrics that we think make sense for in terms of looking at the balance sheet which are metrics such as like net debt to EBITDA and we expect some peak in 2016, and they’ll get better as you go forward because the amount of capital is going to decline. So, at any rate, that's where we are, we’re very comfortable with it, we believe, that's the best way to manage this, we don't think the right thing to do is use our cash to buy airplanes right now when we can borrow at 4%.

And we believe the right thing to do is hold a higher level cash than our appears to offset the fact that we're going to have less collateral in terms of aircraft because we're going to be financing them, but put it all together we feel good about it, we think that's the best way to maximize -- to manage the balance sheet for our shareholders.

The other thing that I probably should note, we haven’t had a chance to say it yet is that indeed how that are in fact bullish about the prospects here this is we noted that we purchase $1.1 billion of our shares in the quarter, that's because we continue to believe, they've a really good value. In the almost 30 years now that I’ve ran this business and I can't remember a bigger disconnect between what we're seeing in our airlines and in our forward prospects in what the markets and how the market is treating our stock.

So, that we believe provides an opportunity to repurchase and that's where a lot of our cash is going to, we think it’s the right things. So, as long as the market provides that opportunity, we'll continue to do that. We'll make sure that we have, that we stay well above our minimum cash levels by doing that, but the airline is throwing off a lot of cash the market cap doesn't seem to be anywhere close to what the airline’s generating cash, so we’ll use the excess cash to repurchase shares and that will be a good thing for our investors as we move forward.

Helane Becker

Thank you very much, Doug, for that comprehensive answer. I appreciate it. I just was kind of wondering, when you talk to investors or the team goes out and talks to investors and you talk about the disconnect you are seeing relative to what the market is interpreting, what are you hearing back that people like me maybe don't understand about your company as we look at it?

Doug Parker

Helane I wouldn't suggest you didn’t understand it, I think this call so far is indicative of what we're hearing, you're not retaining it just going, the fairs are down because fuel prices are down and you're paying your employees more and it feels a lot to me anyway like focusing on the trees instead of the forest. And the reality is we are producing record profits that Scott said while now that margins that are higher than our peers And not just record profits, know this is record for us, I think it's the highest any airlines has ever produced and if you look, if you actually looked to the cash flow instead of wishing they were higher, I can't imagine how you think the stock is undervalued. We certainly don’t, so I think that's what the mess, I think people tend to look to expectation and say gee if oil’s at $30, last year it was at whatever how come therefore earnings aren't much higher, there are a lot of reasons for that, we’re happy to explain them.

But if you went and built a model that said everything that happens in fuel price is going to result in higher earnings you of course are going to be disappointed. There is a real connection between fuel prices and pricing and indeed we've got an industry where people, where our employees have gone through incredibly difficult times and pay cuts that were going to be restored when they only got profitable and that's a good thing and we're really happy about that. So those things again I guess maybe we -- if anything maybe we missed by not explaining that we missed it by explaining if people don't even understand those points, but as that one if people don't understand those points, but as Scott said also what it looks like, we really think it is business now that is some much dramatically different than anybody has ever before that they can't be, still figure it out.

And every time you see things like oil prices went down and now wages are going up, here you guys go again. And nothing can be further from materials this is what happening as it's an industry that's beginning act like a real industry. And that's natural people, that's in a real time run rate kind of issue as opposed to I think what people think is going on, so look it all feels good to us, we are really-really bullish and like I said, never seen a bigger disconnect.

In some sense that's good, belongs we are throwing off excess cash and we'll use that to buy back our shares, at these low rates. But there are investors who get it and we think they'll do well.

Operator

Our next question comes from Joseph DeNardi with Stifel.

Joseph DeNardi

Doug, just kind of a follow on to the capital deployment question. Is there anything from a leverage or debt payment standpoint this year that would prevent capital returns to shareholders in '16 to look like '15?

Doug Parker

Well, I am not sure I fully understand, what do you mean by the returns, you mean share repurchases?

Joseph DeNardi

Share buybacks, yes.

Doug Parker

Yes, of course there are, Things can be worse stock could get much closer to fair value. Please don't look at our -- at any time at our share repurchases activity as some programmatic number that you should expect to continue overtime. We do this based upon what we view as the prospect for the airline as well as what we believe the relative value the equity. So we're not -- this isn't something we're -- It's the same amount every day we have Scott and Derek and with help us on our Board members look at this on a regular basis and decide where we think we should be purchasing based upon those factors I said.

So a lot of things could cause it to change including the interest rate environment. If indeed we get to a point where it is becomes more expensive to borrowing against airplanes, we may decide to start paying cash for aircraft. So any of those things could change it. I don't foresee any of those happening by the way, other that perhaps it will start getting closer to fair value. But nonetheless those are the inputs, earnings prospects interest rate -- the alternatives in terms of aircraft financing and our view of evaluation versus the market.

Joseph DeNardi

Okay. And then just on the balance sheet strategy longer-term, I mean I think if you look at the two other investment grade airlines, they both traded a premium to the group and you could debate as to why that is. But I am just wondering if not pursuing an investment grade rating do you think that will prevent you from benefiting from an eventual re-rating of the sector or otherwise negatively impact your valuation?

Doug Parker

We don't of course look -- no is the answer. I think we as long as a company you do the right thing and I can't imagine anyone thinks the right thing for us right now out to forgo 4% financing on new aircraft and that's the decision you would make if you wanted to come to -- that's why you care about was driving toward an investment grade rating. We would not be borrowing a 4%. We have paid down all the high cost debt in the Company.

We are investing into the airline everywhere we think make sense and it's billions and billions of dollar as you know and we're spending and improving this airline in a way that we think are going to provide really nice returns for our investors going forward. And again so that comes first then we go to pay down debt, then we look to make sure we have enough cash to go forward and if we have extra cash that belongs to you guys and we're return it to you that's what we think the right way to do, we think that's the best thing to do for our shareholders and I believe the market will indeed. reward that whether now or later, but that’s the right way to manage the cash generated from the company not to go trying to get some, look and the other point I really should make on this is I don't know what would happen if we got to that point.

What I know is right now we’re borrowing at well below investment grade rates. So I’m not sure what benefit we'd get from getting that point. So look we care about the rating of course, we work well with the rating agencies. We just have a different view I think than some of our competitors about what the right way to manage, what the right leverage amounts are and it doesn’t make sense to us at this point.

And again it’s also worth noting, but we are well into a fleet modernization program that the others have not begun. And one day will need to begin. But that also comes into play here. So as we bring on this debt, it really becomes an incremental question each time as we bring on these aircraft, how we’re going to pay for them and we continue to believe that these levels we should do that through debt financing not but using our cash.

Operator

Our next question comes from Rajeev Lalwani with Morgan Stanley.

Rajeev Lalwani

Just given all the headlines out there, can you talk about American's playbook in a downturn just given the order book that you have and the impact that would have on capacity and cash flows?

Doug Parker

I can’t talk too specifically about it. But we feel like we would be able to manage through the downturn, using a lot of the same tools that we have in the past. This is a cyclical business so we know that there will be ups and downs. But we’re starting from a much better point, a much higher point in the cycle and while we will have cyclicality and know that in our recessionary environment earnings could decline. We’re starting from much better point and we can expect to remain profitable throughout the cycle and we’ll use the same time of tool that we have in the past respond, but we’ll just responding from a much stronger position than we have been able to historically.

Rajeev Lalwani

Thanks. And just in terms of your updated capacity guide for the year, did that -- did I hear you correctly that that moved up above the midpoint and if so why?

Doug Parker

Moved up about the midpoint of?

Rajeev Lalwani

Just where you guided to as far as capacity growth for 2016 today versus before.

Doug Parker

I think we have given 1 to 3 and we're just at the high-end of the 3 for full year and it's really driven by the international that we're adding more international lines than what we had. But no big difference from what I had guided before.

Rajeev Lalwani

Great. Thank you, gentlemen.

Operator

Our next question comes from Dan McKenzie with Buckingham Research.

Dan McKenzie

Scott, there is a lot of macro noise just following up on some of the previous questions. What do you expect to see from corporate clients on business travel spend in 2016? And how much confidence would you place on that outlook today?

Scott Kirby

Well, I don't have particularly good crystal ball on it. But we saw pretty sizeable increases in volume and corporate traffic in the fourth quarter. And expect to see that to continue, our corporate customers are benefiting from a low-fare environment. So yields are also down, but at some point with the pricing environment will start to recover. But corporate demand seems strong from our perspective and growing has been all along, like all of our customers, they're benefiting from lower yields right now, lower fares translating the lower yield. But my guess is that volume would remain strong and like the rest of the system we will start with the fares and yields recover and then move sequential through the quarters throughout the year.

Dan McKenzie

Understood. And then I appreciate American is reporting record earnings here, but with respect to countries that have no foreseeable recovery, why not take a more aggressive approach to managing the business? And I am seeing American replace 777s with 787s, and so there is both an ASM and a margin impact from a more efficient aircraft type. So the implication is that there should be some improvement in margins looking ahead that tells a different story than the PRASM decline. So I am just wondering if you can talk about how you are managing your business to the regions that are just getting hit really hard right now.

Doug Parker

Well, you're talking about Brazil and Venezuela. And in Brazil, we've got our capacity 23% in the first quarter of '16 versus '14, we've cancel six markets entirely during that time period. But a wide margin, we've done more -- we've canceled more capacity than anyone else. I think probably every other carriers that flies between the U.S. and Brazil has actually grown over that time period.

So we have been proactive and Venezuela I don't know remember what our capacity is down exactly, but its north of 50%. So we have been pretty proactive. It's been hard to get ahead of a market, two markets that have been down so much and you've seen 40% declines in Brazil even with those capacity cuts, that's a little hard to get ahead of, but we'll continue to look at the markets, we've been in Brazil for a long time and that's a number one carrier between the U.S. and Brazil. They're going through a rough path right now and just going to abandon the country over a rough path that we expect to recover eventually. But it's going to be rough for a while.

Dan McKenzie

And is the margin differential between a 787 and a 777 different or is it roughly the same?

Doug Parker

That could vary from market-by-market. It depends on how much demand you have in the market, so you can't make a generalization one way or another.

Dan McKenzie

I see. Okay, thank you.

Operator

Our next question comes from Hunter Keay with Wolfe Research.

Hunter Keay

Just a quick follow up here. There is I think Bloomberg had a headline heading that says American Airlines Sees EBITDAR Peaking in 2016. Just to be clear, you said debt-to-EBITDAR was peaking in 2016, correct?

Doug Parker

Yes, Hunter.

Hunter Keay

Thank you, okay. Good bye.

Operator

[Operator Instructions]

Doug Parker

Bloomberg’s not on, they ran to correct their story.

Operator

And our first question comes from Mary Schlangenstein with Bloomberg.

Mary Schlangenstein

That's being corrected, if that hasn't already been. I wanted to ask Scott, if you can clarify something for me in terms of this synergy, I was looking back and before the merger about the time is merger, I guess you guys are talking about synergies, exceeding $1 billion and then at one point you added another 400 million through something that you had found as you got a closer look at American, could you really spell out, where you are, the answer you gave earlier wasn't really clear to me, where you are in terms of the synergies that you expected early in the merger, to where you are now.

Scott Kirby

I'll do my best from memory to get to all those number, we had said roughly 600 million of cost synergies which we think we have achieved offset by 600 million of labor cost increases, so those were a net zero, so both of those things had happened. We said $1 billion of revenue synergies and that was $300 million through improved frequent-flier program and bigger network, we think we achieved that we said three things that added up to 130 -- added up to $1 billion. We said a third of that was coming from route swaps which I did talk about and said that those are just now starting to phase in, we'll take couple of years to fully phase in and the other third it was coming from connectivity, which we said we've got half of it in 2015 and the other half will come this year. The 400 million was re-banking the hubs and off-peak scheduling which we probably we've got three quarters have done so far

Mary Schlangenstein

Okay, great, thank you.

Operator

Our next question comes from Andrea Ahles with Fort Worth Star Telegram.

Andrea Ahles

I was wondering if you could give me a little bit update on how contract talks are going with the TWU at this point, do you expect to get those contracts, the joint contracts done sometime this year or you think it’s going to be more into next year

Doug Parker

We can certainly help you with that, I'll let Steve give you some more color.

Steve Johnson

We still are optimistic that we will get the big contracts with the TWU and IAM done this year but the talks are going fine, so far and I believe the union is also focused on getting these conclusions quickly, but they're complicated and they just take time. So, sometime this year is still a pretty good prediction, but probably not sometime this quarter.

Andrea Ahles

And then a follow up on Scott, you talked a lot about the capacity increase this year in the Dallas market DFW [ph], can you give any more color and [indiscernible] we’re going to continue to see this competitive low-fare environment from American as you can see on the capacity that's been added here through August that’s what you said or is it -- are we having to stabilize in terms of the capacity increases that you’ve been seen in this market

Scott Kirby

We still see capacity increases that will last on a year-over-year basis, through August, as it relates to pricing, however American Airlines intends to always compete aggressively on price. And so, I don't think anything changes when you go to August but the year-over-year numbers in terms of RASM, I wouldn't expect any meaningful changes to the pricing environment because it will look the same in September as we did in August sequentially, it just a year-over-year comparison that are different.

Andrea Ahles

Okay, thank you.

Operator

Our next question comes from Susan Carey with Wall Street Journal.

Susan Carey

Sorry, Scott, could you just go run through again the RASM outlook for the year, are you now saying that you don't think the industry or American is going to see positive RASM until 2017 or are you perhaps by the end of '16?

Scott Kirby

I wouldn't say either one of those things.

Susan Carey

Okay.

Scott Kirby

And not making a forecast

Susan Carey

Say something.

Scott Kirby

I guess all saying is there is a relationship between fuel price and revenue and oil prices are significantly lower today than when I made the original prediction six months ago and so just the mathematics of lower oil prices would likely move that our a quarter or two, but haven't tried it, I haven't done the math to say when exactly what would happen and -- so I am not actually making a predications but just saying lower oil prices probably pushed back the timeframe longer that it otherwise would have been.

Susan Carey

For American or for the industry?

Scott Kirby

Both.

Operator

Our next question comes from Jeffrey Dastin with Reuters.

Jeffrey Dastin

Roughly how many customers have asked for reservation changes related to the Zika virus and does that represent a significant increase from the number of travelers that typically request such changes?

Doug Parker

I don't know, but I know it has not been a meaningful number, I don't know the exact number.

Jeffrey Dastin

Okay, thank you, and what's step just to follow up is American taking keep it cabins free of mosquitos and its crew members and passengers safe from the scare of Zika?

Doug Parker

In all international locations we have procedures to keep aircraft clean. There are specified programs and we are in close contact with the CDC on any type of changes that would require adjustments to our program and right now we feel like we're in good shape in terms of addressing and issues whether its mosquito borne issues or any others.

Jeffrey Dastin

Right and lastly if I may ask one thought related to Zika is there any extra concern about the short-term business in Latin America because of Zika and also because of closer ties of LATAM now that you guys have a joint business?

Scott Kirby

As we said earlier on the call, it's too early to tell we haven't seen an effect yet and it is important to point out unlike some other viruses in the past that are airborne, this one is not airborne and can’t be transmitted from one passenger to another, and as a result you wouldn’t expect it to have as big an impact something like SARS, but today we haven't seen a measurable impact on booking.

Doug Parker

And of course at this point anyway just known it only has an impact on pregnant women, it's not the entire traveling public.

Operator

Our next question comes from Dawn Gilbertson with Arizona Republic.

Dawn Gilbertson

Scott, I hate to do this but I missed the opening remarks, I imagine you gave an update on basic economy, could you repeat that in order to give an update, could you give an update?

Scott Kirby

I don’t have much of an update other than we still plan to roll it out in the second half of this year and details yet to come.

Operator

Our next question comes from Edward Russell with Flight Global.

Edward Russell

I was wondering if you could elaborate a bit on your capacity growth plans for 2016, how much is going to come from up updating and increased seat counts versus new markets and where you might be looking to grow this year?

Scott Kirby

I think if we talk about from the mainline perspective gauge is up about 1.6%, stage length up 4% and departures are actually down 3% from mainline perspective. Most of the growth is international in the Pacific, domestic is only up about 2%.

Operator

Our next question comes from Ted Reed with TheStreet.

Ted Reed

Thanks, I have two things first of all you're talking about Charlotte and saying that PRASM gains there are the best in the system and I think you said the same thing on the last call, what's the reason for the growth in Charlotte -- PRASM growth in Charlotte?

Scott Kirby

Charlotte is a great market and strong demand and it's been less impacted by some of the things like what's happening in Dallas, [indiscernible] capacity growth. But Charlotte is a great market with strong local demand, strong connecting demand, strong businessman demand and it has held up well for this environment.

Ted Reed

My other thing is Delta saying that they haven't had 1.5 billion in profit sharing this year their profit for 2015 would have 7.4 billion, so they would have had the highest profit of any airline, do you have a response to that?

Doug Parker

Well, I don't know, Ted, what I know is our pilots right now are making 7% more per hour than their’s are because we choose to pay our people higher than - and to offset the fact of profit sharing, and the rest of their employees are non-union and ours are in unions, that give them better work [indiscernible] protection, so I think on a wage basis our numbers are going to look awfully similar to theirs in total compensation that's certainly not the driver of the revenue.

Of the margin over performance of us versus them, I do think, to be fair to them the big driver of out performance versus them is the fact that they made - they fuel hedge that cost them a couple of billion dollar and if you adjust for that which is what I would argue if I were them that indeed their margins are higher than ours and we agree with that. They are five years ahead of us. They got their merger in 2008 we got ours done in 2013.

We’re going to catch them out there yet, but we will. Their margins are higher than ours because - our margin were higher this year because they hedged fuel and we didn’t that cost them a lot of money, and indeed cost them a lot of profit sharing. And our -- but if you adjust for that their margins are higher. We know that and like I said they’re five years ahead and we’ll catch them.

Ted Reed

But in terms of profit, because you’re -- in terms of profit because they’re saying profit would have been the highest ever for an airline. Just the simple profit number, do you think their's is affected by the fuel hedge then?

Steve Johnson

This is Steve, I mean, I think that’s kind of silly allegation by Delta because as you can tell from the way we’ve built our collective part in the agreements and the way some of the other airlines have if Delta wasn’t paying a $1.5 billion of profit sharing they’d be paying something like that in wages. So it’s --.

Doug Parker

And again, Ted said it, I’m not sure, Delta said it anyway, but anyway if that’s what you want to say. Look again I'd just say what I said, which is, we have made a decision to compensate our people more per month and not have them be subject to the whims of things like Zika virus and people’s concerns about that, and whether or not there is going to be travel, we think we should pay, we think people should be paid what they earn, as they earn it as opposed to waiting for the end of the year to see if indeed the airline is profitable or not.

So we put more in our base wages. Delta actually is with their re-vamp cut back their profit sharing significantly, but a lot more into best wages in response to there again what I read anyways, is that they said their employees told them they prefer it that way, they prefer to have more in base wages and we believe our employees prefer it that way.

So we have more in base wages and they have more in profit sharing and as you earlier said it’s just a different way of compensation and compensating. But when you add it all up, our total compensation and where our people are compensated is, I don’t know, again very, very close that is not the difference, employee compensation is not the difference and our earnings amounts vis-à-vis each other. The big difference is that they lost a lot of money on fuel hedges that we didn’t lose, but so if you adjust for that, we agree they’re ahead of us.

Ted Reed

Alright. Thank you very much, Doug.