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AAL.OQ - Q4 2020 American Airlines Group Inc Earnings Call

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OVERVIEW:

AAL reported 4Q20 GAAP net loss of $2.18b or $3.81 per share. Expects 1Q21 total revenues to be down approx. 60-65% vs. 1Q19.

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PRESENTATION

Operator

Good morning, and welcome to the American Airlines Group Fourth Quarter 2020 Earnings Call. Today's conference call is being recorded. (Operator Instructions)

And now I would like to turn the conference to your moderator, Managing Director of Investor Relations, Mr. Dan Cravens.

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

Thanks, Victor. And good morning, everyone, and welcome to the American Airlines Group Fourth Quarter 2020 Earnings Conference Call.

Joining us on the call this morning, we have Doug Parker, our Chairman and CEO; Robert Isom, President; and Derek Kerr, our Chief Financial Officer. Also on the call for the Q&A session are several of our senior executives, including Maya Leibman, Steve Johnson, Vasu Raja, Alison Taylor and David Seymour.

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

Before we begin, we must state that today's call does contain forward-looking statements, including statements concerning future revenues, costs, forecast of capacity, fleet plans and liquidity. These statements represent our predictions and expectations as to future events, but numerous risks and uncertainties could cause actual results to differ from those projected. Information about some of these risks and uncertainties can be found in our earnings press release filed with an 8-K this morning as well as our Form 10-Q for the quarter ended September 30, 2020.

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

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

So thanks again for joining us. And at this point, I'll hand the call over to our Chairman and CEO, Doug Parker.

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

Thank you, Dan, and thanks, everybody, for being with us. So look, before I begin my prepared remarks, I want to preemptively state that we will not be commenting nor answering questions on the recent activity in our stock price. As a rule, we don't speculate on the day-to-day movements in our share price. We'll stick to that rule today.

So -- but we have a lot we do want to talk about. So I'll get it started, and then Robert and Derek will add some more. And we'll take questions after that, as we always do.

So look, 2020 was obviously an incredibly difficult year, but we couldn't be prouder of what the American Airlines team accomplished in the face of extraordinary challenge. Our team kept the country and economy moving, and they did so safely with great care. American Airlines flew more customers last year than any other airline, and our team did so while running a solid operation, ensuring our aircraft and airport facilities were clean and safe for every customer who needs us.

The year ended on a high note with the extension of the Payroll Support Program. This positive outcome is the result of the company and union leadership working arm in arm, bringing PSP2 over the finish line. It's clear that great things come about when we raise our voices together for the greater good. Of course, we're also grateful to our elected officials who recognize that the airline industry plays a vital role in the recovery from the pandemic.

We talk a lot about the best days here at American, and we use that term to describe moments that make American truly unique and why our team believes it's the best airline in the world. December 24 was that best day for me. We welcomed back all of our furloughed team members and reinstated their pay and benefits. Thanks to our tremendous support teams working around the clock, we were able to deliver to thousands of colleagues their first paycheck in months.

It's easy to forget that a lot happened in 2020 on top of navigating the pandemic. Yes, we took aggressive steps to permanently lower our costs, increase our liquidity and care for customers in ways we've never seen before due to COVID-19. But we also accomplished significant milestones like entering into groundbreaking new partnerships and reaching a new joint collective bargaining agreement covering our fleet and maintenance colleagues, and just last month, we seamlessly returned the Boeing 737 MAX to commercial service. We'll talk more about these accomplishments shortly.

As we sit here today, I can unequivocally state that despite every challenge thrown our way, I've never been prouder of a company in my entire career. The American Airlines team and our industry is incredibly resilient, and this past year has proven that.

As we turn our attention to the year ahead, 2021 will be a year of recovery. There's still a lot of unknowns, of course, when or how quickly demand will return. Make no mistake, it will return. The good news is there are vaccines. And while it will take some time for them to be widely distributed, progress is being made every day, and that's encouraging.

We don't know exactly when we may return to prior levels of demand. What we do know is that we're prepared to withstand the ongoing crisis irrespective of how long the recovery takes. We ended the year with over $14 billion of total available liquidity, and more importantly, we've used this opportunity to make American much stronger. When the recovery does occur, we'll be prepared and even better positioned than we were prior to pandemic, and we'll do so by taking care of our team, our customers and our company.

On the team front, we're proud of the progress we've made especially in 2020 as the crisis has brought the American team together, strengthened the relationship between management and our union partners in incredible ways. Since the onset of the pandemic, we've been meeting with our unions every 2 weeks to discuss the company's response to the crisis and our path forward, and we sit side by side as we work to advocate PSP and PSP2. And while we made a difficult decision to furlough 19,000 team members last fall, we prepared for that reality in a way that was cooperative and collaborative with our union partners. Our hope is to expand what we accomplished in the past year, knowing that together we can be the best in the industry at advocating and caring for our team.

For our customers, we're doubling down on operational excellence. Once we're back at full speed, we're positioned to run the best airline American Airlines has ever run in terms of operating reliability. We reset our network to focus even more on our strongest and best performing hubs and migrated to a much simpler, more modern fleet.

We talked before about efficient growth in Dallas/Fort Worth and Charlotte, and that work is now done. We continue to modernize our facilities at Washington Reagan and improve the connectivity of Chicago O'Hare, Phoenix, Philadelphia and Miami. And we're building a much stronger network than we had before. In addition to the inherent strength of our hubs, in 2020, we established new and innovative partnerships with Alaska and JetBlue that will make us stronger on the West Coast and in the Northeast.

We've also done a lot over the past year to make American a much more efficient airline. We had a truly unique opportunity to shut down the largest airline in the world and rebuild around our strengths. This enabled us to bring forward an accelerated a number of efficiencies in 2020 that were originally planned for the longer term, and we are passionately pursuing those efficiencies as we recover through 2021.

Derek will elaborate on this in his remarks, but 2 of the best examples are the permanent retirement of more than 150 aircraft and 5 different aircraft types and a 30% reduction on our management staff. We believe the efficiencies we've built into the business will drive more than $1.3 billion of permanent, non-volume-related, nonfuel-related savings in 2021 and of course, beyond.

So in summary, we could not be more proud of the work the American Airlines team has accomplished over the past year. We're very well positioned and feel great about where American is going to be as demand returns.

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

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

Thanks, Doug, and good morning, everyone. I'd like to also thank the entire team for their tremendous efforts in navigating an exceptionally challenging year. Supporting our team members and customers was paramount in 2020, and it continues to be a priority as we move into 2021.

We continue to expand our pre-flight COVID-19 testing to make travel easier, including pre-flight testing for certain international destinations and at-home testing for travel to all U.S. cities requiring negative tests. In the fourth quarter, we began the rollout of a digital health passport, VeriFLY, so customers can easily confirm testing and COVID-19 travel requirements and streamline airport check-in. This tool is now available for travel to many international locations and for travel in the United States. Starting today, customers also will have the ability to use VeriFLY for travel to the U.S. -- to the U.K. and Canada as we will continue expanding our use of VeriFLY this year to open up new -- to open up international travel in key markets.

With cleanliness and safety top of mind, last month, we were pleased to achieve STAR certification from the Global Biorisk Advisory Council for our entire fleet of aircraft and for our Admirals Club lounges. This is a testament to the effect of cleaning, disinfection and infectious disease protocols we've put in place over the past year.

As customers return to the sky, we've taken a number of steps to give them flexibility and confidence when they book with American. We have eliminated change fees on most domestic and international itineraries and fees for milage reinstatement on canceled award bookings, domestic same-day travel standby -- standby travel and reservations booked by phone. We also made it easier for top-tier customers to earn AAdvantage elite status, paused mileage expiration through June 30, 2021, and extended 2020 status into 2022 for all members. Each of these efforts is predicated on our philosophy that American Airlines should be the easiest airline to do business with, and we'll continue delivering on that commitment as more people return to flying.

Our fourth quarter revenue was down considerably versus 2019, 64% year-over-year, but we saw improvements compared to the third quarter when revenue was down 73% year-over-year. The momentum we saw heading into the fourth quarter was tempered by the surge in COVID-19 cases and has -- and the increased travel restrictions in many parts of the country.

As we have done throughout the pandemic, we responded by making closing adjustments to our schedule while maximizing the connectivity of our network. It is a testament to our team that our fourth quarter passenger unit revenues were by far the best in the industry. We will continue to be flexible and match our future capacity with observed booking trends while playing to the strengths of our hubs in the parts of the country where travel demand is great.

On a year-over-2-year basis, we currently expect our first quarter system capacity to be down 45%. The recent CDC order to require a negative COVID test for entry into the U.S. has had an impact on our international bookings. Though many countries and hospitality providers are planning to make testing available to travelers, timing and scale of these efforts remain unclear. Given this continued demand volatility, we will remain as flexible as possible and match capacity to demand.

Our ongoing engagement with leisure operators will pay dividends as we head toward a recovery. I want to acknowledge our sales team and entire customer organization for their work. This team was recently named Airline Partner of the Year by the American Society of Travel Advisors and the best overall airline for students and youth by StudentUniverse, which are both important accolades during such a challenging year.

Cargo remains a bright spot for our business. Our cargo revenue in the fourth quarter was up 32% year-over-year despite flying a significantly reduced schedule. In 2020, American operated more than 5,200 cargo-only flights, transporting 167 million pounds of critical goods and supplies around the world during the pandemic. Cargo will continue to be an area of focus in 2021.

We remain optimistic about the recovery because of the changes that we've made to our network. We will offer customers the largest and most compelling global airline network, thanks to the actions taken in 2020. We will have the full run rate benefit of our advocates in Dallas/Fort Worth and Charlotte, our best performing hubs, and we'll have a fantastic new facility at Reagan Nashville that will enable us to upgauge the hub. By the third quarter of 2021, all of our DCA flights will have a first-class product but we will eliminate the 50-seat regional jet operations there. Our flight simplification, continued up-gauging and improved connectivity will also scale the cost of our other connecting hubs and improve their revenue-generating capabilities as well.

Our new partnerships with Alaska and JetBlue will also create the best and largest network for our customers on the West Coast and in the Northeast. Customers will have access to a seamless network that allows us to focus our assets on what we do best. In New York, we will remove the 50-seat regional jet, upgrade our service and offer a much more competitive network for customers. As a result, we will launch new long-haul international flights in New York this summer when we start service to Tel Aviv and Athens. Similarly, we are working with Alaska on the West Coast, and this year, when demand returns, we will begin service from Seattle to London, Shanghai and Bangalore.

We have also announced a new integrated frequent flier offering and have signed new corporate contracts. This partnership is already creating value for customers throughout the West Coast, including our hub in Los Angeles.

Lastly, while we anticipate international demand will be slower to recover, we will use our strength in Latin America and our partnerships to create a leading international network. Our Latin American network has long been uniquely valued by our customers, and its performance during the pandemic has been a standout. Despite near-term demand volatility, we expect Latin America to recover sooner than the rest of our international network, and we will continue to offer customers the largest and most comprehensive network in the region.

We have rationalized many parts of our transatlantic and transpacific networks during the pandemic and integrated more deeply with our partners. As an example, through our partnership with Qatar Airways, we've been able to leverage Doha as a global connecting hub, which has opened up many new markets for our customers. As demand recovers, we anticipate leveraging these partnerships to start flights and increase global connectivity even more.

We believe the structural changes we made in 2020 will enable us to produce industry-leading revenues on lower expenses through a focused customer proposition, broader network and a smaller fleet. We will continue to adapt our business to customers' needs, and we'll keep working hard to make sure that they have peace of mind when they travel.

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

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

Thanks, Robert, and good morning, everyone. Before I begin my remarks, I would also like to thank our entire team for their tenacity and resilience throughout the pandemic. While 2020 was certainly a financially difficult year for the airline, the collaboration, teamwork and sheer grit our team demonstrated was impressive.

This morning, we reported a fourth quarter GAAP net loss of $2.18 billion or $3.81 per share. Excluding $32 million of net special nonoperating items, we reported a net loss of $2.21 billion or $3.86 per share. For the full year 2020, we reported a GAAP net loss of $8.9 billion, and excluding net special items, we reported a net loss of $9.5 billion.

Robert talked about what we're seeing with the revenue, so I'll focus my remarks on the cost side of the P&L. Through aggressive actions, we have reduced our fourth quarter total operating expense, including net special items, by 37% versus 2019. We remain focused on aligning our costs with capacity while preserving the maximum amount of flexibility to respond to customer demand. We have accelerated several of our long-term efficiency plans, and as Doug mentioned, we are on track to permanently remove at least $1.3 billion from our cost structure in 2021 and beyond.

At the end of the fourth quarter, we had approximately $14.3 billion of total available liquidity. Costs were flat from the third quarter to the fourth, and we continue to see a positive trend in our daily cash burn rate, which improved from approximately $44 million per day in the third quarter to approximately $30 million per day in the fourth quarter. The reduction was due to revenue improvements on higher capacity. As a reminder, our definition of cash burn includes $8 million per day of regular debt principal and cash severance payments.

During the quarter, our treasury team did a phenomenal job of continuing to strengthen our liquidity through a series of capital market transactions. We raised approximately $1.5 billion of incremental cash through 2 equity transactions to strengthen our balance sheet composition. And we still have $118 million left on our previously announced at-the-market equity authorization.

I would like to take this opportunity to specifically thank our recently retired Treasurer, Tom Weir. Tom has been an invaluable member of our team for more than 20 years. His expertise will be missed, but I am confident our new Treasurer, Meghan Montana, and her team will pick up right where Tom left off.

During the quarter, we took delivery of 10 MAX -- 737 MAX aircraft, and we expect to take another 7 this quarter. These aircraft were built while the MAX was grounded and were efficiently financed through sale-leaseback transactions.

Also, as a reminder, we reached an agreement with Boeing to secure deferral rights on 8 of our 2021 MAX deliveries and all 10 of our MAX deliveries in 2022. We have deferred 5 of these aircraft to date. And as I mentioned last quarter, to avoid exercising additional deferral rights, we would need to see substantial improvement in the demand environment.

As Doug discussed in his opening remarks, as we look ahead to a recovery in 2021, we are passionately pursuing the initiatives we have put in place to make the airline more efficient when we are back to a normalized demand and capacity environment. Like all airlines, our planning begins with our fleet. As we have mentioned on previous earnings calls, we have worked hard to rebuild our fleet into one that is simpler and much more efficient to operate while offering our customers a consistent and improved product and experience.

As part of that process, we have retired more than 150 older, noncore aircraft, including 5 total fleet types, lowering our average fleet age to 11.2 years, the lowest of the U.S. network carriers. Not surprisingly, the aircraft that we exited were the least cost-efficient aircraft in our fleet. With only 4 mainline aircraft types remaining, we will see improved aircraft utilization and operational efficiencies in the back half of 2021 through the increase in gauge, reduction in inactive aircraft, including spares and maintenance allocations.

Additionally, we have further accelerated our seat harmonization project and now expect the entire project to be complete by the end of 2021. When this work is done, we will have a more consistent product with more premium seats, larger overhead bins and in-seat power. These projects will provide significant opportunity to not only improve revenue production but also lower our unit cost now and well into the future. As a result, when demand conditions improve, we could eventually reach 2019 levels of capacity with approximately 10% fewer aircraft.

We will also have a more efficient workforce on the other side of the pandemic. We reduced our management size by 1/3, resulting in an estimated $500 million of permanent cost reductions. For reference, that would drive more than an entire pretax margin point on our total revenue base for 2019.

Beyond that, we have implemented $700 million in additional labor efficiencies that have been incorporated into our plans going forward. These include but not limited to optimized staffing plans and the utilization of technology to be more efficient across our operations. For many of our work groups, these initiatives will allow us to achieve the best productivity levels that we have seen in years. Many of these projects would have come to fruition over time, but due to the extraordinary circumstances in 2020, we took the opportunity to accelerate and implement these efficiencies as part of our future foundation.

As we look to the first quarter, there continues to be a tremendous amount of uncertainty with bookings. Stubbornly high COVID-19 cases and more stringent travel restrictions continue to constrain demand, and as a result, we expect the first quarter demand environment to be very much like the fourth. As Robert noted, we expect capacity to be down 45%. We also expect total revenue to be down approximately 60% to 65% versus the first quarter of 2019, similar to our fourth quarter results. When this flat revenue performance is combined with known cost pressures from higher fuel, restoring pay to our furloughed workers and volume-driven expenses, we expect our first quarter pretax earnings excluding special items to be lower than the fourth quarter.

We presently expect to end the quarter with approximately $15 billion in total available liquidity. This results in an average -- first quarter average daily cash burn rate of approximately $30 million per day, flat with the fourth quarter. The first quarter also includes approximately $9 million per day of debt principal and cash severance payments, which includes a $360 million WTC amortization, including the maturity of our 2011-1 WTC, which unencumbers 30 aircraft. Also included in our daily cash burn for the quarter is a $240 million contribution to our pension and $225 million in non-aircraft CapEx.

In terms of our balance sheet, we feel good about the flexibility and efficiency we have. Approximately 40% of our outstanding debt is prepayable without penalty, and we still do not have any large non-aircraft debt maturities until our $750 million unsecured bond matures in June 2022. After all the COVID-related financings we completed in 2020, our average cost of debt is just over 4%.

For guidance for the full year of 2021, our debt payments will be $2.9 billion, and our pension payment is $695 million. Full year CapEx will be $900 million of non-aircraft CapEx. And due to our negotiated settlements with Boeing discussed earlier and attractive aircraft financing, our net aircraft CapEx including PDPs will be an inflow of $1.2 billion. As we have previously stated, when demand recovers, we expect to use all excess cash to further delever our balance sheet.

Earlier this month, we received the first installment of approximately $3.1 billion of PSP2 funds from the Treasury Department and negotiated an extension on the final draw date of the CARES Act loan facility from March 26 to May 28, 2021. This extension gives us more time to decide our liquidity needs for the year based on the pace of the recovery as well as to evaluate alternatives to drawing the CARES Act loan.

Our industry still has a long path to recovery ahead, but the actions we have taken in American to conserve cash, bolster liquidity and drive permanent efficiencies across the business give us confidence that we are well positioned for the year ahead and the long term.

And with that, I'll open it up to questions from the analysts.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question will come from the line of David Vernon from Bernstein.

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

I'm wondering if you could help us frame what -- the cost actions you guys have taken and the efficiency that you guys pulled forward through this crisis, frame how that -- how we should be thinking about EBITDA margins in a -- in your perspective from a '23 or maybe '24 level. If you think about the $1.3 billion of nonoperating cost takeout plus the efficiencies of the fleet, if we get to revenue levels that we saw in 2019, where should we be thinking the EBITDA margins will shake out at that point?

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

Yes. David, it's Doug. It's really hard, of course, to project what 2023 margins are going to be without knowing what demand is going to be. So I guess the best way, I think, for us to answer that is to tell you the $1.3 billion, as we described, is real sustainable. I think what we -- another way of stating that is if we were starting 2019 right now with this fleet, with this layout of an organization, this management, this -- management team, our earnings in 2019 would have been $1.3 billion better.

Now [you care about] -- that consists of other things that happened. We've added debt. We've added -- we got a contract done with our -- so you have to make those adjustments. But it's real and it's a fundamental difference in the airline right now. So you can use that to make your own 2023 projections.

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

I realize it's difficult, and nobody knows what demand is. I guess in our conversations with investors, it feels like people are framing your earnings power off of the 2019 base when it sounds like, with the fleet changes you're making and with the cost reduction actions you're taking, that that's too low of a starting point. And I guess I'm just trying to understand if that is the right way to think about it or if you think that the earnings power of the business is going to be materially higher or higher than it was. Again, assuming the revenue environment stays...

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

Right. Again -- yes, David. I appreciate the question. It's really hard to figure out the margin because it's so dependent on revenues. But to answer your question, to the extent people are modeling 2023 with whatever revenue assumptions you want to do, if you weren't -- if you didn't know that American Airlines is going to be $1.3 billion more efficient, you should build it in your models. If you already suspected that, you don't have an adjustment to make.

That's where we are. It's -- those are real differences in the way this company is now structured versus where it was in 2019.

Operator

Our next question comes from the line of Savi Syth from Raymond James.

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

Just if I might, on the cost side of things, can you provide any color on like 1Q '21, what you're expecting on the OpEx side, including what might be temporary because of PSP2? And just a follow-up on, Doug, your comments in response to David. I think -- are you basically saying that the 2019 -- at 2019 capacity, you should see $1.3 billion less in kind of non-fuel OpEx out of the system? Is that a fair way to look at it?

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

Yes.

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

Yes. And Savi, to answer -- I mean the one number that we do know is the number added back to salaries is about $300 million, which is the amount of money -- that we will have higher salaries due to PSP2 coming back. The other is volume.

I think fuel price is definitely up. Fuel price -- and we gave you a 45% capacity. So I think if you calculate where the price of fuel is now and that capacity increase, that fuel should be up right around $300 million, where the curve is today. And then we have a little bit higher regional expenses because we're growing the regional a little bit by about $100 million.

So those are the key -- the 3 key things. The rest is just depending on volume of growth that we have over the fourth quarter.

Operator

Our next question will come from the line of Mike Linenberg from Deutsche Bank.

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

Two here, I guess, Robert and Doug. Robert, you sort of alluded to the fact that the new testing requirement that went into effect, I guess, earlier this week was obviously having some impact on maybe bookings to/from Latin America, Caribbean, et cetera. What's thoughts on -- I know that the administration this week floated the possibility of domestic testing.

And I just -- logistically, I just -- I can't get my arms around that, and I'm not even sure if the airports would be able to facilitate it. Maybe it's an at-home type product, and it sounds like maybe you are gearing up for that given what you're doing sort of behind the scenes. Can you just talk about that and whether or not that would even be feasible?

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

Mike, it's Doug. Yes, we certainly haven't been informed that that's something that's imminent. What we know is what Robert said about the international testing. We're getting that to work. As Robert said, it's had an impact on demand certainly on short-haul international flying, but we're supportive of that.

Anyway, domestic testing is -- for reasons you stated, I mean, it seems like something that would both be difficult and would have us testing Americans on airplanes that we all know are safe to be on. So we'll obviously work with the administration on what they think makes sense and do our best to make sure that we're all doing everything we can to make sure that people are safe and also that we get through this pandemic as quickly as possible, which is all in our best interest, but also let them know what kind of impact that would have on travel.

But again, to be -- the bigger point is we have -- while you say it's been floated, it hasn't been floated to us. And so we haven't heard anything directly from regulators or others about that possibility.

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

Okay. Great. Very good. And then just a quick one to Derek.

You gave us the gross -- or you gave us the pension contribution for the year. I think you said $695 million. How does that compare to the -- what you anticipate expensing on the P&L?

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

The expensing on the P&L is actually a credit. I think it's a -- let me get you back on that number, make sure we've got it right.

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

Not a problem.

Operator

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

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

So my first one is on the $1.3 billion of cost cuts. I guess could you just walk us through what some of the largest buckets are there? It sounds like fleet simplification, management team are a decent -- management cuts are a decent percentage of that. I know you gave the $500 million for the management head count reduction. And then you touched on this a bit in your prepared remarks, but can you help us think about what proportion of that was pulling forward initiatives already laid out versus maybe potentially some new opportunities that came from turning over additional stones as a result of COVID?

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

Yes. I would say -- I mean the 2 big buckets, as I talked about, are the $500 million in management and then the $700 million in other labor. And that goes through all groups. So it goes -- let's say, as you get to summary, it's through every group: pilots, flight attendants, maintenance, fleet service. So as we've looked at every group, we look and see how can we be as efficient as we can in each one of these as we brought the people back. So there's no -- the biggest item definitely is management, and that's the $500 million and the $700 million, those and other things.

We have a bunch of other items that are in that. There's facilities consolidations, fuel efficiencies, benefits, a lot of other items that we have gone through to make sure that we're as efficient as possible. We do have other savings that are out there that due to volume will be down, but we'll have to see if those are permanent over time and whether they come back.

So I would say we did take advantage of this to do some of this earlier. All of it was on our plans over the next probably 3 years, but we've brought all of that forward. And as we went through the process of unfortunately having to furlough people and as we bring people back, how do we be as efficient as possible, and that's what we've done. The dynamic manning at the airports, single-agent boarding at airports, all of that stuff has been accelerated through this process and will be put in place as we grow back.

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

Got it. Understood. And actually, maybe one more for you, Derek.

Can you just walk us through the calculus in determining how much cash you want to get on your balance sheet for the coming months just given the uncertainty? Is there a new minimum you want to have until demand gets back to a certain point and you just kind of factor in your expectations on cash burn to help decide on potential incremental raises? Or is it really just more opportunistic to either use equity to pay down debt in the future or keeping a pulse on the market, see if there are opportunities for less expensive debt? What's the...

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

Yes. I mean we don't have any requirements other than $750 million in 2022. And then we do have some payments on some term loans and stuff that come up in 2023. So right now, the -- we've gotten ourselves -- at the end of this quarter, we will be at $15 billion, a significant amount above the $7 billion we had in the past.

So I think the liquidity is there. But we have to keep our pulse on it. We have to keep watching it, see where the recovery is.

But we are going to be opportunistic. Our biggest -- we talked about the government loan which we have, $7.5 billion against the frequent flyer program for that government loan, which we would have to pull by May 28. The determination of what do we do there is one of our -- one of the biggest things we're going to do in the next few months. But we're happy with the liquidity level where we're at.

We are in a really strong position. We don't have a lot of CapEx coming forward in the next 2 years at all. As I talked about, our actual net CapEx is positive this year, which will bring in cash flow for us.

So our biggest thing to look at right now is the government loan, how do we refinance that -- actually, we haven't pulled it yet. So how do we -- what do we do for using that collateral? And how much liquidity do we raise in that transaction? But we're really comfortable where we're at, and we don't have a lot of commitments going forward from an aircraft standpoint or a CapEx standpoint or debt standpoint in the next 2 years.

Operator

Our next question will come from the line of Hunter Keay from Wolfe Research.

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

A couple for you, Derek, probably. What's the latest on the 787 delivery schedule for this year? And just -- can you just give us a rundown on what you're planning for aircraft deliveries this year and next and how many of them you already have financing in place for?

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

Yes, yes. So we have -- right now, we haven't changed the delivery schedule on 788 (sic) [787] yet. We have 19 deliveries coming this year, all fully financed And as of right now, they're coming, but we are talking with our partners on those aircraft.

The MAX, we have 8 more coming. 7 will come this quarter, all fully financed. And we have 16 neos coming, all of those fully financed. So our actual net aircraft CapEx, when we just talk about CapEx, it's actually a positive. So those aircraft coming in will be positive cash flow.

Next year, we have 26 Airbus 321s coming in, no financing. We have backstop financing on those, but no permanent financing yet. So we're working on 2022. We won't take any aircraft that don't have financing going forward.

So we're fully financed on all 2021 with really good financing, and we still have -- are looking at 2022 right now. And we will look -- as we look at the Airbus planes next year and the 78s, we'll continue to look at those aircraft as we talk to manufacturers.

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

That's super helpful. And then just 2 sort of quick cleanup ones. Interest expense, can you help me out with that this year and next? It would be great. Even '23 if you want to take a stab at it. And then when does your blackout period end?

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

I'll give you to #2. Blackout period ends today -- or tomorrow. And I'll get back to you on the interest expense numbers.

Operator

Our next question will come from the line of Dan McKenzie from Seaport Global.

Daniel J. McKenzie - *Seaport Global Securities LLC, Research Division - Research Analyst*

Question on corporate demand. The broad view is that it's permanently impaired. And I'm just wondering if you can elaborate on the latest conversations with your corporate travel managers, what that path to recovery might look like.

I'm pretty sure there's no airline planning for 50% permanent decline in the spend. And I'm thinking American has got some share shift here. But I'm just wondering if you could just help us connect the dots on this part of the recovery story.

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

Yes. Dan, this is Vasu. I'll start into that.

Look, the reality is corporate travel demand is down. It is 5% to 10% of what its historical levels were. And though we are very optimistic that it will return as vaccines are distributed, the timing, the speed, the rate of that is unclear at best.

But also, as important as that is, the thing to really never forget, I mention this a lot, I'll do it again here, is the power of the network business, right? For us, the primary value we create is we create more origin and destination markets for customers. That creates more value for them, and that results in them paying us more for that product.

And indeed, what we see right now is that 50% of the revenue that we're drawing are from origin and destination markets where really American Airlines has the best network or, in some cases, the only travel option. And indeed, the yields in those markets are 50% higher than in markets where our product is the most commoditized and a ton of different carriers can provide the O&D.

So that's a huge degree of leverage in the business because, of course, the big thing we have going for us is that we can move our capacity around. And so in a world where corporate travel is slow to come back, and we should expect that it is, we -- what we've really tried to do is make the airline as limber as possible so that we can go and create as much connectivity where there is travel demand. And that -- in some cases that we are taking leisure, we're taking it in some cases where our origin and destination network is uniquely advantaged versus other airlines. And the yields that we see in those O&Ds are materially higher than what we can generate even from what business travel is there in really commoditized O&Ds.

Alison Taylor - *American Airlines Group Inc. - Chief Customer Officer*

Yes. Thanks, Vasu. We're staying -- Dan, we're staying really close to our corporate travel managers and their risk management team to give them all the information they need to feel comfortable to get their travelers back on the road and hence, continue to spend most of their days doing that and building confidence in travel through information and communication. We're also staying very close to GBTA and the other large associations who provide great communication to these travel managers. A little early to say, but as you saw some of the surveys coming up from GBTA, they did indicate the back end of '21 as start of corporate travel. Thank you.

Daniel J. McKenzie - *Seaport Global Securities LLC, Research Division - Research Analyst*

Yes. Thanks for the perspective. I guess just following up on that. I'm wondering if you can elaborate a little bit more on travel passport initiatives. What countries are you focusing on initially for adoption?

And I appreciate that it's early. But is there a read on what it's going to take for these -- for countries to get a little more comfortable with this idea, maybe COVID metrics? Or what might they want to see?

Alison Taylor - *American Airlines Group Inc. - Chief Customer Officer*

Luckily, we've got great partners. We don't do this alone. So working with tourism bodies or our hotel partners, we have been able to stand up very quickly in 90-plus markets testing. And of course, we have our VeriFLY health product that provides all the documentation that say, "Yes, you're ready to travel. You've got a check here, you can go."

And actually, as an example of that, on Tuesday, with 1,000-plus travelers coming back from Cancun to the U.S., everyone checked in and boarded successfully and had their negative test. So we've been able to facilitate this through communication with our customers and being very proactive with our notifications and calling customers directly and working on the ground across every station led by Jose Freig, who's done a great job making sure that on the ground, we're ready to help our customers.

Operator

Our next question will come from the line of Jamie Baker from JPMorgan.

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

Very thorough call. Most of my questions have been answered. But Derek, you disclosed you're able to achieve 2019 capacity on 10% of your aircraft. Would you be able to express the capacity base that would be required to get you back to 2019 ex-fuel CASM? Apologies if I missed that in your prepared remarks.

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

Capacity based, meaning number of aircraft?

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

No, ASMs and if 2019 is even the correct base to be using. That's just sort of become the industry standard at the moment. How much capacity do you have to operate to get back to 2019...

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

No, all we're trying to do is -- I mean, obviously, we're not back to those levels yet, and we don't know when we're going to be back to those levels. All we're trying to do is point to the fact that if we did get back to 2019 levels, we could do it with a significant amount fewer aircraft because we got -- we don't have to add a bunch of aircraft to get to those levels.

Our spares are down. Our maintenance allocations are down. The MAX has come back, which were down in 2019. So we have a significant amount of utilization increase and gauge increase in our fleet so that we would not have -- in order for us to get into 2019 levels, the point is that we would not need anywhere near as many aircraft to get to those levels because of those things.

Whether that's the right point, it's just -- it's a level that we know and that we were at back at that point in time. Hopefully, someday in the future, we'll be ahead of those levels.

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

Sure. Would you have a corresponding ex-fuel CASM number that would then equate to the 2019 capacity?

So...

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

No, we don't have that right now. Yes.

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

Okay. And second, I came into the call, Mark and I, also curious on what the net proceeds of PSP were going to be. And I think you answered this in response to Savi's question. So is the $300 million in incremental labor the only thing we net out? Or were there any other additional operating costs?

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

That's what you would net out.

Operator

Our next question will come from the line of Helane Becker from Cowen.

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

Doug, you've been very close to Washington, and you've done a lot to get this PSP in place. Has there been any discussion, and maybe it's too early in the new administration, about changes going forward once we get post pandemic to capital controls or anything else that would ensure the industry remains solvent in the event there's another crisis?

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

No, no, there have not. We certainly haven't asked for that. So nothing like that, Helane.

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

Okay. That's very helpful. And then -- that was my main question.

And then the other thing is when you look at the fleet, with, I think you said, eliminating 5 types and down to where you are now and having 11.5 years, how does that compare from an ESG perspective? Like what will your -- if your carbon goals were to be half by 2050, what would the new goals be now? Like where would you be in, say, 2030 or 2035?

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

Yes. I'll try, Helane. The goals we already have in place are -- require things like this improvement. So you're right, this is helpful to -- the younger fleet is helpful to the environment. In terms of -- and we at American have done a lot in that regard already.

We already have the youngest and now it gets slightly younger even though years go on through this. So we're proud of that, but that's a big part of our commitment to get to carbon neutrality, is continuing to have a modern fleet. We've done it with these retirements.

Operator

And our next question will come from the line of Joseph DeNardi from Stifel.

Joseph William DeNardi - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Airline Analyst*

Maybe a question for Doug or Derek, following up on Hunter's. Do you feel comfortable from a legal standpoint selling stock into this market? And how quickly can you increase your -- I guess, your authorization?

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

Yes. Joe, that kind of falls into stuff that's hard for us to comment on. What -- again, as Derek said in his comments, we still have $118 million left on our previously announced at-the-market equity authorization. And if we choose to do anything more than that, we obviously will need to inform our investors.

But right now, that's what we have to tell you. There's $118 million on the ATM equity authorization. And whether or not we choose to do that or feel comfortable doing it, we can't talk about.

Joseph William DeNardi - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Airline Analyst*

Okay. And then, Vasu, can you just quantify maybe what gauge looks like on the other side of this relative to pre COVID? And then if you could just walk through the 4 geographic entities and speak to maybe the structural impact to capacity based on the fleet actions, if that makes sense.

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

Yes. The -- indeed, we will be giving a material amount of update. As you probably figured from Derek's comments, by the time we get to December, we have the ability to produce 2019's level of capacity on about 110 fewer airplanes. So that will be a gauge increase of about 4%.

Operator

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

Andrew George Didora - *BofA Merrill Lynch, Research Division - Director*

A lot of my questions have already been answered, but just one for Derek. I know you're talking about net cash flow in from CapEx. Can you just give us the gross aircraft CapEx number, how much financing you're assuming there? I'm just trying to understand the bridge to that inflow number.

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

Yes. Gross aircraft CapEx is about with -- $1.1 billion is the aircraft CapEx for MAXs and the neos. The 787s are fully financed and direct leased to us. And the net on that aircraft is approximately about $200 million, so positive.

So we will over finance those aircraft that are coming in. And then we have -- as part of the settlement, we have some difference in our PDPs schedule that goes forward. So that's the difference between the $1.2 billion and the $200 million.

Operator

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

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Prescott Andrew Forbes - *Jefferies LLC, Research Division - Equity Associate*

It's actually Scott Forbes on for Sheila. But I was wondering if you can maybe elaborate a little bit more on the fleet. I mean you removed 150 aircraft from the fleet. You're going to come out of this with the youngest fleet among the network carriers. I mean can you talk about maybe how that plays into your planning for the recovery with route structure and how you're thinking about the competitive environment post COVID?

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

Yes. This is Vasu. Indeed, as you've gathered from my remarks, we'd be able to produce a similar level of capacity much more efficiently than what we could before. It doesn't necessarily mean that we'll do so. That's all going to be a function of demand.

But a lot of what you see is really the schedules that are out there flying right now. The strongest parts of our network, all of our core connecting hubs in Charlotte, Chicago, Dallas, Phoenix, Miami, Philly will continue to be that way. And indeed, with larger gauge airplanes, we can operate there much more efficiently, right? We can scale their expenses on more seats. But also, by having fewer departures in there, it's a more efficient and reliable product. We're shoving fewer and fewer departures to the airspace.

The biggest parts of our network, as Robert mentioned in his opening remarks, that we have struggled in are really shored up through our partnerships with Alaska on the West and JetBlue in the Northeast. And through those -- we anticipate a combination of those partnerships plus larger-gauge airplanes and a more efficient fleet will enable us to go and do things like take 50-seat regional jets out of those markets, which are uniquely high cost but also really challenged airspace. And so at large, we can go in and provide more connectivity into the system, provide a better -- higher-quality network for our customers and do it in a much more efficient way than what we would have done in 2019.

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

Vasu, I'll just add that every time we move one of those 50 seaters out, we're bringing in a 2-class product, obviously with the first class section that has a WiFi and in-seat power as well. So it's a much more compelling offer to our customers that we're really looking forward to.

Operator

And at this time, we would like to give the media a moment for questions. (Operator Instructions) And our first question will come from the line of Mary Schlangenstein from Bloomberg News.

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

Mary?

Mary Schlangenstein

Sorry, I was on mute. Doug, I know you were a little hesitant to talk about demand further out into the summer, but I'm wondering if you could talk about what you guys are seeing now in terms of spring break demand.

Do you expect that that's just going to be a nonevent? Or do you see travel demand picking up a little bit maybe around that period?

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

We'll let Vasu give you that, Mary. Thanks.

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

Yes. Mary, good to hear from you. It's Vasu.

And look, what makes demand forecasting so uniquely challenging at these times is that 75% of our booking curve happens inside of 45 days. So really, so much of spring break is kind of a question mark right now, and there's -- there are different tailwinds and headwinds for what might happen with demand there right now.

What we have seen, as Robert mentioned in his comments, is that since there have been more restrictions on international travel, our international bookings have roughly halved in the last 7 days versus the first, call it, 2 weeks of January. It remains to be seen how much that trend holds. Certainly, a lot of travel partners out there are working hard to go bring testing online. And so we'll see how that goes for us. The biggest thing is to remain as limber as possible on how we plan the airline, and we'll continue to do that through the first quarter and beyond.

Mary Schlangenstein

Great. I had a quick follow-up. I noticed that you guys mentioned the DOJ and the Attorney General of New York looking into the JetBlue Northeast U.S. alliance. I'm wondering -- there have been some others filing objections to that. And I'm wondering if your expectation is that you may have to gear up for some kind of a second round of review by the DOT or having to go to greater efforts to get that thing finally in place.

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

Okay. Thanks, Mary. We'll give you Steve Johnson.

Stephen L. Johnson - *American Airlines Group Inc. - EVP of Corporate Affairs*

Let me start by saying that both the Alaska and the JetBlue alliances that we've announced are profoundly pro competitive and create enormous benefit for consumers. And that's why we like them, that's why we did it, and that's why we're so excited and our partners are so excited about implementing those.

But as you know, the Department of Justice has, over the last, I guess, 12 or 13 years, looked really hard at all of the agreements between airlines, including all the mergers, taking a really good look at those. And that's what they're doing in connection with our JetBlue alliance. That investigation is going to continue. My suspicion is that they're going to allow it to be implemented and see and take a look and determine whether the benefits that we promised actually do materialize. And if they do, I think we'll be fine.

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

Mary, the only thing I'd add to that is that we are working very hard, both AA and all of our partners, to deliver on exactly that. We anticipate, in the first quarter, we'll be rolling out some pretty comprehensive frequent flyer and connectivity codeshare for the customer. And in second quarter, we anticipate being able to start ramping into new markets such as Tel Aviv and Athens and certainly with JetBlue, start the process of deeper schedule integration.

Operator

Our next question will come from the line of Alison Sider from Wall Street Journal.

Alison Sider

I was wondering if there's been any discussion yet about what will happen after March 31 with the employees that have been recalled. If you're able to say yet whether they'll be able to stay on or if there's discussion at this point about another round of government aid.

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

Yes. Thanks, Ali. You're -- anyway, to state the obvious, April 1 is approaching. If demand hasn't gotten much better by then -- so we are definitely going to need to address this unless demand starts to pick up. We -- we're already talking to our unions about things we might be able to do, but anyway, nothing really to report yet other than what we had hoped, which is that demand would be -- would have picked up, maybe not so much by April but into the summer so that we would be ramping up for the summer.

That hasn't happened yet. So we find ourselves with April 1 approaching being concerned about this. Our union is being concerned about it, so we'll work with them. I know our unions are already talking to the administration in Congress about this -- the -- anyway, with the current proposal to -- for stimulus to be included in there. We would obviously be supportive of that.

So that's what I know right now. Not enough to tell you a definitive, but just to tell you what we know, which is it's something we're going to need to address here before too long.

Alison Sider

And on the management side, I know you mentioned the -- just the cost savings of all the reductions in the staff and the management side. But I guess do you worry at all at some point about brain drain? Is it hard to recruit new people into the airline just given the state of the industry right now?

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

Yes. We certainly are not worried about brain drain. We got an amazing team here. And frankly, those that are here are engaged and do amazing work. And if anything, we find ourselves working more efficiently embedded together just because there's not enough people to be doing inefficient things.

So I feel really good about where the team is right now. We certainly have issues, like all companies do, in these times to make sure we're doing the right things to keep people engaged and retained. But so far, so good. We really have an amazing team in place that's working better together than I think we ever have. And we're doing everything we can to make that continue.

Operator

And our next question comes from the line of Dawn Gilbertson from USA Today.

Dawn Gilbertson

Two questions. The first one's for you, Doug. Why -- I know this proposal was just floated, but I'm unclear, and you're not the only one who had said this, why you support international testing on flights but not domestic.

And my second unrelated question, I'm not sure who it's for, is can anybody give any color on what you're seeing at international airports, especially in Mexico and the Caribbean, in the first few days of the international testing requirement? Any problems that have cropped up? Anything you've had to do differently?

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

Yes. I'll take the first one and give Robert the second one. Again, we support international testing because that's about getting more people to be comfortable flying across borders. And we have worked with regulators and with the administration to make that happen. I'm very sure. So -- and indeed, hopeful in doing so that, that allows the administration to get comfortable with allowing borders to be more open and allowing people from Europe, for example, to begin traveling into the United States at some point.

So anyway, that's -- we worked together and are supportive of that. I didn't actually say that we weren't supportive of doing something more expansive than that. What I said is we haven't heard -- we haven't been asked to do that. And if we do, we certainly would want to make sure it was something that wouldn't restrict demand. We have seen drops in demand, of course, on short-haul international, as we said.

And anyway -- so we need to work with the administration to see what and if indeed there is -- there are any thoughts about doing something for having Americans fly within America. It certainly seems like -- we're waiting to see where they -- what -- if indeed there is anything there. You have also just said it's been floated. No one has talked to us officially about doing that. If they do, we'll do our best to work with them and make sure we stress how safe it is to fly and -- which I know they know and data has proven that, and work to make sure that our customers feel comfortable flying. Robert?

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

Yes. And Dawn, thanks for the question. The biggest challenge is getting word out to people that the new testing requirement has to be complied with. And to that end, we've done a terrific job of getting word out through every manageable channel. And what we found, as Alison mentioned a little bit earlier, our largest international destination these days, Cancun, we've had, on the first out of the box, no issues whatsoever. All passengers have basically boarded.

So we've also done tremendous work at all international locations in making sure that testing resources are available. And so yes, we've seen some customers show up without the necessary proof, and we're reaccommodating them as required. But word's getting out. And fortunately, with all the work that we've done to put tools in place like VeriFLY, the digital health passport, we're doing a pretty good job and we're going to be able to handle this.

Operator

Our next question will come from the line of Leslie Josephs from CNBC.

Leslie Josephs

What are your pilot needs and pilot training needs for summer 2020? We saw Delta calling back 400 pilots. Do you expect them all, including the 1,200 plus that were furloughed, to be active by summer?

And then just another question on capacity going forward with these partnerships. Do you expect American to continue to -- or do you know the percentage of how much American will sort of outsource some of this capacity thanks to these new partnerships?

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

So I'll try to take both. So just in terms of pilots, the question is how much they're flying. And so to that end, it's a question mark out there if demand comes back. We know that over the long run, we'll have a home for all of our pilots, those -- certainly those that have been furloughed in the past. And hopefully, we'll be able to keep everybody onboard. And just because of the pilots' retirement age, we anticipate that we will be hiring pilots in the not-too-distant future.

Now second question was in terms of?

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

Capacity.

Leslie Josephs

Capacity and having those [knock on your own metals] versus...

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

Yes. In terms of -- thanks for that as well. The relationships are not about outsourcing in any way, shape or form. It's all about better utilizing those assets that we have and finding ways in the long run for growth for us. And these partnerships are really creative in that sense in that they're going to be able to allow American Airlines to do what it does best, both domestically and internationally. So prospects in terms of the work that we do for the long run is very, very bright.

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

Yes. And Leslie, as Steve said, these are really pro consumer. And what that means is that it's going to generate more demand just because we can connect with each other. So we think it adds actually more flying for American Airlines. More -- bigger airplanes instead of smaller airplanes, for example, in New York because we're able to compete better against other airlines who have larger networks in those areas than we do.

Leslie Josephs

Okay. And just one follow-up. Do you have any expectation of how long American will be so domestic focused versus the pre-pandemic global network?

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

This is Vasu. And right now, a lot of what you see in our capacity footprint is more just we're operating with where indeed there is demand. And if you go look out there, in -- on our March schedule -- sorry, February and March schedule, you'll see that the Latin America network that we're operating is indeed, in many cases, larger than what was there before the pandemic because that is the place where we see demand and, as you heard Alison and Robert's comments, a place where we see a lot of testing getting stood up pretty quickly. And so for us, international will really be a function of coming back -- the international bring back will be really a product of where demand is and how fast testing can get ramped up.

Operator

Our next question will come from the line of Tracy Rucinski from Reuters.

Tracy Rucinski

So given the strong rise in shares this morning, are you planning an equity offering or anything to delever the balance sheet?

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

Yes, Tracy. We said, at the start of this call, we can't comment on the recent stock price movement. What we did say is that we have $118 million of authority on a previously announced at-the-market equity authorization. So -- and as to what we might do in the future, we just can't talk about it.

Tracy Rucinski

I apologize, I missed that at the beginning.

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

No, that's okay. There's a lot going on. Thanks, Tracy.

Operator

Our next question will come from the line of David Koenig from The Associated Press.

David Koenig

At the risk of maybe rephrasing something that you were kind of getting at in what -- in Mary and Dawn's questions, I wonder if you can talk about how much travel restrictions -- including what we saw from the U.S. this week, how the travel restrictions are changing your view about the pace of recovery this summer. And then secondly, what impact would you see if there is a testing requirement for domestic flights?

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

All right, David. I'll try again. So first off, travel restrictions, again, on international has resulted in a reduction in demand for international travel. But as we've said a couple of times now, we expect that to improve as it becomes easier for people to get those tests, which is happening already. So it certainly has an impact on demand when customers need to present a positive (sic) [negative] test to travel, and we're seeing that particularly on the short-haul international travel, things like Mexico and the Caribbean -- non-U.S. Caribbean destinations.

As it relates to any other travel restrictions, things like mask mandates, we're -- we've been doing mask mandates well before it was mandated by the government. We intend to continue doing that. We think those are great things, and we will continue to do so. And if anything, we just want to make sure that the government doesn't put in place exemptions other than ones we have, which is children under 2 years old.

So we're huge proponents of mask mandates, huge proponents of what the administration is trying to accomplish. And that's what we've been asked to do so far. If we're asked to do more, we'll do everything to impress our desire to let everybody know we have a shared objective, which is to get the pandemic behind us as fast as we can, allow our country to keep moving.

In the meantime, people are driving from state to state -- they're flying from state to state, and they're doing so safely. And we just want to make sure that we continue that to happen with the goal of making sure we end the pandemic as soon as possible. I know the administration shares that goal, and I suspect anything we come up with will be consistent with that.

David Koenig

Okay. I think that's more concise. And you must have an opinion though about what impact you see if there is a domestic flight testing requirement.

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

I've said what I have to say on this one, David.

Operator

And that ends the media Q&A. I'll turn it back over to Doug Parker for any closing remarks.

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

All right. Thank you. Thanks very much for your interest.

We really again just couldn't be prouder of our team and what they're doing. It gives us great confidence as we go forward.

I know everyone is interested in how fast things will rebound. We don't know the answer to that, but we know it will. And when it does, we're going to be there ready to take care of people when they want to travel. And we're ready to withstand how long it will take -- however long that may take because of the great job Derek and team have done to get our company in this financial position. Thanks for your time.

Operator

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