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AAL.OQ - Q4 2022 American Airlines Group Inc Earnings Call

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OVERVIEW:

Co. reported full year 2022 revenues of $49b, GAAP net income of $127m and diluted EPS (excluding net special items) of $0.50. Expects Full year 2023 diluted EPS to be $2.50-3.50.

CORPORATE PARTICIPANTS

David Seymour *American Airlines Group Inc. - Senior VP & COO*

Derek J. Kerr *American Airlines Group Inc. - Vice Chair & President of American Eagle and Strategic Advisor*

Devon May *American Airlines Group Inc. - CFO*

Mecole Brown *American Airlines Group Inc. - Senior VP & Chief People Officer*

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

Scott Long *American Airlines Group Inc. - MD of IR*

Vasu Raja

CONFERENCE CALL PARTICIPANTS

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

Catherine Maureen O'Brien *Goldman Sachs Group, Inc., Research Division - Equity Analyst*

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

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

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

Helane Renee Becker *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

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

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

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

Scott H. Group *Wolfe Research, LLC - MD & Senior Analyst*

Claire Bushey

Kyle Arnold

Leslie Josephs

Mary Schlangenstein

Ted Reed

PRESENTATION

Operator

Thank you for standing by, and welcome to American Airlines Group's Fourth Quarter 2022 Earnings Call. (Operator Instructions)

I would now like to hand the call over to Managing Director of Investor Relations, Scott Long. Please go ahead.

Scott Long - *American Airlines Group Inc. - MD of IR*

Thank you, [Atif]. Good morning, everyone, and welcome to the American Airlines Group Fourth Quarter and Full Year 2022 Earnings Conference Call. On the call this morning, we have our CEO, Robert Isom; our Vice Chair, President of American Eagle and Strategic Adviser, Derek Kerr; and our new CFO, Devon May. A number of our other senior executives are also on the call for the Q&A session.

Robert will start the call this morning with an overview of our performance and our 2023 priorities. Derek will follow with details on the fourth quarter and full year. And Devon will then outline our operating plans and outlook going forward. After Devon's comments, 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 1 question and 1 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 plans. 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 September 30, 2022. 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. Webcast of this call will also be archived on our website. The information we're giving you on the call this morning is as of today's date, and we undertake no obligation to update the information subsequently. Thanks for your interest and for joining us this morning.

And with that, I'll turn the call over to our CEO, Robert Isom.

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

Thanks, Scott. And good morning, everyone. Thanks for joining us. This morning, American reported a fourth quarter GAAP net income of $803 million and a full year net income of $127 million.

Excluding net special items, we reported a fourth quarter net income of $827 million and a full year net income of $328 million. Our performance in the fourth quarter and for the full year was driven by continued strength of demand and revenue environment and incredible efforts of the American Airlines team. We're tremendously proud of what the team has accomplished over the past year. We're committed to running a reliable operation, and we're delivering.

Coming out of the holidays, American had the best completion factor of any major U.S. airline. We also said we would return American to profitability, and we've done that as well. Our team has delivered a third consecutive quarterly profit and fourth quarter margins that are higher than the fourth quarter of 2019 despite our fuel price increasing by approximately 70%.

We generated nearly $2.4 billion in pretax profits over the past 3 quarters. And we're pleased to report a full year profit for the first time since 2019. In addition to running a reliable operation and generating sustained profits, we're making significant progress on repairing our balance sheet.

We recently prepaid a $1.2 billion term loan a year before scheduled maturity date, and we have now reduced our total debt by more than $8 billion from peak levels in mid-2021. This puts us well past the halfway point of our $15 billion total debt reduction goal, only 18 months into the program. Derek will talk more about our deleveraging plans in just a few minutes.

Let's talk more about the fourth quarter and full year results. We produced revenues of $13.2 billion in the fourth quarter, an increase of 16.6% versus 2019 and the highest fourth quarter revenue in company history. Notably, we achieved this record revenue while flying 6.1% less capacity than we did in the fourth quarter of 2019.

American also produced record revenues of $49 billion for the full year, which is a 7% increase over 2019, while flying 8.7% less capacity. Demand remains strong. And our revenue performance is in line with our expectations following our strong holiday performance. Post holiday bookings are off to a strong start.

In fact, this is our best-ever post holiday booking period with broad strength across all entities and travel periods. Demand for domestic and short-haul international travel continues to lead the way. We expect a strong demand environment to continue in 2023 and anticipate further improvement in demand for long-haul international travel this year.

Now turning to the operation. The American Airlines team delivered a fantastic performance in the fourth quarter. We operated more than 475,000 flights in the quarter with an average load factor of approximately 84%, where we ranked first in completion factor among the 9 largest U.S. carriers.

Our team delivered an even stronger performance over the holidays, despite challenging conditions in many parts of the country. American outperformed the industry over the December holiday period, ranking first in completion factor. Key to our success has been sizing our airline for the resources we have available and the operating conditions we expect to encounter. And we will continue to do that going forward.

We're doubling down on our efforts to run a reliable operation in 2023, including investing in our team, our fleet and technology to support our operations. And we're seeing this work pay off as our operation is off to a strong start, just a few weeks into 2023, including the best on-time arrival performance of the 9 largest U.S. carriers so far this year. America is proud to operate the simplest, youngest and most efficient fleet among U.S. network carriers.

In August, we began taking deliveries of new 788 aircraft from Boeing for the first time in 15 months. In the fourth quarter, we took delivery of 5 788s, and we expect to receive the remaining 4 in the first half of 2023. Our Boeing 789s are expected to be delivered starting in 2024. During the fourth quarter -- I'm sorry about that. Okay. During the fourth quarter, we also took delivery of 7 A321neos, 3 175s and 3 -- and 5 737-800s from long-term storage. Devon is going to talk more about that.

But what I'd like to say is that the results the American Airlines team produced in 2022 and what we are projecting in 2023 are proof positive that the actions we have taken in the recent years have put us in a position of strength and allowed us to take full advantage of the recovery. We spent more than 5 years on the most complex integration in the history of the airline industry. Three years navigating the pandemic and making the airline more efficient. And now we're poised to drive the business forward in 2023 and beyond. We have simplified and harmonized our fleet, modernizing our facilities, fine-tune our network to focus on the most profitable [flight], develop new partnerships, introduced new tools for our customers and team and hired tens of thousands of people. During all, the American Airlines team has gone above and beyond to deliver strong operational and financial results.

Now before I turn it over to Derek to provide more detail on our 2022 financial performance, I want to thank him for his partnership over the past 20 years as CFO. He is a great friend, and he's been a trusted adviser throughout my career. Quite simply, he's the best CFO in the history of the airline industry.

This financial leadership has helped create the largest airline in the world through the mergers of America West and U.S. Airways in 2005, and U.S. Airways and American in 2013. Derek was instrumental in raising $25 billion of capital during the pandemic to ensure American would not just survive, but also be in a position to thrive on the other side of it. I'm very pleased that Derek will remain at American, a Vice Chair and continue to lead our American Eagle and Cargo teams and serve as a strategic adviser to the company.

As we look forward to 2023, we remain focused on running a reliable operation, achieving sustained profitability and reducing debt. We have made tremendous progress in all 3 of these areas, thanks to Derek's leadership. And we will continue to sharpen that focus with Devon May as our CFO. And on behalf of the entire American Airlines team, I want to thank Derek for his leadership and tremendous contributions to the airline as our CFO.

And now I'll hand it over to Derek.

Derek J. Kerr - *American Airlines Group Inc. - Vice Chair & President of American Eagle and Strategic Advisor*

Thank you, Robert. Thanks for your kind words. I really appreciate it. It's been an honor -- tremendous honor to serve as CFO of American U.S. Airways and America West over the past 20 years. I'm incredibly proud of what the team has accomplished in that time.

Now on to the business of the morning. Excluding special items, we reported a fourth quarter net income of $827 million or earnings of $1.17 per diluted share. We produced our best fourth quarter pretax margin since 2016, when we produce roughly the same results at fuel prices that were nearly double the price per gallon lower than 2022.

Throughout 2022, you heard us talk about our focus on returning the airline to profitability, and we have done that. We achieved a full year profit due to continued demand, strength and the hard work of our team despite a $1.9 billion pretax loss in the first quarter. Excluding net special items, we produced a full year net income of $328 million or $0.50 per diluted share. Fourth quarter revenue far exceeded our initial guidance due to continued strong demand.

Revenue in the fourth quarter was higher than any fourth quarter in company history. As Robert mentioned, the domestic and short-haul international entities continue to lead the way. And we expect further improvement in long-haul international as we continue to grow back our capacity. Costs for the quarter, excluding fuel came in at the high end of our initial guidance range, primarily due to higher profit sharing expense driven by higher earnings in the quarter. American is proud to operate the simplest, youngest and efficient fleet among U.S. network carriers.

In August, we began taking deliveries of our new 788 aircraft from Boeing for the first time in 15 months. In the fourth quarter, we took delivery of 5 788s, and we expect to receive the remaining 4 in the first half of 2023. Our Boeing 789s are expected to be delivered starting in 2024.

During the fourth quarter, we also took delivery of 7 A321neos, 3 E175s and reactivated 5 737-8s from long-term storage. In 2023, we expect to take delivery of 2 A321neos, and we plan to reactivate 9 more 738s from long-term storage. Based on our latest guidance from Boeing, we now expect to take delivery of 17 737 MAX 8s in 2023 compared to Boeing's contractual commitment of 27 deliveries. This change in timing will shift planned CapEx out of 2023 and into future years.

Our 2023 aircraft CapEx is now expected to be approximately $1.5 billion. Repairing our balance sheet remains a top priority, and our actions in the fourth quarter show our commitment to debt reduction. In the fourth quarter, we repaid $1.2 billion term loan secured by domestic slots. This prepayment increased estimated first [lien] borrowing capacity to $10.3 billion and addressed our most significant 2023 maturity. With the actions we have taken, we have now reduced our total debt by $8.2 billion or more than half of our goal to reduce total debt by $15 billion by the end of 2025, only 18 months into our deleveraging program.

We ended the year with $12 billion of total available liquidity. We will continue to balance both, debt reduction opportunities and investments in the business, while meeting appropriate target liquidity levels. We will target $10 billion to $12 billion of total liquidity in the medium term and intend to utilize excess liquidity to accelerate our deleveraging initiative at the appropriate time with no meaningful maturity towers until 2025, we have the flexibility as to how and when we begin to address those instruments.

With that, I'm happy to turn the call over to our new CFO, Devon May, who will share our outlook for 2023. Devon has more than 20 years of airline industry experience across finance, operations, network planning and alliances. And he is the perfect person to lead our finance organization going forward. He has been an integral part of our executive team for more than a decade and has built a great team around him. The CFO transition has been and will continue to be a seamless one.

With that, I'll turn it over to Devon.

Devon May - *American Airlines Group Inc. - CFO*

Thank you, Derek. And good morning, everyone. Before we get into our guidance, I want to start by thanking Derek for his leadership over the past 20 years. I've had the privilege of working with Derek since 2002 when I joined America West Airlines. He has been a close friend and mentor during this time, and our airline is set up well for the future because of his leadership. I'm honored to be taking on the CFO role and being part of an incredible senior leadership team. I look forward to leading the finance team and building on the progress we've made on our financial priorities.

For 2023, we will continue to size the airline for the resources we have with a focus on reliability and sustained profitability. We continue to expect to produce capacity that is 95% to 100% of 2019 levels or up approximately 5% to 8% year-over-year. We are on track to hire over 2,000 mainline pilots in 2023. And we expect to achieve our run rate level of training throughput in the back half of this year, allowing for further aircraft utilization improvements in 2024.

We continue to expect regional pilot affordability to be constrained throughout this year and next. Demand for air travel strengthened as we went through 2022. And we expect industry revenue will return to its historical share of GDP in 2023. Given our level of capacity production, the strength of our network and industry supply constraints, we expect total unit revenue to be up low single digits year-over-year.

For the full year, we expect CASM ex to be up 2% to 5% versus 2022. These projections include the estimated impact of anticipated labor agreements, which account for roughly 3 points of CASM ex fuel. For the full year, we expect to produce earnings of $2.50 to $3.50 per diluted share. Using the midpoint of that EPS guidance, we are forecasting operating cash flows of approximately $5.5 billion and free cash flow of nearly $3 billion.

Looking to the first quarter, we expect to produce an operating margin of between 2.5% and 4.5% based on our current demand and fuel price forecast. And while we are eager to get new labor agreements ratified given where we are at in the quarter and the time required for ratification, we do not anticipate ratifying new contracts prior to the end of the first quarter. If that does occur, we will update our guidance accordingly.

In the first quarter, continued strength in demand is expected to result in total revenue per available seat mile that is 24% to 27% higher year-over-year. Our first quarter CASM, excluding fuel and net special items, is expected to be flat to down 3% year-over-year. The current fuel forecast for the first quarter assumes a fuel price of between $3.33 and $3.38 per gallon and a full year price of between $3 and $3.10 per gallon.

As Derek noted earlier, we'll continue to focus on debt reduction, and I'm proud of the progress we have made to date. In 2023, we expect to make further progress on our $15 billion debt reduction goal. We will use our free cash flow to pay down $3.3 billion in debt amortization this year, and we expect that by the end of 2023, we will have reduced total debt by $10 billion to $11 billion from peak levels in mid-2021.

Based on the forecast I just provided, we expect that by the end of the first quarter, we will have lower net debt and better net debt to EBITDAR than we did at the end of 2019. And by the end of the year, we anticipate having the lowest net debt-to-EBITDAR ratio we have had since 2017.

In conclusion, in 2023, we will continue to focus on delivering on our stated objectives. We are set up to run a reliable airline, grow margins and strengthen the balance sheet. Importantly, American is uniquely positioned to deliver substantial free cash flow in 2023. The confidence in our ability to execute on these goals is due to our world-class network and incredible team.

With that, let's open the line for analyst questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Helane Becker of Cowen.

Helane Renee Becker - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Derek, I'm going to miss you, but good to know that you'll still be at the company. Sorry about Michigan. So here's is -- yes. So here's my question actually. Two, the first one is on CapEx. The one -- the guidance that you gave for CapEx seems low in light of the fact that you're taking 4 787-8s this year. Is that a mix where it's leased versus owned in there?

Devon May - *American Airlines Group Inc. - CFO*

Helane, this is Devon. That is what's happening with CapEx this year. So we're taking delivery of 23 airplanes, 4 of those are 788s, which are directly leased. So those 4 are not included in the CapEx guidance.

Helane Renee Becker - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Okay. All right. That's very helpful. And then just for my follow-up question. As you're thinking about long haul international, do you see in your bookings -- I think you mentioned that you think it will improve as the year goes on, do you see that in bookings that's already starting to occur at some point in first or second quarter?

Vasu Raja

Helane, this is Vasu. And yes, is the short answer. We very much see it in bookings. It's -- we started seeing it, frankly, in Q4 of last year. In Q1, we see continued strength across all of the geographies that we have and that's continuing out into the summer. So we are very encouraged by the trends that we're seeing, all the more encouraged because it is coming often at lower cost of sale. And we're still filling business class cabins and things like that.

Operator

Our next question comes from the line of Catherine O'Brien of Goldman Sachs.

Catherine Maureen O'Brien - *Goldman Sachs Group, Inc., Research Division - Equity Analyst*

I also want to add my congrats to Derek on a wonderful career. And then just on your operational performance really stood out during the issues the industry experienced over the holidays. Obviously, it wasn't anything geographical considering what happens to some of your peers. So can you walk us through what you think drove it? Were there investments being made behind the scenes over the last couple of years that maybe just got smaller billing in the aircraft investments?

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

Catherine, thanks. We're really proud of the operating performance. I'll tell you, it's something that we've been working on a long time. And it starts with making sure that we have the resources available to fly the schedule and we don't put out a schedule that we're not confident that we can really fly. That's where we start. And then, yes, it's investments in so many different places. We benefit from having the youngest, most efficient fleet of aircraft. We spent a tremendous amount of time investing in technology to make sure that we can identify where our crews and our planes and our maintenance requirements are. But really, I want to give credit to the team here. We have so much experience on board that we're just really watchful, and it all came together over the holidays. The investments that we've made, the team that we have out there, making sure that we have the right schedule. I've got David Seymour here as well. I probably want to add to it. Look, there's a lot of good decision-making going on out there, too.

David Seymour - *American Airlines Group Inc. - Senior VP & COO*

Yes, Robert, emphasizing the point you talked about. But another key item here is for these storms and we've been very focused on recovery after that because it's so critical to us is one that I think throughout this year, we're doing better and better on and we certainly showed that over the holiday. But the key for us, along with having more new positions that we put in that are focused when we have storms like this. We've changed a lot of our processes and procedures that we -- how we manage these. And then we've also been partnering with our IT group and really enhancing some of the technology resources that we have to manage through these events because they change very dynamically and very quickly, and we have to stay in front of them. But more importantly is the recovery. We started looking at the forward look of what the storm potentially could be and started building our recovery plan before the storm hit, and that's where we're very focused on.

So again, as Robert said, very proud of the team, very proud of the partnership with all -- the whole airline because it's not just operations. It's a lot of our support groups that are very critical to us getting through these. So there's a great job. We're going to continue to improve on that.

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

And Catherine, just -- it speaks to what we're going to be focused on going forward as well. It's still reliability and profitability here, and we're going to try to get better every day. Today, we have another 5,000-plus flights and 0.5 million customers that we have to service. And so we make it our business to take care of people every day. So we're back out there in business. Thank you.

Catherine Maureen O'Brien - *Goldman Sachs Group, Inc., Research Division - Equity Analyst*

That's great. That's a (inaudible) color. If I could just sneak one more in, maybe for Vasu. Can you just help us think about some of the assumptions that drive your full year revenue outlook? Like what are the assumptions on business international recovery? Is there an assumption in there that the industry is going to pass on higher price of labor and fuel on a one-to-one basis? Just any thoughts to drive the full year revenue outlook.

Vasu Raja

Absolutely. I would be happy to do that. Look, first of all, in our revenue forecast, we don't assume any change to some of the fundamentals of airline demand. We presume that airline industry revenues will regain its historical relationship with GDP, roughly about 1 point of percent. We also presume the same historical relationship between revenue and fuel prices. But what is very important is that as we've talked about for some time, what's different about us is that we have used the last few years to really materially change our network, our partnerships and our fleet, and that really bleeds through in our forecast for next year. If you compare our capacity mix just in future schedules that we have published to what we did in 2019. We've taken 5 points of capacity out of our lowest RASM, lowest-margin long-haul flights, and we've grown 5 points of capacity in our highest-margin short-haul flights.

Additionally, within the short-haul system, we've taken 5 points of capacity from some of our lowest performing, lowest RASM market and redeployed it into our Sunbelt hub, which are not just our highest RASM market but some of the highest RASM markets in the industry. So when you think about that, that's 10 points of capacity mix that we've taken from truly the lowest RASM, lowest margin things and put into some of the highest margin things that are out there. And you're seeing some of that trend already through '20. So that was a thing that have been in our past schedules. You see it in our quarter 1 schedules, and that drives a lot of our revenue performance. Now to put that into a bit of focus, 10 points of capacity in an airline of our size. You can think of that as larger than just about any airline hub with the exception of DFW, Charlotte and maybe 1 or 2 other hubs that our competitors operate. So that is a material reworking of our airline network over the last few years.

But what's just as important is how we have done it, which is really to a significant amount of fleet simplification. So we -- over the last few years, we've shed 50 long-haul capable airplanes, many of which were really inefficient like the 757 to 767. We've upgauged both, the regional jet and the main lines that we've got. And we've simplified the airline down to 4 fleet types. So what that enables us to do is in the fleet that's left, we can much more dynamically alter schedules to follow where the demand is. But we can produce schedules that, as you heard David and Robert talk about, are a lot more operable and frankly, a lot more efficient. So we've seen the benefits of that in our recent revenue performance, and we anticipate the benefits of that in the year ahead.

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*

First, Derek, what a run you've had, just wanted to wish you the very best from the JPMorgan team as you transition. I still remember hanging up on you on October 24, 2003. Apologies again for that. Hopefully, it's (inaudible) right now. A question for Vasu. So Southwest cited passenger cancellations didn't book away as part of its first quarter guide this morning. I'm wondering what the benefit for American in Dallas and Chicago might look like? And whether you see share tapering back to pre-December levels in March? Or do you think there's possibly a longer tail to any

Southwest benefit that you might be picking up? After all, I mean you're on time and completion factors obviously speak for themselves over the holidays.

Vasu Raja

Jamie, thanks for the question. Look, we don't see any recognizable benefit from what other airlines are doing. For us, it really is as simple as when we go put the flights in places people want to go and operate it well, the bookings come, the revenue materializes. And there's really not a lot of facts that we can point to beyond that very simple truth.

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

Okay. Fair enough. And a follow-up, Doug wasn't shy in discussing hub profitability. L.A., Miami and JFK being the real drags on margin. D.C., Charlotte, Dallas, the obvious standouts. And L.A. has obviously seen some rationalization. You have any contribution up here in my neck of the woods. I'm just wondering whether your internal model shows the range between your most and least profitable hubs narrowing? And if so, what the specific drivers might be?

Vasu Raja

Yes. So the short story is we do see an improvement in very many of our hubs as we've gone and restructured the network. And in some cases, like look, as you think about partnerships for us, we don't see those very differently from how we think about our own airline network. But when you put a Codeshare flight number or an American Airlines operated flight number, it has the same effect of creating more network for customers, and there's a real benefit for it. But as much as anything, there's 2 things going on. One, demographically, we see so much growth in the interior of the country. And two, what is really driving our hub profitability is for a great number of cities, American Airlines has the best network for so many customers. There's 300 cities that we serve today.

In 2019, we served roughly the same amount of cities. Most of our competitors have actually shrunk the number of cities that we've served. But furthermore, within the city that we have in about 200 of those 300 cities, we have a material schedule advantage to other airlines that operate there. So that creates an effect that is actually really beneficial across all of the hubs in our network. And indeed, some of how we see hub profitability and how these hubs work together has changed materially through the pandemic. And to my earlier comment, that's why we've restructured so much of the airline network as we have.

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

Jamie, you mentioned Los Angeles. So I'd like to pass you to expand on that a little bit. Look, in Los Angeles, we're within a limited amount of gates. And let's face it, we need to use those. We need to use those in a way that's profitable. We've taken a look at that. But we can tell you the kind of changes we make. Well, yes, look, in L.A. much like in New York, through our partnerships, we've been able to create something really cool for customers where -- if you think about it in the times past, we flew 50 seaters and small RJs in markets where we didn't really have a scheduled proposition for customers. And in both of those markets, take it L.A. and New York. Effectively, what we've done is we've turned 50 seaters, which are not particularly efficient and long haulers. 777s that are flying a whole lot further. So we've upgauged in both of those markets materially. We've been able to use partnerships to go and offer a much broader network for customers. And now we're in this place where lo and behold, we're adding a third LA Heathrow because it's really -- it's Robert's point, a very efficient way to go use gates and leverage what we've got with customers.

In New York, so much of our growth is actually powered by long-haul flights that are flying within the partnerships that we have with Qatar, British Airways. And the net effect of that has been really positive. Outside of really good financial results, which we see in our revenue trends.

For the first time ever, our top two markets for Advantage enrollments are New York and Los Angeles. We're signing up more credit cards there. We are originating -- we're having growing originating market share in those places. So a lot of what we've done is, frankly, upgauge in those markets. We've gotten a lot smarter about what we do for customers. Yet at the same time, there are partnerships we can offer them so much more.

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

I'll sound like a broken record, but thank you yet again for such a thorough response.

Operator

Our next question comes from the line of Scott Group of Wolfe Research.

Scott H. Group - *Wolfe Research, LLC - MD & Senior Analyst*

So if I just look at the first quarter TRASM guide versus Q4 implies a much sort of bigger drop than normal sequentially Q4 to Q1. And just any thoughts, color there? And then I want to kind of ask that in the context of fuel. So spots obviously a lot higher than what you're guiding to. What's your confidence that you can recapture fuel with higher TRASM than you're already guiding to for the year?

Vasu Raja

Yes. Scott, this is Vasu. I'll start. I think Devon we'll finish this one out. Look, first and foremost, as we're starting this year, we have been really encouraged by demand trends. Historically, the first 3 weeks coming out of the holiday season are our strongest sales weeks these first 3 weeks have been the strongest that we've seen in the post-merger airline. And we're really encouraged by that. And you see that, of course, in our TRASM guide out there.

Now what is interesting though is as we are building first quarter, what is different from times past is we have been very conscious in Q1 about how we use the airlines resources. It's people, it's planes, it's facilities, everything, largely so that we can have as much of that capacity for the summer peak as possible. So when you look at our Q1, we have peaked the airline a lot less than what we had historically. It's at a lower percentage of Q2 than what it's historically been. And that's really a conscious design. And you see that is really what you see in our Q4 to Q1 change that's there. And that's sort of a unique thing. And to my earlier point, we don't presume any change to the historical relationship between airline revenues and fuel prices. But Devon may want to add more to that, too.

Devon May - *American Airlines Group Inc. - CFO*

Just really quick other comment on fuel price. So our -- fuel price forecast is based on Friday's close, where Brent was trading almost exactly where it's at today and then using the forward curve for Brent and he crack from there. So I think our forecast that we have delivered today is pretty much in line with where you always have or feel of that today.

Scott H. Group - *Wolfe Research, LLC - MD & Senior Analyst*

Okay. And then just separately, can you just give any color on what you're assuming for the cargo and other revenue and then the non-op expense is up a good amount from the Q4 run rate? Any color there?

Devon May - *American Airlines Group Inc. - CFO*

Yes, this is Devon. So just on cargo revenue, we are expecting it to be down slightly year-over-year. When it comes to non-op, the largest change we're seeing in non-op is due to a noncash pension credit that we got last year based on the prior year's market performance of our pension assets, and what we're relatively low interest rates. This year, we saw interest rates increase. Pension assets came down and so this noncash credit that was fairly significant in 2022 is much smaller in 2023. And that's something that I'm sure you're hearing from other companies and you see it in other industries.

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*

Derek, I'm going to miss you. I know you're going to still do the company, but we've had a lot of fun over the years. Anyway, just -- I have two here, if I could just start off with Vasu because I think we're trying to get our arms around the run-up in fuel and the pass-through. And I think Delta is out there sort of guiding to 50 -- well, to exceed 60% of their revenue in premium and ancillary. And I think right now, they're in the mid 50s. And when I think about those revenue segments, many of them come with a price elasticity of demand that's less than 1. Many of them are the types of segments where you can have a fuel surcharge. And so Vasu, as you think about it, like sort of what percentage of your routes maybe are subject to fuel surcharges, whether they're international long haul or which ones are premium corporate, cargo. How should we think about like in round numbers, maybe what percent of your revenue where you stand a very good chance of passing on 100% of horizon fuel. Sort of where do you sit there? And just any color on how you guys think about it?

Vasu Raja

Yes. Mike, it's a great question. Look, I would actually even simplify it further. Look, in the airline network business, if you can offer something unique to the customer, they pay you a premium for it. It is as simple as that. And so -- and we see it time and time again, we've seen it do the pandemic. The most unique thing we can offer customers is to take them to places where our competitors can't and have better schedules than what our competitors can do. So as long as that's the case, we find that those routes regardless of whether customers purchase a transaction, which is first class or an economy or fly for leisure business, they always have yields that index to the top of our system.

So if you think about us, to my earlier point, in 200 of the 300 cities that we served in the Western Hemisphere, we have a material schedule advantage. But when you look at it on the number of origin and destination markets that we make and that turns into like something like 65% to 70% of our origin and destination markets. We have a material advantage over what our competitors are. That is what drives our revenue performance. And unsurprisingly, demand at large for the airline product is relatively inelastic. But in so many of those places, it is inelastic. We're also further benefited by just general trends that we're seeing so much of what is driving the economy and likely to continue to do so, are markets in the Sunbelt and the interiors of the country and less so the coastal markets, which creates an immediate benefit for American Airlines. So we've benefited from that. We've benefited from how we can uniquely serve it are likely to continue to be able to uniquely serve it. And when fuel prices rise, it's a really simple thing for us. But any number of ways to go and manage capacity down so as the airline continues to produce.

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

Very good. And then just second question to Robert. All the talk about capacity constraints across the aviation ecosystem. And as I think about American, it feels like things like pilots and mechanics. Maybe that's not an issue. If you sort of think about like what are the big hurdles that you have from a constraint issue? And is it just that maybe you don't have enough wide-body airplanes and therefore, it's an issue with the OEMs delivering the airplanes that you need? Is it air traffic control, like where are you -- sort of where are the roadblocks that you're running into with respect to constraint in the aviation ecosystem?

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

Yes. Mike, thanks for that. And yes, we're in a environment of a lot of constraints coming out of the pandemic. We certainly saw everything last year, it's just things that we never thought we would have issues with pillows and blankets and food and fuelers and things like that. We've gotten our arms around a lot of that. But what we have now is aircraft manufacturers that are just starting to get their feedback under them.

I mentioned that Boeing is starting to deliver aircraft to shout out to the Boeing team and Dave Calhoun, we need them to keep it up. but there's constraints out there in terms of engines and aircraft. With -- at American right now, we have really an issue with regional aircraft and then some issue with mainline aircraft.

On the regional side, it's largely a pilot constraint. And we're not flying the fleet that we'd like to. Vasu would actually like to deploy more aircraft. Now on that front, it's pretty explainable. It's just a shortfall in pilots. We didn't attract people into the business for a couple of years, and we're working our way through that as we have retirements that are coming out the other side.

American took the monumental step last year of greatly increasing regional pilot pay. And I think that, that is the biggest thing that any company can do and has done to actually get the pump prime and people flowing back in. And we're seeing that. We're seeing that we've stabilized the pilot ranks at our regionals, and we see potential growth as we come through the end of the year.

Now from a mainline perspective, look, we're going through the greatest training cycle of pilots that we've ever experienced. We had, I think, almost 900 retirements last year, probably nearly the same number this year. So we're stretching our training resources like we've never before. But fortunately, we plan for this. And so from an equipment perspective, like simulators, we've got those in place.

One of the things that we're really working on is to make sure that we have the people resources and having the check pilots that we need to really address all of our training needs. And I'm hopeful that as we work with the APA and we get a new contract, but we'll be able to give even more flexibility. But overall, I do see from a mainline perspective, we should be through the constraints that related to pilots as we progress through the year. Regionals probably take a couple of years. But as we've said, we have aircraft that we can deploy and will, and it's going to be done in a very efficient fashion.

You mentioned some other areas that are absolutely positively out on the horizon, the large airports all have constraints, whether that's at the gate or on the airfield. And then we have aerospace issues. That clearly, we need to address. And that's going to take leadership. And fortunately, we're working with the DOT and FAA. And I know that the Secretary Butejich has an interest like we all do in making sure that we can invest for the future. And it's going to take a long-term view. But overall, look, these constraints right now are things that we're managing through. I think it bodes well, at least from a demand environment and being able to ensure that we can achieve profitability. And over the long run, we're going to make sure that we have a business model that works in any demand environment with any set of constraints.

Operator

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

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

Congrats, Derek and Devon. It's great to hear. Just back to Jamie's question on the operation and maybe some of the Southwest issue. I'm just curious if you could speak to the converse, how your conversation with your corporate partners has evolved given your just operational strength. Like I would imagine it would be a lot easier in these days, but can you just talk about how that's how that's changed at all and what your expectation is for new contracts and so on?

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

Conor, I'll start, and I'm going to hand it straight off to Vasu. But I'll tell you what. One thing that hasn't changed is that reliability, it translates into likely to recommend. It translates into Net Promoter Scores. And we see it. Over the holidays and as we really progressed through last year and got reliability to a really high level, our scores have improved to the highest levels that we've seen. So those are the kind of things that I think that our corporate customers are interested in as well. Vasu?

Vasu Raja

Yes. Robert, it's 100% right. And -- so first, I'll say, for our customers at large, they clearly benefit from a better operation, and we see it -- for the year, we -- as Robert said, we posted our best likelihood to recommend scores by a meaningful amount in any time post-merger. And that's no action. That is the operation. But what's really important out there is, yes, many of our corporate partners are encouraged. But what's really important, and this links back to some of the other questions is that also the marketplace has changed very meaningfully. As I mentioned on our last call, we see the same trends where roughly 30% of our revenues are coming from what we've historically called leisure. About 45% are blended trips. Only about 25% of what we've historically called business trips. And of that 25% -- historically, that number would have been about 35%. So it shifted a lot. And within the 25% only about 5 to 7 points of that are coming from contracted corporations. The rest are non-contracted, unmanaged businesses who are flying on us.

And what we see amongst those contracted corporations is quite striking. Almost 2/3 to 75% of our corporate contracts are actually not fulfilling the terms of their contracts for understandable reasons. For so many companies, if you're struggling to bring people back to the office, it's hard to compel them to go do a day trip to Chicago or New York. And so we see that broadly. And so even though many customers are happy with our service and many corporate travel buyers are very happy with our service. The reality is same-day corporate business trips, which used to be 3% to 4% of our traffic is less than 1% of our traffic. And that's been out there for a while, and we are planning that that's going to be the new one.

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

Okay. Great. That's one. And then on the -- if you're talking about free cash flow, again, that's obviously great to hear. I'm just curious how your expectation for future aircraft deliveries has changed. Are you -- should we expect that we're going to start paying cash for these planes going forward? I realize that your CapEx budget is lower. But just curious on how you're thinking about financing those aircrafts in the future.

Devon May - *American Airlines Group Inc. - CFO*

Yes. This year is a low point for aircraft CapEx. We'll see it come up a little bit next year and then get back to a type capital expenditures as we get out into 2024, 2025.

In terms of financing, it's going to be dependent on where the market is at. And so -- yes, there is potential opportunity that we may pay cash for some airplanes, but it's dependent on what sort of free cash flow we are delivering and what sort of market rates we're able to achieve.

Operator

Our next question comes from the line of David Vernon of Bernstein.

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

Robert, I wanted to ask you about how we're exiting 2023 on the cost side. You guys have been running a pretty clean operation and the margins are obviously pretty healthy. I'm just wondering how much baggage are you carrying in the 2023 outlook from lower productivity, more full training classrooms. Is there a way to think about what that penalty would be from a unit cost perspective because of some of those lingering effects of restoring the network embedded inside of the 2023 guidance.

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

Well, I'm going to ask Devon to help me ask. But David, I would tell you that I think the biggest issue that we have right now is that we have aircraft that we could be utilizing it at a much higher level. And you -- absolutely positively. We're going through some training cycles that are just unprecedented and the hiring that's going on at American right now, that is going to, over time, stabilize, and we won't have to work those assets quite as hard. Biggest thing right now is aircraft. Devon, do you want to give some numbers on what you think that...

Devon May - *American Airlines Group Inc. - CFO*

Yes. I'd just say for aircraft utilization, we are just starting to approach historical levels. So just starting to approach our 2019 levels of aircraft utilization as we get through this year. So like we've talked about, this is a fleet that should be able to produce higher aircraft utilization than the fleet we had prior to the pandemic. Just recall prior to the pandemic, we had a lot of older aircraft, smaller sub fleets that have really high spare ratios. So even though we will likely put more into operational support than we would have planned to a year or two ago, we still think this is a fleet that can produce significantly higher utilization than what we're doing today.

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

Okay. I mean the leverage on the aircraft ownership cost is pretty straightforward. But as you think about increasing that utilization, can you talk about the impact on the -- at the margin on costs and things like labor and the rest of the business? I'm just trying to get a lot of questions about scalability and how unit cost should be moving as we're thinking about -- not just '23, but also '23 and '24. Any added color there would be helpful.

Devon May - *American Airlines Group Inc. - CFO*

Yes. I think just as Robert said, there's certainly some more operating leverage in the business. And I'm asking specifically about the salary line or the training headwinds. I think that is absolutely a part of it. As we get through this year and get our training throughput to a level that it should be. I think we are going to see some efficiencies on that side.

Through the rest of the P&L, yes, there's opportunities as we increase aircraft utilization in areas like airport rent and landing fees. And that -- and in maintenance. When you have aircraft that sit on the ground, especially within our regional fleets, it's not as if those don't require maintenance. So look, the fleet meant to be flown and whether it's things like rents and landing fees, maintenance, those are the areas that I would probably look to most as being opportunities for us to see much greater efficiency.

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

All right. And then one last real quick one. Free cash flow should be something like 130% of net income -- in this -- based on the guidance today. As you think about the go-forward look, I'm just curious about the -- whether you're able to use the losses in the last couple of years. How long is that going to affect sort of cash taxes? And where do you think cash taxes are going to start to become a part of the equation here? Is that a '24, '25, '26 thing? Or is that like any sense of when that might kick in?

Devon May - *American Airlines Group Inc. - CFO*

Yes. We don't expect to be CapEx payers in that period for at least through 2026.

Operator

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

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

It's Andrew Didora. Just in terms of the balance sheet and the debt pay down, how the $8 billion gross paydown done thus far? Am I doing my calculations right, is about $3.5 billion of that coming from the pension? And then of the $15 billion kind of total gross debt paydown number, how much of that do you assume is just a reduction of pension benefit?

Devon May - *American Airlines Group Inc. - CFO*

Yes. So that is the right calculation. So in the summer of 2021, when we had historically low interest rates, our pension obligation is obviously significantly higher. It's been around $2 billion at the end of 2022. By the end of 2025, where we've set our $15 billion goal is still right around that number, maybe a little bit lighter based on expected asset returns and the pension contributions going to make.

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

Got it. And I know you've answered a lot of questions in terms of asset utilization, hiring and things like that. But as you sit here today for your 2023 capacity plan, do you have the pilots and the aircraft in-house to hit that plan? Or does the plan require additional hiring and additional kind of deliveries from the OEMs relative to plan in order to hit that capacity goal?

Devon May - *American Airlines Group Inc. - CFO*

We'll be hiring pilots throughout the year. We feel really good, though, about the hiring forecast we have and what we're expecting for training throughput. In terms of deliveries, as we talked earlier, we do expect to take 23 aircrafts this year. Those deliveries would be required to hit this plan. I think we've taken a pretty conservative approach to what we have for in-service dates. And we feel like this is the plan we're going to be able to hit.

Vasu Raja

Yes. And Andrew, that's -- look, this is Vasu and Devon get together to build the network and work with David Seymour on our operating capacity we're being really mindful of making sure that we have the resources to fly the schedule. So there's a confidence factor that we're using in that as well.

Operator

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

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

Congrats to Derek and Devon. Just to follow-up, just where you left off there. I think at one point last year, I believe you paused mainline hiring because of the pilot training throughput and the pilot training lead times. Can you just mark to market like did you restart hiring? When did you restart hiring? And how many incremental do you need to hire to hit your growth plan this year?

Devon May - *American Airlines Group Inc. - CFO*

Yes. So we were hiring ahead of needs and training throughput as we got later in the year. So we did pause hiring for most of the month of December, I believe. That hiring has resumed here in January. Our expectations are we're going to hire around 2,000 pilots for this year and probably a little bit on the higher end as we get through the year and training capacity continues to increase.

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

Okay. And then just most of my questions have been asked, but just an aircraft financing question. So hypothetically, if you had $100 million in aircraft CapEx and you debt finance that, where do you see LTVs? So is it -- is it $80 million or $85 million that would go on the balance sheet. Where do you see LTVs and cost of debt today? And alternatively, if you lease that $100 million of growth CapEx how much would go on the balance sheet in the form of an operating lease liability?

Devon May - *American Airlines Group Inc. - CFO*

Okay. There's a lot to that. I'll say our treasury team right now, we have 23 deliveries, 12 of which are already financed. So our financing requirements for the remainder of this year, are pretty limited. But those are all the factors they're going to be looking at is what sort of rates are embedded in the operating leases that are in the market today, what the LTV, we can get on the debt. What's happening with the rest of the balance sheet and our free cash flow and they're going to make the right economic decision. So we have a great treasury team. They're looking at these remaining 9 aircraft we need to finance for this year and looking out to 2024 as well.

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

Okay. I mean, fair enough. It's not like if you will, or if you won't. It's -- if you do debt finance $100 million in CapEx, where is the market in terms of that LTV and cost of debt today?

Devon May - *American Airlines Group Inc. - CFO*

Yes. It's something that obviously, we expect is going to move around over the next handful of months. I don't have a number that I'm ready to give right here today, but it's something we're going to stay tight with. And we have a team that knows the market well.

Operator

Our final analyst question before we open the line to media comes from Ravi Shanker of Morgan Stanley.

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

So one short-term and one long-term question. The short-term question is -- it's good to hear that you said you're having your best ever post-holiday booking period so far this year. Can you just expand a little bit more? Are you seeing any changes in customer behavior? Are they flying to different destinations? Are they looking to maybe kind of downgrade their tickets or look for more flexibility, kind of any signs at all of any change in customer behavior or kind of in where macro is?

Vasu Raja

Yes, we are seeing some changes in customer behavior. People are -- especially leisure travelers are looking even further out. We see that the blended customers are also much more willing to book further out. And third, we see that customers, especially blended customers or people purchasing a blended trip are more willing to buy higher-value fair products and shop direct with us. So we continue to see a world where roughly 60-ish percent of our revenues are coming direct to us through our .com and mobile app, and we see that continuing to grow. Furthermore, as those blended trips come in to our, as we call them, owned channels, of the people shopping for the lowest fare end up buying a higher fare than that. So we're encouraged by that. And then as far as where people are flying, I suppose that's pretty simple, too. They're flying everywhere they possibly can, except for places in Asia.

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

That's great to hear. And maybe just a follow-up. You guys have come a really long way kind of in the last year kind of since where everyone was doing the pandemic. But the markets may be not recognizing that. So I'm wondering if there's any plan to kind of host an Analyst Day to kind of give us a kind of a long-term plan on strategic priorities, long-term financial guidance as such?

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

Ravi, thanks for that question. The answer to that is, look, we've been really pleased with the work that we've done throughout the pandemic and setting American up. And the answer to your question is yes, we're going to get out and make sure that people know our story. More details on that as time progresses, but you'll hear more from us on that.

Operator

At this time, we'd like to open the line to our media questions. (Operator Instructions) Our first question comes from the line of Mary Schlangenstein of Bloomberg.

Mary Schlangenstein

Congratulations to Derek and Devon. I wanted to ask a couple of business-related questions quickly. On your business travel, whether it's corporate managed or not, do you anticipate any impact from the growing number of companies that are laying off workers, particularly in high tech, but also now extending to some manufacturing companies? And then my second question is, is your expectation that this shift to blended trip is, in fact, the structural change within the industry and will not diminish going forward in terms of at least as far out as you can see?

Vasu Raja

Thanks, Mary. This is Vasu. And I'll answer the questions in reverse order. First, look, there is -- we do see a meaningful change in the trip purposes that people are booking that there's a lot more blended trips even so many people who are searching for what conventionally would have been a business diltinerary. We see it in our .com end up selecting something which is pretty unconventional or they stay a Saturday night or they book another person for a midweek trip or something like that. So we do see that. And our credit card partners at Citi see the same thing, too. That demand for travel is still a really strong category and as preserved -- a travel at large has preserved its relationship with GDP, if not somewhat grown a little bit. So that -- there is a meaningful thing we're coming out of the pandemic. There's clearly a value the consumer is placing on travel.

Then as far as how layoffs are impacting things, look, what's really important to note about business travel is -- yes, it's 25% of our revenues, but those companies are intending to do the largest the biggest, largest ones tend to buy on a corporate contract. And that's -- so much of that business just really hasn't recovered. And we haven't built an airline plan around it. However, non-contracted business is 100% recovered, contracted business is about 75% recovered. And we don't presume that it grows much further than that. So we aren't seeing a really significant impact, but we also aren't building a plan based on a lot of that demand returning.

Mary Schlangenstein

And is that 75% recovery for contract? Is that down from prior estimates I thought that you had said perhaps 80% in the past?

Vasu Raja

It's hovered in the -- sorry, Mary. It's hovered in the 75% to 80% range. And to be conservative, we build our plan around the lower end of that.

Mary Schlangenstein

Okay. And that's revenue?

Vasu Raja

Correct.

Operator

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

Leslie Josephs

Just curious if what your hiring needs are outside of the unionized groups like the offices? And if you're seeing any one apply or maybe you can benefit from some of the tax layoffs, and then secondly, with your plans to do this High J configuration cabin, are you planning to increase staffing at all of cabin crews to kind of handle the more high touch service and more passengers in that cabin.

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

Leslie, I'll start and Cole Brown, our Chief People Officer, can help me. Look, the hiring in American is really unprecedented levels. You mentioned our pilot hiring, yes, we anticipate 2,000 pilots this year. But over the last 2 years, and Cole, correct me, I think we've hired almost 40,000 people, which is across all groups. We have a view that we're going to bring folks in, make sure that they're really well trained. But it really is throughout all of our operations and headquarters and administrative staff, and we're going to bring the best and the brightest in. So Cole, do you want to add anything to that?

Mecole Brown - *American Airlines Group Inc. - Senior VP & Chief People Officer*

Yes, Robert. I would just [push] what your point that we are taking a hard and thoughtful look as it relates to any hiring outside of operations making sure that we're bringing in the best and brightest, but also that we're thinking through not only what our needs are today or where we're going tomorrow. And some of those skill sets might evolve and change. We have an exciting new CIO that's come on board and is taking a really important look at our IT organization. And so more to come. But right now, we feel like we are focused on the right things and being very thoughtful and measured in where we are hiring at the corporate level. And certainly, the focus is the areas that we've previously discussed as well.

Leslie Josephs

Got it. And then on the staffing for the High J?

Vasu Raja

We're really -- this is Vasu. We're really excited for the new High J product. Our customers love our new business class. And we've gotten great feedback as we've shared concept designs with some of our most loyal customers and our flight attendants. But we haven't yet determined a number of things with how it operates, where it operates, things like that too. So it's a little bit premature right now.

Operator

Next question comes from the line of Claire Bushey of Financial Times.

Claire Bushey

I was wondering if you're at all concerned about new regulation in response to perceived increasing unreliability of air travel.

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

Claire, I'll just start. Look, our primary focus is making sure that we run the best airline we possibly can. That's the way that ultimately we address customers' needs and ensure that our customers are being treated fairly. Of course, we'll work with government authorities to make sure that we're taking care of people in the right fashion. Nate, do you want to add anything? No? Good. Okay.

Operator

Our next question comes from the line of Doug Cameron of WSJ.

Unidentified Participant

Okay. I've got a hugely loaded question for Devon and Derek and a super quick follow-up for Vasu if you'll let me. The loaded one. You must be relieved that you don't have to finance the 100 planes this year given where interest rates are in the (inaudible) of supplier delays. Just on that latter point, what sort of complication does the uncertainty of when you actually get planes as opposed to contractually gating them. What does that do to your ability and choices for aircraft finance options?

Devon May - *American Airlines Group Inc. - CFO*

Well, you're right. I am happy that we're taking 23 airplanes and 12 of them are already financed this year. I will say we did go through a huge wave of investment prior to the pandemic. And over that period, I think that the timing is obviously fortunate we're in a nice economic environment, a really good environment for financing those airplanes. As we look out to this year, I don't think the timing of the deliveries as it sits today is too concerning with how we're going to finance the airplane -- more than anything, we just want to make sure the airplanes are delivered and in schedule so we can run a great operation and have really solid schedules for our customers. So what we've done on that front is we have planned conservatively within service base that we believe are coming in far later than when we'll actually take delivery of the airplane. And that's something that's going to be really great for customers.

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

Yes. And we continue to work with both Airbus and Boeing to make sure that we encourage them in an appropriate fashion to deliver on time. And I know that they're working hard to make sure that they can meet our needs.

Unidentified Participant

That's great. And just quickly for Vasu. Vasu, are you seeing any kind of (inaudible) on the fare and schedule or scheduling front, just given how competitive capacity trends are going? Or is demand just that strong that you aren't seeing anything anywhere?

Vasu Raja

Thanks for the question. We don't comment on fare and competitive scheduling trends. But I will say we are really encouraged with the demand trends that we see and are very confident in the airline we've set up to go and take care of our customers along the way.

Operator

Our next question comes from the line of Kyle Arnold of Dallas Morning News.

Kyle Arnold

You've had some cuts at the regional level or service to some smaller cities. What's your strategy behind the regional served locations right now? And do you think there'll be further cuts as we continue to go through this pilot shortage at the regional level?

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

Kyle, I'll just start on this. Look, it's really unfortunate that we've had to reduce service anywhere most -- especially to some of the smaller communities. That's certainly a result of the issues that we faced with pilot staffing at our regional airlines. As I mentioned before, we're working really hard on it. American, I think, has taken the biggest step to get people into the industry of anyone, and I know others have followed us there. That's going to have an impact. We've seen the benefits of those efforts, and we're stabilizing the fleet, and I think that we just grow back from here.

Kyle Arnold

Is there any outlook on how long there might be constraints at that level?

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

Yes. So I think from a regional perspective, it takes time to get people back into the industry. But again, for anybody that is listening and reading, it's a great time to come into aviation. These are careers. Our pilot careers are ones that are -- can be great quality of life, and also very lucrative as well. And so I think it's an opportunity that as we look to the future, that there are communities that haven't typically been places where we sourced pilots that we're going to look to in the future, we're showing great progress in hiring pilots of color and also female pilots. And I look at that as an opportunity going forward that's going to greatly benefit and really change the face of our flight crews and really looking forward to it. I think it's something that's probably over the course of the next couple of years.

Operator

Our next question comes from the line of Ted Reed of Forbes.

Ted Reed

My question is for Robert. Robert, we've been hearing you say for a long time that you're going to make a reliable airline and a profitable airline and you seem to have done that this year or last year. So now I want to know what is the vision for the future? Can American be restored being the greatest airline as it once we perceive? And do you have a path to do that now that you've started to accomplish your other goals?

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

Ted, great to hear from you. Let me just start with this. I'm really pleased with three profitable quarters and producing a profit for the full year in 2022. The things that we've talked about doing are the right things. Getting customers to where they want to go, having the broadest network and doing it in a fashion that can produce profits, pay down debt is exactly where we need to go. And off of that platform, I see great things. But what you're going to see from us as certainly in the near term is more of the same, intense focus on reliability and profitability and accountability. And for our customers, that's going to mean we're going to deliver for them, deliver with the best network that Vasu has talked about, making sure that we have a travel rewards program that's best in the industry. We're going to operate with excellence, and it's going to require even greater planning and day-to-day execution. And when things don't go right, and let's face it. We're in a business where all sorts of things can happen. We got to be the best at recovering and you're going to see us continue to invest in that. And along the way, we have the opportunity to really make better use of technology to further digitalize our operations and our customer experience. And Ganesh Jira, who's our new CIO, has been charged with executing exactly that. And ultimately, put this all together in a business model that is incredibly efficient improves margins and reduces debt. That's what we're focused on right now. I want to keep the team and their head in the game every day. And really excited about what that means for the future because I do think it means that American is not just more competitive out in the marketplace, but we're going to be more competitive in terms of stock performance as well.

Ted Reed

Let me just ask a follow-up to that. When you look back at the history of the industry, the people who've been considered the greatest leaders have been the ones who have expanded the airline, Wolfe, Crandall. And going forward, I don't mean right away, but over the years, can this airline expand maybe more in Asia or places where you're perceived this week?

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

Ted, just first off, just in terms of [ego] around here, look, we are focused on business and really making sure that we have the capacity to address the opportunities in the marketplace. American has been around for 9 to 6 years now. We're coming up on our 100th anniversary in 2026. And I want American to be the airlines that meet the needs of our customers, our communities and our shareholders as well. And so we're focused on that right now. And look, we're really encouraged by what we're seeing.

Operator

Thank you. That concludes the media Q&A. I will now turn the call back over to Robert Isom for closing remarks.

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

Thanks for that. Thanks, everybody, for listening in. Look, American is in a position of strength, especially as we take a look at coming out of the pandemic. We're poised to recover. We're going to focus on our goals, reliability, profitability, making sure that we reduce our leverage and put

American in a position to take advantage of opportunities that come about. We're really encouraged by the results and excited about the opportunities ahead. Thank you very much.

Operator

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