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AAL - Q4 2017 American Airlines Group Inc Earnings Call

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OVERVIEW:

Co. reported 4Q17 total operating revenues of $10.6b and GAAP net profit of $258m or $0.54 per diluted share.

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PRESENTATION

Operator

Good morning, and welcome to the American Airlines Group Fourth Quarter 2017 Earnings Call. Today's call is being recorded. (Operator Instructions) And now, I'd like to turn the conference over to your moderator, Managing Director of Investor Relations, Mr. Dan Cravens. Please go ahead, sir.

Daniel Cravens

Thanks, Alan, and good morning, everyone, and welcome to the American Airlines Group fourth quarter 2017 earnings conference call. In the room with us this morning is Doug Parker, our Chairman and CEO; Robert Isom, President; and Derek Kerr, our Chief Financial Officer. Also in the room with us for our Q&A session is Elise Eberwein, our EVP of People and Communications; Maya Leibman, our Chief Information Officer; Steve Johnson, our EVP of Corporate Affairs; and Don Casey, our Senior Vice President of Revenue Management.

We're going to start the call today with Doug, and he'll provide an overview of financial results. Derek will then walk us through the details on the fourth quarter and provide some additional information on our 2018 guidance. Robert will then follow with commentary on the operational performance and revenue environment. And then after we hear from those comments, we'll open the call for analysts' 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 and costs; forecast of capacity, traffic, load factor, fleet plans and fuel prices. These statements represent our predictions and expectations as to future events that numerous risks and uncertainties could cause actual results to differ from those projected. Information about some of those 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, 2017.

In addition, we will be discussing certain non-GAAP financial measures this morning, such as pretax profit and CASM, excluding unusual items. A reconciliation of those numbers to the GAAP financial measures is included in the earnings release, and that can be found on our website at aa.com.

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

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

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

Thanks, Dan. Thanks to everybody for being on. 2017 was a great year for American Airlines from a financial perspective. As we announced this morning, we made, excluding special items, $3.8 billion pretax. That's $2.4 billon after tax or $4.88 a share. In terms of accomplishments, the teams did a phenomenal job through sometimes difficult circumstances. We -- in regards to creating a world-class customer experience, we produced record-setting operational reliability at American. We did that where we continued the most aggressive and successful aircraft modernization program in the history of commercial aviation. We've introduced the best lounge product ever created by a U.S. carrier with Flagship Lounges in Miami, LAX, JFK and improvements in Chicago. We successfully rolled out our basic and Premium Economy products. We expanded our network, where we have strategic advantage, which is in and out of our hubs. And it's all working. Our customer service -- or customer survey data on likelihood to recommend is the highest in American Airlines' history, and our year-over-year growth and unit revenue was industry-leading. As to making culture a competitive advantage, we started the year by giving each team member 2 round-trip positive space tickets in appreciation of their work, and allowing American Airlines to win the Air Transport World Airline of the Year award, the first time American won that since 1988. We ensured our team member pay remain competitive through initiatives, such as the unilateral mid-contract pay adjustment for pilots and flight attendants. We invested several hundred million dollars in team member facilities throughout the system as well as equipment improvements. We've brought some maintenance work back in-house. We launched the first team member survey in over a decade in and now ended the year by sharing the long-term benefits of the recent Tax Cuts and Job Acts (sic) [Tax Cuts and Jobs Act] by issuing $1,000 payments to all of our non-officer team members. All that added up to ensuring -- to helping us ensure some long-term financial strength. We returned $1.7 billion to shareholders through repurchases and dividends. The total since 2014 now is $11.4 billion. We announced $3.9 billion in revenue and cost initiatives expected to be realized by the end of 2021. And then finally, and in terms of thinking forward and leading forward, we formed a strategic alliance with China Southern, which strengthened our relationship with our other key global partners. We made important advancements in next-generation technology, and we improved our long-term strategic positioning in critical airports like LAX and Chicago. So we are extremely proud of what our team accomplished and our 120,000 team members, who made it happen. We ended 2018 with great momentum, and we are bullish about our future.

So with that said, I'll turn it over to Derek, who will give you some more detail on the financials, and then we'll go to Robert with some more color on the revenue and the operations performance. Derek?

Derek J. Kerr - *American Airlines Group Inc. - CFO and EVP*

Thanks, Doug. Good morning, everybody. Before I begin, I'd like to thank our team members for the great job they did in 2017 taking care of our customers. Our company continues to take great strides forward, and the progress we made is entirely due to their efforts.

We filed our fourth quarter and full year earnings press release this morning. In that release, our fourth quarter 2017 GAAP net profit was $258 million or $0.54 per diluted share, down $31 million from our fourth quarter 2016 GAAP net profit of $289 million. On a full year basis, our GAAP net profit for 2017 was $1.9 billion or $3.90 per diluted share compared to our 2016 GAAP net profit of $2.7 billion. Excluding net special items, we reported a net profit of $455 million in the fourth quarter 2017 versus our fourth quarter 2016 net profit excluding special items of $475 million.

Our diluted earnings per share, excluding net special items, were $0.95 per share, which was up 3.5% from $0.92 per diluted share that we had in the fourth quarter of 2016.

For the full year of 2017, net income, excluding special items, was $2.4 billion or $4.88 per diluted share versus 2016 at $3.2 billion or $5.71 per diluted share. On a pretax basis, our GAAP fourth quarter 2017 pretax profit was $425 million. Excluding net special items, our fourth quarter pretax profit was $739 million, resulting in a pretax margin of 7%. For the full year, our GAAP pretax profit is $3.1 billion. If we exclude special items, the number is $3.8 billion and a pretax margin of 9.1%. For the sixth consecutive quarter, our fourth quarter revenue performance led the industry. Total operating revenues were up 3-point -- or excuse me, 8.3% year-over-year to $10.6 billion. Passenger revenues were up 8.1% to $9 billion, primarily driven by a 4.4% yield improvement. Our cargo team continues to produce great results. Cargo revenues were up 19.7% to $232 million in the fourth quarter due in part to a 12.2% increase in volume. Other operating revenues were $1.3 billion, up 8.1% year-over-year, primarily driven by higher bag fees and frequent flyer revenue.

Total GAAP operating expenses for the fourth quarter of 2017 were $9.9 billion, up 9.8% versus the same period last year. This increase was driven by higher consolidated fuel expense, which was up 23.5%, higher salaries and benefits expenses as a result of the mid-contract base pay increase given to our pilots and flight attendants in April 2017 and higher revenue-related expenses and depreciation. As a result, consolidated CASM was $0.1471, up 7.1% year-over-year, and our consolidated CASM ex-fuel and special items was $0.1125, up 3.8% year-over-year due primarily to the expense increases I just mentioned.

We ended the year with approximately $7.6 billion in total available liquidity, comprised of cash and investments of $5.1 billion and $2.5 billion in undrawn revolver capacity. The company also had a restricted cash position of $318 million. Our treasury team continued to be busy in the fourth quarter, completing 5 aircraft mortgages and 2 sale leaseback transactions. In tradition, we successfully repriced 2 term loans, bringing our entire term loan performance portfolio to an industry-leading rate of 200 basis points over LIBOR. All of these transactions helped contribute to the long-term financial strength of American.

During the fourth quarter, the company made dividend payments of $48 million and repurchased 4.6 million shares at a cost of $227 million. Total capital return to shareholders in 2017 was $1.7 billion, $1.6 billion in share repurchases and $200 million in dividends. And since mid-2014, as Doug said, our total is $11.3 billion of capital returned to shareholders. As a result of these repurchases, our share count outstanding as of December 31, 2017, was 475.5 million, a reduction of 37% from the merger closed in December 2013.

In addition to our earnings release, we also filed our investor update this morning. As discussed at our Investor Day in September, we will now provide guidance on a consolidated basis and longer-term CASM, CapEx and fleet guidance. We also disclosed in our update that due to the adoption of new accounting standards on January 1, 2018 relating to revenue recognition, as well as the income statement classification of certain pension and benefit costs, we would provide recast numbers for 2017 reflecting those changes. Under the new revenue standard, our 2017 pretax income will receive a noncash benefit of $311 million. The reclassification of certain pension and benefit costs resulted in a net $138 million gain moving from operating to nonoperating expense and has no effect on the 2017 pretax income. The recast financial statements are included along with the investor update we filed as an 8-K this morning and should be used as a baseline for your models.

We continue to expect our 2018 capacity to be up approximately 2.5% on a schedule-over-schedule basis, which is consistent with guidance provided on our third quarter 2017 earnings call and in line with anticipated GDP growth. The hurricanes that hit Florida and the Caribbean last September, which resulted in more than 8,000 flight cancellations, is expected to add approximately 50 basis points to this guidance on a schedule-over-actual basis. The full-year growth is driven by an increase in utilization of about 2 points, completion factor increase of about 0.5 point and gauge of about 0.5 point. By region, we expect 2018 system capacity to be up approximately 3%, both domestically and internationally. By quarter, we expect first quarter consolidated capacity to be up 66.2 billion ASMs, second quarter to be 73.4 billion ASMs, third quarter 76 billion ASMs and the fourth quarter to be 69.1 billion ASMs. As discussed at our Investor Day and reiterated on our third quarter 2017 earnings call, we continue to anticipate that our unit cost growth rates will trend lower throughout the year, and expect 2018 full-year, non-fuel CASM to increase by approximately 2%, excluding the impact of any new labor agreements. This guidance includes approximately $250 million of cost reductions from our One Airline initiative, which is $50 million higher than we had outlined at our Investor Day. We expect our first quarter consolidated CASM, excluding special -- fuel and special items, to be up approximately 3% to 5% on a year-over-year basis, with the increase driven in part by the rate increases given to our pilots and flight attendants last April, which is not in our 2017 first-quarter base; higher depreciation and amortization;

increases in revenue-related expenses; and increases in rent and landing fees. For the remainder of the year, we expect our CASM growth to trend lower. In the second quarter, CASM was up 1.5% to 3.5%; third quarter, 0.5% to 2.5%; and fourth quarter will be up approximately 0 to 2% versus 2017.

Based on the forward curve as of January 22, we are forecasting a 24.1% year-over-year increase in consolidated fuel expense in 2018 or about $1.8 billion year-over-year. We anticipate paying between $2.06 to $2.11 per gallon for the year. By quarter, in the first, it's $2.07 to $2.12; second quarter, $2.07 to $2.12 also in the second quarter; in the third quarter, $2.06 to $2.11; and in the fourth quarter, $2.03 to $2.08. Following the passing of the recent Tax Cuts and Job Act (sic) [Tax Cuts and Jobs Act], our book tax rate has been reduced from approximately 38% to approximately 24%. As a result of tax reform, the company recorded a special noncash tax benefit of $7 million to reflect the impact of the lower rate on our deferred tax accounts. In addition, under the new law, we expect to receive cash tax refunds of approximately $170 million in both 2019 and 2020 related to the repeal of the corporate alternative minimum tax. While we currently do not pay federal cash income taxes, the new law will substantially reduce the company's tax bill in the future when we do become a tax -- cash taxpayer, which will be a significant benefit for all of our American stakeholders. Robert will talk more about our first quarter 2018 TRASM forecast increase of 2% or 4%. But when we combine the cost guidance we just gave, we expect the first quarter 2018 pretax margin, excluding special items, to be between 2% and 4%. In addition, we also are providing long-term earnings per share guidance at this point. We expect our 2018 earnings per diluted share to be between $5.50 to $6.50, and we will intend to tighten that range as the year progresses. Our capital plans for 2018 include a decline in spending from previous years due primarily to lower aircraft CapEx. Our fleet renewal program will continue in 2018, but at a much slower rate. For the full year, we expect gross CapEx to total $1.8 billion as compared to $4.1 billion in 2017. This includes the delivery of 22 mainline and 5 regional aircraft. These will replace older super 80s, -8s and CRJ-200 aircraft. We also expect to commit $1.8 billion in non-aircraft CapEx to continue the merger integration and complete projects to improve our product and operations, such as narrowbody retrofit programs, the ongoing installation of Premium Economy on our widebody aircraft and improvement in our clubs and new campus facilities.

With respect to our pensions, on our last call, I had estimated that our 2018 pension contribution would be approximately $780 million, which will fund our pensions to 80%. However, in 2017, our pension assets had strong investment performance. And as a result, we now expect to make pension contributions of only $465 million in 2018 to reach that 80% funded level. This amount is significantly more than the minimum required contribution of approximately $35 million in 2018.

So in conclusion, I'd like to once again congratulate our entire team for another excellent year, and thank them for getting our customers where they need to go safely and on time.

With that, I will turn the call over to Robert.

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

Thanks, Derek, and good morning, everybody. Before I begin my remarks, I'd like to echo what both Doug and Derek said and thank our entire team for taking care of our customers throughout the year. They worked through hot temperatures, cold temperatures, rain, snow, ice, hurricanes and even earthquakes, and demonstrated to the world what teamwork at American Airlines is all about. So from all of us, I'd like to offer our sincere thank you for a great year.

In 2017, we worked hard to validate the trust placed in us by our customers, team members and shareholders. Our efforts were focused on key areas that would help us earn and maintain that trust, such as improved reliability and revenue performance, service to important new markets, customer experience enhancements and improved team member relations. As we look at our operations, the investments we made in prior years are starting to pay off. We reduced schedule churn, implemented airport service management tools at key hubs, brought innovative automation tools online and enhanced our maintenance processes. All of these changes are evident in our operating stats, and so our performance was significantly better in 2017 versus 2016. In 2017, we posted our best full-year results in on-time departures, on-time arrivals and baggage handling since our merger closed in 2013. Our completion factor would have set records, too, but was significantly impacted by the back-to-back-to-back hurricanes in September that impacted the Caribbean and Southeast United States. In November, we set records in each of the core metrics and, equally important, our operational performance during the peak summer and holiday periods were significantly improved versus 2016. Our full year 2017 revenue performance finished well ahead of 2016, with a 3.9% year-over-year TRASM improvement. Our investments in our product and our team members, together with highly effective marketplace execution across all commercial areas, set us apart as we outperform the industry in every quarter during 2017. We continue to innovate in revenue management with our focus on the premium cabin, which delivered a full 2 points to system unit revenue improvement. We attracted nearly 24,000 new, small to medium-size corporate accounts through revitalized sales efforts and investments, and saw improvements in our revenue share premium to fair share in the business agency channel of 2.6 points. The effective launch of our Basic Economy and Premium Economy products in 2017 were well accepted by the marketplace, and we're looking forward to expanding those products further in 2018 and beyond.

2017 also brought the highly anticipated opening of the Flagship Lounges in JFK, Miami, Chicago, Los Angeles, which have been met with enthusiastic reviews. Flagship Lounges will be added to DFW, Philadelphia, London Heathrow in the future. We also opened new Admiral Club locations in Orlando, Houston, Los Angeles Terminal 5 and Toronto, with refurbished clubs opening in JFK, Chicago and Los Angeles Terminal 4. In 2017, we also introduced several new customer service tools with Dynamic Reaccommodation, customer bag notification, Notify All and a refreshed mobile app. All of those tools will help to provide a smooth customer journey, both on the ground and the air. We're also enhancing the customer experience in Main Cabin Extra. As we announced in September, we'll be adding free drinks and easier-to-use overhead bin space in Main Cabin Extra. The new placards will go onto the overhead bins next week, and that free drink is coming in the spring.

On the fleet side, 2017 was the final year of our accelerated fleet renewal program, where we inducted more than 400 mainline and 100 regional aircraft. We added an average of 97 aircraft per year from 2014 to 2017, but expect to only induct 27 aircraft in 2018.

We also made good progress on several projects that will improve profitability, enhance the customer experience. The 777-200 retrofit program, which involved updating the aircraft interiors, adding new IFE and Wi-Fi, was completed in mid-2017. Premium Economy officially launched in early May on the 787-9 aircraft, and customer response has been very positive. More than half of the planned widebody fleet now features this highly differentiated product, and all planned aircraft will have it installed by the fourth quarter of this year. The 777-200 fleet -- the high-density 777-200 fleet and the 330-200s are fully installed, and work is underway on the 777-300 fleets as well. In addition, the narrowbody satellite Wi-Fi project that we outlined at the Investor Day in September commenced in the fourth quarter. And lastly, we completed the mainline livery repainting project in the fourth quarter. So all mainline aircraft that are planned to stay in the fleet have now been painted.

Turning to revenue. The demand environment continues to be strong. Our fourth quarter consolidated PRASM was up 5.4%, and our fourth quarter TRASM was up 5.6%, marking the fifth consecutive quarter of positive unit revenue growth and the sixth consecutive quarter where we outpaced the industry average growth rate. Improvement was broad-based with every entity in a positive territory for the quarter. In fact, we closed out the year with every entity with positive unit revenue growth for the entire year. We had another quarter of strong performance in the corporate segment, and forward outlook remains positive as our sales investments and initiatives continue to take hold. Corporate revenue continued to improve quarter-over-quarter, ending the fourth quarter 2017 with the highest year-over-year growth of the last 8 quarters. In the domestic, our consolidated PRASM was up 5.7%. We're able to deliver both load factor and yield improvements with continually improving management execution in both the trough and peak periods. DFW and Phoenix led the way in improved performance, but improvements were broad-based, with every hub exhibiting unit revenue growth.

Our Latin America performance was very strong, with PRASM up 6.3%, notwithstanding Brazil unit revenue being flat year-over-year. The rest of South America, the Caribbean and Central America all had double-digit revenue -- unit revenue growth. Atlantic unit revenue was up 7.7%, the best result we've seen since the merger. And proved execution of low-cost carrier price-matching, together with strong premium cabin performance due to our premium cabin initiatives were the primary drivers. And the U.K. led the way with double-digit growth. Across the Pacific, PRASM was up 1.2% year-over-year, in line with performance from previous quarters, while growing capacity by 7.5% with the launch of Los Angeles to Beijing. Again, our strong premium cabin performance made the material difference. Fourth quarter cargo revenue improved 19.7% year-over-year on both strong volume and yields, continuing a positive trend that we've seen since the second half of 2016. We expect our year-over-year TRASM to be up 2% to 4% in the first quarter. This will mark the sixth quarter in a row of positive unit revenue growth. Consistent with 2017, we expect all 4 entities to have positive unit revenue growth, led by Latin, followed by Atlantic, then domestic and Pacific.

As we look to 2018, we continue to be encouraged with the revenue environment, and are excited about what that means for American. Over the past 3 years, we've made significant investments in our team, our product and our operations. And those are all paying off. We're proud of what our team has accomplished so far, and we look forward to the future. And with that, I'd like to turn the call back over to the operator and begin our question-and-answer session. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And we will take our first question from Michael Linenberg with Deutsche Bank.

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

2 questions here. Just on the guidance in the non-op area, it looks like you're getting a $300 million benefit there. And it does look like, I guess, Republic's in there. Is some of that, what, just with the pension? I know you've had a pension benefit that ran through the P&L. Is that showing up in there? What's driving that number?

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

Yes. That's all -- Mike, most of that is the pension benefit. The Republic, since we're 25% ownership, we do have to use the equity method of accounting, but that's a small portion. In '17, it was only $14 million. So most of this is the pension credit, the $138 million coming down to that bottom line.

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

Okay. So that -- under the old accounting, Derek, that pension piece would just have shown up in salary and wage expense?

Derek J. Kerr - *American Airlines Group Inc. - CFO and EVP*

Correct. It would have been a credit to salaries and wages.

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

Okay, perfect. And then second question, I really appreciate the fact that you guys are providing a fleet plan all the way out to 2020. This is great. Curious on 2 things. It looks like the A330-100s, do they go away? And I'm curious if they're going to be offset by other widebodies. It looks like your widebody fleet actually shrinks in 2020. Are we going to see international capacity down? And then the E190s also look like they'd go away at the end of 2018. Am I reading that right?

Derek J. Kerr - *American Airlines Group Inc. - CFO and EVP*

Yes. I think 2 things to look at. I think focus more on '18 and '19 because we know where we are on those 2. The plan is to take the Embraer 190 fleet and the MD -80 fleet out by the end of '19, and that's firm in the plan. We are working, from a widebody perspective, as we talked about on the calls before, you see the A350s coming in, in 2020. We have had conversations about that. Those would replace -- they're currently set to replace A330-300s and other widebodies as they come in. We have talked about that. We're working with Airbus and Boeing on other options from a widebody perspective just to see where we go with that. So I think this can change out in the farther years in 2020. I think the fleet plan over the time periods have stayed pretty flat. Right now, we have it going down a little bit in 2020 because this just represents the transactions that we have in place today and that are firm, nothing other than that. So I would expect probably from an aircraft standpoint, that the 951 we have at 2018 probably stays pretty flat in that 940 to 950 range through 2020. And then the -- as we see on the regional aircraft, we do stay within the 600 -- 590 to 600 range. So there'll be some tweaks, and we'll continue to update you as we move forward on each of these, but I would assume that the fleet stays pretty flat over the next 2 to 3 years.

Operator

And we will take our next question from Kevin Crissey with Citi.

Kevin William Crissey - *Citigroup Inc, Research Division - Director and Senior Analyst*

Kind of an unusual question, I think, and maybe it's for Derek or I'm not sure who should answer this. If we think about the return on invested capital of the underlying airline, it's improved significantly. And while cargo has improved in -- you mentioned that, how well cargo is doing on a year-over-year basis, I wanted to get an understanding of how cargo return on invested capital, fully allocated, compares to that of the airline. Because my sense is, historically, is that it did -- hasn't had -- it may be was contributing when the airline was weaker, but it may be not be meeting that standard now. So I wanted to understand how you think about cargo's return relative to the airline.

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

Kevin, I'll start, and then Robert can just give a more color, if he'd like, on the cargo business. But to try to put a return on invested capital on the cargo business, which basically assumes that capital is dedicated to the cargo business, is hard for us to do. We invest in capital to fly people and cargo, and we invest in airplanes and a lot more for people than for cargo. So you need to put them together. And it's impossible. It really -- it's really difficult, and we certainly don't attempt to put returns on just the cargo business. They come together when you acquire the capital and aircraft. We certainly don't think there's enough return in that business for an airline like American to go invest in freighters, for example. That's someone else's business. But because we invest -- because we do, do a really nice job of connecting people around the globe, we can indeed fly around a lot of cargo. And again, that business is, as you noted and as we noted, is picking up. Anything to add, Robert?

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

No, just that belly space on those aircraft is going to be flying around no matter what we do. And the cool thing about the fleet renewal program is that, as we take a look at 767s leaving the fleet and bringing on things like 787s, the capacity that comes with that is really helpful. So we're seeing benefit from that, both in the opportunity to put more cargo on the planes. And at the end of the day, I'm really confident that the profitability -- the marginal profitability of that product is well worth being in the business.

Kevin William Crissey - *Citigroup Inc, Research Division - Director and Senior Analyst*

How is it that you determine the appropriate pricing levels then forward if it's seen as like basically free belly space?

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

It's free belly space. Of course, there's equipment and people in that. And we price it to achieve -- and we're not going to get into that today, but we price it to achieve what we consider a significant margin, and a margin that, in many cases, exceeds what we would see from aspects of our passenger revenue. We've got a great cargo team, led by Rick Elieson, who's appointed earlier this past year, taking over from Jim Butler. We're returning to levels of production that we really haven't seen since 2014. And when you take a look at what we've actually produced over this -- the last couple of quarters, it's both volume- and yield-based. So all good.

Operator

And we will take our next question from Hunter Keay with Wolfe Research.

Hunter Kent Keay - *Wolfe Research, LLC - MD and Senior Analyst of Airlines, Aerospace & Defense*

Doug, appreciate your leap of faith on the earnings guide. I really do. But then I probably know the answer to this, but was this the same EPS range that you expected to provide a couple of days ago before United announced their little, let's just call it, ambitious capacity plan?

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

Yes.

Hunter Kent Keay - *Wolfe Research, LLC - MD and Senior Analyst of Airlines, Aerospace & Defense*

Okay. And then just a quick follow-up. Does this include buybacks or no? I guess, it does, right?

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

There's a range for a reason. There's an EPS...

Hunter Kent Keay - *Wolfe Research, LLC - MD and Senior Analyst of Airlines, Aerospace & Defense*

Okay, fine. And then, Robert, in the opening remarks, it's funny, you cited effective LCC price matching as a tailwind to your transatlantic RASM. It's funny, you're calling out price matching as the reason your RASM was good. Can you -- if I wasn't misinterpreting the comment, can you just elaborate on what you meant by that, and maybe feel free to talk about that entire LCC transatlantic dynamic for a second, too, while you're at it?

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

Well, I'm going to let Don start on that, but -- go ahead.

Donald B. Casey - *American Airlines, Inc. - SVP of Revenue Management*

Sure, this was a price-matching. The industry ended up much more comprehensively matching the Atlantic LCCs in October of 2016. So we're kind of lapping the period where we started the matching. And over the kind of intervening year, we've become, as we looked at the results, more effective at where we match and how the yield management system views those fares and when we're open and close. So this is really a benefit associated to better execution, right, of a strategy that really the industry started to employ in October of 2016.

Operator

And we will take our next question from Jamie Baker with JPMorgan.

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

Doug, a follow-up to Hunter's question. Why should we believe the 2018 guide? Why should we believe anything Derek just said about aircraft? Why shouldn't we expect an incremental aircraft order in order to offset what United is doing? I'm obviously trying to bait you, but I'd appreciate if you can help respond.

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

Yes, okay. Yes, I'll try not to take the bait, but let me try and help because I know it's important, obviously. American Airlines' shareholders got caught up in this yesterday, too, so it's important you all have a chance to at least understand somewhat our view. But look, we're not going to opine on other airlines' capacity plans. That's for them to decide what to do and to describe to you their plans. What I can tell -- what we're happy to talk about is American's growth, which may or may not provide some insight into what's going on at other airlines. And again, it may be helpful or maybe not, but I can talk about what we're doing. So Derek told you that we estimate at American that we're going to grow, schedule-to-schedule anyway 2.5% growth, '18 versus '17, 3% when you include the fact that we had the hurricanes in '17. That number by itself is somewhat meaningful. But it's really important, I think, to understand -- to kind of understand what type of growth we're talking about in that 2.5% or 3% and how it relates to our existing set of assets. So -- and to be clear, as we discussed at Investor Day, our network assets, our privileged set of assets is our hub-and-spoke basis. So if we were to tell you, for example, "Oh, that 2.5%, 3%, here's what we decided. We're the biggest airline in the world, so we think we should serve the largest point-to-point markets in the United States." So we're going to go out and acquire some airplanes, and we're going to start adding service to San Francisco, Minneapolis, to Atlanta, Houston, because those are really big markets, and we don't serve them nonstop. And again, we're a big airline. We think we should be in big markets. That would be growth outside of our core asset base, and that would engender a certain competitive response from those carriers that do have a strategic advantage in those markets, the airlines that do have hubs on the other ends of those markets. And over time, we lose a good bit of money in those markets because we'd only have local traffic, and our competitors would have flow traffic filling up most of their seats. And that would be not good growth for our shareholders. So look, well, that's an example based on today's world. It's indicative of the kind of things we all used to see in the old days. And I think, again, we're still a victim of our past. When people just hear growth, they think, "Well, here they go again." And indeed, that's the kind of stuff that happened, I mean, not so much that example. But what happened in the old days, when -- in a less mature business, we -- airlines without real network assets were looking to use the good times to build some network assets and to take out the weakest when they did that. And that kind of growth tended to have much different kind of competitive impacts, competitive ramifications than what we're talking about here with our growth. So let's talk about what we are doing. So we're not doing that at all. What we're doing is we're taking existing aircraft, increasing the utilization on it, redeploying aircraft from markets that maybe aren't doing quite as well to places where we know we can do well, where we have real strategic advantage. We're growing where we have a competitive advantage. We're creating better connecting markets. We're doing it in 3 ways. New cities. First off, and this is -- I know you noticed this, Jamie, because fair enough, it wasn't easy. We announced a couple of weeks ago a schedule change through the summer, which is -- which defines most of where we're going to be -- where that expansion is. So you can see it there, but we're -- some new cities. And look, there's some that get some attention and are little more exciting, like Reykjavík and Budapest and Prague. But the 3 cities in the United States are South Bend, Missoula and Panama City. That's where we can create better connecting markets. We connect -- we don't fly to Panama City. We had Panama City to Dallas. We open up markets to the people of Panama City and people who want to get to Panama City that don't really exist today and certainly give them better connections than they have today. So yes, I mean, look, that's going to have -- that means whoever's flying to Panama City, they maybe lose a little share, but that doesn't start fare wars. That doesn't start -- there's not an ability to -- that doesn't engender some sort of enormous competitive response, because what do you do? We're flying -- we're just making our existing assets stronger, and we're providing better service and better utility to customers as a result. So that's part of it, but it's not most of it. It's -- the second thing we do is add frequency to existing cities. That's a good bit of our growth. A lot of these cities have 1 or 2 departures today. We take them up to 3. Cities like Stillwater and Lake Charles get up to 3 departures a day instead of 1 or 2. It has the same sort of effect. We just make the connections. We create more connections for our customers, make the hubs even stronger. And then lastly, and the biggest one, is connecting existing cities to new hubs. And this -- look, this is really -- this is much of the promise of the merger. For example, American Airlines has always done really well in Oklahoma City for obvious reasons, proximity to Dallas. And we have a pretty strong base of customers there, but we've never flown from Philadelphia to Oklahoma City. And that's one of the routes we announced. Once we do that, we'll all of a sudden create unique connections to Europe for a customer base that flies us a lot already. Similarly, we flew Wilmington to Charlotte. We didn't fly to Dallas. So in our announcement, you see new nonstop from Wilmington-Dallas. This just opens up customers and connections to places like Mexico, ski markets, Hawaii, all of which are one-stop markets that customers had. So of the 52 new routes we added, 47 of them fall into that category, existing cities and new hubs. So look, that's where we are at

American. We think it's smart, efficient growth, where we have competitive advantage. It doesn't result in yield decline. It doesn't result in fare wars. Just it does move share from competitors. I mean, we're not -- I'm not trying to suggest that this is all stimulative. It's not. But it just doesn't engender the kind of response that it feels like people seem to think by just looking at a number because we are doing what we think makes sense, given our competitive advantage. And again, I think one way to characterize this, we've talked a lot about how we think the domestic U.S. airline market has become mature. I do believe that it's mature because we have 3 hub-and-spoke carriers that compete aggressively against each other, that can take people all over the world with a lot -- between a national low-cost carrier like Southwest and a lot of other competitors like the JetBlues, Alaska, Spirits of the world, intensely competitive, but feeling very mature. Growing out hubs is just a continuation of that maturity and, perhaps, kind of the final stages of the maturing business. Because once you get to a point that those are your assets, it makes sense, I think, to strengthen them. And some of us are further along than others. So a long way of me saying, look, the number matters, but it can always make sense to go figure out where the growth is coming from. And sometimes, you can get overreactions to a number and just would encourage people to go look at where -- what people are saying about actually where they intend to grow. So that's what we think. Hunter asked if we changed our estimate based upon what we heard. We have not. It doesn't, nor have we changed, nor do we have any plans to change. Everything we just -- I just rattled off about our growth plans were in place before and remain in place now. We don't have any intention to change those based from what we know now. And look, we'll see where people grow. We'll see where people decide to compete. We will obviously respond where we think it makes sense, but it's always going to be around our core strategic assets.

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

Doug, if I were to -- that's very helpful, exceedingly helpful. But if I were to paraphrase that into a soundbite, do you characterize OA growth, provided it's hub-centric, as not uniquely damaging to the American Airlines franchise? Yes or no?

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

I'm not going to opine on other airlines' growth, I told you.

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

You just did.

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

I spoke for 5 minutes, and you gave a sentence that I didn't say. So make your own conclusions from what I told you about American's growth, but look, we're not here to talk about what other people are doing in their networks. That's for them to decide. And again, we know who we are. We know the assets we have. We feel good about our growth. And look, all I'm pointing out is, you can look at our 2.5%, 3% growth and say, "Gosh. Why do you guys think that makes sense?" And I just gave you the answer.

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

Sure. My follow-up will be American-centric, okay? So shifting the spotlight back to -- and thank you for indulging me. It's what people needed to hear. So thank you for that first question.

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

No, it's important. No problem.

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

The high end of your 2018 EPS guide still falls, I don't know, around $1 billion short of that mid-cycle $5 billion target. Revenue trends are looking good at the moment. Labor pretty much industry-wide has been remarked, but capacity is starting to creep. Margins appear to have stagnated. I don't know, it just sort of feels mid-cycle to me right now. So I'm wondering what's holding you or holding American back from achieving that $5 billion mid-cycle target. Or should we just assume that the $3 billion, 5$ billion, $7 billion needs to be downwardly adjusted maybe by $1 billion for each post?

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

Absolutely not on the last point. We continue to believe $3 billion, 5$ billion, $7 billion is the right range. We continue -- and again, don't take our word for it, we just had our -- we had a board meeting yesterday setting our 2018 objectives. And our management teams' bonus payments are based upon that exact same formula. So that's how we're paying ourselves on short-term incentive based on our ability to -- not by the way -- you're right, our guidance doesn't have us there. So I'm not suggesting that our guidance has been sitting. What I'm saying is it's still in the range of $3 billion, 5$ billion, $7 billion, and this feels like a year, at least, looking at it right now that isn't one of the -- is somewhat a below-average year for our costs and a steady earnings power. The reason I believe that is because fuel prices have run up so quickly. And if you look, as Derek stated -- I mean, you're right. Your numbers are right, of course. If you take, I guess, the midpoint of the range, kind of year-over-year earnings are pretty flat in our forecast -- our pretax basis, of course. After tax, because of the tax rate, they're up a good bit. But on a pretax basis, they're pretty flat. But look, our fuel price alone is driving $1.8 billion of higher expenses. So for us to be producing flat earnings on one of our -- what's become, again, our largest costs going up by $1.8 billion says a good bit. Now, again, you should rightfully say, "Well, gosh, if it's a real business, like you've been saying, that we'll figure out a way to pass its cost increases along to customers. Why don't you pass it on?" There definitely is a lag on things like this. We saw it in, whatever it was, 2014, when prices fell really quickly, and how long it took for kind of capacity to respond to the new economic. And when prices go up this fast, it does -- it takes a while to respond. So as we sit here today, if oil stays where it is, I happen to believe you'll see the industry -- you'll -- the fares are too low for oil prices this high. And over time, you'll see that adjustment, it takes time. Part of it is that requires some capacity refinement. Part of it is people want to believe it's there. This has gone -- oil -- Brent's gone from, what, $50 to $70 in 5 months, a 40% increase? And it took a while for us all to think that $50 was a real number when it's fallen from $100 down to $50. It may take a while for people to really understand that if $70 is the real normal, the new normal, you certainly will see, I think, us get to a point where we can produce the kind of earnings that you're talking about in this -- in $70 oil. But we've done it in $100 oil, but in the past. So anyway, long way of me saying, it's -- I'm not saying just because oil is $70, we can't make those numbers. What I'm saying is it's run up so fast, it makes it hard to get there. If it falls back down quickly, we're absolutely right back in that range.

Operator

And we will take our next question from Helane Becker with Cowen and Company.

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

It's kind of hard to follow that act. That was a great explanation. I just have 2 questions. One, can you say -- I know you don't report traffic, but I'm wondering if you can say what your loads are looking like and maybe your bookings, how they're coming along for the rest of the quarter or as far along as you're willing to comment? And then the other question is, is there a shift in mix that you're seeing? Like on the Atlantic, are you seeing more? I think you said maybe more premium traffic and a shift. But can you talk about the buy-up that you may be seeing from like Basic Economy into the forward section of that cabin?

Donald B. Casey - *American Airlines, Inc. - SVP of Revenue Management*

Okay. It's Don. So let me just start with the buy-up. So we've had Basic Economy in the market now, but broadly domestically since the 5th of September. We rolled it out to the Caribbean -- a subset of the Caribbean and Mexico markets in late November. And the product is working entirely as we expected. And so we're seeing the buy-up rates that we expected to see, and we're seeing the sell-up amounts that we expected to see. So

Basic Economy is really, at this point, working as designed. In the Atlantic, the premier market, we saw a very strong premium performance last year. This was a combination of the product improvements that we've made. We didn't get to a fully lie-flat product across our entire widebody fleet until June, July of '17, and now we can have that product consistently in the marketplace. In addition to that, we've changed some of the infrastructure that we use in revenue management to have more inventories, which led us to do -- be more effective at pricing. And the combination of those changes have led to a very strong premium cabin performance. And in fact, for the full year of 2017, our unit revenue in the premium cabin was up 13%.

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

And Helane, as you take a look at kind of the strength of bookings, we're seeing just a continuation of what we saw in December. And so it's relatively flat, but that was a pretty good spot to be in.

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

Okay. And then can I just ask a different cargo-related question? Because your volumes are up a lot. And you're -- obviously, you reported a very strong number, and you commented to Kevin's question. But I'm kind of wondering, what are you carrying? Is this packages for Amazon? Is it packages for the postal service, which would be Amazon? Do you know what's in those? I mean, you must have to know what's in the bellies, right, because you have to know your customer.

Donald B. Casey - *American Airlines, Inc. - SVP of Revenue Management*

Well, we do know the customer. And I guess, what that...

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

That didn't come out the right way.

Derek J. Kerr - *American Airlines Group Inc. - CFO and EVP*

I guess, what I would tell you is we've seen strength across the board, especially from Asia. But the kind of things that you see out of Asia, phones and phone parts, when you think about telecommunications going down into Buenos Aires. There's another big one. We're seeing commodity-like products, fish and salmon out of South America and Central America coming up that's adding revenue. We're seeing meat out of the South Pacific. They're coming in into the U.S., wine as well from Europe. The airbags, as everybody knows, is still a driver of volume. So it's broad-based, and it's everything from technology to more food and perishables. And so -- and then as well, I would note that just general mail has been pretty strong, too.

Operator

And we will take our next question from Daniel McKenzie with Buckingham Research.

Daniel J. McKenzie - *The Buckingham Research Group Incorporated - Research Analyst*

Yes, Doug, thanks from me as well for the wonderful response earlier here. It's very helpful to investors. But leave it to me to kick a dead horse here. So just going back to the opening remarks of strategic advantage at your hubs, how do we think about strategic advantage in those markets where American is not dominant, but obviously important? So just reverting back to your opening remarks of investments in Los Angeles and Chicago, what's the key to achieving strategic advantage in these more competitive markets?

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

Yes. First off, Dan, I mean, strategic advantage doesn't mean we have to be #1. It means we have to have an advantage. In LAX, we, today, are the largest -- it's definitely a fragmented market, but a very large market. American's the largest carrier there, and we think we have the ability to continue to expand there as much as we're able to. And there'd be issue with LAX's terminal space. And my comments were directly around the fact that we've been able to work up a situation with the airport authority. We'll be able to expand there. And Chicago is a similar story. We're not the largest hub carrier in Chicago, but we're awfully close and another enormous market, where we do well, even though we're not the absolute largest. And the good news is, we just worked with the airport authority of 5 more gates there, which allows us to become even stronger.

Derek J. Kerr - *American Airlines Group Inc. - CFO and EVP*

I'd just add one more thing. In a place like New York, where we have great assets, but same thing, fragmented market, highly competitive, important for us to be there, we have to be different in some ways. And we've done that with things like the shuttle product, the 321Ts having 3 class domestic transcon service. And then making sure that -- with our partner, BA, that we're doing the best that we can with our JFK-Heathrow franchise.

Daniel J. McKenzie - *The Buckingham Research Group Incorporated - Research Analyst*

Okay. I appreciate the perspective. And then second question really is for Robert. The earnings release -- well, the cloud hosting and machine learning to speed time to value in the earnings release. So for those that are not AI programmers, can you help give us an idea of what the technology means for the income statement at this point? And what could it mean at some point down the road? My sense is that it is driving better nonfuel cost and better revenue. But is it material? And can it become material at some point?

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

Dan, we're going to let Maya Leibman, our CIO, answer that for you.

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

Dan, really, the goal around adoption of these next-generation technologies is the fact that we have so many fantastic ideas of things that we want to achieve. And frankly, there are just more ideas than we have the capacity to actually get through. And what we have found is that there's been this explosion in new technologies that allow us to basically take some shortcuts and get things done more quickly then we were previously able to do if we really adopt them in a thoughtful way. So cloud technology allows us to sort of circumvent the hosting process because it provides infrastructure ready to go, and machine learning and artificial intelligence allows us to create algorithms that are smarter and that learn as the context around them changes. And so we're really aggressively looking at these next-generation technologies in order to work through this list of amazing ideas we have that ultimately generate value for the airline.

Daniel J. McKenzie - *The Buckingham Research Group Incorporated - Research Analyst*

Got it. More on the cost side? More on the revenue side? If can you just help us understand.

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

Yes. On the revenue side, we have a lot of fantastic opportunities that we're working with Don Casey's group on. On the cost side, we have opportunities to really streamline our processes and the product that we provide. And a lot of it is really just better customer experience. And we're very focused on providing things to our customers that really make the whole experience with American better.

Donald B. Casey - *American Airlines, Inc. - SVP of Revenue Management*

Yes. And Dan, I would say, for us to get the $3.9 billion worth of initiatives that we're talking about, this work will help us bring it in quicker and do what we need to do. Some of that is required, a lot of IT help to get us done. We can't get there without the IT group helping us get through this. And what they're doing is really helping us get through it quicker and figuring out ways to bring things to the market quicker on both the revenue and the cost side.

Operator

And we will take our next question from Brandon Oglenski with Barclays.

Brandon Robert Oglenski - *Barclays PLC, Research Division - VP and Senior Equity Analyst*

Robert, I appreciate, because we've got more airfreight discussions here on this call than I've heard probably in 10 years of covering calls.

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

We're ready to go more, and we can go deeper.

Brandon Robert Oglenski - *Barclays PLC, Research Division - VP and Senior Equity Analyst*

Well, I'm going to ask a more nerdy analyst question about your EPS outlook. So we do appreciate the range, but to get to $6.50, if I just put in your guidance on cost, I'm getting like a 7% to 8% range on revenue. Now my math is not perfect, but I think that's implying like a RASM north of 5% at the top range, assuming your capacity stays where you've guided. So can you talk to -- should we be thinking the upside on EPS is more cost-based? Or do you really think significant revenue acceleration in this market is achievable?

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

Well, first off, you should work with Derek and Dan. I think we don't have that type of number in order to get to the top of the range. I think it was like 3% to 4%.

Derek J. Kerr - *American Airlines Group Inc. - CFO and EVP*

Yes.

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

3% at the bottom, 4% at the top. But the point's still valid, but let's make sure we're all working with similar math. But yes, based on what where we closed the year and what we think the ASM growth is going to be next year, you would need 3% to 4% RASM growth. And look, we wouldn't have given that as our EPS guidance if we didn't think that was a reasonable revenue guidance. We just grew our quarter 5.5%. So yes, it's -- and again, if fuel prices stay where they are, we think that's well within the realm of possibilities.

Brandon Robert Oglenski - *Barclays PLC, Research Division - VP and Senior Equity Analyst*

Okay. I appreciate the details there. And then I do want to nitpick a little bit on CapEx because it looks like since your analyst meeting, you've taken up the FIN level about $0.5 billion for the next 2 years. Can you talk to, was this driven by tax reform or just incremental opportunities that you found even before tax rates came down?

Derek J. Kerr - *American Airlines Group Inc. - CFO and EVP*

Yes. I think there's 2 things. One is, from an aircraft standpoint, we did announce that we were bringing in 10 more E175 aircraft to replace an outsourced contract that we had and take out some CRJ-200s. So that's the increase on the aircraft CapEx side. From the non-aircraft CapEx side, as Maya said, there's just so much demand going on out there. Half of the -- there's 7 projects that make up half of that '18 and '19 number. They're just major projects that we've announced and that we want to do as quick as we can, which is we talked about Wi-Fi oasis, some facility projects. We still have 3 big integration projects that we want to complete with our HR systems, our pilots, flight attendants and tech ops. So we're trying to bring those in as quick as we can and bring those in earlier. So we've raised the CapEx in '18 and '19 by $200 million each year for non-aircraft CapEx mainly due to those projects and facility projects and trying to get those brought in as fast as we can, moving them forward. So those are the 2 big differences from the Investor Day. The 5 new -- or the 10 new Embraer 175s, and just bringing projects in earlier in '18 and '19 and the major -- the big projects that we have on our plate that make up half of each one of those years.

Operator

And we will take our next question from Duane Pfennigwerth with Evercore ISI.

Duane Thomas Pfennigwerth - *Evercore ISI, Research Division - Senior MD & Fundamental Research Analyst*

I certainly respect the dynamic inputs to your planning process and fuel in particular, but I -- well, I wonder if you could talk a little bit about how fuel is an input to your planning process and how you think about route profitability. In the old days, we thought about redeye flying to leisure destinations as the first candidates for capacity trends. Of course, this would put some upward pressure on your unit cost as you shrink the day. But can you talk about how higher fuel impacts network planning, and if it has started to lead to any cuts? And if so, what profile of markets that would include?

Derek J. Kerr - *American Airlines Group Inc. - CFO and EVP*

I'll go ahead and start with that. Right now, we have, within our flight profitability system, which gives us great detail in terms of where we are making money and gives us different views as to what expenses are more fixed and flexible in the long run, we've got a pretty good idea of where we're doing well and not, and what the impact of variations of fuel expense are. So this is something that we look at certainly every month, if not more, and especially as we take a look out into the longer term. So we've got a pretty good handle on it. And at the end of the day, we feel really confident with the schedule that we have built right now that we're profitable at these levels and that we're flying to where we ought to be. So I think we've got a good handle on both the short- and long-range plan for it as part of the process that we've put the team through as we build the schedule. That's about what I can tell you.

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

Yes. And Duane, look, I remember the old days. In the old days, the reason you'd cut that flyer is because it was cash-negative, and it made sense to cut it as oil prices got to a certain level. We're getting close to that in today's world. So if we were to cut flying because oil prices ran up from $50 to $70, we would reduce profits. Instead, it turns into a $4 billion a year instead of a $5 billion a year. And over time, we adjust pricing and capacity over time just to where we think -- where fuel price starts to stall out. But yes, this is an entirely different world. It would be, certainly from American's perspective, going and reducing flying because oil prices went up from $50 to $70 would reduce the profits of the firm.

Duane Thomas Pfennigwerth - *Evercore ISI, Research Division - Senior MD & Fundamental Research Analyst*

Appreciate that commentary. And then just as a follow-up, maybe some dated thinking as well. But with regional aircraft, which have the highest fuel intensity, the highest sort of gallons per passenger, if you want to think about it that way, obviously, a lot less 50-seaters than there used to be, and you're growing with 76-seaters, which are more fuel-efficient. But where do you start to see the breakpoints on fuel for regional lift? Is it $80? Is it $90? Where does that become more of a focus?

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

Harbor stands around what we can, Duane. Again, we're nowhere near the point of, look, I believe, and the fuel prices are at a level that we should be reducing flying because it's all profitable in the regional fleet, in particular, because of what we said. How it helps us create connections is amongst some of the best flying on a cash basis, irrespective of where fuel prices are.

Operator

(Operator Instructions) And we will take our next question from Mary Schlangenstein with Bloomberg News.

Mary Schlangenstein

Derek, can we go back to your comment about the A350s? And you said you're working with Airbus and Boeing on other options from a widebody perspective and where to go on that. Can you talk a little bit more in detail on what you're looking at and what you're considering?

Derek J. Kerr - *American Airlines Group Inc. - CFO and EVP*

Yes. We -- I mean, we currently have an order for 22 A350s that come in 2020. We're just looking at other options. There's nothing to announce right now. Whether -- I mean, our options are to take the A350, turn that into A330-900 or the other option is this 787-9. So there is -- we have the order in place. The A350 is a great aircraft, but it does add complexity to our fleet by a new aircraft type. So it's not about the aircraft, it's about the complexity that it brings to our operating group for having more aircraft. So we haven't made a determination yet. We may take the A350, but the other 2 options are A330-900 or 787-9 for that widebody lift.

Mary Schlangenstein

Is there a date by which you need to make that decision?

Derek J. Kerr - *American Airlines Group Inc. - CFO and EVP*

There is no date that we need to make that decision. I mean, the first delivery's not until 2020.

Operator

And we will take our next question from Conor Shine with The Dallas Morning News.

Conor Shine

I just wondered what the -- obviously, you've rolled out, basically accounting this last year, what the plans for 2018 will be for that. Did you see that changing in terms of giving customers more options to buy some of the things that have been subtracted out of that product? And then, also, do you see it expanding to other markets beyond domestic, and then that -- your Caribbean stuff you guys did a little bit ago?

Derek J. Kerr - *American Airlines Group Inc. - CFO and EVP*

Yes. Conor, as Don said earlier, the product's been out about 6 months now. It's meeting expectations, which is great. We'll always take a look at ways to refine and optimize. And then I think, as we've said before, we'll look at opportunities for application in other places. And so as you take a look internationally, is it something that might be appropriate for transatlantic? Probably in a different form, but those are the kind of things that we think about there. But we don't have anything to announce. We like what's going on right now, and we're staying the course with it.

Operator

And we would take our final question from Alana Weiss with Reuters.

Alana Weiss

I'm sure we've talked a little bit about this already, but United earlier this week announcing that they were going to be adding capacity at a fairly rapid clip, obviously, since you're down quite a bit and felt some concerns of a growing industry fare war, my question is, just how are you at American addressing these concerns to shareholders? And just what's the general view on capacity growth and how it's affecting the market?

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

Yes, thanks. I mean, we did talk about this in the comment, for the record, is we're not going to opine on other airlines' growth plans. We're confident in American's growth and very bullish on prospects for American Airlines, knowing everything we know today.

Operator

And that concludes today's question-and-answer session. At this time, I would like to turn the call over the presenters for any additional or closing remarks.

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

We Appreciate everyone's interest, and thank you for tuning in. If you have any questions and you're an investor, call Dan. If you have any questions and you're in the media, call Corp Comm. Thanks so much.

Operator

And ladies and gentlemen, that does conclude today's conference. We'd like to thank everyone for their participation. You may now disconnect.
