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AAL.OQ - Q3 2021 American Airlines Group Inc Earnings Call

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OVERVIEW:

Co. reported 3Q21 GAAP net profit of $169m, or $0.25 per diluted share. Co. expects total revenue to be down approx. 20% vs. 4Q19.

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PRESENTATION

Operator

Good morning, and welcome to the American Airlines Group Third Quarter 2021 Earnings Conference Call. Today's call is being recorded. (Operator Instructions) And now I would like to turn the conference over to your moderator, Head of Investor Relations, Mr. Dan Cravens.

Daniel Cravens - *American Airlines Group Inc. - MD of IR*

Thanks, Sarah, and good morning, everyone, and welcome to the American Airlines Group Third Quarter 2021 Earnings Conference Call.

On the call this morning, we have Doug Parker, Chairman and CEO; Robert Isom, President; and Derek Kerr, Chief Financial Officer. Also on the call and on the line as well for our Q&A session are several of our senior execs, including Maya Leibman, Chief Information Officer; Steve Johnson, our EVP of Corporate Affairs; Elise Eberwein, our EVP of People & Global Engagement; and Vasu Raja, our Chief Revenue Officer.

Like we normally do, Doug will start the call with an overview of our quarter and we'll update to the actions we've taken during the pandemic. Robert will then follow some remarks about our operations, commercial and other strategic initiatives. After Robert's remarks, Derek will follow with the details on the quarter and our operating plans going forward. After Derek's comments, we will open the call for analyst questions, and lastly, questions from the media. (Operator Instructions)

Before we begin, we must state that today's call does contain forward-looking statements, including statements concerning future revenues, costs, forecasts of capacity and fleet plan. These statements represent our predictions and expectations as to future events, but there are numerous risks and uncertainties that could cause actual results to differ from those projected. Information about some of these risks and uncertainties can be found in our earnings press release issued this morning and our Form 10-Q for the quarter ended September 30, 2021.

In addition, we will be discussing certain non-GAAP financial measures this morning, which exclude the impact of unusual items. A reconciliation of those GAAP numbers to the GAAP financial measures is included in the earnings release, and that can be found in the Investor Relations section of our website.

A webcast of this call will also be available on the website. The information that we're giving you on the call is as of today's date, and we undertake no obligation to update the material subsequently.

Thanks again for joining us. At this point, I'll turn the call over to our Chairman and CEO, Doug Parker.

William Douglas Parker - *American Airlines Group Inc. - Chairman & CEO*

Thank you, Dan, and thank you, everyone, for being with us. Good morning.

So our third quarter started out very strong. Our domestic business revenue, which has climbed from 27% of our 2019 levels in March to 52% in June, jumped even more in July. It actually jumped to 64%, as companies began to return to work and their employees began to return to the skies. And as a result, we at American produced a profit in the month of July.

But in the spur of Delta variant led to a rebound in pandemic fears, of course. Companies deferred return to work plans. And that domestic revenue -- the domestic business revenues go back to 57% of 2019 in August and 47% in September. Now I know some people find that trend discouraging, but we actually think it's encouraging. The spike in business revenue in the month of July shows that business travel does want to return. There is enormous pent-up demand. And once this pandemic is behind us, it should resume its prior rapid trajectory to recovery. And as to highlight all it gets reflected in the financial results that profit in July, followed by larger losses in August and September, added up to a cumulative loss.

On a GAAP basis, we actually reported a net profit of $169 million. But when we exclude net special items, we recorded a net loss of $641 million. And while we obviously don't like reporting losses, this is our smallest quarterly loss since the pandemic began in early 2020.

What we're really proud of is how well the American Airlines team is performing. No one is managing through this pandemic and into the recovery better than the people at American, and it shows in the results. At a time when airlines are struggling to build back service in response to demand, no one has built back further and faster than American. We flew greater than 80% of our 2019 capacity in the third quarter, while our large competitors have restored only 70%. As a result, we flew 13% more seat miles in the quarter than our next closest competitor. And our team safely transported more than 48 million passengers in the quarter. And our team did this while doing an excellent job of taking care of our customers. And we struggled with growth ourselves as we entered the quarter, but we responded quickly and aggressively. We ended the quarter flying by far the largest airline of the world with the best September operational performance in American's history.

That great performance by our team has led to strong customer acceptance, as evidenced by our industry-leading passenger counts and our revenue trends. For the quarter, revenues were significantly improved over 2020 and were down 25% in the third quarter versus the same period in 2019, whereas they were down 37.5% in the second quarter on the same year over 2-year basis. And notably, our passenger unit revenues in the quarter were down 10% versus 2019 versus 12% declines of the other large international U.S. carriers despite our higher capacity production.

On the costs front, we've reshaped our network, simplified our fleet and built operational and cost efficiencies into the business that will serve us well for years to come. We accelerated the retirement of more than 150 older aircraft. American continues to operate the youngest and most fuel-efficient fleet of the U.S. network carriers. And importantly, we've actioned more than $1.3 billion of permanent annual cost reductions into the business through our Green Flag initiatives.

And as we've navigated through the crisis, we've been careful to think and look long term. We've announced a series of strategic relationships with other airlines around the world that strengthened the American network, adding additional utility to our customers and long-term value for our shareholders. The most notable of these are our Northeast Alliance with JetBlue and our West Coast International Alliance with Alaska, which we continue to implement and grow in the third quarter.

Looking forward, we feel great about where American is positioned. Given the deferred business demand and the recent rise in fuel prices, the fourth quarter will be challenging, but that's a near-term issue finding a longer-term bullish trend. We're encouraged by the upside that exists in demand for business and international travel. And our confidence is reinforced by the incredible work the American Airlines team has done throughout this pandemic and continues to do today. And we're particularly excited about the future that lies ahead for American and our team.

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

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

Thanks, Doug, and good morning, everyone.

I want to start by thanking the entire American Airlines team for their efforts in the third quarter and throughout the pandemic. Our airline continues to succeed, thanks to the hard work of our team.

As Doug mentioned, this summer represented the largest operational ramp-up in the history of American. As we build back the operations, much like other businesses, we have managed through supply chain constraints, vendor and staffing challenges, constantly changing travel restrictions and a lot more. Through it all, we operated more flights and carried more customers than any other U.S. airline, more than tripling our daily departures from May 2020, which was the low point of our schedule. And we're pleased with where we are. American recorded our most reliable September since the merger based on completion factor, on-time departures and on-time arrivals.

We'll continue to focus on delivering a safe and reliable operations and continuing the momentum as we further scale our operation and welcome back even more customers.

Now I want to acknowledge the efforts of the American team in the third quarter in support of the U.S. Civil Reserve Air Fleet program. It was a tremendous honor for American to aid in the effort to bringing more than 5,000 evacuees from Afghanistan to the U.S. as well as hundreds of members of the U.S. military. That work included working with the Customs and Border Protection to open our Philadelphia facilities as a welcoming center for 4 nationals. We're grateful to our team members throughout the airline and from all over the world who came together to support American's craft activation.

As we reported this morning, our third quarter total revenue was approximately $9 billion, up $1.5 billion from the second quarter. This improvement was driven by our passenger revenue recovery, which increased by more than 20% sequentially from the second quarter on a 12% increase in available seat miles. Overall passenger revenue in the third quarter was 72% of what was in the third quarter of 2019, which is up 13 points sequentially in the second quarter.

Domestic leisure revenue has now returned to pre-pandemic levels at 98% of 2019 levels in the third quarter. As Doug described, business revenue growth stalled in the quarter and finished flat in the second quarter at around 50% of 2019 levels.

Given the recent booking trends, with the Delta variant subsiding and everything we're seeing and hearing from our customers, we're planning for a robust peak travel period in the fourth quarter, and we're excited about the prospects for 2022. And here's why.

We expect that domestic leisure revenues will surpass 2019 levels in the fourth quarter and continue that trend throughout 2022. Short haul international revenues should follow that same pattern. And recent trends show that corporate bookings month-to-date have improved significantly and are accelerating like they were earlier in the year before the Delta variant and associated restrictions were imposed. Our largest corporate customers tell us they'll be returning more fully to the office and travel as we move out of 2021. And because of that, we continue to expect a full rebound of business revenue to 2019 levels on a monthly basis by the end of 2022.

And speaking regularly with our top corporate customers, almost all have resumed domestic U.S. business travel to some extent. As companies return to the office and lift travel restrictions, we see continued growth in corporate travel. Industrials, health care and professional services continue to lead that recovery.

Long-haul international travel, particularly long-haul business travel, while the slowest to return, is starting to come back. Right now, almost 2/3 of our corporate customers are traveling internationally for at least essential business. And we expect international travel to improve significantly with easing of cross-border requirements. And we're encouraged by the recent news about the U.S. government easing international travel and entry restrictions starting in November.

Following the White House announcement, we saw an immediate increase in bookings in several of our key international markets. Overnight, we saw a 66% increase in bookings to the U.K., a 40% increase to core Europe and a 74% increase to Brazil. Clearly, there's significant pent-up demand for travel to and from the U.S. and many customers are eager to return to travel when it's permitted.

Now just focusing on the fourth quarter, we expect total revenue will recover to approximately 80% of 2019 levels, up approximately 5 points sequentially versus the third quarter, with the strongest performance in domestic and short-haul international markets.

We continue to make significant strides in building the large global network in the industry and reconnecting with our customers. Our partnership with JetBlue and Alaska are delivering tremendous benefits for customers and enabling new flying that otherwise wouldn't be possible. More than 715,000 customers were able to travel across our networks during the quarter, thanks to these innovative partnerships. Together, American and JetBlue will operate more than 700 daily flights from New York to Boston -- New York and Boston this winter, including nearly 50 international destinations out of JFK. We also continued to create a seamless experience for our customers, including rolling out reciprocal lead benefits for AAdvantage and True Blue Mosaic members. And we expect to launch miles redemption on JetBlue very soon.

Our loyalty program continues to demonstrate its attractiveness to our customers and partners. New member acquisitions in the third quarter exceeded 2019 levels despite the airline flying a significantly smaller schedule. As our customers continue to engage with AAdvantage, our co-brand cash payments were essentially fully recovered at 96% in the third quarter versus the same period in 2019. This is up from just 78% in the second quarter on the same basis. We expect this trend to continue as the network returns to a more normalized level.

On the ESG front, during the quarter, American became the first North American airline to commit to developing a science-based target for reducing greenhouse gas emissions by 2035. We also agreed to turn to purchase more carbon-neutral sustainable aviation fuel. American also became an anchor partner to Breakthrough Energy Catalyst. And we've committed to invest $100 million in a groundbreaking collaborative effort to accelerate the clean energy technologies necessary for achieving a net-zero economy by 2050. We're excited about this work and what it will mean for the future of aviation and the acceleration and adoption of critical next-generation clean technologies across all industries.

So in summary, while the Delta variant has shifted the time line to the recovery, we remain very bullish on the return of demand, and we feel great about how we're positioned, thanks to the hard work and dedication of the American Airlines team.

And with that, I'll turn it over to Derek.

Derek J. Kerr - *American Airlines Group Inc. - Executive VP & CFO*

Thanks, Robert, and good morning, everyone.

Before I begin my remarks, I would also like to thank the American Airlines team for their hard work during the quarter. Their continued resilience in the face of uncertainty due to the Delta variant is commendable.

This morning, we reported a third quarter GAAP net profit of $169 million or $0.25 per diluted share. Excluding net special items, we reported a net loss of $641 million or a loss of $0.99 per share. As Doug mentioned in his remarks, this was our strongest quarter since the pandemic began.

As we have discussed in the past, as we always expected, the recovery would be unpredictable, and our third quarter results reflect this. Despite the Delta variant related volatility in demand and revenue trends that Robert discussed, our financial performance improved from the second quarter, but fell short of our initial expectations that we outlined in our last earnings call. While the slowdown in demand was clearly disappointing, it is important to note that the trajectory of our results continues to be positive. In fact, even with the drop-off in bookings from the Delta variant and rising oil prices, our third quarter pretax earnings, excluding net special items, improved by nearly $600 million sequentially versus the second quarter. This makes it even clearer to us that the steps we are taking over the past 18 months are working.

As we have navigated the pandemic, we've built back our network in a way that would keep our capacity aligned with demand while giving us the ability to be flexible as conditions change. We've also worked to keep our controllable costs down and have actioned $1.3 billion in permanent annual cost initiatives this year alone. Based on our results, it's clear these actions are paying off, as our third quarter CASM, including fuel and net special items, was up just 10.5% versus the same period in 2019 despite flying approximately 20% less capacity.

On the fleet side, we moved swiftly to retire older aircraft and accelerate our fleet harmonization project. Our 737 retrofit program was completed in May. And we continue to expect our A321 aircraft to be complete by early next year, a full year ahead of our original schedule. In addition to the customer benefits of larger overhead bins, in-seat power and streaming in-flight entertainment, these aircraft will generate more revenue and allow us to connect to more customers over our network. They will also provide a unit cost tailwind as we build back our network.

With respect to our wide-body aircraft, we continue to work with Boeing to finalize the timing of our delayed 787-8 deliveries that were expected to arrive in 2021. In the meantime, due to the continued uncertainty in the delivery schedule, we have proactively removed these aircraft from our winter schedule to minimize potential passenger disruption. And I'd also like to note that these delays have had an impact on our fourth quarter CASM since we built the cost structure to fly these aircraft during the fourth quarter.

We ended the quarter with approximately $18 billion of total available liquidity, which reflects the $950 million prepayment of our spare parts term loan made in July and approximately 440 -- $649 million of scheduled debt payments made during the quarter. The scheduled debt paydown unencumbered 20 Boeing 777 aircraft further (inaudible) our unencumbered asset base to $3.8 billion and our first lien capacity to more than $8.4 billion.

As we look ahead, we feel confident with our -- we have enough liquidity to allow American to navigate the choppiness of the recovery. Because of this choppiness, we will continue to keep liquidity at elevated levels in the near to medium term, with a plan to step down our target liquidity to approximately $10 billion to $12 billion at some point next year when we are confident the recovery has taken hold and we have returned to sustained profitability.

The deleveraging of American's balance sheet remains a priority, and we are committed to significant, steady and continuous debt reduction in the years ahead.

Even with the slower-than-expected recovery observed during the third quarter, we remain on track with our target of reducing overall debt levels by $15 billion by the end of 2025. $10 billion of this will be achieved through amortization of debt and is net of new financing. Importantly, these debt reduction targets are based on a plan that assumes future deliveries are financed. Should we elect to use cash in lieu of financing aircraft, that decision would contribute to deleveraging and further accelerate the time line to achieve these targets. Of the incremental $5 billion, nearly $1 billion has already been actioned with the prepayment of the spare parts term loan we announced on the last call. As we look ahead, we will continue to focus our efforts on prepayable debt, which currently represents approximately 30% of our total debt obligations.

In addition to deleveraging our balance sheet, this plan will allow us to smooth our near-term maturity towers and free up high-quality collateral. Assuming this level of debt reduction and continued margin improvement, our plan is targeted to result in the best credit metrics in the history of post-merger American by the end of the 4-year period.

Looking into the fourth quarter, the delay in the return of corporate travel and rising fuel prices will put pressure on our margins relative to the third quarter. We expect our capacity to be down approximately 11% to 13% versus the fourth quarter of 2019. Based on current demand assumptions and capacity plans, we continue to expect a slight sequential increase in our revenues and expect total revenues to be down approximately 20% versus the fourth quarter of 2019. In total, we expect the pretax margin, excluding net special items, of between negative 16% and negative 18%.

For the full year, we -- for the full year, our projected debt principal payments are expected to be $4.4 billion. This includes the $750 million payment of spare parts term loan and the $550 million prepayment of the term loan with the U.S. Treasury that was completed earlier this year. We have $612 million in scheduled debt principal payments in the fourth quarter.

With respect to capital expenditures, we expect full year 2021 CapEx to remain minimal, with non-aircraft CapEx at approximately $900 million and net aircraft CapEx, including predelivery payments, remaining an inflow of $900 million.

We are still in the early stages of building our operating plans for 2022. And we'll have more to say on what our capacity and cost outlook will look like on our next earnings call. But at a high level, based on the demand trends we see today along with the feedback from our corporate customers, we expect to slowly increase our capacity throughout the year and to have full year capacity very near 2019 levels. This, of course, is subject to the future demand environment and we will always retain the ability to adapt if demand conditions warrant.

Lastly, I know a lot of investors are concerned about inflationary pressure in 2022 and beyond. We'll know more once we finalized our 2022 budget, but we do see pressures in fuel prices, hiring and training for both new hires and existing crews as we ramp up our operation, including on the regional side, where we recently announced the pilot retention program. We are also seeing increased starting wages for certain regional groups, including vendors. Even with these pressures, our fleet simplification strategy enables higher aircraft utilization and higher average gauge, both of which will help offset some of these unit cost pressures. As I said earlier, we will share more specific details on these impacts to our cost structure as our 2022 plan on our next earnings call in January.

So in conclusion, our team continues to do an amazing job of managing through the uncertainty, maintaining a strong liquidity position and driving efficiencies throughout the organization. And we are well positioned for the future.

So with that, I will open up the line for analyst questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Jamie Baker with JPMorgan.

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

So Doug, I think it was like 3 or 4 years ago, you had a slide at our conference, it was entitled "there they go again." It was a list of airline behaviors that you were wanting investors to keep an eye out for. It was a cool slide actually. So 2 bullets on that stood out: expanding service to markets that don't touch a hub and establishing new hubs. Could you help frame the Seattle expansion against that slide? It's not like the slide was written in stone, and you carried it down from Mount Sinai or anything. I'm just having trouble reconciling it in the current environment.

William Douglas Parker - *American Airlines Group Inc. - Chairman & CEO*

Sure. I'll do it at a high level and then Vasu can chime in with more details if you'd like, Jamie.

So yes, look, that's not a new hub is the answer. There's already a hub there. It's Alaska's, near our partner. And we are simply making that hub stronger by adding -- by having alliance with Alaska, whereby we can do things they can't do or they wouldn't be able to do without an investment that wouldn't make sense by buying international because we have international aircraft. And they can do things that we can't do, which is feed those flights with their already existing Seattle hub. So it's not a new hub. If it were yet, if you see that be concerned. Happy to note that hasn't happened since we put that there. So anyway, that's the distinction.

Vasu Raja - *American Airlines Group Inc. - Chief Revenue Officer*

Yes. Jamie, this is Vasu. I'll add to that. Actually, we see Seattle as being really intellectually consistent with that. And for us, it's pretty simple, that we go create value for customers by being relevant and being relevant to the biggest markets. And in order to go create a legitimate, valuable and profitable international network, we need to be able to launch flights for international markets. And for us, historically, on the West Coast, we've had a very, very small presence, most mainly in the Pacific Northwest, where we've had almost no presence.

With this, which is a very creative deal, what we're doing is we're flying things like Seattle to Heathrow or Seattle to Bangalore, all of which feed off of that huge local market that Alaska has cultivated. It draws from the connectivity of the Seattle hub. And we've been really encouraged with the results, not just across the West Coast, but really across the system. Alaska Airlines is increasingly emerging as one of if not our largest codeshare partner, and we are seeing a huge customer benefit all up and down the West Coast. Actually, as we look at it, we are creating close to 300,000 -- about 300,000 customers are now able to experience AA in Alaska, where before, they had no competitive option or they had 1 or 2 competitive options in the marketplace.

And the market is responding. We've set records for AAdvantage enrollments, but the 2 markets where our enrollments are growing the most are all the markets in the West Coast partnership, everything from San Diego, north to Seattle, and the other ones are New York and Boston. So we see it actually being really consistent and a really effective and wise way to go and develop a level of network comprehensiveness that would be too impossible to do on own.

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

Okay. That's really helpful. And -- And then a follow-up, this one, a quick one on fuel, maybe for Robert or Derek. A question I repeatedly receive is why haven't management adjusted capacity to account for $2.50 jet kero. And I know you can't speak for the industry. But for American, is there a certain period of time that you need to be convinced that higher fuel is going to be sustained? Is there just too much uncertainty around 2022 revenue to be making capacity decisions today? Just looking for some color on how you would answer the question that I'm getting every day and I imagine my competitors are as well.

William Douglas Parker - *American Airlines Group Inc. - Chairman & CEO*

Jamie, I'll go first level because you and I have been doing this a long time. Look, when oil prices move this quickly, it's really hard to have responses that what's happened here. It's run up very quickly. And we're already selling all the capacity that's out there. So what I know is, what I believe is, and it's been the history in our business, if this is a new normal, you will see adjustments. You'll see adjustments in capacity, which will result in changes in pricing. It just don't happen that quickly. And it also takes a while for everyone to come to the conclusion that this is real. But on a 2014 was a pretty good year in the airline business and Brent averaged $100 a barrel. So this is -- we know -- this is -- we'll adapt if this is the new normal. But right now, in the very near term, it's hard to adapt. Robert?

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

Doug, this will come into balance. And fuel prices run up very, very quickly. As we take a look at things, there must be an impact on capacity and pricing in the long run.

Operator

Our next question comes from the line of Conor Cunningham with MKM Partners.

Conor T. Cunningham - *MKM Partners LLC, Research Division - Executive Director & Senior Travel Analyst*

When listening to Delta and United's call, a huge portion of their script is about premium products and how they think the structural change happening. I don't think you guys mentioned much about that. I was wondering if you could just speak to how your different products are performing right now. And do you actually agree that there is a structural change happening, where leisure travelers are trying to book up more towards premium seats?

Vasu Raja - *American Airlines Group Inc. - Chief Revenue Officer*

Conor, this is Vasu. I can start that one, and others may chime in, too. Look, we certainly, as most, definitely see a change where there's customers who are much more willing to buy premium than before. Indeed, our premium revenue across our domestic system for much of the quarter was actually higher than what it was in 2019, which is pretty promising.

But we spent a lot of time looking at this. And there's a component of it which certainly seems very promising, but it still seems early to say whether this thing is structural or not. At least in our own system, we took a lot of widebodies out of international fly, and we deployed them into domestic. We were really encouraged by what we saw where there are a lot of customers with a lot more disposable income who would travel on leisure trip, and they would not only pay for the lie-flat product, they would pay a premium versus other non-lie-flat products in the marketplace. And so that's certainly been an encouraging thing.

But what we don't know is so much of that trip behavior also, it was people leaving on a Thursday, coming back on a Monday. So we do think that with more disposable income, there will be some interest in the consumer to have more experiences, to pay more for those experiences. What we don't know is how to size the magnitude of it because there's a lot of things that certainly as been for American Airlines that we did that was very unique for the last several months. And we don't yet know how much of a structural change that is.

But to the earlier point, the beauty of the airline, and we -- this pandemic has proved over and over again is that we can change the -- where the airplanes go very, very quickly. And with that, we can also change the product design pretty quickly, too. So this is something that we're looking at. It is a similar trend that we're seeing. Time will tell how structural it is though.

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

Thanks, Vasu. I'll just add, we're -- hey, look, we're ready for it. We've been preparing for a long time not just in selling the product, which Vasu has talked about, but the hard product as well. So the fleet is ready from a cabin configuration perspective, whether that's business class cabins or premium economy that we've put in to all of our widebodies.

And then just as we look at travel recovery and ways to service, you're going to see that we're adding back amenities that will allow us to sell and bundle in different ways. So everything from our 5-star service that's come back, to the opening of our flagship lounges, which are best in the industry, we have a way to sell and to service every customer at every end of the spectrum in terms of demand. So we feel really good about how we're set up to whatever environment that we find ourselves in.

Conor T. Cunningham - *MKM Partners LLC, Research Division - Executive Director & Senior Travel Analyst*

Okay. Appreciate it. And then just on the cost structure, I mean, investors are trying to get comfortable with the stories on the cost side for the airlines in general. So I mean clearly, inflationary pressures. But curious if you can talk to any of the tailwinds that you might be having that happened in 2022 outside of just bringing back capacity to 2019 levels. The reason why I asked is I would have thought, given some of the structural changes you've had within fleet simplification and so on, that 4Q would have had a little bit more leverage to it. So any details would be helpful.

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

Yes. I think, Conor, in the fourth quarter, I mean, the story and I touched a little bit about here is we built the airline to fly more in the fourth quarter without a doubt. 2 of the issues, one is the Boeing 787-8s, which are not here, we had assumed they were going to be in the schedule. So we have 787 pilots. We have crews ready to fly those aircraft. But we unfortunately had to pull them out of the schedule in the fourth quarter and the first quarter.

The other thing from a capacity perspective that we're all dealing with right now is -- on the regional side is pilot supportability on the regional side, which will resolve itself over time. But as the mainline is hiring up, a lot of places they go to get pilots is on the regional. So we're probably not flying as much regional as we would have flown.

So I think from a CASM perspective, that's what drove it a little bit higher in the fourth quarter without a doubt versus where we had planned. So we're not flying exactly what we would have flown and where we got, and the cost structure is there.

As we go forward, the tailwinds are really that -- I mean the $1.3 billion worth of cost reductions is permanent. It's going to be in there. As we look into next year, we haven't done the plan yet so that's why it's really hard for me to give any kind of guide on a CASM for next year. We do see these inflationary hits to -- mostly from a salary perspective, a vendor perspective, those kind of things, and fuel, as I talked about, that we'll have to overcome as we look at the plan for next year, and we'll do that as we dig through the process. But we'll have the tailwinds of the costs coming out that we did from an efficiency standpoint and also the -- number 1, getting out of the aircraft types and modifying the aircraft to be the same all across from the Oasis project will benefit us a lot as we go into 2022.

William Douglas Parker - *American Airlines Group Inc. - Chairman & CEO*

Yes. And Conor, just because we haven't talked -- we didn't spend a lot of time talking about it, the $1.3 billion, yes, we talked about a lot, but just for others who may not have been following us closely. Those are real. They're in the airline. We -- the way we look at this is we go back fly the 2019 schedule today, produce the same RASMs and save that amount. It's a combination. It's a lot of things, but the largest ones are $500 million or so in management payroll. And as Derek said, all the efficiencies you get from eliminating so many sub fleets, training and otherwise. So those are in there the tailwinds to offset the inflationary pressures you are talking about.

Operator

Our next question comes from the line of Sheila Kahyaoglu with Jefferies.

Sheila Karin Kahyaoglu - *Jefferies LLC, Research Division - Equity Analyst*

Maybe if we could talk about the Transatlantic market. It's begun to open up a little bit more and maybe heading into 2022. But your passenger revenues are still down about 75%. How do you think about the cadence of that recovery?

Vasu Raja - *American Airlines Group Inc. - Chief Revenue Officer*

This is Vasu. I can take that one. Look, we're -- we've been really encouraged by what we've seen over the last, let's call it, 3 or 4 weeks at international at large, but especially at Transatlantic. Certainly, after the regulatory restrictions changed, we saw a big spike in bookings in the 2 or 3 days after it, but at -- which is it's not that surprising. What has been more encouraging to us is that it's really sustained itself.

But what we are seeing out there is what -- you see from us right now is a little bit of cautious optimism. In November and December, we are absolutely seeing bookings coming in at a greater rate than what we saw in 2019. A lot of that has a pent-up demand effect. As we get into next year, with every passing week, we see our bookings step up more and more across Transatlantic. And so we're really encouraged by that. But the big variable will be when corporates start returning back to office and start traveling again for business, which we anticipate being more in the Q1 time frame than in the Q4 time frame.

But more so for us, we -- our Transatlantic network is really concentrated around London. So we don't anticipate as much of a business recovery in Q4, but we are seeing a really, really meaningful leisure recovery. And all the more so as British Airways builds back its connecting schedule at Heathrow, we anticipate taking an increasing amount of demand as Q4 goes along. So though you see that number in aggregate, we see that something as changing a lot from where we are in October, to November, to January and beyond.

Operator

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

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

So Doug and Robert, we sat down a little bit before the pandemic. And you had sort of laid out a picture where American had been lagging on some of the customer-facing information technology stuff that was kind of constraining the operation in ways like not letting you book up to a higher load factor because of the denied boarding practice, the ability to kind of pay for upgrades, dynamic pricing on frequent flyer tickets, all that stuff. A lot of it sounded like IT-driven initiatives. And I was wondering, kind of coming out of the crisis, as we start to look out over the next couple of years, is there still catch-up work you need to do to bring yourself at parity with peers in terms of the way they're monetizing capacity? Or have you kind of closed that gap through this crisis?

Maya Leibman - *American Airlines Group Inc. - Executive VP & Chief Information Officer*

This is Maya. And I'm proud to say that over the last several years, we really have closed the gap on a number of our technology initiatives, including some of the ones that you rattled off, like dynamic pricing and allowing (inaudible) higher load factors and a lot of standby on day of departure activity. So we've really used the pandemic as an opportunity to really identify those gaps and to close them and really focus on a lot of the other things that we've been talking about that will be tailwinds for next year like our seamless partnerships and making that a better customer experience for our customers with our West Coast and Northeast alliances.

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

And is there a way to frame kind of what that uplift might be in terms of load factor or sort of ancillary revenue growth? It looks like the other revenue line is performing pretty well. But is there a way to kind of put a number around some of these things?

Vasu Raja - *American Airlines Group Inc. - Chief Revenue Officer*

This is Vasu. We're in the early stages of doing that as we build next year's plan. But probably, our top line initiative is making sure that all of these partnerships are really integrated and seamless for the customer, that a lot of the long-standing issues that have existed in co-sharing relationships really get alleviated pretty quickly.

And look, we're pretty pleased with that. We've made a lot of progress with Alaska and JetBlue, and what we're seeing is very encouraging. To my earlier comments, we're seeing a lot of customers come in. Had a meaningful amount of revenue production that's there, too, that -- and as we looked at it in Q3, it was a massive benefit to customers. We estimate its benefit in about 0.5% to a percentage point of system revenue, but something which is a lot more meaningful to a New York and Boston and West Coast network, which was operating at 50% of historical levels. So we do think there's a lot of uplift to the whole thing without a lot of investment further.

Operator

Our next question comes from the line of Dan McKenzie with Seaport Global.

Daniel J. McKenzie - *Seaport Research Partners - Research Analyst*

The first question here is just a housecleaning question from a prior question. The Oasis project, is that included in the $1.3 billion of structural cost savings? Or is that above and beyond? And then just related to that, if that had been fully implemented in 2019, how much would that have contributed to pretax income?

Derek J. Kerr - *American Airlines Group Inc. - Executive VP & CFO*

Yes, it is included. It just -- it added more seats in some of the aircraft. And from an operational benefit, it will help out a lot because, as we swap the aircraft, they will both be in that. So it is in that because we reduced the aircraft types, but it's included in that number. What it's going to do is benefit, number 1, from a CASM perspective because we'll have more seats and from a revenue perspective because we'll be able to sell more seats.

Daniel J. McKenzie - *Seaport Research Partners - Research Analyst*

Yes. Understood. Okay. Second question here, what is the aggregate wallet spend, say, a Fortune 1000 accounts in the Northeast that American can now access for the first time as a result of the Northeast Alliance? So accounts that really where you had no shot at winning pre the relationship with JetBlue versus now. You walk in. You sit down with the corporate travel managers. You can actually put together a competitive network solution. And then just related to that, potential aggregate spend, what would American's fair share -- American and JetBlue's fair share be of that?

Vasu Raja - *American Airlines Group Inc. - Chief Revenue Officer*

Dan, this is Vasu. Thanks for the question. And I appreciate what you're trying to get at, which is effectively, how much more market can we access than what American could access on its own?

And while -- I don't have specific numbers in some cases. We've got to be a little bit careful in what we share about it. For us, as we see it, in New York, historically, we might have been a 25% player. But we were competing for something which was actually like 10% to 15% of the available business travel market at large, not just the corporate market. And so -- in large part because, though we had a really great product in Heathrow or in the transcon market, if we couldn't get you very effectively to Toronto, at some point, customers, especially larger accounts or power travelers, business to our customers, just stop flying us.

And now as we see it, we have the best network between AA and JetBlue. We've gone from a world where we have 4 trips a day, JFK, San Francisco, to one where we'll have a 12, 13, 14 trips a day where all of our transcon product is full flat. We've taken the 50-seat RJ out of New York all together. So when you think about New York, it's a business travel market which is not 2x or 3x larger than the next biggest market, but several orders of magnitude more than that. And that's all in our market that we get to compete for. And when we get to compete for it, we see in New York whose RASMs instead of underperforming the system by 10% to 15% can perform in line with the system.

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

Dan, I just want to go back and just add one more point. Regarding the fleet harmonization project, which we're almost done with, we only have, I think, 60 of the 321s that are remaining. It will be complete by the first quarter.

Derek mentioned that, in the $1.3 billion, so much of the savings in terms of actual commonality and what we can take out in terms of reduction of fleet sizes and being able to operate the airline more efficient, that's included in the $1.3 billion. What's that though is, look, we are adding seats, so -- at very, very low marginal costs. So going from 160 seats on the 73s up to 172, and then on average, adding a few seats to the 321s as well, that's a benefit that we'll be seeing in run rates going forward, from a revenue perspective.

Daniel J. McKenzie - *Seaport Research Partners - Research Analyst*

Yes, the incremental revenue that you gain. That was actually my question. That's what I was trying to get at.

Operator

Our next question comes from the line of Stephen Trent with Citi.

Stephen Trent - *Citigroup Inc., Research Division - Director*

I just had a quick one, looking at your investment. So you guys committed to invest in JetSMART and GOL in South America. You, of course, have this tie-up with JetBlue in the United States. When you think about other international corridors, do you see any opportunities for similar kinds of tie-ups, for example, outside of the oneworld alliance?

Vasu Raja - *American Airlines Group Inc. - Chief Revenue Officer*

This is Vasu, Stephen. I can start on that one. Look, we -- ultimately, what we want to do is create the most comprehensive network for our customers. And whether it is a code share, an investment, a joint venture, whatever it is, we don't see them as end in themselves. Those are just simply means through which we can create something really comprehensive for our customers. And in many parts of the world, we would love to be able to do it all just organically with American Airlines mettle. That's not always possible from regulatory or other reasons. And so based on that, we made -- employ different mechanics, whether it is an investment, a code share, a loyalty partnership. And so it will change out there. But for us, the true north is creating the most comprehensive global network. And we see that whether it's -- we've seen the benefits for consumers in the Northeast and the West Coast.

As we look at South America, really has less to do with investments and more that -- the one thing we can't do for the South American customer is carry them within South America. And so we're always on the lookout for partners that can help us do that and create more value for the customer and how we go and partnerships together as a sort of second order issue.

Stephen Trent - *Citigroup Inc., Research Division - Director*

I appreciate that, Vasu. And just one very quick follow-up. How are you guys thinking longer term about your pipeline of pilots and when you think about retirement in the next 5 to 7 years and what have you?

Unidentified Company Representative

So Stephen, I'll take that one. Look, pilot profession, it's never been a better time to get into it. And what I'll tell you is, we will attract people to the profession given the kind of starting salaries that we're offering right now and ultimately what pilots top out at. So I do see this is ultimately an economic issue that will be solved. You've seen us do some things recently with regional pilots to make sure that they stay in position and progress on to American Airlines. And we'll continue to monitor that. Over time, just as we saw a few years back, this will be brought into balance just simply based on economics. People will want to come into the profession.

Operator

Next question comes from the line of Chris Stathoulopoulos with Susquehanna.

Christopher Nicholas Stathoulopoulos - *Susquehanna Financial Group, LLLP, Research Division - Associate*

So on headcount, how should we think about FTEs in 2022 and if possible 2023? Just could you run your network at or above 2019 capacity on fewer FTEs relative to 2019?

Derek J. Kerr - *American Airlines Group Inc. - Executive VP & CFO*

Yes. I think -- I mean, we have taken out a significant amount of headcount out of the company. That's part -- that mostly what the $1.3 billion of cost reductions -- permanent cost reductions are. As Doug alluded to, yes, half -- $500 million of that is management headcount, $600 million of it is productivity at the other areas with throughout the company. So yes, we will run. I don't have a number for the 2022 plan because we haven't put that together yet. But that is the significant portion of what that's $1.3 billion worth of permanent cost reductions are. It's mostly in the headcount and the personnel side of things at American Airlines.

Christopher Nicholas Stathoulopoulos - *Susquehanna Financial Group, LLLP, Research Division - Associate*

Okay. And the second question, on the corporate side. So you mentioned a full recovery by year-end 2022. Just curious what the mix of users is here. I know you mentioned industrials, health care and I think one other group. But are your surveys showing a mix similar to pre-pandemic travel? Or has it shifted? And is your outlook contemplating the same type of travel, meaning both in user type and frequency?

Vasu Raja - *American Airlines Group Inc. - Chief Revenue Officer*

This is Vasu. And I can help with that. Look, our -- as we see, you're exactly right, certain industries and verticals are traveling more than others. We do anticipate there being a rebound across all of them, because at this point, all industry verticals are improving. They are just a different point in the improvement curve.

And more critically and more importantly to your question, what we see is that even in sectors where travel is less bad, that's the rate of progress we're seeing is mirroring those sectors where travel is more -- relatively more returns. So we do think we have some real confidence that, indeed, corporate travel is likely to come back. As Doug and Robert mentioned earlier in their remarks, there is an immense amount of pent-up demand. And we find that once people start to travel, they continue to do so. Very importantly though, for us and our system, we have a lot of -- a lot of our business style demand is small- and medium-sized business, really across the Southeast and the Southwest. And already -- I mean we're seeing --

like on a traffic basis, that is very well recovered. On a revenue basis, that will start to recover as people come back and pay us more and fly more, frankly.

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

Vasu, I'll add to this. Alison Taylor just held our Corporate Customer Advisory Board meeting down in Miami. I was able to attend as well for a part of it. And that brings together our top 50 corporate customers and those that are responsible for procurement of travel at those companies. I was really pleased to hear just over and over again about, look, we have to get back to the office. And once we get back to the office, travel is going to come.

So it's not surprising that the industrials and health care and pharmaceuticals are leading us right now. They're back in the office. They've got to take care of us and put food on the table. So that's happening. What's going to come next is some of the other banking and financial services, entertainment, as those get back into the office in the start of the new year, they're going to come back to just as we're seeing in some of these other sectors.

William Douglas Parker - *American Airlines Group Inc. - Chairman & CEO*

Chris, it's Doug, just data around just to support some what Robert just told you, I talked about how, in July, we were up to 64% of our 2019 levels in terms of business revenue. There's a big difference between large companies, those that we have on corporate discount programs, and our small and medium business. In that 64%, the large corporates are 35% on a year over 2-year basis. And the small and medium business is 83%. So -- what it says to me is what Robert just said. People are back and traveling. When the large corporates get back to work, they'll travel. It's less about sectors, more about people just getting comfortable bringing people back into the office. Those companies that don't have large headquarters and large HR departments are out flying because they need to across all sectors. Those companies that are larger organizations and need to worry about those things more aren't yet back. They were starting to come back, but they'll get up into the same ranges. That's where business wants to be.

Operator

Our next question comes from the line of Helane Becker with Cowen.

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

I hope you are all doing well. And, congratulations. So here is my question really for Derek. Interest expense, I think, in the third quarter was $476 million, I want to say. Can you just talk about debt paydown and the cadence of that and how it's going to look over the next couple of years in the context of you going from $15 billion -- I think you said in the press release $15 billion of debt pay down by 2025?

Derek J. Kerr - *American Airlines Group Inc. - Executive VP & CFO*

Yes. Well, I can give you what our scheduled debt paydowns are over the next few years. So we said we're going to pay down $4.4 billion this year. Next year is $2.5 billion. The year after that, I would just say it's around $3 billion to $3.5 billion each year as we go forward. So -- but we will -- but we do plan -- just as I talked about on the call, we do plan on financing aircraft in this environment going forward. So the net debt will be a little bit different than that.

So the $10 billion will come off, let's just call it, $2 billion a year over the next 5 years, that will reduce that. What we do on the other 5, we had talked about $1 billion already went at -- in 2021. So we did the paydown of the spare parts loan. We -- also, because of the recovery, it slowed a little bit. We are going to hold on to cash and hold on to cash where we're at today. Once we feel we're comfortable with that, I think we will quickly use the excess cash to pay off most of the remaining $4 billion. It just depends on where our cash balance is. It depends on how it will grow over time. But I would expect it to be sooner than later as long as the recovery happens, business comes back and the earnings are there to do that.

So the prepayment would be upfront. The debt paydown, over time, the $10 billion will be over ratably over time. I don't think we have any big, huge debt payments. There's a $750 million one in 2022 that we have. Nothing huge going forward. So I would look at it that way. It's pretty ratably, the $10 billion over the next 4 years. And then we would try to attack the other $4 billion as soon as we feel comfortable and have excess cash that we can take it down to that $10 billion to $12 billion. We're at 18 today. So we would most likely do it early. Or as I said in the comments, we could use cash to pay for aircraft and just not add the debt instead of paying off any prepayable debt. So that's the plan that we have today.

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

Okay. That's very helpful. And then on the 787s, I think those were going to be leased in aircraft from BOC Aviation. Are you -- does the delays change any of the financing arrangements for those aircraft?

Derek J. Kerr - *American Airlines Group Inc. - Executive VP & CFO*

No, it does not change the financing of the aircraft. Still leased in.

Operator

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

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

A question for Doug. I thought it was interesting in the prepared comments that more capacity versus peers and more revenue versus peers was called out. Is that the main goal of the company at this point, more revenue? Or do relative margins matter? And to what extent is profitability a priority for the Board at all? Or does it not even come up in conversations given how high liquidity is? What is the Board trying to solve for?

William Douglas Parker - *American Airlines Group Inc. - Chairman & CEO*

For relative margins, Duane, and we feel really good about that. The reason I talked so much about the absolute growth at this point in time is because we're all working to add back capacity and to get to where we can meet the demand that we know is coming. So we're really proud of what the team has done to get back more capacity than others, to take care of more customers than others, and to do so, obviously, safely and efficiently and to do so in a way that has us run in a great operation right now.

But of course, that's not the goal of the company. It's just a larger -- the goal of the company is to maximize shareholder value for the long term. And the way we'll do that is producing returns. And what we feel very good about is our ability as we come out of this to improve our relative margins certainly versus Atlantic. I think probably as everybody as you compare them back to 2019 or other years.

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

And just a quick housekeeping, and I appreciate you taking the questions. Just looking into the fourth quarter, do you expect the operating cash burn to be larger than the $1.7 billion burn in 3Q? And I'm not sure if you have the calc, but can you speak to the daily cash burn estimate? Are we going to head back to there?

Derek J. Kerr - *American Airlines Group Inc. - Executive VP & CFO*

We -- go ahead.

William Douglas Parker - *American Airlines Group Inc. - Chairman & CEO*

No. Please.

Derek J. Kerr - *American Airlines Group Inc. - Executive VP & CFO*

No. I would say we're not hitting back there. The fourth quarter is a -- seasonally, you do burn cash in the fourth quarter.

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

But I go back through every fourth quarter since you guys merged, and there's no negative operating cash burn. Understand revenue is depressed, fuel is a little bit higher, but operating cash flow is typically positive in the fourth quarter.

William Douglas Parker - *American Airlines Group Inc. - Chairman & CEO*

Yes, Duane. We don't -- operating cash flow, but the seasonality does -- in profitable years, as revenue -- as cash declining, and we exceptionally comfortable with where the cash is. That operational cash flow will track with the earnings estimate that Derek gave.

Operator

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

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

So as American keeps ramping up capacity maybe a little bit quicker than your network peers and with your vaccine mandate upcoming, just curious, are you planning your network or staffing any differently into peak holiday season? And how do you think about the operational risks around that?

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

Andrew, it's Robert. We're getting ready for the holiday season. We expect a lot of passengers, tremendous pent-up demand, especially as vaccinations take hold and infection rates decline, and we're going to be ready. Look, we have to get ready for the holidays always. And this year, we're doing our best to make sure that we have the right people in the right places at the right times. And that's the effort. And we're taking the appropriate precautions where necessary. But we'll find a full schedule as we go into the holidays and looking forward to it.

Vasu Raja - *American Airlines Group Inc. - Chief Revenue Officer*

Andrew, this is Vasu. One important thing to note, just clarifying your question also is, the absolute ASM production of American Airlines in any month in the Q -- in the fourth quarter is actually less than the absolute ASM that we are producing in July, right? So first, very much -- for where we have been, being able to go and get the big pools of demand that have been out there in geographies that are really favorable to us has really worked out. But as things shape up, we are very much managing to is the relative profitability of the airline. So just to clarify, so that gets lost in the year-over-year or the versus 2019 comparisons.

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

That's a fair point. Then just second, maybe to ask the fuel question a little bit differently. I think I know the answer to this. But over the past 1 year, 1 year plus, did you ever consider introducing a hedging policy? And do you think that this is an option you could rethink going forward?

William Douglas Parker - *American Airlines Group Inc. - Chairman & CEO*

Yes, Andrew. You never see, we've been quite happy being unhedged now for however many years tends to go. I'm sorry. What?

Derek J. Kerr - *American Airlines Group Inc. - Executive VP & CFO*

2008.

William Douglas Parker - *American Airlines Group Inc. - Chairman & CEO*

2008 Derek tells me that we stopped hedging, so -- and that feels right to us. What we find is -- what I said is over time, the industry adjusts. And what generally happens is we end up paying a premium for the hedge without much benefit at all. So anyway, like I said, I don't want to say we won't ever do it, but it's not something we've begun to look at in this run, I can tell you that. So we prefer actually -- we think we have a reasonable economic hedge in terms of what happens with fuel prices and the economy as well. So all those things come together and have us -- tell you, but not right now.

Operator

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

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

Derek, you talked about the delayed 787s as providing or creating a bit of a CASM headwind in the fourth quarter. Can you just remind us how many airplanes -- how many incremental 78s were you supposed to have in the 4Q? And how many percentage points of headwind is that, just roughly?

Derek J. Kerr - *American Airlines Group Inc. - Executive VP & CFO*

Well, it depends on when we were thinking. But earlier, we were supposed to have all 13 in 2021. That schedule has changed weekly. We had -- if you go back to last quarter, we probably had 6 of them built into the schedule, 6 ASMs. It's probably a point of ASMs that we had to take out of the schedule. But that's really what's driving a lot of this. And then as I said, the regional -- we have had a pull down in ASMs from a regional perspective, just the -- so pilot supportability, which we will -- which we're getting all under control right now. But both of those have caused a reduction in the ASMs that we would have flown in the fourth quarter, primarily driven by the 788s.

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

Okay. And then just my second question, and this is either Doug or Robert. Can you be willing to share with us where you stand on vaccinations across your employee work group? And then just any thoughts on the testing, which -- it seems like every carrier is going to have exemption issues and they're going to have to test. And we're hearing that the costs are high, they're not, you don't have guidance from the government. Is it a meaningful cost headwind that we have to worry about? Or anything that you can share on that topic would be great.

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

I'll start. It's Robert. Look, the vast majority of our team members are vaccinated. And we're working through the process. We set a November 24 deadline for vaccination or a combination of request to be provided. We don't expect anybody to leave American Airlines. And certainly, they're going to be out there helping us during the holidays. So no issues there. We don't know what exactly an accommodation would look like for, the minimal number of people that actually apply for that. But it's likely to be some combination of masking, self-declaration and testing. In that testing, we don't know the details of. So we're working through that. And the -- as time goes on, we'll be able to fill you in.

William Douglas Parker - *American Airlines Group Inc. - Chairman & CEO*

Thanks, Robert. And Mike, look, I certainly wouldn't be adding any cost in your forecast for this. So to the extent there will be testing going on, it would be for those who have chosen, still have to be vaccinated. If they have religious or medical exemption, in that we are accommodating while they're still work. I don't suspect that will be an extremely high percentage of the employees. And I don't -- and I can't even imagine that that's a material cost to test those individuals. Maybe OSHA standard is once a week. So I don't know where we end up. We're working through the accommodation process with our unions. But yes, that's -- I don't know -- first I heard this cost issue, I would do everything I could to try and you don't have to worry about that piece.

As to the -- again, just to follow -- just to reinforce what Robert said, and I think it was part of a little bit of Andrew's question, that certainly, when this was first announced, I think there were concerns about what it was going to mean for airlines in TSA and others. That we (inaudible) extremely comfortable with that. I was happy to see yesterday the comments from the White House from Jeff Zients about airlines. These, which, of course, includes the TSA and about how the goal, this is to get (inaudible) so they didn't have to punish anyone. And they're going to have people -- if people have religious or medical exemptions, they will be accommodated and they'll be able to work. So that's the same that you're going to hear from all the airlines as -- again, we're all well prepared to meet all federal mandates and meet all the customers that are coming to the holidays.

Operator

We will now take questions from the media. (Operator Instructions) Our first question comes from the line of Alison Sider with Wall Street Journal.

Alison Sider

On the vaccine question, I'm just curious -- I know you've talked a lot about the exemptions. But I'm just curious what sort of planning or strategizing you guys might be doing if there does end up being some portion of the workforce that just doesn't get vaccinated or have to be terminated or something like that? Is there a kind of a plan B or a backup plan for how you'd handle that?

William Douglas Parker - *American Airlines Group Inc. - Chairman & CEO*

Well, again, well, first off, let's start with what we know, we know, which is, again, the vast majority of employees already vaccinated. And we're seeing that rise every day as the management put in place. So we're highly confident by the time we get to November 24. certainly, by December 8, when demand that comes in place, we're going to be down to a very small number of people, if any, that are either not vaccinated or don't have a valid medical or religious exemption.

So I understand your question is, what if that's not true? But first off, I don't think that's going to be the case, and we know that based on the data we're seeing. But however, again -- so that's where I think the answer is. But even the case that, that happens, we'll continue to work with those employees that have chosen. We got to that point, again, I think it's going to be a really small number. But whatever that number is, we'll continue to work to accommodate those employees and make sure that they continue -- they're working together again, as Jeff Zients suggests that they'd be doing with government employees, well, we're doing the same with ours. So we have that flexibility, but I don't think we're going to need that.

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

Ali, I'd add that, of course, we're working with the team and we're working with our labor unions as well to get everybody vaccinated right now. So you see us that we continue to provide an incentive for team members to get vaccinated, turn in record of their cards. And we're working with the entire team to collect that information as we speak. And fortunately, every day, we see good signs that we're just getting out and people are turning in vaccination status or accommodation requests. And we -- as Doug said, we're really confident that we'll be in great shape as we come into the holidays.

Alison Sider

Got it. And I mean, your pilots have been saying that sort of the whole debate and controversy is becoming a distraction and leading to some potential safety issues. Are you seeing that in your data at all?

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

Well, look we have an obligation to make sure that we're focused on flying. And so any type of distraction, whether it's a vaccine or anything else, we want to jump on. And to that end, we're -- again, we're working closely with our labor unions to make sure that we're on top of anything that is potentially a safety concern. But we're -- find the schedule, flying it very well and flying it incredibly safely. We set very, very high standards, not just for the industry, but especially for American Airlines.

Operator

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

Leslie Josephs

So I'm just trying to square this idea that you don't expect any employees to leave American Airlines. But this week, you told them again that they could be terminated if they don't comply with the mandate, either getting vaccinated or the exemption. And then how come the exemption -- or the mandate doesn't apply to your wholly owned subsidiaries as they fly those government contracts?

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

Yes. Leslie, I'll just start. So first off, look, we have an executive order. And so there's not a lot of debate or argument. We're trying to find the best ways to comply. And so our efforts are making sure that our team members get vaccinated. And to that end, as we've said, we're seeing the kind of results that we want. We have no desire to see anybody leave American. And through getting vaccinated, which we're making very available and easy for folks to get done, or those that -- the small number that apply for accommodations, we will continue to work with people to encourage them to make sure that they take care of themselves. And we're working cooperatively with our labor unions as well. And we have different agreements that we have to follow in accordance with our collective bargaining agreements to make sure that we're doing everything possible to make sure that people stay with American. And we're looking through that, and we're committed to take care of our team.

William Douglas Parker - *American Airlines Group Inc. - Chairman & CEO*

And again, Leslie -- again, just a distinction, I think, Leslie, between where early on in this process, there was concern about not having enough people and where you're seeing everyone getting now is, there was -- I think there was a view that those -- at least some airlines or TSA or other places, those who could not get vaccinated or chose not to get vaccinated would be on unpaid leave or something like that. That's not where we're going.

So that's what gives us the comfort. We do know there will be some people at American Airlines who have reasons they can't get vaccinated. They will have exemptions. And -- but when they have exemptions, we're going to work to accommodate them so that they also can do their jobs. And that -- if anything, between a few weeks ago to now, where you're hearing extreme comfort around our ability to do it versus where we might have been when we first heard this, that's the distinction. And the exact same distinction, by the way, as I said, that we heard yesterday from the administration about TSA and other agencies. So that's what gives us the comfort. That's why we think we're not going to see anyone leaving American. I don't think anyone is going to want to leave American because they can't get -- because either they just -- they choose not to get vaccinated, they don't have a religious or medical exemption.

On the -- on our subsidiaries, just like every other airline, the regional carriers are not subject to the mandate that we know it. That they have to work through that themselves to see whether or not they deem themselves federal contractors. But to the extent they're not, they're not subject to the mandate. They will be subject to the OSHA requirement when it's effective for airline -- for companies that have 100 or more employees. So at that point, they will need to respond accordingly. But there isn't -- I don't -- I certainly don't think between American, Delta, United, none of the regional carriers that any of us use are working toward a vaccine mandate at this point because they've concluded they don't have -- they're not covered by the mandate.

Leslie Josephs

Okay. And then for the exemptions, do you expect to approve all of them?

William Douglas Parker - *American Airlines Group Inc. - Chairman & CEO*

No, of course, not. Not. But again, what I believe is -- what I really believe is where you get -- whatever exemption is going to be a small percentage of the workforce. And most -- everyone will get vaccinated. So -- but certainly, there are always medical exemptions. And to the extent people have valid religious or medical exemptions, we're not going to put them on unpaid leave. We're going to make accommodations for them, as we should. So they can continue to work.

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

And for those that don't receive approval for those exceptions, we fully expect them to get vaccinated.

William Douglas Parker - *American Airlines Group Inc. - Chairman & CEO*

Right.

Operator

Our next question comes from the line of David Koenig with Associated Press.

David Koenig

I have 2 follow-up questions, but I'll try and be quick. First, sticking with the vaccination theme. United and Delta put numbers out there. And why can't you tell us how many or what percentage of your employees are vaccinated? And secondly, and this goes back to something that came up a couple of times on the analyst section, about flying a fourth quarter schedule that's pretty close to 2019 levels and how you're going to do that with your current headcount, why shouldn't passengers expect to see the same kind of disruptions that you had over the summer.

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

Look, David, I'll take that. Look, we're -- we have done a tremendous job of making sure that we're set with final schedule. As we said in our comments, we flew most reliable September in our company's history. And that's the kind of performance that you can expect from American going forward. We did a tremendous ramp up to get to where we were during the summer.

And, by the way, as Vasu mentioned in some of his comments, the kind of schedule we're going to fly around the holidays is actually no larger than what we had flown during the summer. So we -- and all we've done since that time has been able to add more resource to make sure our partners are better positioned and that we're better equipped to handle whatever may come our way. So we feel really confident on that point. In regard to...

Derek J. Kerr - *American Airlines Group Inc. - Executive VP & CFO*

And I would add to that, Robert. But David -- this is Derek. The hiring we're doing now is due for the summer of next year. So we're very confident of having enough resources to run Thanksgiving and Christmas. We already have those people on board.

William Douglas Parker - *American Airlines Group Inc. - Chairman & CEO*

He is asking into next year though. In the next summer, again, the end point though. We're -- look, the disruption we had at end of June was due to us just not having as many pilots through the training process as we had expected. We've rectified that issue, and we're going to make sure that we have -- as we expand, that we have the right number of employees. So that's not an issue at all.

And by the way, to your first question, yes, I guess it was 2 airlines have released their numbers. Our number is still moving every day as more and more people are getting vaccinated. In the case of both, one of them put in place on their unilateral mandate for their teams so that they're through with that. Other one put in place a requirement that if you're not vaccinated, you're going to pay more for your medical benefits, and it's already in place. So -- but I don't think any other airlines have talked about exactly where they are and probably for the same reason we had, which we had a voluntary program in place. And now we have a mandate in place, and that number continues to grow. And what we know is, by the time we get to November 24, we're going to be where the others are, which is virtually everyone vaccinated. Those that aren't will have valid medical or religious exemptions and will be flying our airline, taking care of our customers.

Operator

Our next question comes from the line of Dawn Gilbertson with USA Today.

Dawn Gilbertson

Of course, another vaccine mandate, holiday travel question. Specifically, Scott Kirby, which you're no doubt aware of, yesterday had some pretty strong comments predicting a holiday travel meltdown for everyone, of course, but United. But I wondered, you saying even if -- so you do have to go to testing for some of these people that he said, if there's a weather melt -- if you think a weather meltdown is something where do you see as these people test positive last minute and a flurry of last minute flight cancellation. So in short, what he's predicting a buyer beware for people. How do you specifically respond to that? And my second question is, who is approving these exemptions? Is that just the company? Or is -- does the government play a role in that, too?

William Douglas Parker - *American Airlines Group Inc. - Chairman & CEO*

Yes, Dawn. Look, again, I didn't see Scott's comments, but anyway, if that's what he says that is not right, of course. All the reason we just said, but -- we're well prepared for all the reasons already said, I don't need to restate them. Highly confident that we're going to have everybody we need to fly the schedule. And whatever the accommodation process, as I expect, again, for it not to be a large percentage of the airline, and it certainly won't be a process that will be cumbersome on the operation.

So again, we're still working what the accommodation process will be with our unions. And there will be some combination of testing and masks and social distancing and things like that, as it should be, to make sure we're safe. But we do need to accommodate those who have valid medical or religious exemptions.

And again, I go back to at least the OSHA requirement is weekly testing. So I'm not saying it's where we'll end up. But I don't -- it's not going to -- certainly not going to be something like hourly testing. So we don't anticipate any sort of operational impact. We anticipate having all the people we need. We may have started some of this by being concerned, like I said, when it first came out because we didn't have this kind of direction. We're not remotely concerned now. On -- as to who approves the exemptions, I think that's the employer's duty to approve the exemptions.

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

And we already have a process in place and it did have to deal with accommodation requests already.

William Douglas Parker - *American Airlines Group Inc. - Chairman & CEO*

And we always have, and all companies do because of disability. I'm sorry, Robert. Go ahead.

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

No. That's it.

William Douglas Parker - *American Airlines Group Inc. - Chairman & CEO*

Yes. So anyway, it's the same process. It's just bigger now.

Operator

Our next question comes from the line of Justin Bachman with Bloomberg.

Justin Bachman

I wanted to ask about the DOJ lawsuit regarding your relationship with JetBlue in the Northeast. Are there any discussions going on with the government about that lawsuit in terms of any type of concessions or changes to that agreement? Or is this a case where it's kind of all or nothing in your view?

William Douglas Parker - *American Airlines Group Inc. - Chairman & CEO*

Yes. Absolutely not. Absolutely not. They've sued us and we're going to go win the lawsuit. They're wrong. This is highly beneficial to consumers. And we're perplexed as to why they filed this lawsuit. This is our prerogative and we'll see them in court.

Justin Bachman

Okay. Did you -- Doug, did you say that the discussions were ongoing at the time and they still are or they're not going on?

William Douglas Parker - *American Airlines Group Inc. - Chairman & CEO*

I said they're not going on. I think (inaudible) lawyers are talking to lawyers, but I can tell you for certain, the company is not interested in any sort of talks about settling this. We feel extremely good about our case. I think it's better every day as we continue to expand and provide more service to customers.

Operator

Final question comes from the line of Kyle Arnold with Dallas Morning News.

Kyle Arnold

How are you adjusting your staffing levels at the same levels that you've done in previous years when you look forward to the holiday season? I know some other airlines have said that they essentially have to put more workers on the line and have more workers out there as they come out of this pandemic. How are you approaching staffing over the next couple of months?

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

Yes. I'll take that. We're getting ready for the holidays just as we always do. Look, we've done a remarkable job. I want to give a shout out to our team. American Airlines, in terms of real reliability, arriving on time and completion factor, we're not at the top of the industry, but I'll tell you what, we're beating our other network competitors and doing a real nice job of managing through the pandemic. So really pleased with that. And that same kind of attitude goes into how we look forward to the holidays. And we'll be ready for them and make sure that we have staffing in place and make sure that customers have a very nice experience.

Kyle Arnold

But you're not adding extra staff or adjusting staffing levels upward?

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

So just specifically, we always do. You have to get ready for things like deicing, wayfinding in the airports, managing security -- TSA security lines. Load factors will be higher. So we always have a provision to make sure that we have staffing at the gates to accommodate. And as Derek mentioned as well, we're doing hiring throughout the business, and that includes places like our reservations offices as well. So all of that is being bolstered from where we are today. And again, those kind of things that we would have done in the past, we'll be ready for, and looking forward to holidays.

Operator

This concludes today's question-and-answer session. I will now turn the call back to Mr. Doug Parker for closing remarks.

William Douglas Parker - *American Airlines Group Inc. - Chairman & CEO*

All right. Thank you all very much. We appreciate your interest. Any other questions, please let Investor Relations or Corporate Communications know. Thanks for your time.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.
