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AAL.OQ - Q1 2022 American Airlines Group Inc Earnings Call

EVENT DATE/TIME: APRIL 21, 2022 / 12:30PM GMT

OVERVIEW:

Co. reported 1Q22 GAAP net loss of $1.6b or $2.52 per share.

REFINITIV

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PRESENTATION

Operator

Good morning, and welcome to the American Airlines Group First Quarter 2022 Earnings Conference Call. Today's call is being recorded. (Operator Instructions)

And now I'd like to turn the conference over to your moderator, Head of Investor Relations, Mr. Scott Long.

Scott Long

Thank you, Katherine. Good morning, everyone, and welcome to the American Airlines Group First Quarter 2022 Earnings Conference Call.

On the call this morning, we have our CEO, Robert Isom; and our CFO, Derek Kerr. Also on the call for the Q&A session are David Seymour, Vasu Raja and a number of other senior executives.

Robert will start the call this morning with an overview of the first quarter and our priorities for the year. Derek will follow with the details on the quarter and our operating plans and outlook going forward. After Derek's comments, we'll open the call for analyst questions, followed by questions from the media. (Operator Instructions).

Now before we begin today, I must state that today's call contains forward-looking statements, including statements concerning future revenues, costs, forecast of capacity and fleet plans. These statements represent our predictions and expectations of future events, but numerous risks and uncertainties could cause actual results to differ from those projected. Information about some of these risks and uncertainties can be found in our earnings press release that was issued this morning as well as our Form 10-Q for the quarter ended March 31, 2022.

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

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

Thank you for your interest and for joining this morning. And with that, I'll turn the call over to our CEO, Robert Isom.

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

Thanks, Scott, and good morning, everyone. Thank you for joining us today. We're going to keep our comments brief this morning. I'm a strong believer that the results speak louder than words, and I'm confident in the results the American Airlines team will produce.

Now let's start by thanking our team. Day in and day out, they're on the front line, taking care of our customers, no matter what comes our way. And we've certainly seen a lot come our way over the past 2 years.

The American Airlines team has worked hard to position us well for the recovery, by simplifying our fleet, modernizing our facilities, fine-tuning our network, developing new partnerships, rolling out new tools for our customers and team and hiring thousands of new team members, all that while flying the largest airline in the world.

I'm excited to see their work pay off for all of our constituents, our customers, certainly, the communities we serve, our team and notably, our shareholders. It's an honor for me to have the trust of our team and to succeed Doug Parker as CEO and to begin in this position as the industry re-brand and our company returns to profitability. I'm extremely grateful for the opportunity. It's a fantastic time for the industry and for American Airlines in particular.

For the year ahead, we are resolute in achieving 2 key goals above all else, running a reliable operation and returning to profitability. Our team is up to the challenge, and we've already seen a lot of great progress.

So let's talk about financials first. This morning, America reported a first quarter GAAP net loss of $1.6 billion. Excluding net special items, we reported a net loss of $1.5 billion for the quarter. Despite the quarterly loss in a difficult January and February due to the effects of Omicron, March results were markedly different.

In March, we saw what's possible, with surging demand brought on by reduced infection rates, relaxed restrictions and tremendous pent-up demand for people to travel. Despite a sizable increase in the cost of fuel during March, American achieved our first monthly net profit, excluding special items, since July of 2021.

Demand is as strong as we've ever seen it. American produced revenues of $8.9 billion in the first quarter, including industry-leading passenger revenues of $7.8 billion. Domestic leisure travel continued to lead the way, far surpassing 2019 levels of traffic and revenue in the month of March.

In addition, we saw strong quarter-over-quarter improvement in corporate and government travel with revenue for this segment as a percentage of 2019 increasing 27 percentage points from January to March.

System business demand is now about 80% recovered, with small to medium business revenue approaching a full recovery and corporate revenue now around 50% recovered. Corporate bookings are the highest that they've been since the onset of the pandemic, and we expect that to continue as more companies reopen their offices. We anticipate overall business revenue to be around 90% recovered in the second quarter.

And finally, demand for international travel also picked up considerably during the quarter as travel restrictions were lifted in certain parts of the world. Long-haul international revenue was around 50% recovered in the first quarter and around 60% recovered in March. So there's still a lot of revenue upside as business and international travel continue to return.

The American team has done an incredible job of setting up the airlines to take advantage of the rebound, pointing our network to where our customers want to fly, establishing partnerships in more challenging areas and making sure efficiency is top of mind. As a result, we're very optimistic about the continued recovery and expect to be profitable in the second quarter based on current demand trends and fuel price forecast.

Turning to reliability. American ended 2021 with our strongest operating performance in the company's history. We're committed to maintaining that momentum in the first quarter, and we did. Despite 2 difficult winter storms in Dallas/Fort Worth, the team delivered a solid operating performance in the first quarter, leading the industry in on-time departures and finishing a close second at on-time arrivals. And they did so while flying a considerably larger schedule than our next largest competitor.

More importantly, for the month of March, in the mid-peak spring break demand and high load factors, we delivered our best-ever combined March completion factor. Our operation in DFW and Charlotte, our 2 largest hubs, met or exceeded our expectations and delivered their best on-time performance and completion factor in years.

As a result of our team's hard work, our likelihood to recommend scores continue to track in line with plan and are near the top of our post-merger performance. Running a reliable operation this summer will be critical to the continued recovery, and we have taken numerous steps to ensure we are well prepared to deliver for our customers.

Our summer planning began last year as demand returned, and we haven't slowed down. American has 12,000 more team members in place to support the operation this summer than in the summer of 2021. We've already welcomed more than 600 new pilots this year, exceeding our goal. And we will continue to aggressively recruit, hire and train across all departments to develop the best pipeline of talent in the industry.

We're ready for the summer, and we have sized the airline for the resources we have available. Again, we sized the airline for the resources that we have available. We've also made targeted investments in people, technology and resources that are yielding promising results for our team members and customers.

So before I hand it over to Derek, I want to say that I'm really excited about the future of our industry and the future of American Airlines. There's still a lot of revenue upside going forward, given industry revenues are still off from their historical relationship to GDP, barriers to demand are falling and business and international trends are promising.

There are also certain industry constraints on growth in the near term, notably related to pilot and aircraft supply. And at American, we have completed a $1.3 billion cost reduction program. And our unit cost performance will improve throughout the year as utilization approaches historic levels.

No airline is better positioned to operate in this environment than American Airlines because of our fleet, our network and everything our team has accomplished over the past 2 years.

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

Derek J. Kerr - *American Airlines Group Inc. - CFO, Vice Chair & President of American Eagle*

Thanks, Robert, and good morning, everyone. Before I review the results, I want to acknowledge Doug for his more than 20 years as an airline CEO. Doug's leadership revolutionized the industry and laid the foundation for American success going forward. I also want to thank the American Airlines team. Their hard work and commitment to our customers and each other is truly extraordinary.

This morning, we reported a first quarter GAAP net loss of $1.6 billion, or a loss of $2.52 per share. Excluding net special items, we reported a net loss of $1.5 billion or a loss of $2.32 per share. Revenue in the first quarter outperformed the initial expectations we outlined on our last call, despite flying less capacity than planned due to winter weather events that affected our largest hubs. Our first quarter revenue recovered to 84% compared to the same period in 2019 versus our original guide of 78% to 80% recovery.

Demand recovery from the Omicron variant was swift. And while leisure demand remains very strong, as more companies return to their offices, business demand is growing quickly. On the cost side, in addition to the efficiencies we've spoken about previously, we remain focused on keeping our controllable costs down, ensuring we are a more efficient airline as we return to normalized levels of capacity and utilization.

In fact, in the face of increased fuel prices, we were profitable for the month of March, excluding net special items, due to our strong revenue performance and cost efficiencies. Our fleet remains the youngest and most fuel-efficient among the U.S. global network carriers. This month, we completed our narrow-body fleet harmonization project. It covers more than 500 aircraft, and will ensure a consistent product and better experience for customers, along with the improved revenue generation and unit cost production associated with the new seating configurations.

In the first quarter, we took delivery of 9 Airbus 321neos and reactivated 7 previously stored Boeing 737-800s. We also inducted 8 dual-class regional aircraft and parked 3 50-seat Embraer 145s. As previously disclosed, we made several updates to our fleet order book and the timing of future deliveries, allowing us to better meet the demand strength in domestic and short-haul international markets. We previously announced our plans to exercise purchase options on [737] MAX-8s. 15 of these options are scheduled for delivery in 2023 and 15 in 2024.

Additionally, with the continued uncertainty associated with our 787 deliveries, we are now planning for the delivery of only 7 788s in 2022, all after our summer schedule, with the remaining 6 788 aircraft being delivered in 2023. The 4 789 aircraft previously planned in late 2023 are now planned to be delivered in 2024. With these changes, our expected total aircraft CapEx is $1.8 billion in 2022 and $2.2 billion in 2023.

We ended the first quarter with $15.5 billion of total available liquidity, significantly higher than our initial forecast due to ATL build of $2.3 billion in the quarter. We generated operating cash flow of $1.3 billion and free cash flow of more than $350 million in the first quarter. Deleveraging our balance sheet remains a top priority, and we are committed to significant debt reduction in the years ahead. Even in this volatile environment, we remain on track with our target of reducing overall debt levels by $15 billion by the end of 2025.

During the quarter, we made $344 million in scheduled debt payments and completed $317 million in open market repurchases of our $750 million unsecured senior notes maturing in June. To date, we have reduced our overall debt levels by $4.1 billion from our peak levels in the second quarter of 2021. We expect to make $1 billion of scheduled debt payments in the second quarter, which includes the remaining outstanding balance of the unsecured senior notes.

Lastly, with cost-efficient financing secured for all aircraft deliveries through the third quarter of this year, we are now beginning to evaluate financing options for the fourth quarter and first half of 2023.

As we look at the second quarter, we expect to be profitable despite the expectation of continued elevated fuel prices. Pretax margins are expected to be between 3% and 5% for the quarter based on the current demand trends and our fuel price forecast. Based on current demand assumptions, we expect total revenue to be 6% to 8% higher versus the second quarter of 2019 on 6% to 8% lower capacity. That would be the first time we have produced total revenue greater than 2019 since the start of the pandemic. In fact, if we hit the midpoint of this revenue guide, the results would be the highest quarterly revenue in the company's history.

On this revenue strength, we expect total revenue per available seat mile to be 14% to 16% higher in the second quarter versus the same period of 2019. We expect our second quarter CASM, excluding fuel and net special items, to be up between 8% and 10%. Our current forecast for the second quarter, which we pegged on Tuesday, assumes fuel between $3.59 and $3.64 per gallon, an increase of more than 60% versus the price of fuel in the second quarter of 2019.

In the near term, the demand environment is strong, but margins are lower than they otherwise would have been given the recent run-up in fuel. Longer term, this industry has proven that it has the ability to recapture increases in the cost of fuel and be profitable at elevated fuel prices. We believe this time is no different.

As for full year 2022 capacity, we now expect to be recovered to 92% to 94% of 2019 levels. The reduction in full year capacity from our prior guide is largely due to 788 delivery delays that I touched on earlier. This capacity guidance is, of course, subject to future demand environment and fuel prices. Consequently, with this lower level of capacity, we now expect our full year CASM, excluding fuel and net special items, to be up between 8% and 10% versus 2019.

In conclusion, with the actions we have taken and the commitment of our team, we remain very well positioned. We remain focused on running a reliable operation and returning to profitability, which we expect to happen in the second quarter.

With that, we'll open up the line for analyst questions.

QUESTIONS AND ANSWERS

Operator

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

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

I guess you're starting in the order of the biggest second quarter miss. So great. So listen, we're...

Derek J. Kerr - *American Airlines Group Inc. - CFO, Vice Chair & President of American Eagle*

Not quite, but close, Jamie.

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

All right. So we're familiar with that relationship between airline revenue and GDP. You brought it up. Doug had a good slide on -- in his deck last month. Have you looked at the relationship between leisure demand and GDP? And what that relationship might be telling us? I know we could try to back into this with some of the Form 41 data, but I don't really trust it. There's a reporting lag. It just doesn't tell me anything.

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

Jamie, thanks. I'm going to let Vasu answer that. But hey, don't feel bad. This is a long game. We know you're going to get it right over the long term. So Vasu?

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

Thanks for the endorsement.

Vasu Raja - *American Airlines Group Inc. - Senior VP & Chief Commercial Officer*

Yes. Jamie, thanks for the question. And it's a very good one, one that we've actually spent a lot of time thinking about. And look what I'll say is you're right. In aggregate, like historical relationship between airline demand and GDP, let's call it industry demand, at something around just under 1% of GDP, does largely seem to hold. And we're seeing that as things start to recover.

We spent a lot of time on this question about what is the actual trip purpose and how does that change? And the reality is it's changing in a meaningful enough way where we no longer think it's (inaudible) trend.

For example, historically, only about 20% to 25% of the trips in the airline were something that we call blended, where somebody was traveling for both business and leisure. Now for about 5 to 6 months, about 50% to 55% of the trips in the airline are blended. And as we look forward into the coming months, that continues to be the case.

And that's playing out in a lot of different ways for us, which are both opportunities and a little bit unprecedented, right? We are seeing different sales days becoming big sales days, different travel days becoming big travel days. So the nature of what we call leisure demand and business demand is changing.

And the first thing is better understanding exactly how that is. But so far, it's been promising. Those blended trips that we have in the system are coming in at yields that are 75% to 85% of what were true business-only trips, but they're coming through lower (inaudible) sales channels and off of negotiated discount. So the net yields of them are very often the best things in the system.

So this is an evolving thing and one that we'll keep coming back to you. But the relationship is indeed changing, as you say, even though in aggregate, a lot of the trends won't.

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

And just out of curiosity, how do you define or how do you tell that a trip is a blended trip? Is it somebody booking with a corporate discount and then bringing a family member on an adjacent PNR? Like how do you know that?

Vasu Raja - *American Airlines Group Inc. - Senior VP & Chief Commercial Officer*

Yes. So over the years of viewing this thing, we actually come out in 2 ways. One, we have a lot of models that go and actually predict whether the behavior is business or leisure. And we survey customers to go and calibrate the model.

So over time, we are really good. So whatever we -- you hear us talk about business, we are talking about, for example, somebody who travels, one person on the itinerary, no checked bags, things like that, right? (inaudible) a profile that we calibrated against surveys of what the customer actually tells us.

And so one of the things that we found is that increasingly, those surveys are starting to change because people are saying they're flying both for business and leisure or it's one person in the itinerary, but they're leaving on Thursday, coming back on a Monday and going to Pensacola. So a lot of things are starting to change, and that's actually a pretty promising thing.

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

Yes. Fascinating. And then second, and maybe for Robert, as we think about the steps that you're taking to protect the operation, heading into the summer peak, is the 0 still the metric that American tends to focus on? I think it was in the past. The sense I got was that it wasn't hugely popular with the entirety of the airport staff. Just wondering if with your background, Robert, and having ascended to the top seat, is that still the metric that you have prioritized, let's say?

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

Jamie, I'm going to start with this, which is the outcome in on-time arrival we know is the biggest driver of customer satisfaction, as I've said before, it makes the food taste better. It seems more comfortable, service more friendly, all that. And the best way to ensure an on-time arrival is to make sure you depart on time. So there's no stepping away from it.

But I'll tell you, we have evolved over time. And we really do want to take into account making sure that the things that we do to get an aircraft out on time don't compromise other aspects of the operation. So creating congestion on the ramp, or if we do have inclement weather, at the end of the day, if we have flights that you may be able to get out on time, but you ought to hold for connecting passengers, we do so.

And so we could go into a lot more detail on that. But the answer to it all is, for the bulk of the airline, get it started right. No aircraft out of service in the morning, on-time departure, a fast turn and stay that way throughout the day.

Operator

Our next question comes from David Vernon with Bernstein.

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

We entered the other end of the spectrum, I guess. Could you talk a little bit about what you have in the forecast for business travel recovery as we think about the summer months? What are you seeing in the booking trends? I'm just trying to get a sense for kind of what the mix is within the guidance that you're giving us.

Vasu Raja - *American Airlines Group Inc. - Senior VP & Chief Commercial Officer*

David, this is Vasu. I can help with that. Robert's commented at the beginning, as we closed the quarter, system business revenues were about 80% recovered versus 2019. As we look at Q2, we anticipate that number will be about 90% recovered versus 2019.

We have a level of confidence in it because, indeed, we're seeing many of those bookings start to come in from my comments that Jamie just now. But also, the gap between 90 and 100 is really largely due to long-haul international demand and certain pockets of domestic demand. But we are continuing to see demand come in.

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

Okay. And then maybe just as a quick follow-up. I remember having a conversation with Doug and Derek in LA, a couple of years ago now, around denied boarding, sort of involuntary denials, that kind of stuff.

And you guys have been working on some technology to help you guys re-accommodate customers, work on this issue of not having enough seats on the plane overselling that kind of stuff. Is there any early indication during this period of demand here that those efforts are paying off and the denied boardings are coming in a little bit in line with those expectations you set out a couple of years ago?

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

David, we're going to start with Maya Leibman and talk about some of the things we've done. And if there's some add-on to that, Vasu will do it.

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

David, this is Maya. Yes. Over the last several years, we've really improved our technology around essentially pre-removing customers. So either before they get to the airport several days before they fly if we know that flight is at the risk of overselling providing them an opportunity to bid or to either take compensation or even just move to a different flight that's probably a little bit better than the flight that they were previously scheduled on.

Or if it happens that there's a last-minute schedule change, a last-minute equipment change, so we have to deal with it at the airport, which isn't our goal. We're really trying to deal with it before they get to the airport. We have some pretty neat auction capabilities that allow the customer better opportunities to move around to other flights. And so all of those things together have really helped improve our denied boarding statistics.

Vasu Raja - *American Airlines Group Inc. - Senior VP & Chief Commercial Officer*

Yes. I'll only add to that is that throughout the pandemic, one of the hardest things to do -- to predict has been the show rate of the airline. Understandably as the pandemic wore on, we would have periods of time where everybody showed for a flight in periods of time where the show rate could be as low as 70% of what was booked.

What we're encouraged by in large part because of a lot of the technologies that we've got not just in managing overbooking, but it's typically just forecasting show rate. We are getting to a place where we are a lot better at going and predicting what the variability is. And with the technologies that we've got proactively moving customers off so that we don't have the same level of denied boarding expense that we had in times past. And indeed, we're able to generate more revenue through the overbooking flights.

Operator

And our next question comes from Savi Syth with Raymond James.

Savanthi Nipunika Prelis-Syth - *Raymond James & Associates, Inc., Research Division - Airlines Analyst*

I was wondering, maybe, Vasu, could you provide a little bit of color on what you're seeing across the -- on the long-haul side across the different entities?

Vasu Raja - *American Airlines Group Inc. - Senior VP & Chief Commercial Officer*

Sure, Savi. Yes, thanks for the question. Look, we're really encouraged with how long-haul demand has come back, but it is indeed very different across the 3 long-haul entities of long-haul South America, Transatlantic and Transpacific.

First, we are encouraged because indeed, we've seen bookings from maybe post-Omicron low point in January. So what we're seeing in the last 4 to 6 weeks, it's improved by several factors.

In South America, that's a factor of 2 to 3x. In Transatlantic, it's something materially larger than that. And in Transpacific, it's grown quite a lot, too, but still, the bookings are pretty small and insignificant in the totality of all of our bookings.

But what we're really encouraged by is the manner in which demand is returning first in long-haul South America, where we just -- where we have so much capacity. Increasingly, we're seeing not just more customers simply sign on for flights, but we're filling premium cabins at a better and better rate.

The same is true in Transatlantic, where so much of the airline that we brought back there is centered around our partner hubs, in Heathrow and Madrid. And we're encouraged because those are -- to make those flights go, they are very premium demand consumptive and we are seeing a lot of premium demand, even though we aren't seeing large corporate travel quite come back into international the way we've seen before.

And Transpacific, it's understandably challenged because as long as there are entry restrictions, demand remains pretty stubborn to come back. But -- like I said, we're encouraged that once those restrictions are lifted, the demand improves pretty meaningfully.

Savanthi Nipunika Prelis-Syth - *Raymond James & Associates, Inc., Research Division - Airlines Analyst*

That's super helpful. And if I might ask, Derek, just a quick question on the fuel. Is your kind of fuel contracts based on kind of the forward curve and crack spreads? I think there's -- or like spot prices, I mean? I think there's a little bit of confusion on what we're seeing on spot, and this is not unique to American, but what's being reflected in fuel guidances.

Derek J. Kerr - *American Airlines Group Inc. - CFO, Vice Chair & President of American Eagle*

Yes. No, that's exactly -- we just pegged it 2 days ago. So at 100 -- it was 107. And then we used the crack spread and where that was, and the crack spread had increased a little bit. So the difference may be crack spread and then the dates that everybody takes the fuel pay, but we're straight off of the fuel curve and then it's dependent on where are you buying your fuel. Are you buying your fuel more in the Gulf Coast, L.A., New York. So there could be differences between each airline just where the brunt of the fuel comes from.

Operator

Our next question comes from Helane Becker with Cowen.

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

Just two questions. One is on minimum liquidity. Derek, have you thought about where you want that to go, other than get -- I think you said, what, pay down $15 billion of debt by 2026? And then the other question is, I think, related to the pilot training pipeline. You talk about a shortage of crew members and limits to capacity growth, so how are you thinking about catching up?

Derek J. Kerr - *American Airlines Group Inc. - CFO, Vice Chair & President of American Eagle*

Yes. I can do both, and Robert can add to some of that. So as far as minimum liquidity, we're still in the same place as we were a couple of calls ago. We're at about $15.5 billion right now. We are seeing this recovery. We'd like to see it actually be in the actuals. So I think this is a forward guide, which we think is where we're going to get and be profitable for the quarter.

If we maintain this level, what we have said is we would take a step down to somewhere in the $10 billion to $12 billion range. And hopefully, that happens sometime this year, which can accelerate the debt pay down. And any further than that, we just haven't had the discussions through the Board and through the committees.

We ran the company at $7 billion of not minimum liquidity, which I defined -- that was kind of our targeted cash level. Minimum liquidity is actually much lower than that. But our targeted cash level was at $7 billion. And so right now, we're holding out of the cash.

And when we see the recovery, and it's holding up and the cash is holding up, we will use that cash to pay down debt. And I think we'll take it down to (inaudible) in the $10 billion to $12 billion range as we look forward.

On the pilot training pipeline, as Robert said, we've hired 600 pilots at the mainline. So it's -- it really is -- we have the pilots. I think the industry is -- it's about trying to hire 2,000 pilots this year versus the most we've ever hired in the past is 1,000.

So we have the simulators coming in. We have the trainers coming in. So what it is, is trying to get everybody through the pipeline. And I think we will be fully utilized in how all of our aircraft flying by the end of the year.

The other side of it is the regional carriers, which we're working on, is that, that hiring is going well also. So we're hiring there. Just the attrition is much greater than the hiring at this point in time, or getting people through the pipeline. That has slowed, which is good. So as all the mainline carriers have hired from the regional carriers, we all have a backlog to get through training.

So the regional attrition has slowed, which will be good for regional capacity as we go forward. But we believe that by the end of the year or through the summer, we'll be back up and having all the airline -- aircraft flying, which will be great for us from a utilization perspective. It will be great for us from a cost perspective to drive down the unit cost as we bring back all of those aircraft and get the pilot pipeline moving through.

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

Well said that. And the only thing other -- Helane, the only other point that I would add is that, look, over time, it's supply and demand. And I'm confident that the quality of life and the compensation for pilots is something that's going to attract a lot of people to the industry. It may take some time to work through, but it will happen.

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

Right. Could you, in the short term, bring back pilots who might have retired at, say, 58 or 60, and just have them work for a couple of years to bridge the gap? Or once they retire, that's that?

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

Helane, I'm going to ask David Seymour, our Chief Operating Officer, to weigh in on that.

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

Yes. I think the challenge with that is many of them have been retired long enough that they would have to go through a requalification, which would take one of those slots. So given that, as Derek talked about, we have the supply coming in and the school house is really running at full speed here. And we're hitting the objectives that we've set forward to reach the goals that Derek talked about for the remainder of the year. So as much -- I think that would be a great idea. It will just take away a slot for a new hire that's coming in.

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

Overall as well, we have a great relationship with the APA and making sure that we're getting as many pilots onboard and creating as many captain positions as we possibly can. And anything that would alter something like retirement status would have to be something that they champion.

Operator

Our next question comes from Mike Linenberg with ButcheBank.

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

Just two here. I guess my first to Vasu. Vasu, historically, I guess, sort of the rule of thumb is that the run-up in energy prices usually sort of finds its way into the fair structure with like a lag of 3 to 6 months. It does feel like that it's getting recaptured far more quickly.

And I just wonder if it's any sort of structural changes and/or just by approaching this fuel price cycle with a bit less capacity, which may give you some leverage in your ability to quickly offset that? Just your thoughts around that?

Vasu Raja - *American Airlines Group Inc. - Senior VP & Chief Commercial Officer*

Yes, Mike, it's an excellent question. And it looks like Jamie is one that we've actually spent a lot of time understandably thinking about. Look, it's really hard to tease out the different effects because you're right, there's high fuel prices, there's various limits on capacity as airlines try to size their airlines for the staffing that they can produce.

And of course, demand, which just continues to accelerate at a pretty unprecedented rate. So look, what we look at are actually the fares that we, American Airlines, are (inaudible) selling. And we're encouraged that indeed, month-to-month, we are seeing a greater increase in fares than certainly what we saw in 2019.

But very importantly, one of the things that we've been looking at is how fair is at large -- or how is the rate of increase actually changing in 2019 to 2022 versus the last time the industry went through so many cataclysmic crisis, which were big fuel, the great recession, changes in the industry to consolidation.

And indeed, the rate -- the pace of change that we're seeing is growing much greater than what we saw before. Short way to say it is we are seeing a lot of strength in a fair environment with customers who frankly value quality of product that we have and are willing to pay us (inaudible).

So we're encouraged by that. We see those trends going forward into the summer. And of course, that's inherent to the revenue guide you see before you.

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

Great. And then just my second, with respect to the NEA and I guess, the Justice's concern about potential consumer harm, have you put out any numbers about what you have done from a consumer benefit perspective since it's now been up and running, I think, for some time, or is that something that we just won't find out about until September?

Vasu Raja - *American Airlines Group Inc. - Senior VP & Chief Commercial Officer*

I can start and others can add. Well, look, we can't talk about the consumer benefits of the NEA enough. And indeed you can already see it (inaudible) what's published out there. In the first quarter, we brought the Northeast back faster than any of our competition. And arguably through bringing it back, has encouraged competition where they frankly wasn't any before.

We're doing things like we have full flat beds on all of our transcon markets, which is a thing that American Airlines is -- has long dreamed of and now through this partnership with JetBlue we're able to make it happen. We brought JetBlue into LaGuardia, I think, which they long to make happen, putting a new level of price competition on the incumbent carrier there.

And so we're encouraged by the structural things that's there, but what we're really encouraged by is the way consumers are responding to it. So right now, for the first time and as long as we've recorded it, advantage enrollments, our loyalty program enrollments are growing in New York and Boston at greater rates than anything in the system as an absolute size, which is greater than anything at the system.

New York is -- on a percentage of 2019, we're acquiring more credit card customers there than we did in 2019 and at a greater rate than any other parts of our system. So all of which is to say that the consumer is clearly responding to it. We see those benefits, and we keep rolling things out. We -- there's a lot that we've kind of worked through as we kind of try to staff up a connecting operation at JFK. We've endeavored to go slow in order to make it happen.

I hope for a minute to say that we are all the way to achieving what we want there to be, but we are really encouraged by what it's doing for consumers, the level of competition that it's bringing. And indeed, I mean, we can't talk about it enough, and maybe we need to talk about it more.

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

[Thanks for that,] Vasu, I'll just add, and I know our Chief Legal Officer, Priya Aiyar, will agree with me. But we welcome scrutiny. We know that this is producing the benefits as we said it would. And it's doing exactly what we had hoped. And we're confident we're going to prevail no matter what we face going forward. Pretty good with that?

Unidentified Company Representative

Absolutely.

Operator

Our next question comes from Dan McKenzie with Seaport Global.

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

A couple of questions here. First, a clarification to guide, maybe for Vasu. What level of restoration in international flying does the revenue guide embed? So does it include the relaxation of the 24-hour testing requirement in May sometime? And what conversations is the government having with you about the travel restrictions internationally?

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

So Vasu, you can handle that first part. And let's have Nate cover point out of testing.

Vasu Raja - *American Airlines Group Inc. - Senior VP & Chief Commercial Officer*

Yes, thanks for the question. And look, we -- international at large, we broadly anticipate to be 100% recovered. And indeed, it's not far from that right now. But to the question earlier from Savi, International is in a lot of different states of play right now.

Never forget that for us, in the second quarter, roughly 90% of our airline is flying in the Western Hemisphere and Heathrow. So a lot of our recovery is due to the fact that our short-haul international network is recovering at rates that are probably greater than what we see in domestic. And those markets, such as London and long-haul South America, are recovering pretty quickly, too. And that's where we have all of our capacity.

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

And, actually, just one note there. International revenue, not 100% recovered. And go ahead -- you go ahead (inaudible), from a long-haul perspective.

Vasu Raja - *American Airlines Group Inc. - Senior VP & Chief Commercial Officer*

Correct. Yes, correct. So yes, I would say that the long-haul revenue isn't all the way there, but total international is, and that's (inaudible).

Nathan J. Gatten - *American Airlines Group Inc. - Senior VP of Corporate Affairs & Chief Government Affairs Officer*

Okay. Yes. And this is Nate. I would just say on the regulatory side, obviously, the testing is something that we continue to engage on with our industry partners. We believe that the U.S. can safely follow countries that are progressing through the pandemic, including Canada, the U.K. and Ireland, which have, we think, safely evolved the scope of their entry requirements and moved away from predeparture testing.

We've learned by this point in the pandemic, however, not to speculate on what may or may not happen. So we don't have a specific time frame in mind, it's just something we continue to work on. Obviously, the decision is going to be up to the federal authorities and public health experts.

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

Okay. And for everybody, that's Nate Gatten our Head of Corporate and Government Affairs. So Thanks, Nate.

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

Yes. Second question here. Looking at Slide 5, the simple math is it looks like there's roughly $7 billion of revenue that was missing on an annualized basis relative to the first quarter. But I believe the headcount is already in place. So we're left with variable cost, I think so. But if you could flesh this out, the fixed versus variable costs as you add back some of this higher-margin international flying?

Derek J. Kerr - *American Airlines Group Inc. - CFO, Vice Chair & President of American Eagle*

Dan, this is Derek. As we have talked about, we have the airline and costs in place to run a much greater airline. So as we go and as Robert said in his comments, our CASM will get better and better throughout the year as we head back to flying.

An example is our salaries, I think, stayed pretty flat throughout the year, even though we're growing ASMs throughout the year. So most everything is in place to fly. The example is the 787s. We thought we had the 787s coming in beginning of this year. So we have the pilots. We have the crews. We have everything ready to go. We're not going to train them back down to 73s or other aircraft. We're going to leave them there for when they come. So our expectation as we move forward and we bring back the aircraft and utilize our fleet and get us back to 100% of 2019, that it comes at a significant reduction in the CASM calculation as we go forward.

Operator

Our next question comes from Duane Pfennigwerth with Evercore ISI.

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

Congrats, Robert, on the formal handoff. I wanted to follow-up to Mike's question. Just with respect to JetBlue's bid for Spirit, as it relates to the NEA. Do you see any relationship between the 2 initiatives? And what is American's perspective on the proposed acquisition?

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

Steve, do you want to comment here?

Stephen L. Johnson - *American Airlines Group Inc. - Executive VP and Strategic Advisor to the CEO, leadership Team & Director*

Sure. Thanks for the question. This is Steve Johnson. First, I think it's important to recognize that JetBlue's acquisition of Spirit is not a foregone conclusion. Those -- JetBlue and Spirit is near -- as we can tell, they are discussing that now, and we'll ultimately find out which direction that's going to go.

But I would say that Joanna and Robin were very quick to call Robert, as soon as the story leaked. And they were steadfast in their view that NEA was extraordinarily important in priority to JetBlue and that they intended to do everything that they could to maintain it. And that -- part of their bid for Spirit contemplated, keeping and even strengthening the NEA.

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

Thanks for that perspective. With respect to the RASM guidance, Vasu, can you just contrast for us maybe how leisure fares are tracking versus 2019 versus closing business fares? And I understand regions, et cetera, make that more complicated. But maybe if we just look at it on a cut per say, domestic, is the closing 0 to 3 getting better yet relative to '19?

Vasu Raja - *American Airlines Group Inc. - Senior VP & Chief Commercial Officer*

Yes. Thanks for the question. And indeed, one that we look at very closely, because it is kind of interesting. We look at it both and what is out there selling, but importantly, what is netted back to us after we deduct the cost of sale from it. And so we are seeing, first and foremost, that -- we look at it really outside of 14 versus inside of 14. Outside of 14, indeed, there is a significant level of fare strength across any competitive O&D grouping there might be.

Inside of 14, we see the same level of fare strength. But as we look at it right now, leisure trips or blended business leisure trips are coming in at yield levels that are anywhere from 75% to 80% in aggregate of what inside 14 corporate negotiated trips are coming in at. And that's a really meaningful number because that means on a net basis, sometimes these fares which are coming to us oftentimes through our direct channels, through some pretty unprecedented sources on a net basis are actually really, really valuable to us and really valuable park and departure.

The fares are high. What we are encouraged by is as we have rolled through March, there's simply more demand inside of 14 and more business and business and leisure demand. So yes, we see a lot of strength in the fare environment, a lot more strength outside of 14, but progressively greater strength and greater demand inside of 14.

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

I guess maybe just to put a finer point on it. Do you think 0 to 3 is still an opportunity?

Vasu Raja - *American Airlines Group Inc. - Senior VP & Chief Commercial Officer*

Yes, it is but not in quite the same way that it was before.

Operator

Our next question comes from Catherine O'Brien with Goldman Sachs.

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

So maybe just one on the 787. When we think about your CapEx over the next couple of years, as the 787 rules into future years, should we just be thinking about rolling forward that associated CapEx? Are we reaching a point where we should be thinking about maybe some late penalties potentially lowering your overall CapEx profile as we look across the next couple of years on an aggregated basis? I think you might have mentioned that Boeing was already paying penalties to prior years. Just trying to get a sense to the read-through to American free cash flow in future years.

Derek J. Kerr - *American Airlines Group Inc. - CFO, Vice Chair & President of American Eagle*

Yes. Catherine, I would -- just from a CapEx perspective, I would just roll it without a doubt. Any kind of settlement that we have will be separate. The Boeing management team have assured us that they will cover us for the damages on the 787s -- the deliveries with the 787s. How that comes? I don't know, because we haven't talked about it. There's no reason to discuss damages on the 788s until they deliver and we know when those are going to be, so that can be calculated.

So in the models today, I would move the CapEx and just shove out the CapEx. But I would -- there is upside to the cash flow or something for a settlement with the Boeing team. As they've said, they will cover the damages that we are incurring for those aircraft to be delayed and deferred.

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

Okay. Got it. And then maybe one for Vasu, just coming a little bigger picture here. Can you just update us on the hub strategy you're working through pre-pandemic? The new growth opportunities at DFW, Charlotte, D.C., as you add back capacity, are you adding proportionately more flying into those hubs than you had in 2019?

Or do you need to first restore the pre-pandemic network overall and then you look to those growth opportunities? Just trying to get a sense of -- I know those are the really most profitable hubs. So are we already starting to blend in that higher proportion of more profitable flying? Or is that on the comp?

Vasu Raja - *American Airlines Group Inc. - Senior VP & Chief Commercial Officer*

It's a great question. Yes, we are absolutely blending it in now. As we said through the pandemic, we had no intention of wasting the crisis, and we didn't. We massively simplified the fleet, reduced, frankly, a number of long-haul airplanes that were amongst some of our most unprofitable route.

Launched new partnerships where we can create more value for the customer, offer more network in places like the West Coast and New York where we're weaker. But very importantly, we've put a lot more capacity into our hubs in 2 ways. One, we've concentrated more flying there, but we've updated the airline as well.

We're 8% more seats per departure than -- as we go forward than what we were at the same time last year. But for us, like the changes are indeed quite meaningful. Right now, if you go look in published schedules, about 65%, 70% of the airlines flying really what we call our Sunbelt hubs and short-haul Caribbean kind of markets, where the airline has a unique level of strength.

And just -- to put that in perspective, I was reading through everyone's print last night, that in Q1, our 4 Sunbelt hubs, DFW, Charlotte, Miami, Phoenix, were somewhere between 70% to 80% of our competitors' full network, but we're -- are producing unit revenues between 5% to 10% greater than those networks.

So very much that is a major thing, a big part, as we talked about here, of returning to profitability. And frankly, running a better operation is focusing hard in those markets where we create really unique and disproportionate value and really getting all of our assets working there.

Operator

Our next question comes from Conor Cunningham with MKM Partners.

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

I know United and Delta have talked to generating a profit for -- in 2022, just given where demand is. And I realize you guys have stopped short of saying that today, but the question that we're getting is just around the sustainability of like RASM production. So do you expect to generate a profit for the remaining 3 quarters of this year, assuming like no massive change in oil or anything like that?

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

Conor, I'll start. Derek can add into this. Look, we're really pleased to be here talking about record revenues and producing a profit in the second quarter. But those are forecast. And you know what, our job here is to make those forecasts a reality.

So we're going to get to that business. And fourth -- to achieve profitability for the year, I can -- I guarantee it, we need to be profitable in the second quarter. And we're going to get started on that, and we'll update you as time goes on.

Derek, anything else you want to add?

Derek J. Kerr - *American Airlines Group Inc. - CFO, Vice Chair & President of American Eagle*

Agree.

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

Okay. Okay. And I know you said you've sized the airlines and the resources you have, but there has been some struggles with operations and demand surge last year. Do you assume any incentive pay above and beyond what you've historically contemplated in your 2022 CASM outlook? And have you viewed incentive pay any differently than you have in the past, just given some of the staffing issues the industry has faced, in general?

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

Conor, thanks for that. But I'll start with this is that just like the rest of the world, we're all getting back up to speed. Firstly, for American, we didn't what -- the government asked us to when they provided us with the payroll support program. We ran the airline, and we ran it to serve people that had to get to the business and leisure activities and you name it.

As we go forward, the jump that we have to take, to get to the kind of capacity that Derek has mentioned in our forecast, it's not that sizable of a jump. We're way ahead of it. We've certainly learned from issues. We're really focused on other parts of what I consider the airline supply chain, and that's our partners.

But we're very well compared. We have 12,000 more team members on, all ready to fly the summer -- the spring and summer schedule, I feel really great about it and I'm very, very confident that we're going to fly a reliable airline as we did, and we proved over the year-end holidays, better than a lot of our competition and as we have in the first 3 months of this year, too.

Operator

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

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

First one for Derek, just to confirm the updated CASM outlook that does not include any new labor deals, excuse me. And then just kind of a follow-up to that, given the labor market and your operational plans, where do you think kind of CASM eventually shakes out relative to 2019 once all is set and done?

Derek J. Kerr - *American Airlines Group Inc. - CFO, Vice Chair & President of American Eagle*

Yes. One is -- yes, the -- our CASM guidance is not having any new labor deals in it. We're in negotiations with a lot of our unions at this point in time, but we don't -- but we'll put those in our CASM guide when they occur and when we know where those are, but that's not in the CASM guide for the rest of the year.

Getting back to 2019 levels depends on growing back and when do we grow back fully from a capacity perspective. And also, as you alluded to, when do those labor deals go into effect? In 2019, we did the mechanic deal and we completed the mechanic deal during 2019. So that year-over-year is now into our numbers.

So I think as we grow the airline back, getting ourselves back to 2019 CASM levels will take us to get our utilization back to where it was before and get all the aircraft back flying to get closer to that 2019 level.

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

Got it. And then Vasu, I fully appreciate the historical relationship with GDP in response to one of the earlier questions. I guess, we get a lot of investor questions on inflation and the health of the consumer. Do you have any historical perspective on consumer demand at these levels of inflation? And at what points do you begin to anticipate some sort of consumer slowing, if at all, in this type of environment?

Vasu Raja - *American Airlines Group Inc. - Senior VP & Chief Commercial Officer*

Yes, it's an excellent question. And look there's a lot that we're seeing today, which is kind of breaking from a lot of historical trends, much like the question earlier about how fuel prices are bleeding into fare. It's just -- it's -- right now, it's really difficult to tease out what is causing what. But yes, as an industry, there hasn't been a great history of how inflation has turned into changes in demand. But we're so far encouraged by what we see right now in two ways.

First, demand continues to grow and grow at a meaningful pace. How long-lasting it is, remains to be seen. But if we learned anything in the last 20 to 24 months, we can adjust just about anything and do it pretty quickly.

And the other thing which is really encouraging is, frankly, spending on our co-branded credit cards. That is one where the -- throughout the pandemic, even though airline revenues fell, our co-branded revenues never fell nearly to the same degree. And indeed, we're encouraged right now because their -- our acquisitions are higher than before, and our spend on the card is keeping pace with inflation.

Indeed, on our card with Barclays, our spend is growing at a greater rate than inflation. So we are encouraged by that. There's clearly a level of demand for our product and future anticipation of travel, which is very promising. And we'll see how it plays out.

Operator

And that's all the time we have for analysts. We open the queue for your media. (Operator Instructions) And our first question comes from Alison Sider with Wall Street Journal.

Alison Sider

I'm just curious what you're seeing -- any response to COVID cases starting to rise again? Are you seeing that reflected at all in the consumer demand? Or in sort of your staffing, are you seeing higher rates of absences? And is that something you're kind of planning around?

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

It's Robert. The answer to both is no.

Alison Sider

Okay. And I guess I could -- on the masks. I guess, in a couple of days since that policy has changed. Have you seen any evidence of any kind of shift in bookings, increased bookings or decreased? Is there any evidence yet that there will be any change to demand as a result of the mask mandate being lifted?

Vasu Raja - *American Airlines Group Inc. - Senior VP & Chief Commercial Officer*

Allie, this is Vasu. It's still very early to tell and really difficult to draw very much of a conclusion. But so far, there's nothing to indicate that it's materially up or materially down.

Alison Sider

Okay. So not like when other international travel restrictions get lifted and there's an immediate response?

Vasu Raja - *American Airlines Group Inc. - Senior VP & Chief Commercial Officer*

Yes. Certainly not on that order of magnitude at all.

Operator

Our next question comes from David Koenig with Associated Press.

David Koenig

Robert and Derek both addressed this on the pilot. You gave pilot -- figures for pilot hires. I was looking for a net number. Is 600 enough to offset the age 65 retirements and other attrition? What's the net number? And bottom line, are you going to have enough pilots to fly this summer?

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

Let me start, and David, Seymour can join in. The answer is yes. As I've said repeatedly, we're sizing the airline for the resources that we have. From a pilot perspective, all of this hiring is meant to match up to a schedule, but also a schedule that we are making sure that we've built in safety factors. So we have tremendous confidence that we can fly. In addition to that, we're scheduling the airline, employing tools that are different than we had before. And my confidence only grows, as I -- as we make our way in the year. David, do you have anything else to add?

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

Robert, let me just add to that. I mean -- I think the numbers Derek talked about, the 600, that was this year alone. So last year, we had a target of hiring 350, we hired over 500. So the 600 is just for this year, and that's well ahead of pace where we set our expectations to. And in the pilot training right now, we're actually getting our goals and our throughput that we expect and don't foresee any problems going forward of making those numbers so we can hit the goal and fly all of our aircraft-s by the end of this year.

Operator

Our next question comes from Mary Schlangenstein with Bloomberg News.

Mary Schlangenstein

I had a couple of quick questions. One, Robert, you had said this morning, I think, that you're not doing as much regional flying as you would like to be. And I wanted to see if you could comment in terms of have you got planes parked? Have you suspended any routes? And is that all related to the shortage of pilots on the regional level?

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

Yes. So thanks, Mary. As Derek noted, we're not finding the full regional schedule we'd like to. We're going to get those aircraft back up over time. But it's related to how they're being hired from the regional airlines, so an increased level of attrition and the time it takes to actually backfill those pilots.

So while the regional carriers are able to source pilots at this time, we just can't get them up to speed, and in the position, fast enough. Over the long term, we do need to work on regional pilot supply. And we're out in front of that with our cadet program and trying to incentify people to come into the business.

And I know -- I'm confident that, over the long term, the prospects of quality of life and compensation are something that are going to attract people to the business. So it may take some time to work out. But as Derek said, over the course of the next year or so, we anticipate being able to get not only mainline back up to full utilization by the end of the year, the regionals sometime thereafter.

Mary Schlangenstein

How much down is you're flying, your regional flying?

Derek J. Kerr - *American Airlines Group Inc. - CFO, Vice Chair & President of American Eagle*

Departures in the second quarter are probably down about 20% versus 2019, where the airline mainline is down about 5%. So maybe 15% different than -- lower than what the mainline is.

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

And Mary, I want to note on that. We're not just -- look, while we have aircraft that we're not flying, there's many other companies like -- we're not changing that. We're simply sizing the airlines for the products we have. And so our confidence in this summer is rooted in. We've already taken a look. We've already made sure that we have appropriate confidence levels in what we can do. So no need for any type of concern over the summer.

Mary Schlangenstein

Okay. And then the second question I had, if we could go back to the NEA for a minute. If the government tells JetBlue, it can acquire Spirit, but it wants big changes in the NEA, what's the prospect for American at that time? Is that something that you could have to walk away from with JetBlue?

Stephen L. Johnson - *American Airlines Group Inc. - Executive VP and Strategic Advisor to the CEO, leadership Team & Director*

Mary, thanks, that's a speculation on speculation, on speculation on speculation. Vasu was -- I think really articulated in his comments about how pro-consumer and pro-competitive the NEA is. I mean we could go on and on about that.

And if you assume that JetBlue actually figures out a way to acquire Spirit. And we get to that point. The JetBlue-Spirit combination doesn't change the impact to consumers of the NEA. It's not going to change one bit the value that we create for consumers in New York and Boston.

So I think it's -- there's a lot of water to go under the bridge, obviously, with respect to Frontier and Spirit and JetBlue. But I think there's -- that kind of speculation is probably premature. And we feel really, I think, excited about the prospects of winning our lawsuit with the DOJ. And we're looking forward to continue with the NEA, just in perpetuity.

Mary Schlangenstein

Steve, are there any discussions underway on settling with the DOJ over the NEA? Or do you expect that that's going to go to trial in September?

Stephen L. Johnson - *American Airlines Group Inc. - Executive VP and Strategic Advisor to the CEO, leadership Team & Director*

I expect it'll go to trial in September.

Operator

Our next question comes from Dawn Gilbertson with USA Today.

Dawn Gilbertson

Two questions on masks. Do you foresee -- given the DOJ appeal, do you foresee any scenario in which the mask mandate on plan is reinstated as swiftly as it was removed? And the second thing is how is American handling traveler request for refund, given the -- how quickly the mask mandate was lifted? Are you -- if someone doesn't want to fly they're immunocompromised, are you just giving refunds? What's your policy?

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

Nate, go ahead. Take the first.

Nathan J. Gatten - *American Airlines Group Inc. - Senior VP of Corporate Affairs & Chief Government Affairs Officer*

Yes. I can take the first part of that question. This is Nate. Obviously, we're aware that the DOJ is appealing the Florida ruling, although they have not asked for a stay of the district court judge. Beyond that, as I mentioned earlier, we've learned throughout the pandemic not to speculate on what the government may or may not do.

I would emphasize though that in keeping with our commitment to create a welcoming environment for everyone who travels with us, customers and team members may, of course, choose to continue to wear masks at their own discretion. And we expect that many will continue to do so. But especially considering the steps that we've taken for the last couple of years regarding cleanliness and airflow, we don't feel that reinstating of the mandate is necessary at this time.

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

Yes. And Dawn, thanks for the question overall. And just right off, we haven't had much interaction with customers that have said they want to do anything different. But like we do in all these events, we're taking a look at our policies. And we are certainly, with customers, open and asking them to get in touch with our reservations office, and we'll make sure that we accommodate them in an appropriate fashion.

Operator

Our next question comes from Leslie Josephs with CNBC.

Leslie Josephs

I was wondering how you guys are thinking about IROPS during the summer? And if you have enough capacity and clear capacity to handle rebookings? And how you are addressing that? And just kind of how the overall labor landscape looks, not just pilots, but customer service, grounds and other employees?

Derek J. Kerr - *American Airlines Group Inc. - CFO, Vice Chair & President of American Eagle*

Yes. I appreciate the question. Certainly, one that we spend a lot of time thinking through and working on. What I'd tell you, we've actually implemented a number of tools knowing that loads are going to be high as we go into the summer, and we welcome back a lot more customers.

And those tools we've actually been utilizing and have shown good promise here in terms of ensuring that we're not canceling and working our airline through a delay as this weather does develop, and we work our way through it. And that's really the key for us is making sure that we're canceling as few flights as possible to allow the traffic to continue to move through. But again, we're very focused on that. We know that the weather is going to be out there. We're certainly not taking anything for granted.

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

David, I'll just add. Look, we have 12,000 new team members. And so that's a lot more than the 600 pilots that we have. And actually, that 12,000 is net new. And we hired, I think, almost 20,000 people. But those people -- team members are working in reservations. They're at our airports. They're throughout the system. So we've beefed up our capacity to be able to handle. And then Maya, do you want to say about anything more about other technology that we're using?

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

Yes. I think David hit on it. The goal is to prevent the cancellations in the first place so that we don't have to re-accommodate people given the high loads that we expect this summer. And we've got some pretty cool new technology that really focuses on how we manage to do that. In addition, really helping with improving our technology around crew recovery and some optimization technology that will really help reduce our taxi times, our turn times at airports and all of those things together are going to be in place for this summer, in order to ensure that we have a better approach to irregular operations.

Leslie Josephs

Okay. And then my second question is really quick. Does it still make sense for American Airlines to have an award chart just given where demand is and kind of how hard it is to find seats with awards these days, with miles these days?

Vasu Raja - *American Airlines Group Inc. - Senior VP & Chief Commercial Officer*

Yes, thanks for the question. Actually, what's been really interesting to us, even though we are seeing an improving fare environment is actually our redemptions are up both in March and as we go forward. As far as the award chart goes, that is certainly something which our top-tier loyalty customers very much value and they see a lot of opportunities for it to go and secure traffic, which many of them have been long anticipated through the pandemic.

So as it stands, we're still really encouraged by having an award chart. And encouraged that, frankly, even though we are, in this rising environment, we're creating the right level of availability for redemption.

Operator

Our next question comes from Niraj Chokshi with New York Times.

Niraj Chokshi

So I think most of my questions were answered already. I guess one question I had on masks was, do you anticipate it affecting hiring at all, maybe potential -- people you might hire might be nervous about sort of the shift, the drop of the requirement?

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

Niraj, the answer is no. And just so everybody is aware, if our customers and team members want to wear masks, we encourage them. We welcome that, and we see that as a practice that's going to go continue forward.

Operator

Our next question comes from Kathryn Krupnik with CBS News.

Kathryn Krupnik

I hope this is the last time that we have to talk about unruly passengers. But do you have a count on how many of that American has banned? And what are you going to do with those who are banned? Are you going to do what your competitors are doing and doing case-by-case basis?

Nathan J. Gatten - *American Airlines Group Inc. - Senior VP of Corporate Affairs & Chief Government Affairs Officer*

Yes. This is Nate. We don't give account for how many passengers we banned specifically for mask noncompliance. In most of the cases, the passengers who were added to our internal refuse list, as a result of mask noncompliance, will be permitted to resume travel at some point in time.

In cases where an incident may have started with face mask noncompliance and escalated into anything involving something more serious or certainly an assault on one of our key members or customers, those passengers are going to remain on our permanent internal refuse list and will never be allowed to travel with us again.

I would just add in this vein, we're very grateful to our partners and the federal government who have prioritized the safety of our crews, both our ground crews and our crews in the air during this period. And we are really appreciative of the announcement yesterday from the acting FAA administrator, Billy Nolen, who said that the zero-tolerance policy against unruly passengers is here to stay as we anticipate. Unfortunately, that these cases will continue, although, as Robert noted earlier today, hopefully, with fewer incidents.

Operator

Thank you, and that's all the time we have for Q&A. I'd like to turn the call back to Robert Isom for closing remarks.

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

Thank you. I'll just close with this. Look, we've worked really hard as a company to get to this point to be able to take advantage of an environment where demand is improving. The airline is structured in a really great fashion.

I want to thank our team members for working so hard to get us through the pandemic and to be in a position to actually realize everything that we want to make about American. And in terms of the transition as well, this is my first earnings call, I want to thank our Board of Directors, especially Doug Parker for making things really work smoothly, putting us in a position to be talking about things that are very, very favorable.

And so for our team, you've heard from a lot of players here today. I couldn't be more proud and confident in the team that we have from a senior leadership perspective. You're going to hear more from them as time goes on.

And our job right now is to make the second quarter forecast a reality. That is what we're focused on. So we're going to get out there and make it happen. And I want to thank everybody for their time today.

Operator

Thank you. This concludes today's conference call. Thank you for participating. You may now disconnect. Everyone, have a great day.
