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AAL.OQ - Q1 2023 American Airlines Group Inc Earnings Call

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OVERVIEW:

Co. reported 1Q23 revenue of $12.2b, net income (excluding net special items) of $33m and adjusted diluted EPS (excluding net special items) of $0.05. Expects full year 2023 diluted EPS to be $2.50-3.50 and 2Q23 diluted EPS (excluding special items) to be $1.20-1.40.

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PRESENTATION

Operator

Thank you for standing by, and welcome to American Airlines Group's First Quarter 2023 Earnings Call. (Operator Instructions) I would now like to hand the call over to Scott Long, Vice President of Investor Relations and Corporate Development. Please go ahead.

Scott Long

Thank you, Latif, and good morning, everyone. Welcome to the American Airlines Group First Quarter 2023 Earnings Conference Call. On the call this morning with prepared remarks, we have our CEO, Robert Isom; our CFO, Devon May, and a number of our other senior executives are also in the room for the Q&A session. Robert is going to start the call this morning with an overview of our performance, and Devon will follow with details on the first quarter and will outline our operating plans and outlook going forward. After our prepared remarks, we'll open the call for analyst questions followed by questions from the media.

To get in as many questions as possible, please limit yourself to one question and one follow-up. And before we begin today, we must state that today's call contains forward-looking statements, including statements concerning future revenues, costs, forecast of capacity and fleet plan. These statements represent our predictions and expectations of future events.

The 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 that was issued this morning as well as our Form 10-Q for the quarter ended March 31, 2023. In addition, we'll be discussing certain non-GAAP financial measures this morning, which exclude the impact of unusual items. A reconciliation of those numbers to the GAAP financial measures is included in the earnings press release, which can be found in the Investor Relations section of our website.

A webcast of this call will also be archived on our website. The information we are giving you on the call this morning is as of today's date, and we undertake no obligation to update the information subsequently. Thank you for your interest in joining us this morning. And with that, I'll hand the call over to our CEO, Robert isom.

Robert D. Isom - *American Airlines Group Inc. - CEO, President & Director*

Thanks, Scott, and good morning, everyone. American is off to a fantastic start in 2023. This year, we remain focused on reliability, profitability, strengthening our balance sheet and holding ourselves accountable along the way. This morning, American reported a first quarter profit for the first time in 4 years, an improvement of almost $2 billion versus the first quarter of 2022.

Our performance in the first quarter was driven by continued strength in demand and the tremendous work of our team. American entered the year in a position of strength after the outstanding results our team delivered in 2022, and we've built on that momentum in the first quarter. The American Airlines team ran a reliable operation for our customers and delivered a profit for the quarter, beating our initial EPS guidance of approximately breakeven. Let's talk more about our first quarter results.

We produced record first quarter revenues of nearly $12.2 billion, an increase of 37% versus 2022, a 9.2% more capacity year-over-year. Demand for our product remains strong. We continue to be very pleased with our domestic and short-haul international unit revenue performance. We've also seen noticeable strength in long-haul international demand, where we have allocated approximately 80% of our second quarter capacity growth year-over-year and continue to see strong yield performance curing into the summer months. Demand for our premium cabin has been remarkable across all entities with premium paid load factor and RASM exceeding 2019 levels.

We're well on our way to a fully recovered business, but we aren't there yet. The recovery is still unfolding and the current demand environment remains dynamic. We continue to learn about evolving customer preferences and changing demand patterns. And we've spent the past 3 years building a resilient airline that can adjust to the variability in demand.

We remain nimble and continue to adapt to customer behaviors, both in terms of when and where customers book travel and how we service them. Importantly, customers continue to show a preference for our direct channels and travel rewards program. Our co-brand growth continues to outperform consumer spending in line with AAdvantage enrollment, which are now approximately 60% higher than 2019 on capacity that is not yet fully restored to 2019 levels.

The American Airlines co-brand portfolio is delivering the fastest growth since the inception of our current agreement with double-digit growth in sales versus the first quarter of 2022. Now let's turn to the operations. The American Airlines team delivered a stellar performance in the first quarter. We operated more than 476,000 flights in the quarter with an average load factor of 80%. We delivered our best ever first quarter completion factor and controllable completion factor, safely completing more flights and more on-time flights than anyone in the industry.

We're performing better than ever from an operational perspective. We delivered this strong performance in the first quarter despite the nationwide ground stop in mid-January due to the (inaudible) and several disruptive weather events that impacted our hubs across the country. Our largest hub DFW was greatly impacted by winter storms in January and February and tornadoes and severe thunderstorms in March.

Our strong operational performance is driven by our team's focus on running a safe and reliable airline and taking care of what we can control. Investments in our operation have enabled us to anticipate the operating conditions ahead of us and recover quickly when the unexpected happens. And we'll continue to invest in our team, fleet and technology so that we're well prepared heading into the summer and the rest of the year.

I also want to thank and acknowledge the DOT and the FAA for their efforts to reduce congestion in New York, which will certainly help the industry deliver more reliably for customers this summer. And now over to Devon to share more about our first quarter results and the outlook for the second quarter.

Devon E. May - *American Airlines Group Inc. - Executive VP & CFO*

Thank you, Robert. I'm tremendously proud of what the American Airlines team accomplished during the first quarter. As Robert mentioned, we run a great operation and delivered on our financial guidance for the quarter, keeping us on track with the full year plan we outlined in January.

During the first quarter, excluding net special items, we reported net income of $33 million or adjusted earnings per diluted share of $0.05. This result is better than the initial guidance we provided in January, driven by strong revenue production and slightly lower fuel expense during the quarter. As Robert mentioned, we produced record first quarter revenue of $12.2 billion, up 37% year-over-year.

Unit revenue was 25.4% higher in the quarter on 9.2% more capacity. Unit costs for the quarter, excluding net special items and fuel, were 1.4% lower year-over-year in line with the midpoint of our initial guidance range. We generated adjusted operating income in the quarter of $451 million, resulting in a first quarter adjusted operating margin of 3.7%.

We have made significant investments in our fleet over the past decade, and these investments are paying off. The refleeting of the airline and the reconfiguration of our narrowbody interiors have greatly improved the customer experience, simplified our mainline fleet from 8 aircraft types to 4, and aligned our narrowbody density with our network competitors. American continues to operate the simplest and youngest fleet among U.S. network carriers.

We continue to expect to reactivate 9 737s from long-term storage and take delivery of 23 new aircraft in 2023. We took three deliveries in the first quarter and expect 9 in the second quarter; 5 in the third quarter; and 6 in the fourth quarter. 13 of the deliveries are already financed, and we expect to finalize financing agreements for the remaining 10 this quarter.

Based on the latest delivery guidance from Boeing and Airbus, our 2023 aircraft CapEx is expected to be approximately $1.5 billion, and non-aircraft CapEx is expected to be approximately $800 million. In the first quarter, we generated operating cash flow of $3.3 billion. Our adjusted net investing cash flows were $317 million, resulting in record quarterly free cash flow generation of $3 billion. We ended the quarter with $14.4 billion of total available liquidity, $2.4 billion more than our year-end 2022 liquidity balance, driven by bookings strength and ATL growth in the quarter.

We continue to make progress on strengthening our balance sheet, reducing total debt by more than $850 million in the quarter. This debt reduction, combined with the improvement in liquidity, resulted in a $3.4 billion decrease in net debt during the first quarter. We now have reduced total debt by more than $9 billion from peak debt levels in mid-2021. Importantly, we ended the first quarter with a net debt-to-EBITDA ratio of 4.5x, which is lower than our net debt-to-EBITDA ratio at the end of 2019.

By the end of 2023, we continue to expect our total debt to be $10 billion to $11 billion lower than peak debt levels in mid-2021, and we remain committed to our goal of reducing total debt by $15 billion by the end of 2025. Additionally, a constructive financing environment in February allowed us to proactively refinance a 2025 maturity. Our $1.75 billion term loan, primarily collateralized by our South America portfolio of [slots], gates and routes. The refinancing transaction efficiently derisked our 2025 debt maturity tower by nearly 20%.

We will continue to balance debt reduction opportunities and investments in the business while meeting appropriate liquidity levels. We continue to see a constructive demand environment in the second quarter and summer and bookings remain strong. Revenue intakes in the past months are well ahead of the same booking period in 2019, including robust international bookings as customers return to long-haul international travel this summer.

Compared to the historically strong unit revenue we produced in 2022, we expect second quarter TRASM to be down 2% to 4% year-over-year on 3.5% to 5.5% more capacity. We expect second quarter CASMx to be up 3.5% to 5.5% year-over-year. This projection includes the impact of an anticipated pilot agreement. We continue to expect the full year impact of all anticipated labor agreements to be approximately 3 points of CASMx.

Our current forecast for the second quarter assumes a fuel price of between $2.65 and $2.75 per gallon, which is $1.30 per gallon lower year-over-year. We expect to produce an operating margin of between 11% and 13% in the second quarter based on our current demand and fuel price forecast. Excluding special items, we expect to produce earnings of between $1.20 and $1.40 per diluted share in the second quarter. These strong results keep us on track to execute on our full year earnings guidance of between $2.50 and $3.50 per diluted share. Now I'd like to hand it back to Robert for further remarks.

Robert D. Isom - *American Airlines Group Inc. - CEO, President & Director*

Thanks, Devon. And to close, I'd like to take just a few minutes to highlight why I'm so excited about the future of the industry and the future of American Airlines in particular. Our industry has been through the biggest crisis in its history and is now on the other side. Airlines have navigated a lot over the last few years, concerns about the economy and demand recovery, the banking crisis, the interest rate environment, supply chain issues and yet, here we are.

The industry is in an excellent position and benefiting not only from the recovery and evolving travel patterns, but also from consumers changing preference of experiences over hard goods. And I'd like to underscore, we have strong demand environment this summer, and we're highly confident that, that will continue going forward. If there's one thing that the pandemic has taught us is that people innately desire to travel. And in America, the actions that we've taken in the recent years are producing returns.

We simplified and harmonized our fleet to provide more flexibility to our network, which is nimbler and more focused on our most profitable flying. And our Sun Belt hubs are uniquely positioned to take advantage of demographic changes going on in the U.S. right now. We've built partnerships that are a great complement to our network and enable us to provide even more unique O&Ds to our customers.

Our fleet, which is younger than our network peers drives low CapEx requirements in the near term, enabling us to generate free cash flow that can be used to reinvest in the business and strengthen our balance sheet. We've also made investments to modernize our facilities and introduce new technology throughout the airline. These initiatives are producing the results that we had hoped for.

And we have a number of opportunities in front of us to deliver even more value. We're making terrific progress training pilots, getting our regional fleet back up on the air and getting more out of our mainline fleet as well. That means that there is real and significant upside in terms of the utilization of our existing assets. We're also very encouraged by our operational focus and our ability to grow the airline efficiently, all while completing more flights on schedule, generating more revenue and reducing costs.

On the commercial side, we're building on our premier loyalty program and the changes we have made are having a real impact on how customers are spending and engaging with us. There's even more we'll do in the coming years to grow AAdvantage and our co-brand offerings. We're meeting our customers where they want to do business and bringing more people into our direct channels. We'll continue to adapt our offerings based on evolving customer preferences.

Finally, we are driving a technology-first mindset at America, not only with existing processes, but also with the introduction of new tools for our customers and teams. And we look forward to sharing more on all of this as the year progresses. Looking ahead, we feel great about the industry and what's to come from America. The actions that we have taken have pushed in a position of strength that have allowed us to capitalize on the recovery.

We'll continue to hold ourselves accountable to produce stronger margins, generate free cash flow, strengthen our balance sheet and run a reliable operation, ultimately creating more value for our customers and shareholders. And with that, operator, please open the line for analyst questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of David Vernon of Bernstein.

David Scott Vernon - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

I wonder if you could talk a little bit about intra-quarter trends and how second quarter sort of is shaping up from a booking perspective. I think investors are -- have been very sensitive to potential sort of disruptions or changes in maybe business travel trends kind of as we've gone through the banking crisis here. I'm wondering if you could just kind of give us a sense for what you're seeing day-to-day in the booking curve and how that is impacting your confidence in the outlook for summer travel?

Robert D. Isom - *American Airlines Group Inc. - CEO, President & Director*

Thanks, David. I'm going to send that straight to Vasu.

Vasu Raja

Look, we remain encouraged by the demand environment that's out there. We see strong bookings strength really across the airline network International, of course, long-haul international is seeing a lot more bookings come in a lot sooner, really reflecting the pent-up demand that's been there in many markets they really haven't been open for the better part of 4 years. Domestic, we continue to see historically strong booking and indeed, a resumption of a lot of -- a lot more people looking further in advance than what they had last year, certainly, more people willing to go and shift from a peak time flight to a trough time play, which reflects changes in work schedules through the week. But by and large, we remain encouraged by what we see out there. And I'll add to that, too, that consistent with a lot of the trends that we've seen in past quarters, we are -- we continue to see a shift from a traditional business style trip, the more blended trips and more discretionary trips. In Q1, about 35% of our volume was leisure discretionary based trips; 35% blended trips; and 30% business trips. That compares to first quarter '19 where it was more like 30% leisure, 30% blended 40% business, but we remain encouraged by it. Though we're seeing that shift, we find that very often, the blended yields that we see are coming in at values that are 8% to 10% higher than the very traditional business trips that they replaced. So we remain encouraged and see a lot of the same trends we've been talking about for the last few quarters.

David Scott Vernon - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

And Devon, could I ask you to talk a little bit about the maturities coming up in the next couple of years on the debt [taxes]? You mentioned you're going to be paying down around $2 billion of debt this year. How should we be looking from a liquidity perspective at the end of 2023 based on the guidance? And then what does that -- and how does that compare to the maturities in a kind of a 2- to 3-year time frame?

Robert D. Isom - *American Airlines Group Inc. - CEO, President & Director*

So to start this year, we have talked about our total debt paydown being at approximately $10 billion to $11 billion from our peak levels of summer of 2021. For this year, we expect total debt to be down about $3 billion versus 2022. In terms of where our cash will be at the end of the year, obviously, we've talked a lot about a $10 billion to $12 billion target for liquidity. We're well ahead of that at the end of the first quarter. When we think 10 to 12, I generally think of it as -- and we'd like to be around $10 billion of liquidity as we are late in the year at the full point for liquidity that arises to $12 billion during the year. At this point, we're well ahead of our target liquidity. I expect we would definitely be on the high end of target liquidity if we hit the midpoint of our guidance this year. And then just longer term, 2024, we have a little bit of a step-up in maturities. I think most people understand in 2025, we have a higher debt tower. We proactively addressed some of that with refinancing in the first quarter. The remainder of it, we will seek to either pay down or refinance a portion of it depending on our cash flow production over the next couple of years.

Operator

Our next question comes from the line of Helane Baker -- I'm sorry, Helane Becker of Cowen.

Helane Renee Becker - *TD Cowen, Research Division - MD & Senior Research Analyst*

Just two questions. One, I'm wondering on operations, Robert, you mentioned in the quarter that you were, I think, at the top of on-time performance and so on. I'm wondering if you could talk about some of the learnings that you've had in being -- with like the Dallas storms and the no TAM shutdown and then what happened in Fort Lauderdale earlier this month. Just how that will carry through to prepare yourselves for the summer, which is likely to be pretty difficult? And then my second question is, I'm wondering if Vasu, you can talk about the changes you made to NDC and Travel Agent bookings and how that's being received?

Robert D. Isom - *American Airlines Group Inc. - CEO, President & Director*

And good to hear from you. Hey, we've learned a lot over the last year. Let's face it, summer 2022 is pretty rocky. And during that time, we got right to work to make sure that we plan the airlines that -- for the resources that we have. And that's played out over the course of this past year. We got stronger and stronger as the 2022 closed. And as we progressed throughout 2023, what I'm most encouraged about is really when conditions permit, we fly an exceptional airline. We complete nearly every flight. And that bodes well for the summer. I know that there are going to be issues, and we're going to have to stay on top of things. But we've never been more prepared from the perspective of having the right resources in the right place. And that's everything from gate to the station level to pilot and flight attendants to mechanics. So we feel really good about where we're heading. But your question about, hey, issues happen. So we're planned well. But in terms of those issues and disruptions, they're going to happen. We had [to bear] thunder storms here in DFW last night, but we have new tools in place to allow us to build back from any disruption in a lot better fashion and one that, quite frankly, protects more passengers. So our misconnection rates are very, very manageable right now. And as we take a look going forward, the tools that we've put in place, a system called Heat, that is appropriately named as heat builds up, the thunderstorms happen and disruptions happen. What we do is we actually put in place delay programs and cancellation programs to protect the system and protect the most number of customers that ultimately allow us to recover quicker. Now this is part of a bigger, longer-range plan, and I'm probably going to give more of an answer here than you need. But after the last 5 years of integration and the pandemic, we're at a point where we can really do a lot more with the assets that we have. We have a new CIO here, Ganesh Jayaram. And I want him to just talk quickly about a technology-first mindset that we've introduced that is really going to get at the heart of those questions that you're bringing up about operational reliability. Ganesh?

Ganesh Jayaram - *American Airlines Group Inc. - Executive VP and Chief Digital & Information Officer*

Yes. Thanks, Robert. So the past 7 months that I've been in this role, our technology team has refined our playbook to work better and faster with our partners in the priority areas of operations and commercial to deliver technology solutions that need and exceed the expectations of our customers and team members. So going forward, we're really excited that we bring new digital solutions to the market in a much more agile manner than in the past to improve our customers' ability to self-serve all the needs with American as well as solutions like heat that improve the resilience of our daily flight operations. Lastly, as a technology team. We are working very closely with Devon and the finance team business appropriately and modernizing our technology stack to help us deliver the additional capabilities for the future. I can now turn it over to Vasu and David to share some examples of solutions that we're excited to bring to the market in the rest of the year.

Vasu Raja

I can pick up a little bit on the technology point, but let me speak very directly to your question about distribution. It's really important to understand our changes through the lens of how our customers have changed because that is our true north. Understanding them and building our enterprise around that is how, of course, we create value. And so earlier, I mentioned how the transaction mix has changed and has been changing. But what's really important is beyond that transaction mix, how our customers consume our product has changed materially. So if you go back to 2019 and look at all the unique customers took a business trip, the top 60% of business traveling customers produced well over 80% of all the business travel revenue at American Airlines. When you look at that in 2023, that same population of unique customers is actually spending 15% more on flight revenue with the airline. However, the mix of their trips has changed materially. It used to be that over 50% of their trips were purely for business purposes. Now less -- well less than 40% of their trips are purely business purposes. That, let's call it, 10 to 15 points of shift has gone pretty much entirely to blended style trips, but it's gone entirely out of the travel agency distribution channel into our direct channels like dot com and app. And so that's been a thing we've been observing really for the better part of the last year the trends continue to accelerate. So -- and you've seen that all across our commercial changes. We've actively repositioned the network where we fly less in short-haul markets like, say, New York to Chicago, but we started a new market like New York to Tulsa. We've done things with our loyalty program, our advantaged Travel Rewards program to make it easier to go and earn miles for things which aren't just taking a historical business trip, which were fewer of those travelers are doing it. But the next and very important part is how we sell and service our product. And what we've realized is so many of those customers are going direct, frankly, because they're used to a consumer experience than any other retailer where it's -- they can buy the product and shop digitally, and they can service it themselves. So when you look at us through that lens, our changes are really kind of simple. By the end of Q2, we'll -- anything that we sell in a U.S. point of origination, a customer will be able to go and service, buy and service digitally through our dot-com and our app, which is a huge change from where the airline has been, a market difference from where many of our competitors are. However, traditional travel agency technology doesn't enable us to roll those same services out through it. But some of the new travel agency technology that's there, the people like Sabre and Amadeus and Travel Porter offering, enable us to do exactly that. So as the summer rolls on, you'll see us rolling more of our selling and servicing tools into this new distribution capability. And that's something which ultimately should be beneficial to travel agencies. That will enable really forward-thinking agencies to serve our joint customers a whole lot better. And so far, we've been actually extremely encouraged. We've had 3 or 4 weeks now where we've been migrating more services and more of our fair products into this new distribution technology and the results have been extremely encouraging. So if you look at first quarter, about 10% of our revenue was booked by travel agencies. We're now -- virtually all of their future bookings are coming through new distribution technologies. We've also seen new travel agency competitors emerge and they're growing at an exponential week-to-week rate. And they're really disrupting the traditional travel management company model. At their current rate of bookings, they will be as any of the three largest travel management companies in terms of booked a revenue probably by this summer. And what we're really encouraged by is every day a new corporate customer is coming to us asking about how they can connect directly to us or which -- how they go and best source all the fair content of American Airlines. So the important thing is really, for us, we are making our changes really in service of where our customers are going. We think it's something which can be great for the travel agency community, but above all, the end consumer is going to benefit from more competition, better services, lower cost of sale. So we're encouraged with where this is going.

Robert D. Isom - *American Airlines Group Inc. - CEO, President & Director*

I appreciate you letting us go along on that because you can tell your question gets to the heart of everything that we're doing from a strategic perspective operationally and commercially.

Operator

Our next question comes from the line of Duane Pfennigwerth of Evercore.

Duane Thomas Pfennigwerth - *Evercore ISI Institutional Equities, Research Division - Senior MD*

I have a network question, maybe a little bit of a philosophical one for Vasu or Robert, as we think back to historical periods for the airline industry, there were definitely periods where international growth was funded by domestic capacity cuts when international growth prospects were more attractive. And if we think about the experience through the pandemic where everyone was domestically focused and Florida focused because that was the only thing open. Now slowly market by market, the rest of the world has gradually become Florida too, you all now have a much larger opportunity set. So why don't you think we're seeing some of the domestic bets, which were totally appropriate in the pandemic context being rolled back? And what do you think the set of circumstances that would drive a better portfolio outcome by funding international growth with domestic cuts and appreciate the long-winded philosophical question.

Robert D. Isom - *American Airlines Group Inc. - CEO, President & Director*

I'll start with, I think, some realities in the business. And then Vasu can do more from the philosophical standpoint. But first, I just think it's important for people to know that American is growing less than anybody else this year. And it's not necessarily by choice. I mean, let's face it. We've run into issues with the constraints that we are all aware of. Manufacturers haven't been able to deliver aircraft on time, and we've had pilot constraints that have gotten in the way. And that has, to some degree, shaped what we've been able to do. So we have, I think, almost 150 regional aircraft that are still on the ground, and we're not serving a lot of small cities that really have lost service and we'd like to get back into. And so I think that, that's an opportunity for us. And then in regard to international, Vasu will talk more about it, but that is absolutely the largest portion of our growth in this coming year, but it's largely been constrained by our other issues. Vasu?

Vasu Raja

Yes, that's right. I'll pick up from there. And I appreciate your long-winded philosophical question. My boss tells me that I'm (inaudible) to be long-winded and philosophical, but I will be very focused and philosophical for this one. Because this is a topic that we've thought about for really a long time since the start of the pandemic. First, to pick up where Robert left off, when you look out, though our capacity mix is about 75% to 80% short haul versus long haul, 80% of our growth as we head into the next quarter is really all the -- what we call the build back of the long-haul network on a more efficient fleet base. So we -- that's the start of more -- as indeed more airplanes come from Boeing. But also what's very important to note is we very consciously went and built our fleet and our network through the pandemic so that it can go and be nimble and produce a level of earnings growth across the business cycle. So importantly, when you look at us, right, versus 2019, we are about 45 widebodies smaller, 45 narrowbodies larger. That's material because in the long-haul business, and we've seen this over time, it's the most volatile part of a relatively volatile business. It's most capital-intensive part of a capital-intensive business, and it can be very complex operationally too. So what we found is that actually by being a very focused operator, a simplified fleet, things like that, that enables us to go and respond to demand a lot more appropriately. So further to that, to what Robert said, the way we go about doing that is actually by making as many unique origin and destination markets as we can. And our primary asset for doing that is the large narrowbody, whether it fills widebody jets or fill regional jets. And the more of that connectivity we can make, the better it is. So what you'll see in our international network, you see it already, is really an orientation around places where we can leverage our domestic strength. For example, Dallas Fort Worth or Charlotte, which will have four trips to London this summer or markets where we can leverage our partnership network. We will fly JFK to Doha where we're able to connect to the entirety of the Qatar Airways network, for example. And we grade that performance really on, are we generating as a system? Are we generating more industry revenue, more of our share of industry revenue versus capacity share? When you look back at the last 4 or 5 quarters, that's certainly been the case. At large, we're able to collect more revenue than the capacity share that we're flying. So we're encouraged by that. This summer in long haul is going to be a seasonally -- and probably historically strong long-haul summer. Overtime, that is going to go and normalize, and we will be able to grow into that and we'll have a fleet that will enables us to go serve it and [add on] where the demand is.

Robert D. Isom - *American Airlines Group Inc. - CEO, President & Director*

Duane, just one other piece of kind of real news on top of that. It's just that to add to that O&D base, I mentioned the 150 aircraft that we're not flying from a regional perspective, I think that we've seen the low point of supportability. And as we take a look through the rest of the year, that's going to be built back. And I don't know if we'll be back to probably 100 aircraft down, but I look out over certainly in the next 18, 24 months, to be in a much better position just for utilization and also being able to service these smaller cities and contributing to what Vasu just said from a philosophical perspective.

Operator

Our next question comes from the line of Andrew Didora of Bank of America.

Andrew George Didora - *BofA Securities, Research Division - Director*

Maybe sticking with the philosophical a little bit. I'm sure this is still a real tough time to give some revenue projections. I guess when you sit down with your -- when we sat down with your team over the last couple of weeks, which entities today are easier to forecast than maybe some others aren't?

Robert D. Isom - *American Airlines Group Inc. - CEO, President & Director*

That's an excellent question. And look, this business is nothing if not dynamic. Look, in our system probably -- there's probably a lot more forecast clarity in our short-haul network than our long-haul network. Do not exactly to any particular demand trends, but just simply to the fact that we've been operating a big domestic system for a really long time. So if you go back and look at last year, the demand environment in domestic, it was strong as we headed into the second quarter. It was made stronger by the fact that so many long-haul markets were -- they were either closed or it was really difficult for customers to go through. But by being big last year and by continuing to being much bigger than what many other airlines were, it gave us a better sense for any amount of demand projections, but things such as how far from departure the booking curve is, how we can position our network based on demand changes, changing customer profiles and tastes. So right now, there's probably a little more accuracy around the short-haul network than the long-haul network.

Andrew George Didora - *BofA Securities, Research Division - Director*

Great. That's helpful. And then just a second question here, I guess more near term, just any update this morning. I know you reiterated your full year capacity and earnings goals, but nothing around revenues or costs. Have your thoughts here changed at all? Or are you just kind of holding in the historical revenue fuel relationship?

Unidentified Company Representative

Yes. I'd just say we're pretty early in the year for an update on either revenue or fuel. So we're leaving those out. I will say on the our CASMx fuel basis, we still feel really good about our initial guidance of CASM, up 2% to 5% for that period. And I think we'll be right around the midpoint of that at least as we sit here today.

Operator

Our next question comes from the line of Ravi Shanker of Morgan Stanley.

Ravi Shanker - *Morgan Stanley, Research Division - Executive Director*

It feels like the next kind of 12 to 18 months are going to be pretty important for managed corporate as a lot of the kind of old grandfathered enterprise corporate contracts come up for renewal. And you obviously have a few more competitors potentially to enter the game and maybe the size of the pie is also a little bit smaller, at least in the short term. How are you guys thinking about where American is positioned relative to kind of some of the enterprise historical competitors as well as maybe some of the new entrants and kind of going off of that managed corporate share?

Vasu Raja

Ravi, this is Vasu. And I'll pick up your question with reference to some of my early comments here, and our customers have changed. And probably where that change is the greatest is with contract and corporations. So in 1Q '19, our mix of business revenue, I said we were 40%. That was kind of a 2:1 split between non-contracted customers and contracted customers. Now what we're seeing and what we've been seeing is that relationship is more like a 3:1 split between non-contracted customers and contracted customers. So there's -- the nature of the travel that's out there has changed a lot. But also the way in which we think about corporates has changed as customer tastes have changed. And if you think about it for so many corporates, really when companies aren't back to work, it's really hard to go and get people back on the road, and we see that. So where we are today, 95% of our corporate accounts are telling us that they're not enforcing a travel policy, in which they require an employee to fly one airline versus another. And across our contracted base, over 60% of our corporate contracts don't fulfill the volume and share goals that we've set out, which is completely understandable. The marketplace has changed. If companies are struggling to bring people back to the office, it's practical to think that it's difficult to get them back on the road. But that said, among that -- to refer to my earlier comments, that same base of customers though they may be traveling less on a contracted deal, they're actually spending more money traveling on the airline. And indeed, that base of customers are doing things -- they're the ones who are most likely to acquire our credit card or where they have our credit card. They're the ones most likely to go and drive up spending on it. So we're actually really encouraged as contracts come up for renewal because it's a chance between us and some of these corporates to really figure out how we go and structured deals that are fit for the purposes that these corporations have today and tomorrow. So we're encouraged by that. We think that the marketplace is changing very much, and we're looking forward to changing with it.

Ravi Shanker - *Morgan Stanley, Research Division - Executive Director*

Understood. That's really helpful. And maybe as a quick follow-up. I know there's been some commentary on kind of the domestic network on this call already. But just to put a fine point on it, I guess, given your U.S. domestic exposure relative to your network peers, I think there's been a lot of talk/speculation on the strength of the U.S. domestic traveler kind of -- any kind of definitive work that you can say about whether you're seeing that strength in demand continuing, the strength in RASM continuing? Are you starting to see cracks or people potentially kind of delaying or putting off trips domestically, that would be helpful?

Robert D. Isom - *American Airlines Group Inc. - CEO, President & Director*

Look, I would say this, Ravi, what we see out there is demand for travel has never been probably more aspirational nor more intentional. That is we see not just people continuing to book further in advance. They're doing things where they want to go put more spending on credit cards. They want to go earn more miles because they're aspiring to take future trips that are out there. And they're keen to find more ways to go and do that, especially as they may be -- they're the companies may be requiring them to travel less. But there's also just a lot of intentionality about, right? Like what we've seen across our system is -- if you look at our traffic composition, it's not just that there's no more same-day trips, we've shifted about 3 points of our traffic mix from round trips to one ways where people are sometimes willing to pay a flexibility premium so that they can structure their trip and their fair product in the manner that they like. That's all to say that we do continue to see strength in the demand environment. It's year-over-year comps may be a little bit odd because purely idiosyncratic issues, right? Last year, domestic was benefited by the fact that long-haul markets were shut down, for example. But so far, we still see a really favorable demand environment, and we see at the actually unique customer level, a great degree of desire to travel.

Operator

Our next question comes from the line of Conor Cunningham of Melius Research.

Conor T. Cunningham - *Melius Research LLC - Research Analyst*

The pushback I get on the free cash flow production on American is that it's somewhat temporary as CapEx kind of picks up again in the future and nothing to the magnitude that you had before in the refleeting phase. But why aren't we talking more about a long-term return on invested capital target? Like what goes into that thought process for you guys? Or maybe we're just too early in the balance sheet recovery phase. Just any thoughts there would be helpful.

Unidentified Company Representative

Listen, to start, we are really excited about our potential for free cash flow production in 2023. And you're right, this is a year where we have lower CapEx than an average year and lower CapEx than we wanted to have this year. We planned to spend a little bit more on aircraft CapEx. We just weren't able to get the deliveries in that we wanted. But this year, we will be something approaching $3 billion of free cash flow. That is inclusive of our labor agreements, which [do have] the potential of some sort of bonus pay. So we're proud of what we're producing this year. Next year, I think we're going to have a really nice free cash flow story, again, even though our aircraft CapEx does step up a little bit. And then longer term, I think this is a story that we -- hopefully we'll continue to talk about. We don't expect to have a need to go through a kind of massive CapEx cycle, again, we expect a more normalized cycle of capital expenditures. And in that world, we should be able to produce free cash flow each year. And as for metrics like a return on invested capital metric, yes, it is early in the recovery, but that's something that we would expect to talk more about in the coming years.

Conor T. Cunningham - *Melius Research LLC - Research Analyst*

Okay. And then you talked a fair bit about managed corporate travel. But I was just curious if you could talk a little bit about the small and medium business traveler out there. Obviously been a huge important segment for you guys in the near term. Just curious if there have been any changing in trends or tendencies given the choppy macro backdrop? Just any thoughts there would be helpful.

Robert D. Isom - *American Airlines Group Inc. - CEO, President & Director*

Yes, that's a great question. And probably it's a segment of travel, which is maybe neglected historically. Look, we see a lot of growth. I mean, clearly, it's not just that people are traveling less on contracted accounts, but we're seeing people who are taking business style trips or even blended trips who have no corporate -- no recognized contract and corporate affiliation. And really the -- probably the biggest thing to note there is that there's just a different set of buying criteria. There's value on flexibility, to my earlier point that a lot more of those non-contracted customers are -- will look to buy one-way trips in order to blend it or construct what they need to do. And also for those customers, there's a material -- they reflect a lot of the economic dynamics of the country. And Robert kind of alluded to it in his earlier remark to the top of this, so much of that demand is originating out of Sunbelt markets, Arizona, Texas, the Carolinas, Florida, places where we just have an inherent level of strength, and we endeavor to go build a fleet and the network structure to capitalize on.

Operator

Our next question comes from the line of Michael Linenberg of Deutsche Bank.

Michael John Linenberg - *Deutsche Bank AG, Research Division - MD and Senior Company Research Analyst*

I have two quick ones here. Just Vasu, following on Helane's point on your answer to your question. What was the split between direct and indirect sales in 2019? Where are you today? And where do you think you are, say, 1.5 years, 2 years out?

Vasu Raja

We are -- today, we are a little over 60% going direct, which is about a 10 to 12 points improvement versus where we were in quarter 1 of '19. We anticipate being about 10 points larger than that by quarter 2. Now importantly, we consider being sold through our new distribution technologies also as direct because we're able to provide -- for us, direct is really, how do we provide the right level of retail experience, selling and servicing to the customer? So we anticipate that will grow and potentially be as much as 80-plus percent of the airline by the end of the year. And where we certainly are doing all that we can to both encourage and incentivize people to make it something greater than that. So we're -- we remain pleased with how it's rolled out there to bolster that and to come back to some points that Robert and Ganesh mentioned. Part of what we're doing also is we're just -- we're simplifying what we sell. There's a lot of cases where we've created a lot of revenue products for a customer that -- for customer behaviors that just don't exist anymore, but required a lot of complications in servicing. Now we can be a lot more simple. We can provide flexibility in a lot more ways, which ultimately will be a thing that is great for any travel agency looking to serve a customer. But understandably, those are only made possible through contemporary technology. And so we anticipate that will also further fuel a change amongst customer behavior and ideally agency behavior, too.

Michael John Linenberg - *Deutsche Bank AG, Research Division - MD and Senior Company Research Analyst*

Yes. And just to clarify, you threw out 80%. But I guess, to be clear, it's almost -- that's obviously the NDC piece, but it's almost a bit of a hybrid direct because the GDSs are part of that solution, right? Am I -- is that my interpretation right?

Robert D. Isom - *American Airlines Group Inc. - CEO, President & Director*

Yes, that's correct. And you're very much right, Mike. And the reality is what the split is that takes us from 60 to 80 between direct and indirect, we don't entirely know yet. And if we look at it certainly from the last 3 or 4 weeks that we've been really producing content for new distribution channels. We've actually seen -- the primary growth outlook has actually been our app and our dot-com. So we -- as things change, it remains to be seen. And again, so much of this is dictated by the taste of the customer. Many of those noncontracted business customers that we -- that I spoke about in the last question, would love to go and purchase and consume our product through the app. So as our app improves, we anticipate there will be more and more of a shift.

Michael John Linenberg - *Deutsche Bank AG, Research Division - MD and Senior Company Research Analyst*

Great. That's great. And then, Devon, just a quick one. The $211 million profit sharing accrual, I guess that covers part of last year, but was that entirely incurred in the March quarter of 2023? And when you give us CASMx, is that CASMx fuel? Or is your -- is it CASMx fuel and profit sharing? I just want to clarify that.

Devon E. May - *American Airlines Group Inc. - Executive VP & CFO*

Okay. So the CASMx guidance is just CASMx fuel. As for the $211 million, that is for our profit sharing program for the year ended March 31. We do have a profit churn program for 2023 that started January and goes for the entire 12 months of this year. So the $211 million is for effectively the 9 months -- last 9 months of 2022 and the first 3 months of 2023, and that is going to be paid out in May.

Michael John Linenberg - *Deutsche Bank AG, Research Division - MD and Senior Company Research Analyst*

Okay. But was that incurred 100% in the March quarter of ...

Devon E. May - *American Airlines Group Inc. - Executive VP & CFO*

No, it wasn't. That was accrued throughout 2022.

Operator

Our next question comes from the line of Jamie Baker of JPMorgan.

Jamie Nathaniel Baker - *JPMorgan Chase & Co, Research Division - U.S. Airline and Aircraft Leasing Equity Analyst*

So Vasu, continuing on the corporate question. We understand the shift to NDC and credit is absolutely due to American for having the IT capabilities that not all of your competitors do. But what I can't reconcile is the way that you appear to be backing away from corporates, and that's based on high conversations with travel managers across the country, what I've seen in the press. I mean, it feels like the new philosophy is that you're not pursuing corporates with the same vigor as in the past because to me, that suggests the potential for share shift to United and Delta.

Robert D. Isom - *American Airlines Group Inc. - CEO, President & Director*

And the lens to see a lot of our changes is through the actual user of the airline product -- the end consumer, and that's been a thing where. If you just think about the big history of the airlines, it's been hard just to mask the data and see technologically like who the customer is. We distribute our product based on whether it was a fast schedule or a low price. And so much of what we did was try to get people to go buy the faster schedule because there is a premium on it, but the changes have been meaningful. And none of the top 25 companies who were there in 2019 are any more than about 65% return to travel. However, the top customers, to my earlier point, are travel -- they're spending more on the airline than ever before. Now what that means for us is, especially in many cases where accounts aren't fulfilling or things like that. The nature of the corporate discount and the corporate contract is just changing. Maybe the best example that I can give is through many of our contracts over the years, we granted a level of loyalty status to customers. Well, now what we find is people are willing to actually -- especially noncontracted customers, many cases, the actual customer in the corporation is looking to go and earn more miles. They want more -- and when they earn miles, they want to be able to redeem them. They want to be able to get their status benefits. They want all of those things to take place. However, at our peak, we were giving away as much as 35% of our status members were through corporate exceptions. So that's a material amount when you think about it, that's actually curtailing the customer experience of those people who are most using our project -- our product. Some of whom work in the exact same corporation, but didn't travel as much before. They traveled less than some of the people who are receiving the exception. So a lot less of this is backing away from it, but the marketplace has changed. And there's something that we can do with a lot of these travel managers, which could be a much better experience for all of their customers through all of these changes, they can have access to, frankly, a much more seamless and simple servicing solution where they can also go and get some distribution cost savings, too. So look, change is never a thing, which is all the way easy, but it is something where our customers are speaking and they -- for them, it's necessary.

Unidentified Company Representative

Jamie, it's important for me to weigh into, hey, I know this is probably not the case. So the nature of your question suggests that's what our competitors are saying about us in the marketplace. And I'd just like to underscore that, yes, "hey! look! we're going about things in a little bit different fashion". We're looking to better service, offer less -- much less complex product seamlessness across the board. That benefits our relationship with the corporate customers. And we're out there in force, and we're making sure that we're appealing to our largest customers in the way that they want to do business. And if there are changes we need to make, we're going to do it. But right now, I think that more than anything else, what we're doing is actually having an impact and I'm pleased with where we're headed.

Jamie Nathaniel Baker - *JPMorgan Chase & Co, Research Division - U.S. Airline and Aircraft Leasing Equity Analyst*

Okay. Very interesting. And Devon, just a quick question on the labor cost accruals. I want to make sure I understand correctly, those accruals -- well, do the accruals include any changes in profit sharing formula is anywhere else in the P&L? Or is it simply a wage-based accrual? Given your answer to Mike's question, I think that's the right answer. It's just a wage-based exercise.

Devon E. May - *American Airlines Group Inc. - Executive VP & CFO*

Yes. So for what's in the second quarter, based on where we're at in negotiations and an assumption that we actually reached a tentative agreement this quarter, what we have in our guidance is an assumption that we will be at higher wages for our pilot work group, fourth quarter. Other work groups, we expect to reach tenant agreements later in the year. So they -- there's no impact from those groups in the second quarter. And as for profit sharing, yes, no expected profit sharing changes this quarter, but we do have an expectation for a change in profit sharing for those work groups in the back half of the year.

Robert D. Isom - *American Airlines Group Inc. - CEO, President & Director*

And Jamie, this let me add on here, too. I know that there was a question about real P&L items. But at the end of the day, we're going to end up with a contract that not only takes care of our pilots from a compensation perspective, but also quality of life. But the good news on that front is that, look, I think that we're going to be in a position where the changes that we're making are going to benefit not only our pilots, but the airline as well. So I look to changes that are being made is something that we'll be able to accommodate over time without a lot of impact to productivity.

Operator

We will now take questions from media. (Operator Instructions) And our first question comes from the line of Alison Sider of WSJ.

Alison Sider

Yes. Just sort of curious on Boeing deliveries, kind of what's coming next, what you're hearing on Dreamliner deliveries and whether 737 late this summer are going to cause any issues? Are you having to thin out routes or cancel any routes or any kind of customer impact there?

Robert D. Isom - *American Airlines Group Inc. - CEO, President & Director*

I'll start and Devon can give you some particulars. But between the MAXs and 787s, I think we have approximately 20 some-odd -- 23 deliveries planned for this year. And certainly, we've had some delays in that, and we are concerned about potential delays impacting the summer as well. It looks like we're going to be minimally impacted. But I'd just underscore this that any time that there's a delay in delivery, especially for an airline like American right now, where we've really built an efficient fleet over the years. If this is -- this results in a real impact to the airline and to our customers, we expected to fly those planes. We expect it to fly in on time. And when we have to make schedule changes. It impacts hundreds if not thousands of customers. Fortunately, with this latest issue with the MAX, we haven't had to make too many changes, but I'd just like to underscore this. Boeing has been a great partner. Airbus is a great partner. But look, at the end of the day, we need them to be incredibly reliable. We need them to be better than what they've been. And I communicate very frequently with the Boeing senior management team. And we need them to get their act together. We need a very, very strong Boeing, and we need them to be an incredible partner, and we have all the confidence that they'll get there. Devon, did you want to add anything else in terms of particulars?

Devon E. May - *American Airlines Group Inc. - Executive VP & CFO*

Just a reminder, we have 4 787 deliveries this year, we took one in the first quarter. We expect the next 3 in the next 30 days or so. And on the MAXs, we have 17 remaining. Those will start to deliver over the next [handful] of weeks. The last two deliveries for this year are both neos and we got both of those in the [first] quarter.

Alison Sider

And if I could just follow up on sort of all the business travel talk on this call. You talked about it a lot, but we have heard companies and agencies sort of complaining about some of the changes American has made. Are you -- is it that -- are you seeing any market share shift? Or is it that it just doesn't really matter in the same way it might have at one point?

Vasu Raja

This is Vasu. Thanks for the question. Look, from a given agency to or another, we may see a little bit. But in aggregate, we're really encouraged by the revenue trends that we see. Indeed, what we're seeing -- and while probably many people in traditional travel distribution are adjusting to these changes, but we also see in other cases, end consumers really responding favorably. So I mentioned earlier how many of our sales are going direct, but one of the things that we're encouraged by is by the end of this month, over 60% of our servicing transactions are coming digitally. And we anticipate by the end of the year, 100% of our transactions could be done digitally. And so that's a really meaningful change. Again, when you think about who those customers are that are increasingly traveling, whether they're traveling on a blended trip or a business trip or a leisure trip, is kind of a second order issue. The more that we can give them a contemporary retailing experience, like what they get anything else they buy, the more they value. We're seeing that over and over again. Our best channel for driving upsell is actually dot-com and the app. And it's consistent across our system. I'll give a for example. This will be relevant for you even for Jamie's comment. It's not just a function of our domestic marketplace. But when we're seeing 10 to 15 points of transaction share shift out of travel agencies and into the direct channel, it applies in our long-haul network, too. So London Heathrow, which, for us, has -- our peak flights in London Heathrow could -- the entirety of the premium cabin could have been sold outside of the dot-com at one point in time in the past. As we're -- as we finish the first quarter here, about 40% of our sales in London Heathrow premium cabin is coming through our direct channel. And so much of what's happening when they're doing that is -- when customers are buying that, is they're buying a product that they can go service themselves, they can change their seat assignment. They get the full value of not just the flexibility of the fair product, but the entirety of the servicing experience. So actually, so many of our changes we want to make that same thing available to all of our retail outlets. Wherever a customer wants to shop, we want them to be able to have that experience as well. And we know that many of our travel agency partners and our corporates want the exact same thing, but it calls for a different approach. And so we are doing a little bit of innovation to go and get it to a different approach. But ultimately, it's something which benefits the end customer, and it's going to create more choices for them and a (inaudible) more competition on how they buy travel.

Operator

Our next question come from the line of Mary Schlangenstein of Bloomberg.

Mary Schlangenstein

I wanted to ask what are Americans plans for taking advantage of the waivers that were offered in New York and D.C. by the FAA? And then my second question is, Robert, you were talking about the park regional jets and said, potentially, you might be able to get 100s of them back in service by the end of this year. So realistically, how many of those planes do you think will return to use and will a large percentage of them perhaps never be that flying for American?

Robert D. Isom - *American Airlines Group Inc. - CEO, President & Director*

Let me take that -- the last one first, which is, look, we would be flying virtually all of those planes today, if we could. And you take a look at small cities throughout the country. Vasu can give you a exhaustive list than this. But places like Green Bay and Santa Fe and Springfield, Missouri, Panama City, those are all places that would demand more service right now, and they really can only be served with regional jet. Now at the end of the day, we do that to connect into the larger part of our network, so -- which then impacts our hubs and our mainline aircraft and international flying and everything else. So it's a positive overall. But -- and to that end, the largest issue that we are facing is the shortfall in pilots. But we've seen great uptake in terms of people coming into the business because of some of the changes we made in compensation last year. And we're getting to the point where we have enough captains to build hours with first officers to get aircraft back up in the air. And when we take a look at where we'll eventually be, I would anticipate that, firstly, all those aircraft would be back into the system outside of the retirements that we would make for aging aircraft. So that's the answer to that. The first question again?

Vasu Raja

Yes. Regarding New York FAA, I can start, Mary, and [Nate Gattan] may want to add as well. But the short answer is, we're really encouraged by what the FAA did. For us, we've taken some advantage of it, but for us, so much of our growth in New York is really in JFK flying long haul. I think Kennedy to Delhi or Kennedy to Doha. And so a lot of the benefits are more going to be borne out on people who fly shorter haul markets, higher frequency where those issues can come and bite them more. So when we go into our summer, our New York will be about 10 or 15 departures down versus what we had in the plan 3 or 4 months ago. But our overall seat capacity is up and across the [NEA], it is up and will continue to be up, as we both get more people to New York, through, New York and from New York.

Unidentified Company Representative

I would just add, Robert mentioned it this morning, but we appreciate the FAA's leadership here to proactively take steps like this one to improve our air space. Certainly, we've seen since the pandemic that the New York area airports have struggled to return to normal operations. A lot of that is because of workforce challenges and the other system constraints at those airports. So this step, we welcomed -- Vasu mentioned our ability to take advantage of this is limited to some extent by NEA. I would just say, as a part of the NEA, we committed to capacity targets for New York airports, and we expect to fulfill those commitments. And I would just add since we're on the subject that we also want to commend the FAA for their guidance around commercial space launches, which will now take into consideration the impact that these -- the major launches, in particular, will help on air travel. It's a collaborative effort to address an issue that really challenges the system. And hopefully, it's something that's going to have wide-ranging benefits to the traveling public.

Mary Schlangenstein

And so it sounds like you're not taking full advantage of the slot waivers offered by the FAA. Is that correct?

Vasu Raja

Mary, this is Vasu. That is correct. But that largely is due to the fact that we have less flying in the sort of high frequency markets that would most benefit from it.

Mary Schlangenstein

Right. But as Devon said, you're not cutting under the NEA?

Vasu Raja

No. Indeed, we're actually growing seats. When you look at American Airlines this summer, we're growing seats indeed growing them at a greater rate than anybody else. The NEA is growing at a greater rate than anybody else, but that's really a response to consumer demand. And what you are seeing from us is flying fewer departures with more seats per departure. So we're able to, across the NEA operate schedules that we can deliver on.

Operator

Our next question comes from the line of Leslie Josephs of CNBC.

Leslie Josephs

Just curious what the time frame is for the new suites to the widebodies and I guess the (inaudible) here yet, are you still expecting those to debut in 2024? And if there's any change to the retrofit schedule as we've seen some issues with supply chain? And then also, do you have any detail on what the upsell has been to more premium cabins, whether it's more extra legroom seats or paid [for some] in business class?

Vasu Raja

Leslie, this is Vasu. I can answer both. So the first question, no change to plans. We anticipate taking -- installing the new seat on retrofits as planned and putting them on new deliveries as planned also, and we're really excited for it because it's going to be a really great product for our customers and a much simpler seat to go operate and deliver. To your second question about upsell rates. Look, a year or two ago, one of the questions in our mind to the earlier point about philosophically, how do we think about the long-haul business. But one of our great concerns was, what was the future of premium cabin, premium economy, things like that be? Now that we've had a year of seeing how people use this even in a world where we have less corporate contracts flying, we've been actually really encouraged and probably never been more encouraged by premium cabin performance. So if you look at us in the first quarter, our premium cabin revenues across the system are up 20% versus the same period in 2019, but our premium cabin seats are basically flat to what they were in 2019. That's the level of growth, which exceeds what we see in the economy cabin. And we see it categorically across every entity that's there. Domestic short haul, Caribbean, London even the Pacific, we see that. So actually, we've been very positively surprised by premium cabins by the flexibility and the upsell that ends up happening. And indeed, to my earlier comments through the call, the fact that so many customers are willing to go and purchase it is frankly what makes us more encouraged about any number of the commercial changes we're making.

Operator

I would now like to turn the conference back to Robert Isom for closing remarks. Sir?

Robert D. Isom - *American Airlines Group Inc. - CEO, President & Director*

Thank you very much, and thanks for the interest. Look, we're really pleased with the progress that we've made at American. We set out with the goal of becoming a more reliable airline and becoming profitable. And we've done a remarkable job. Our team has done a remarkable job over the last year of getting us into this position. Industry-leading, operational reliability and then profitability, which is our fourth quarter in a row, record revenue production.

When I take a look year-over-year, it's astounding that we're $2 billion in terms of pretax better than we were just a year ago. As we project out for the year, we anticipate record revenues in the second quarter. So all that is very positive, but I did ask questions about, why isn't our stock price performance moving in alignment with seemingly improved prospects? And in fact, our guidance for the year in terms of EPS, analysts would be 25% below where we're guiding.

And I just say to that right now, no book. It's due to people not knowing the American story, possibly. And in that case, we've got to get out and do a better job of letting folks know what we see and where things are headed. And if it's not that, they don't believe our story. And in that case, we're just going to keep producing. Every quarter that we have a chance we're going to talk about those things that are most meaningful to creating shareholder value, and that's earnings and generating free cash flow. And we'll keep producing until people do believe.

And for those that just want to see another chapter of the book and have some concerns about some issues that we may encounter over the next 3, 6 months or so, hey, we'll play that out too. We're really confident no matter what comes our way that will react in a fashion that still preserves our focus on making sure we run reliably and ultimately, profitably as well. So I appreciate everybody's interest, and we'll get back to work. Thanks very much.

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect.