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AAL - Q4 2015 American Airlines Group Inc Earnings Call

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OVERVIEW:

AAL reported 2015 net earnings, excluding net special credits, of $6.3b and diluted EPS, excluding net special credits, of $9.12. 4Q15 total operating revenues were $9.6b, net profit, excluding net special credits, was $1.3b, and diluted EPS, excluding net special credits, was $2.00.

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PRESENTATION

Operator

Good morning and welcome to the American Airlines Group fourth-quarter 2015 earnings conference call. Today's conference is being recorded. (Operator Instructions). And now I would like to turn the conference over to your moderator, Managing Director of Investor Relations, Mr. Dan Cravens.

Dan Cravens - *American Airlines Group Inc. - Managing Director of IR*

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, our Chief Financial Officer.

Also in the room for our question-and-answer session is Robert Isom, our Chief Operating Officer; Elise Eberwein, our EVP of People & Communications; Maya Leibman, our Chief Information Officer; and Steve Johnson, our EVP of Corporate Affairs.

As is our normal practice, we are going to start the call today with Doug and he will provide an overview of our 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 will 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 cost, 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 earnings press release issued this morning and 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.

The webcast of this will also be archived on our website. The information that we are giving you on the call is as of today's date and we undertake no obligation to update the information subsequently. So thanks again for joining us this morning and at this point we will turn the call over to our Chairman and CEO, Doug Parker.

Doug Parker - *American Airlines Group Inc. - Chairman & CEO*

Thank you, Dan. Thanks, everybody, for being on. We are pleased to report our fourth-quarter and full-year results for 2015. It is hard to imagine that just two years ago American airlines was emerging from bankruptcy, but we were.

In the first year the Company produced record profits of $4.2 billion excluding special items, that was the record that we set in 2014 which was more than double than American had ever made in its past. This year we have exceeded that with the results we release today of $6.3 billion.

So a new record beating last year's record for the quarter, a new record of $1.3 billion exceeding 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 of taking care of customers while we work through an integration.

Particularly as it relates to the integration, it was just a year ago the big concern was whether -- was how much disruption this airline might put upon its customers as we work through integration as other airlines have in the past and 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 a really phenomenal team who is doing a great job.

We still have a lot to do; we are 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 are extremely proud of the results they have produced and very pleased with our outlook given the positioning 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 will follow with some other details, primarily revenue related. Derek.

Derek Kerr - *American Airlines Group Inc. - EVP & CFO*

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.

Our fourth-quarter 2015 pretax 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 a 2014 net profit excluding net special charges of $4.2 billion or $5.70 per diluted share. Our 2015 pretax 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 US 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 10 years further widening the age gap between American and our network peers.

Recently we reached an agreement with Airbus and defer two of the six 2017 A350 aircraft deliveries to 2020. These deferral should help us match the pace of wide body delivers to our projected needs for international flights. This new schedule still has us taking four A350s next year as we remain a North American launch customer.

Our fourth-quarter 2015 revenue was negatively impacted by large capacity increases in certain domestic 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 $0.1471, down 5.8% driven primarily by a decline in passenger RASM which was $0.1269. As Doug said, 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 the year-over-year decline 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 costs, fourth-quarter mainline cost per ASM excluding special charges was $0.1148, down 8.3% year over year. If you exclude net special charges and fuel our mainline cost per ASM was $0.0922, up 6.3%. This increase was due primarily to contractual rate increases for our new labor agreements. Regional operating cost per ASM excluding net special charges and fuel was $0.161 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 ended 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 a 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 both 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 share repurchases 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 at a blended 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 2017 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 2017 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 EBITDAR, to peak in 2016 and then begin declining each year going forward as our CapEx budget declines.

Turning now to our 2016 guidance, we are forecasting overall system schedule capacity growth to be up approximately 3% with full-year domestic 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 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 6%. 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 27, we expect to see another year with significant fuel savings. While 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 $1.15 to $1.20; the second $1.16 to $1.21; third $1.21 to $1.26; and fourth $1.25 to $1.30.

While it is 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 that Scott will give, we expect our first-quarter pretax 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 2016 to be approximately $4.5 billion, of which $1.2 billion will be in the first quarter. The full year we expect to invest $1.2 billion in non-aircraft CapEx which includes 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 while producing record earnings. We look forward to another great year in 2016.

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

Scott Kirby - *American Airlines Group Inc. - President*

Thanks, Derek, and I would like to start by thanking all the people of American Airlines for the really fantastic job they have been doing in some unusually difficult weather conditions lately. The people of AA continued to make great operational progress in the fourth quarter and throughout 2015 with improvement in almost all of our operating metrics.

It seems like a long time ago, but it was just during the fourth quarter that we completed the most successful reservations system cut over in airline history. So thanks again to the team for such a smooth cut over. And now that the res 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 of 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 is in spite of all the capacity that has been added here. The weakest performance was in Miami, although that is really a function of declining connecting revenues coming from South America.

Internationally, the strong US 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 but positive year-over-year PRASM in South Korea and Hong Kong.

Latin PRASM was down 17%, but, as it has 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 remain very similar to the last two quarters. Schedule capacity remains elevated in all regions. In Q1 we will 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 are 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 declines 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 Dallas and we won't see that moderate until the fourth quarter. And the economy currencies and revenue environment in Brazil and Venezuela continue 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. The American Airlines team is doing a great job running the airline and we are busy making further improvements to the operation and product now that we are past that integration hurdle.

The 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 to see an inflection in revenue results.

Doug Parker - *American Airlines Group Inc. - Chairman & CEO*

Great. All right, operator, we are ready for questions. Thanks, Derek; thanks, Scott.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Julie Yates, Credit Suisse.

Julie Yates - *Credit Suisse - Analyst*

So, it looks 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? It seems like we would have to see another leg down in the pricing environment in order to keep pace with the tailwind from the recent decline in crude.

Scott Kirby - *American Airlines Group Inc. - President*

I guess we don't really -- I at least don't really think about it as retention rate; that is an output, not what we are trying to drive to. We are 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 trajectory that we are on in terms of getting the integration done.

Now that we are past the integration it does give us the opportunity to start realizing more synergies, but also moving the ball forward in terms of our operation and in terms of revenue enhancements, doing things like basic and premium economy and the frequent flyer program, all kinds of other programs.

So we're focused on maximizing revenue and maximizing earnings in any environment. It is true that what we have seen and everyone has seen -- that when oil prices go up you see supply go up and as a result that puts pressure on airfares which puts 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 - *Credit Suisse - Analyst*

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

Scott Kirby - *American Airlines Group Inc. - President*

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 -- or the first phase of what we are planning to do with our basic economy product and premium economy product out.

And we will have more to come as we get better details around what the attributes of that product will be and exact timing. But it is sometime in the second half of the year. But it is something that we are really excited about and I think that transformative may be too strong of a word, but it is at least as significant I think as the change to ancillary revenues was back in the 2008 timeframe.

And so, we are really quite excited to move forward on those initiatives. But it will be later this year before they are rolled out, and it will really be 2017 before you see a meaningful impact on revenues.

Julie Yates - *Credit Suisse - Analyst*

Okay, great. Thanks very much.

Operator

Jamie Baker, JPMorgan.

Jamie Baker - *JPMorgan Chase - Analyst*

A follow-up I guess to Julie. The implication 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 have got Company adjusting for new labor, at United the situation there is equally grim.

I am not debating the significance of your profit production, Scott. You shared your optimism that higher fuel could lead to higher improved RASM. But shouldn't an integrating network be showing positive relative outperformance to the peer set as opposed to going the opposite way? I mean, doesn't this also imply that integration synergies are just nonexistent?

Scott Kirby - *American Airlines Group Inc. - President*

I don't think so. And, look, in 2015 of the network carriers, we actually had the highest profit margin of any of them, which is a pretty good result your second year in. We are going to have less year-over-year benefit in the first quarter from a margin perspective than 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 on the last earnings call, you have got to look at all the other factors that are going on. So I think we are realizing synergies and are realizing benefits. But we don't have a new credit card deal that some of the others have. We are exposed to what has happened in Dallas with huge increases in capacity and in particular we are exposed to Brazil.

An amazing statistic in Brazil, the first month after the merger closed Brazil was 6.1% of the combined airline's revenue. In November it was 2% of our revenue. Just massive declines in both Brazil and Venezuela. Venezuela was something like 2.5% and it is 0.5% or something now. So just massive declines. Those things don't have anything to do with integration, but they do affect your relative results.

And so, I think if you want to try to look at high-level data to figure out how we are performing on a relative basis, I think you probably have to adjust for 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 is a pretty good metric for how we are doing.

Jamie Baker - *JPMorgan Chase - Analyst*

Yes. Second question, maybe for Doug, on operations. And I won't mince words here -- I mean Delta is absolutely crushing it and they are doing it with a fleet that is older than yours, with hubs that are also prone to nasty meteorological conditions.

I don't have any background whatsoever in operations, so pardon the ignorance of my question. But is it something about management, are there technological impediments, is it stuff that you inherited from standalone AMR, something in the labor contracts? I am not trying to beat you up on reliability, I'm just trying to figure out that why if Delta can do with why can't everybody?

Doug Parker - *American Airlines Group Inc. - Chairman & CEO*

Yes, thanks, Jamie. The biggest thing is we ran two airlines through 2015 (multiple speakers), which we can't stress enough how much harder that is than running one airline. We are extremely proud of what we did and if you look at what others did in their second year of post merger where our performance stands up to anybody's and is better.

So we are integrating. And as we get through that we will do better. But the fact that we were even in this consideration set with everybody else, which we were, I think was phenomenal results by our people. Look, I mean, things like connecting baggage when so many of your customers are traveling on code share is much, much more difficult than when they are all flying on one code.

So, you will see it get better as we move into 2016. And our goal is to be the best at all -- in all these areas. [And like I say], we have got a ways to go. We made great strides for an airline that was running two airlines. And you will see us further improve in 2016. Robert is sitting here as well. You have anything to add, Robert?

Robert Isom - *American Airlines Group Inc. - EVP & COO*

Jamie, the only other thing I would add is just, look, we were disproportionately 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 -- it results in disruption as well. So we are certainly, as Doug said, improving on all fronts and we think we have got a great plan going forward no matter what comes our way.

Jamie Baker - *JPMorgan Chase - Analyst*

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

Robert Isom - *American Airlines Group Inc. - EVP & COO*

Hey, Jamie, I think the right thing to take a look at, okay, is departing exactly on time. So departure within zero. You will see that we are very, very close if not almost right on top of Delta even today with all the difficulties that Doug described. That is really an incredibly important metric and I think indicative of where we are going to be headed. So we are not that far off and I think we are going to be closing the gap pretty quickly.

Jamie Baker - *JPMorgan Chase - Analyst*

Helpful. Thank you, gentlemen. Take care.

Operator

Hunter Keay, Wolfe Research.

Hunter Keay - *Wolfe Research - Analyst*

Scott, last July you were right and you said that industry PRASM wouldn't be positive until at least the second half -- I'm sorry, the third quarter of 2016. You said 1Q is the bottom, I know that was an American specific comment.

But assuming sort of a flat fuel or fuel stays around here or whatever, would you care to maybe update that and extend it through the end of 2016 absent a material change in fuel prices, that we are going to have negative industry PRASM probably through the end of this year too?

Scott Kirby - *American Airlines Group Inc. - President*

I would prefer not to, but I will since you asked.

Hunter Keay - *Wolfe Research - Analyst*

Thank you.

Scott Kirby - *American Airlines Group Inc. - President*

So, look, six months ago when I made that -- forecast isn't the right word -- but it was just a simple mathematical extrapolation of assume the demand environment doesn't change and I could look out and see what the capacity environment looks like and supply was going to be growing faster than demand. And so it seemed like a fairly obvious, if unpopular at the time, statement to make.

As you pointed out and as we have said, there is a -- for better or worse, an inverse relationship between fuel prices and revenue. So when fuel prices go down a lot at that gets passed on as a benefit to the consumer and fares go down. The reverse also happens; when fuel prices go up, we see revenue go up.

Since I made that original prediction six month ago we've seen a pretty big decline in fuel prices. So I don't have any data to suggest that demand has changed at all. But consistent with the view that you shared and that I agree with that there is a correlation between fuel prices and revenue, if anything I would say that would push that forecast back a quarter or two for when we turn to the point where RASM is positive on a year-over-year basis.

All that said, that is not really a forecast, that is not looking at data. I don't have any data that is any better than yours. Your forecast or anyone on 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 the move in oil would cause the -- 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 quarter or two.

Hunter Keay - *Wolfe Research - Analyst*

Okay, good. And then this industry is also (inaudible) for you, Scott too, or Doug -- This industry has a track record of truly self-destructive behavior on pricing. And whether we talk about American's value pricing in the 1990s or Delta's [Simpla] fares last decade, I think each one of those things were good ideas until they were bad ideas when the operating environment changed.

So when I see advantage fares, which is a strategy now that your competitors seem to be a adopting too, I kind of worry about history repeating itself. So can you help me understand how advantage fares might be different from some of those other things? Why we shouldn't view them as maybe a pricing cancer that can only be undone through some sort of industry restructuring if say fuel prices go up again?

Scott Kirby - *American Airlines Group Inc. - President*

Well, Hunter, look, there is lots of low fares in the market, consumers are having a field day in this environment particularly with low oil prices where there is low fares. But I usually like to answer all the questions that I get asked on an earnings call, but on this one I am going to demure and just not make commentary about advantage fares.

Hunter Keay - *Wolfe Research - Analyst*

Okay, thank you.

Operator

Savi Syth, Raymond James.

Savi Syth - *Raymond James - Analyst*

Just one question on the domestic side. I noticed the kind of unit revenue declines moderated a bit 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've seen improvements in either kind of the fare environment or how you are managing through it.

Scott Kirby - *American Airlines Group Inc. - President*

Look, I think broadly in the third, fourth quarters and again into the first quarter the environments 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 -- the demand environment has been about the same for the last six months and expect it to remain similar in the first quarter.

Savi Syth - *Raymond James - Analyst*

Got it, thank you. And then just going to that cabin segmentation -- I was just kind of curious what the technology investments would let you do that just kind of current day revenue management technology doesn't let you do.

Scott Kirby - *American Airlines Group Inc. - President*

I am not sure I understand the question, but to go to something like basic economy is a complete change to our distribution system. It is not really a yield management issue, it is when you go to AA.com to buy your ticket you need to be offered a basic economy, a regular economy, a premium economy, a first-class fare. I mean we are just not set up to sell that way. So it is more about distribution probably than anything else for us.

Savi Syth - *Raymond James - Analyst*

Okay, that is helpful. Thank you.

Operator

Mike Linenberg, Deutsche Bank.

Mark Linenberg - *Deutsche Bank - Analyst*

Scott, you talked about Venezuela and Brazil. And I am just curious, things have dramatically moved in Argentina as well and I think you are one of the carriers that are no longer taking -- accepting Argentinean pesos. I could be wrong on that.

With the devaluation -- one, can you give us some color on that market, number one? Number two, do you have any cash that is in Argentina that obviously is subject to repatriation where there has been some sort of delay?

Scott Kirby - *American Airlines Group Inc. - President*

Sure. We are actually accepting Argentinean pesos for ticket payments. There have been times in the past where we've stopped when it became -- when we became unable to repatriate cash. But we basically keep an amount of Argentinean pesos down there that is working capital, it is in the $15 million to $25 million range. And at the moment we are able to repatriate.

We are also encouraged with the new administration -- it won't happen overnight -- but that they are making positive changes that is going to set Argentina on the road to recovery.

Mark Linenberg - *Deutsche Bank - Analyst*

The PRASM declines that you are seeing down there, I mean are they of a similar magnitude to what you are seeing in Brazil, Venezuela or no?

Scott Kirby - *American Airlines Group Inc. - President*

No. Argentina is actually flattish in terms of PRASM. And in South America -- other markets are down a little bit. But it is mostly Brazil and Venezuela. I mean those two markets haven't hit bottom yet and continue to deteriorate. The good news -- that is the bad news.

The good news for us is, as I said, the amount of revenue exposure we have because they've deteriorated so much has really declined. I mean it is remarkable to think that that was over 6% of our revenues and it is now down, in November it was 2% of our revenues.

That is an off-peak month. On a full-year basis it would be a little more than 2%. But just -- it can only go to zero. And we have already experienced a lot of the decline.

Mark Linenberg - *Deutsche Bank - Analyst*

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

Derek Kerr - *American Airlines Group Inc. - EVP & CFO*

Yes, it is all driven by going to large -- gauge is up about 3.8%, stage is up about 2.2%. So a lot of that increase is driven by that.

Mark Linenberg - *Deutsche Bank - Analyst*

Okay, great. That is all I needed. Thanks.

Operator

Darryl Genovesi, UBS.

Darryl Genovesi - *UBS - Analyst*

I guess this one is probably for Scott and Derek. I mean, just on your synergy targets, can you just provide us an update of what you think the total synergies are on the revenue and cost side now and how much you have achieved and how much you expect to come through in 2016?

Scott Kirby - *American Airlines Group Inc. - President*

So, I think on costs we are largely there in the numbers already. And yet to come on revenue synergies, the big ones that we said we would do were better connectivity once we got to a single reservation system.

And when we first started the merger we said the total of that was $300 million, we had a co-chair in place between the two, so we thought that was kind of $150 million left to come, most of which we expect to realize this year. And then another roughly $300 million of route swaps, so being able to put the 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. We will do more each month as each month goes along but we won't be to a steady state for a couple 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 were all heads down, focused on getting the integration done.

So some of that is just blocking and tackling and whether it is in operations or revenue management or IT, you had people who were spending, depending on their job, 10% to 50% of their time working on the integration, or more for some of them, instead of doing their day jobs.

So getting back to the basics of yield management, for example, will be helpful. Getting things implemented like a 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 to wait.

So those aren't technically synergies, but I think they are areas that create more upside for American Airlines than our competitors because we simply have a larger backlog of projects to get done because we were focused on integration for so long.

Darryl Genovesi - *UBS - Analyst*

Okay, thanks for that. And then I guess just wanted to follow up on some of your comments around capacity growth in your markets. When I look at the schedule in Dallas, in particular, I mean it looks like you guys were absorbing something like 17%-18% ASM growth in Dallas, for the last few quarters call it, and that has died down pretty quickly here.

And when I look at what scheduled ASM growth in Dallas is in kind of the first half of this year, Q1 and Q2, that number looks like about 4%. So it looks like about a 15% [point] slowdown. And so I guess I just wondered how that kind of fits within the context of some of the commentary that you made earlier?

Scott Kirby - *American Airlines Group Inc. - President*

Well, the capacity growth rates are still elevated in Dallas more than the rest of the system through basically August of this year. And once we get past August they will be coming down. They are not as high as they were at this time last year, but they are still having a capacity growth rate of even if it is 5% in Dallas versus 2% everywhere else is going to put incremental pressure on Dallas compared to the rest of the system. It is still higher than everywhere else even if it was double digits last year.

But the good news -- that is the bad news -- the good news is we get to August and I think we get to a capacity environment in Dallas that is going to be below industry growth rates because we will have overlapped all the growth at Love Field and it is [full], so --.

Darryl Genovesi - *UBS - Analyst*

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 - *American Airlines Group Inc. - President*

Neither is the answer. On the first point we had a really bad storm a week or two ago, but we had bad storms last year. So for now we are just assuming those things will end up canceling -- or being similar on a year-over-year basis.

And as to the Zika virus, it is 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 viruses that have had short-term impact on air travel in the past, Zika is not airborne, so there is not a danger of it being transmitted between passengers. And so as of yet we haven't seen a material change in bookings.

For what it is worth it would also be hard to tell very much, when you are looking at a place like Brazil where RASM is already down 40%, trying to sort out an incremental decline because of the virus I think would be pretty hard for us to tell. But to date we don't see much impact.

Darryl Genovesi - *UBS - Analyst*

Okay, thanks very much.

Operator

Duane Pfennigwerth, Evercore ISI.

Duane Pfennigwerth - *Evercore - Analyst*

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?

Scott Kirby - *American Airlines Group Inc. - President*

Well, one, I think the comparisons are not accurate. If you look at what Delta did on their reduction it was because oil prices spiked to 140 -- it wasn't really a merger, it was oil prices spiked to $145 a barrel followed by the Great Recession. And every airline, including non-consolidated airlines, reduced capacity.

At American we feel pretty good about our hubs and the fact that they are complementary. We didn't have the kind of overlapping hubs that some others have, we didn't have Cleveland sandwiched in between Chicago and Newark, for example. And so we feel pretty good about the level of capacity that we have.

Those airlines at the time they were reducing capacity weren't producing the highest margins of the network carriers, we are -- we did at least in 2015. They weren't producing 15% margin in and in that environment we don't plan to have a significant change to our capacity plans.

Duane Pfennigwerth - *Evercore - Analyst*

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 prevalent now than they were.

Scott Kirby - *American Airlines Group Inc. - President*

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

Duane Pfennigwerth - *Evercore - Analyst*

Okay, thanks for the time.

Operator

Helene Becker, Cowen and Company.

Helane Becker - *Cowen and Company - Analyst*

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

Scott Kirby - *American Airlines Group Inc. - President*

Oh, no, not at all, Helene. It is just trying to match up wide-body capacity that we have. And in 2017 we have 787 deliveries and A350 deliveries. So we just wanted to push out the delivery stream a little bit. But has nothing to do with the financing or anything of the sort, it is just matching capacity to what we believe we can fly in 2017.

Doug Parker - *American Airlines Group Inc. - Chairman & CEO*

We had an order book at US Airways and an order book at American, you put them together and they were a little heavy -- they were a little high on wide bodies in that timeframe, Helene, so we are just (multiple speakers) that out.

Helane Becker - *Cowen and Company - Analyst*

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

Scott Kirby - *American Airlines Group Inc. - President*

Most of that is workers compensation.

Helane Becker - *Cowen and Company - Analyst*

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 - *American Airlines Group Inc. - President*

I will answer the first question and then Doug will bead in on the second question. But the advantage payback happened early in 2015 and really that was a loan on the previous -- at American Airlines on the previous credit card deal. So it has nothing to do with a new credit card deal.

It had a rising interest rate over every month and it got higher than our 6% target of, as we have 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 were able to prepay and we prepaid that early 2015. And then Doug, you want to (multiple speakers)?

Doug Parker - *American Airlines Group Inc. - Chairman & CEO*

Yes, Helene, it is Doug. On the -- on your I guess broad question kind of how do we look at the balance sheet. Look, we are -- as bullish as we are we know we want very much to make sure that we manage the Company in a way that we can withstand any sort of 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 of around -- of $6.5 billion as a minimum is higher than any other -- than our large peers. So we are comfortable.

We believe that is an important metric and one that we will continue to manage. We do and up -- as we are bringing on new airplanes and modernizing the fleet that results in some capital outlays. In today's environment, we can finance those at under 4% and we don't think it is in our shareholders' best interest to forgo those rates.

So we will -- as long as those rates stay there, we will continue to that. And if, in fact, over time they increase, you may see us starting to pay cash. But it doesn't seem to make any sense to do anything but borrow at those rates. So that is what we have been doing, so I expect we would continue to do.

What the result of that is, as Derek said in his comments, is the kind of metrics that we think makes sense in terms of looking at the balance sheet which are metrics such as like net debt to EBITDAR. We expect we will peak in 2016, and only going to get better as we go forward because the amount of capital is going to decline.

So at any rate, that is where we are. We are very comfortable with it. We believe we are -- it is the best way to manage this. We don't think the right thing to do is to 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 very high level -- a higher level of cash than our peers to offset the fact that we are going to have less free collateral in terms of aircraft, because we are going to be financing those.

But put it all together, we feel really good about it. We think that is the best way to manage the balance sheet for our shareholders.

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

So that we believe provides us an opportunity to repurchase, and that is what a lot of our cash is going to. We think it is the right thing. So as long as the market provides that opportunity, we will continue to do that. We will make sure that we have -- we stay well above our minimum cash levels as we are 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 is generating cash. So we will use the excess cash to repurchase shares. And that will be a good thing for our investors as we move forward.

Helane Becker - *Cowen and Company - Analyst*

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 - *American Airlines Group Inc. - Chairman & CEO*

Gee, Helane, I wouldn't suggest you didn't understand it. Well, look, I think this call so far is indicative of what we are hearing. It is, gee, you know, you are not retaining it. It is going -- the fares are down because fuel prices are down and you are 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, as Scott said a couple times now, that margins that are higher than our peers. And not just record profits, know this is record for us -- I think it is the highest any airline has ever produced.

And if you look -- if you actually just look through the cash flow instead of wishing they were higher, I can't imagine how you think the stock is undervalued. We certainly don't, that is why we are buying it. So I think that is what is being missed.

I think people tend to look to expectations and say, gee, if oil is 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 are 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 have got an industry where people -- where our employees have gone through incredibly difficult times and pay cuts that were going to be restored when the airline got profitable, and that is a good thing. And we are really happy about that.

So that's -- but, look, so those things -- again, I guess maybe we -- if anything maybe we missed it by not explaining that well enough to people if people don't understand those points.

But as Scott said also -- look, what I really think is this is a business now that is so much dramatically different than anybody has ever seen before that they still can't 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 the truth.

What is happening is it is an industry that is beginning to act like a real industry. And people who have worked hard in that industry getting their compensation back to where it belongs. And that is natural, but that is 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 say, I've never seen a bigger disconnect. In some sense that is good because we are throwing off excess cash and we will use that to buy back our shares at these low rates. But there are investors who get it. And we think they will do well.

Helane Becker - *Cowen and Company - Analyst*

Great, thank you so much, Doug, I really appreciate your time.

Operator

Joseph DeNardi, Stifel.

Joseph DeNardi - *Stifel Nicolaus - Analyst*

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 2016 to look like 2015?

Doug Parker - *American Airlines Group Inc. - Chairman & CEO*

Well, I'm not sure I fully understand. What do you mean by the returns? Do you mean share repurchases?

Joseph DeNardi - *Stifel Nicolaus - Analyst*

Share buybacks, yes.

Doug Parker - *American Airlines Group Inc. - Chairman & CEO*

Well, yes, of course there are. Things can be worse, the stock could get much closer to fair value. Please don't look at our -- at any time at our share repurchase activity as some programmatic number that you should expect to continue over time. We do this based upon what we view as the prospects for the airline as well as what we believe the relative value of the equity.

So we are not -- this isn't something where it is the same amount every day. We have Scott and Derek with the help of some of 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 borrow 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 than perhaps the stock getting closer to fair value. But nonetheless, those are the inputs, earnings prospects, interest-rate -- the alternative in terms of aircraft financing and our view of valuation versus the markets.

Joseph DeNardi - *Stifel Nicolaus - Analyst*

Okay, 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 - *American Airlines Group Inc. - Chairman & CEO*

We don't, of course. Look, no, is the answer. I think as long as a Company you do the right thing. And I can't imagine anyone thinks the right thing for us right now would be to forgo 4% financing on new aircraft. And that is the decision you would make if you wanted to come -- if that is all you cared about was driving toward an investment grade rating. We would not be borrowing at 4%.

We have paid down all the high cost of debt in the Company. We are investing into the airline everywhere we think makes sense and it is billions and billions of dollars, as you know. And we are spending and improving this airline in ways that we think are going to provide really nice returns for our investors going forward.

So -- and again, so that comes first. Then we go to pay down debt, then with look to make sure we have enough cash to go forward and if we have extra cash that belongs to you guys and we return it to you. That is what we think the right way to do it is. We think that is the best thing to do for our shareholders.

And I believe the market will indeed reward that whether now or later. But that is the right way to manage the cash generated from the Company, not to go try and get to 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 are borrowing at well below investment grade rates as -- so I am not sure what benefit we'd get from getting to 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 seem to make any sense -- it doesn't make sense to us at this point.

And again, also worth noting, that 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 are we going to pay for them. And we continue to believe that at these levels we should do that through debt financing, not by using our cash.

Joseph DeNardi - *Stifel Nicolaus - Analyst*

Okay, thanks. I will stick to two questions.

Operator

Rajeev Lalwani, Morgan Stanley.

Rajeev Lalwani - *Morgan Stanley - Analyst*

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?

Scott Kirby - *American Airlines Group Inc. - President*

Look, I probably can't talk to specifically about it, but we feel like we would be able to manage through a 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 are starting from a much better point, a much higher point in the cycle.

And while we will have cyclically and know that in a recessionary environment earnings would decline, we are starting from a much better point. And we expect to remain profitable throughout the cycle and we will use the same kinds of tools that we have in the past to respond. But we will just be responding from a much stronger position than we have been able to historically.

Rajeev Lalwani - *Morgan Stanley - Analyst*

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?

Scott Kirby - *American Airlines Group Inc. - President*

Moved up above the midpoint of --?

Rajeev Lalwani - *Morgan Stanley - Analyst*

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

Scott Kirby - *American Airlines Group Inc. - President*

I think we had given 1 to 3 and we just hit the high end of the 3 for the whole -- for full-year. And it is really driven by the international that we are adding more international lines than what we had. But no big difference from what I had guided before.

Rajeev Lalwani - *Morgan Stanley - Analyst*

Great, thank you, gentlemen.

Operator

Dan McKenzie, Buckingham Research.

Dan McKenzie - *Buckingham Research - Analyst*

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 - *American Airlines Group Inc. - President*

Well, I don't have a particularly good crystal ball on it. But we saw pretty sizable increase in volume in corporate traffic in the fourth quarter and expect to see that continue. Our corporate customers are benefiting from a low-fare environment, so yields are also down. But at some point I think the pricing environment will start to recover.

But corporate demand seems strong from our perspective and growing -- it has been all along. Like all of our customers they are benefiting from lower yields right now -- lower fares, translating to lower yields. But my guess is that volume would remain strong and, like the rest of the system, we will start to see fares and yields recover as we move sequentially through the quarters throughout the year.

Dan McKenzie - *Buckingham Research - Analyst*

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 was 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.

Scott Kirby - *American Airlines Group Inc. - President*

Well, you are talking about Brazil and Venezuela. And in Brazil we have cut our capacity 22% in the first quarter of 2016 versus 2014, we have canceled six markets entirely during that time period. By a wide margin we have done more -- we have canceled more capacity than anyone else.

I think probably every other carrier that flies between the US and Brazil has excellent grown over that time period. So we have been proactive. In Venezuela I don't remember what our capacity is down exactly, but it is north of 50%. So we have been pretty proactive.

It is hard to get ahead of -- it has been hard to get ahead of a market, two markets that have been down so much when you are seeing 40% declines in Brazil, even with those capacity cuts that is a little hard to get ahead of. But we will continue to look at markets.

We have been in Brazil for a long time as the number one carrier between the US and Brazil. They are going through a rough patch right now. And we are not just going to abandon the country over a rough patch that we expect to recover eventually. But it is going to be rough for a while.

Dan McKenzie - *Buckingham Research - Analyst*

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

Scott Kirby - *American Airlines Group Inc. - President*

It could vary 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 - *Buckingham Research - Analyst*

I see, okay, thank you.

Operator

Hunter Keay, Wolfe Research.

Hunter Keay - *Wolfe Research - Analyst*

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

Scott Kirby - *American Airlines Group Inc. - President*

Yes, Hunter.

Doug Parker - *American Airlines Group Inc. - Chairman & CEO*

Yes, we did.

Scott Kirby - *American Airlines Group Inc. - President*

Thank you.

Hunter Keay - *Wolfe Research - Analyst*

Thank you, okay, goodbye.

Operator

And now we will take questions from media at this time. (Operator Instructions).

Doug Parker - *American Airlines Group Inc. - Chairman & CEO*

Bloomberg is not on, they ran to correct their story (laughter).

Operator

Mary Schlangenstein, Bloomberg News.

Doug Parker - *American Airlines Group Inc. - Chairman & CEO*

Hi, Mary.

Mary Schlangenstein - *Bloomberg News - Media*

Hi, that is being corrected if it hasn't already been. Hey, I wanted to ask, Scott, if you can clarify something for me in terms of the synergies.

I was looking back and before the merger, about the time of the merger I guess you guys were talking about synergies exceeding $1 billion. And then at one point you added another $400 million through some things that you had found as you got a closer look at American.

Can you really spell out where you are? The answers 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 - *American Airlines Group Inc. - President*

Okay, I will do my best from memory to get to all those numbers. 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 have happened.

We said $1 billion of revenue synergies, that was $300 million through improved frequent-flier program and bigger network. We think we have achieved that. We said -- let's call it $333 million, we said three things that 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, will take a couple years to fully phase in. And the other third was coming from connectivity, which we said we have got half of it in 2016 and the other half -- or 2015 and the other half will come this year.

The $400 million was re-banking the hubs and off-peak scheduling which we probably believe we have gotten three quarters of done so far.

Mary Schlangenstein - *Bloomberg News - Media*

Okay, great. Thank you.

Operator

Andrea Ahles, Fort Worth Star-Telegram.

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

I was wondering if you could give me a little bit of an 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 do you think it is going to be more into next year?

Doug Parker - *American Airlines Group Inc. - Chairman & CEO*

We certainly hope to get them done this year, but I will let Steve give you some more color.

Steve Johnson - *American Airlines Group Inc. - EVP, Corporate Affairs*

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

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

And then a follow-up on -- Scott, you talked a lot about capacity increases here in Dallas in the Dallas market (inaudible). Can you give any more color (inaudible) going to continue to see this sort of competitive low fare environment from American as you compete on the capacity that has been added here through August I think is what you said? Or is it sort of -- or are we having to stabilize in terms of the capacity increases that you have been seeing in this market?

Scott Kirby - *American Airlines Group Inc. - President*

Well, 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 start to change. But I wouldn't expect any meaningful changes to the pricing environment because it will look the same in September as it did in August sequentially, it is just the year-over-year comparisons that are different.

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

Okay, thank you.

Operator

Susan Carey, Wall Street Journal.

Susan Carey - *Wall Street Journal - Media*

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 saying perhaps by the end of 2016?

Scott Kirby - *American Airlines Group Inc. - President*

I didn't say either one of those things.

Susan Carey - *Wall Street Journal - Media*

Okay, well --.

Scott Kirby - *American Airlines Group Inc. - President*

I am not making a forecast.

Susan Carey - *Wall Street Journal - Media*

Well, say something (laughter).

Scott Kirby - *American Airlines Group Inc. - President*

All I am 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 out a quarter or two.

But I haven't tried to -- I haven't done the math to say when exactly that would happen. And so, I am not actually making a prediction but just saying lower oil prices probably push back the timeframe longer than it otherwise would have been.

Susan Carey - *Wall Street Journal - Media*

For American or for the industry?

Scott Kirby - *American Airlines Group Inc. - President*

Both.

Susan Carey - *Wall Street Journal - Media*

Okay, thank you.

Operator

Jeffrey Dastin, Reuters.

Jeffrey Dastin - *Thomson Reuters - Media*

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?

Scott Kirby - *American Airlines Group Inc. - President*

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

Jeffrey Dastin - *Thomson Reuters - Media*

Okay, thank you. And what steps, just to follow up, is American taking to keep its cabins free of mosquitoes and its crew members and passengers safe from the scare of Zika?

Doug Parker - *American Airlines Group Inc. - Chairman & CEO*

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

Jeffrey Dastin - *Thomson Reuters - Media*

Great. And if I may ask one follow up 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 with LatAm now that you guys have a joint business?

Scott Kirby - *American Airlines Group Inc. - President*

Well, look, as we said on the -- earlier of the call, it is 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 were airborne, this one is not airborne and it can't be transmitted from one passenger to another. And as a result you wouldn't expect it to have as big an impact as something like SARS. But to date we haven't seen a measurable impact on booking.

Jeffrey Dastin - *Thomson Reuters - Media*

Okay, thank you so much.

Doug Parker - *American Airlines Group Inc. - Chairman & CEO*

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

Jeffrey Dastin - *Thomson Reuters - Media*

Thank you.

Operator

Dawn Gilbertson, Arizona Republic.

Dawn Gilbertson - *Arizona Republic - Media*

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? Or if you didn't give an update could you give an update?

Scott Kirby - *American Airlines Group Inc. - President*

Well, 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.

Dawn Gilbertson - *Arizona Republic - Media*

Thanks.

Operator

Edward Russell, Flightglobal.

Edward Russell - *Flightglobal - Media*

I was wondering if you could elaborate a bit on your capacity growth plans for 2015. How much is going to come from upgauging and increased seat counts versus new markets and where you might be looking to grow this year?

Scott Kirby - *American Airlines Group Inc. - President*

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

Edward Russell - *Flightglobal - Media*

Thank you.

Doug Parker - *American Airlines Group Inc. - Chairman & CEO*

Pacific [thing], Australia/New Zealand.

Scott Kirby - *American Airlines Group Inc. - President*

Yes.

Operator

Ted Reed, TheStreet.

Ted Reed - *TheStreet - Media*

I have two things. First of all, you were talking about Charlotte and saying the PRASM gains there are the best in the system. And I think you said the same thing on the last call. What is the reason for the growth in Charlotte, PRASM growth in Charlotte?

Scott Kirby - *American Airlines Group Inc. - President*

Charlotte is a great market and strong demand and it has been less impacted by some of the things like what is happening in Dallas with [same thing with] capacity growth. But Charlotte is a great market with strong local domain, strong connecting demand, strong business demand and it has held up well through this environment.

Ted Reed - *TheStreet - Media*

All right, thank you. My other thing is Delta is saying that if they hadn't had $1.5 billion in profit sharing this year their profit for 2015 would have been $7.4 billion. So they would've had the highest profit of any airline. Do you have a response to that?

Doug Parker - *American Airlines Group Inc. - Chairman & CEO*

Well, I don't know, Ted. What I know is our pilots right now are making 7% more per hour than theirs are because we choose to pay our people higher 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 (inaudible) protection.

So I think any wage basis our numbers are going to look awfully similar to theirs in total compensation. That is certainly not the driver of the revenue -- of the margin over performance of us versus them.

I do -- to be fair to them, the big driver of our outperformance versus them is the fact that they made a fuel hedge that cost them a couple billion dollars. 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 done in 2008; we got ours done in 2013. We are going to catch them; we're not there yet, but we will. But their margins are higher than ours because -- our margins are 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 are five years ahead, we will catch them.

Ted Reed - *TheStreet - Media*

But in terms of profit, because you -- in terms of profit because they are saying the profit would have been the highest ever for an airline. Just a simple profit number, they're saying theirs is affected by the fuel hedge.

Steve Johnson - *American Airlines Group Inc. - EVP, Corporate Affairs*

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

Doug Parker - *American Airlines Group Inc. - Chairman & CEO*

And again, when -- Ted said it, I am not sure if Delta said it anyway. So but anyway, Ted, if that is what you want to say. Look, I would 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 viruses and people's concerns about that and whether or not there is going to be travel.

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 revamp, cut back their profit-sharing significantly and put a lot more into base wages in response to their -- again, what I read anyway.

They said their employees told them they prefer it that way; they prefer to have more in base wages. We believe our employees prefer it that way. So we have more in base wages and they have more in profit-sharing.

And like I say, it is 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 in our different -- in our earnings amounts vis-a-vis each other. The big difference is that they lost a lot of money on fuel hedges that we didn't lose. So if you adjust for that we agree, they are ahead of us.

Ted Reed - *TheStreet - Media*

All right, thank you very much, Doug.

Operator

It appears we have no further questions in the queue at this time.

Doug Parker - *American Airlines Group Inc. - Chairman & CEO*

All right, thank you all very much for your time. We appreciate it. We will stay in touch. Bye.

Operator

That does conclude today's conference. Thank you for your participation.
