THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

AAL - Q2 2019 American Airlines Group Inc Earnings Call

EVENT DATE/TIME: JULY 25, 2019 / 12:30PM GMT

OVERVIEW:

Co. reported 2Q19 revenue of $12b, net profit, excluding net special items, of $810m and diluted EPS, excluding net special items, of $1.82. Expects 2019 diluted EPS, excluding net special items to be $4.50-6.00.

CORPORATE PARTICIPANTS

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

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

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

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

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

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

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

CONFERENCE CALL PARTICIPANTS

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

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

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

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

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

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

Matthew Aaron Wisniewski *Barclays Bank PLC, Research Division - Research Analyst*

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

Alison Sider

David Koenig

Kris Van Cleave

Leslie Josephs

Mary Schlangenstein

PRESENTATION

Operator

Good morning, and welcome to the American Airlines Group Second Quarter 2019 Earnings Call. Today's conference call is being recorded. (Operator Instructions)

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

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

Good morning, everyone, and welcome to the American Airlines Group Second Quarter 2019 Earnings Conference Call. Joining us in the room this morning is Doug Parker, our Chairman and CEO; Robert Isom, President; and Derek Kerr, Chief Financial Officer. Also in the room for our Q&A session are several of our senior execs, including Maya Leibman, our Chief Information Officer; Steve Johnson, our EVP of Corporate Affairs; and Don Casey, our Senior Vice President of Revenue Management. In addition, we have Devon May, our Senior VP of Network Strategy; and Kenji Hashimoto, our Senior VP of Finance.

Like we normally do, Doug will start the call with an overview of our financial results. Derek will then walk us through the details on the second quarter and provide some additional information on our guidance for the remainder of the year. Robert will then follow with commentary on the operational performance and revenue environment. And then after we hear from those comments, we'll open the call for analysts' questions and lastly questions from the media. (Operator Instructions)

Before we begin, we must state that today's call does contain forward-looking statements, including statements concerning future revenues and costs, forecast of capacity, traffic, load factor, fleet plans and fuel prices. These statements represent our predictions and expectations as to future events, 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 issued this morning and our Form 10-Q for the quarter ended June 30, 2019.

In addition, we will be discussing certain non-GAAP financial measures this morning, such as pretax profit and CASM, excluding unusual items. A reconciliation of those numbers to the GAAP financial measures is included in the earnings press release and that can be found in the Investor Relations section of our website. The webcast of this call will be archived on our website. The information that we're giving you on the call is as of today's date, and we undertake no obligation to update the information subsequently.

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

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

Thank you, Dan. Thanks everybody for being on the line with us this morning. Today, we're happy to report improved second quarter results for American Airlines. Company produced pretax income, excluding special items, of $1.1 billion for the quarter and a year-over-year increase in our diluted earnings per share of 10%. It's a revenue-driven improvement. We saw a record second quarter revenue of $12 billion as well as record second quarter total revenue per available seat mile. The credit for producing these results goes entirely to our team. Our 130,000 colleagues are doing a great job of taking care of our customers during our peak season and they're doing it despite a challenging summer.

In fact, the people at American are doing heroic things to take care of our customers and it shows in these results and our projections for 2019 earnings, which have improved since our last quarterly call.

But as excited as we are about the team's performance in this quarter, we're even more excited about the potential at American Airlines and our potential for value creation in 2020 and beyond. The challenges we face this summer are near-term issues that absolutely will be addressed with time. And as we look to the long term though, the results we produced despite these obstacles give us the utmost confidence in what lies ahead, and it's particularly true as we move into a period when our investments taper off significantly and the results of those investments continue to increase.

So with that, I'll turn it over to Derek, and then Robert to give you more details, and then we'll get to questions. Derek?

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

Thanks, Doug, and good morning, everybody. The ongoing grounding of our MAX fleet as well as operational issues caused by the weather and the union action meant that it was undoubtedly a challenging quarter for American Airlines. However, thanks to the efforts of our team members, we were able to produce financial results that exceeded our expectations at the start of the quarter. So I'd like to thank everyone for their hard work over the past few months.

In the second quarter 2019 earnings press release and Form 10-Q that we filed this morning, we reported second quarter net profit, excluding net special items, of $810 million, a 5.1% increase over the second quarter of 2018.

Our diluted earnings per share, excluding net special items, in the second quarter was $1.82 per share, up 10% from $1.66 per diluted share in the second quarter of 2018. Our second quarter 2019 pretax profit, excluding net special items, is $1.1 billion, resulting in a pretax margin of 9% compared to 8.7% in 2018. This was the first quarter of a year-over-year margin expansion since the first quarter of 2016.

Despite the operational challenges during the quarter, our total revenues were a record for the second quarter at $12 billion, up 2.7% for the second quarter of 2018 (sic) [second quarter of 2019]. Our total revenue per ASM increased for the 13th consecutive quarter by 3.5% to $0.1654, also a record for the second quarter.

We saw increased strength in demand for travel during the quarter, which resulted in passenger revenues increasing by 3.2% to $11 billion. Robert will give you more color on the trends we're seeing and the revenue improvement during his remarks.

Our cargo yields were slightly higher during the quarter, but year-over-year schedule reductions and falling demand in Asia and Europe markets meant that cargo revenues fell 15.4% to $221 million despite that increase in yields.

Our loyalty program continues to grow steadily, which drove other revenues up by 2.9% to $728 million. This growth was primarily due to new card acquisitions as access to the world's largest program and best network continues to be a strong incentive for new customers.

Total operating expenses in the second quarter of 2019 were 1.6% higher at $10.8 billion. When fuel and special items are excluded, our unit cost increased in the second quarter by 4.8%, higher than previous guidance due primarily to lower-than-planned second quarter ASMs, which declined 0.8% from 2018 as a result of the operational disruptions I mentioned earlier.

Turning to the balance sheet, we ended the quarter with approximately $8.2 billion in total available liquidity. So far this year, our treasury team has completed a number of transactions, including securing financing for 26 new mainline and regional aircraft to be delivered in 2019 and 2020 through mortgage and sale leaseback structures.

With the exception of 3 regional aircraft delivered in the fourth quarter, we have committed financing for all aircraft deliveries through 2019. Additionally, we have committed financing for 25 of our [20] deliveries, and we'll continue to evaluate financing options for our remaining mainline and regional aircraft deliveries.

In May 2019, we raised $750 million in an unsecured notes offering, and used the proceeds to fund contributions to our defined benefit plans. In aggregate, we made contributions of $858 million to a defined benefits plan in the second quarter for total contributions of $1.2 billion year-to-date or $436 million in excess of our required contributions.

As a result, we have prefunded a portion of our 2020 requirements, and our remaining minimum funding obligation for next year is now forecasted to be approximately $200 million.

Lastly, in June 2019, we completed a spare engine EETC transaction in the U.S. private placement market to raise $650 million at attractive rates, which are comparable to those achieved in aircraft EETCs.

During the second quarter, we paid dividends of $44 million. We did not repurchase any stock as fuel prices remained high for much of the quarter, which pushed our projected year-end liquidity near our target level of $7 billion and prices didn't fall until we had entered the closed trading window. We remain committed to returning cash above our liquidity target to our shareholders.

We continue to expect that our 2019 year-end net debt, including pensions and the present value of aircraft rents, will be more than $1 billion lower compared to year-end 2018. We expect this trend to continue for the foreseeable future as our CapEx obligations normalized from the peak years of our fleet transformation program, which will also result in significant free cash flow generation by the airline. While we expect 2019 to be relatively flat in terms of free cash flow generation due to the increased pension contribution, we are currently forecasting to generate significant free cash flow in 2020 and 2021.

On July 14, we announced that we had removed the Boeing MAX from our schedules until November 2. Previously, we were guided to a full year negative impact to pretax income of approximately $350 million, which was based primarily on lost revenue from schedule reductions forced by the removal of the MAX from our operating fleet. We have now reviewed all of the data from the second quarter and given the extension of the grounding period, we now anticipate that the impact to the full year will be approximately $400 million. We now estimate that the impact on the second quarter was approximately $175 million and estimate that the impact on the third quarter will be approximately $125 million, lower than the impact of the second quarter as we are no longer seeing the short-term disruption to passenger travel that the grounding caused in April. We remain confident in the aircraft and look forward to reintegrating the aircraft into our fleet once all of the regulatory approvals are in place.

During the June, we announced an order of 50 aircraft, Airbus A321XLR aircraft with deliveries scheduled to begin in 2023 and end in 2025. 30 of these orders were a conversion of existing A321neo orders with the other 20 being an exercise of existing Neo options. Since the aircraft order was already part of our long-term fleet plan, it does not materially change our expectations for capital expenditures in these years.

The expected range and capabilities of XLR are impressive and will add flexibility to our fleet, opening up the potential for exciting new markets for our customers that we will be able to fly very efficiently. In addition, in our fleet plan filed this morning as part of our usual investor update, we announced that we have extended the operating life of some of our A320, 737 and 757 aircraft on a short-term basis. These extensions will allow us more flexibility as we deal with the grounding of the MAX and the late delivery of the A321neos and provide modest and efficient growth to our fleet.

With the extension of MAX cancellations to November 2nd, we now anticipate capacity growth of approximately 1.5% for both the third quarter and the full year. This is approximately half the full year capacity we had expected at the start of the year, which has put upward pressures on our unit cost expectations.

For the full year, we now expect that our 2019 cost per ASM, excluding fuel, special items and new labor agreements, will grow by approximately 4%. This increase from previous guidance -- of an increase of between 2% and 3% is driven entirely by the reduction in the anticipated ASM growth primarily driven by the MAX. As a result, we now expect our CASM, excluding fuel, special items and new labor agreements, will increase by approximately 5% in the third quarter and 3% in the fourth quarter.

Based on the forward curve as of July 22nd, we are forecasting that our average fuel price will be between $2.05 and $2.10 per gallon in the third quarter and for the full year will be $2.04 to $2.09.

For revenue, we expect our total revenue per ASM will grow between 1% and 3% in the third quarter. And given the cost guidance I outlined above, we expect the third quarter pretax margin, excluding net special items, will be between 5.5% to 7.5%. We now believe that our earnings per diluted share, excluding net special items, will be between $4.50 to $6 in 2019 and continue to expect that we will see margin expansion in the second half of 2019.

Our total projected capital expenditures for 2019 remain unchanged at $4.4 billion comprised of $1.7 billion in non-aircraft CapEx and $2.7 billion in aircraft CapEx. We now expect total CapEx of $3.6 billion in 2020 and $2.1 billion in 2021. The guidance for 2020 and 2021 is slightly lower than the previous guidance as a result of the XLR agreement I've referred to earlier in my remarks.

In conclusion, 2019 has certainly presented some unexpected challenges, which have stressed our operation and put our team in some very difficult situations, but our front-line team has met every challenge and done a phenomenal job of helping out our customers and supporting each other. We look forward to moving past these short-term headwinds and executing on all of the exciting projects that we have in the pipeline.

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

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

Thanks, Derek. Good morning, everyone. Before I begin, I too would like to thank our team members for doing a great job of taking care of our customers, given the issues that we faced with our fleet and operation. Their hard work and perseverance were instrumental in our ability to generate record second quarter revenues.

While we faced some significant challenges during the second quarter, we also had some notable achievements, including the completion of our rollout of our industry-leading Premium Economy product, the expansion of our DFW hub and the completion of our high-speed WiFi installation.

I'll spend some time discussing the challenges, but I want to spend the majority of my time emphasizing all of the great things our team is doing and the positive momentum that we're seeing within our business.

As for challenges, as Derek mentioned in his remarks, on July 14th, we made the decision to extend the cancellations of our Boeing 737 MAX aircraft through November 2nd. While the return date has shifted from our original expectations, we remain optimistic that the aircraft will return to service in November.

Our confidence in Boeing, the FAA and other regulatory agencies remains intact, and we are committed partners, along with our Allied Pilots Association and Association of Professional Flight Attendence in this ongoing process.

As always, as new information becomes available, we'll assess the impact on our schedule and initiate changes as soon as possible to take best care of our customers and team.

In terms of our operation, in May, we initiated the litigation against the union, representing our mechanic team members, for engaging in a coordinated illegal work slowdown in an effort to influence contract negotiations. That slowdown has significantly impacted the company's operation and cost a high number of flight cancellations and delays in the second quarter. A temporary restraining order in joining the slowdown and further interruption to the company's operation was granted by the court. The court is in the process of ruling in a permanent injunction against the continuation of these illegal activities and we are awaiting that decision.

Ultimately, our goal is to get back to the negotiating table, where we will work to get our mechanics and fleet service team members the industry-leading contract that they deserve, just as we have with all of our other team members.

Throughout the illegal work action, and really for any disruptions now and in the future, our team is doing their best to take care of our customers and their coworkers. Fortunately, we have new tools to help in that effort: improved customer notifications for delays and cancellations; automated hotel meal and transportation arrangements; enhanced self-service rebooking; and snacks and amenities at the gates during longer delays are just some of the measures that are being utilized to ensure that our customers' needs are being addressed.

We certainly apologize to any customers that have been inconvenienced, and want you to know that our customer relations team is working nonstop to address shortfalls in our service.

As we have discussed on several of our past earnings calls, we've been focused on improving our operating reliability, and we feel very confident that we're making significant operational improvement based on the performance of our regional operation, which has not been affected by the labor issues at the mainline operation. For example, at our hubs, our regional performance saw a 1.5 point year-over-year improvement in on-time departures, a 3.2 point year-over-year improvement in aircraft turn performance, and a 1.2 point year-over-year improvement in controllable completion factor.

Thanks to the outstanding efforts of our regional team, this improved performance provides a nice control set and gives us confidence that the initiatives that we put in place will be successful across the system once we move past these short-term challenges.

Now, for positive momentum, we continue to take big steps forward in creating a world-class customer experience that further differentiates American from our competitors. During the second quarter, we opened our new Flagship First Dining, Flagship Lounge and renovated Admirals

Club Lounge in Terminal D at our largest airport, DFW. These enhancements are just the latest in our more than $200 million investment in our premium products and services and complement our other flagship lounges at JFK, Los Angeles, Miami and Chicago O'Hare.

In addition, during the quarter, we completed installation of our high-speed WiFi on our entire long-term mainline narrow-body fleet of more than 700 aircraft. This gives American more high-speed WiFi than any other airline. Satellite-based WiFi allows customers to stream video without buffering or interruptions, upload and download files with ease and do all of this from gate-to-gate. This upgraded bandwidth ensures customers will experience an uncompromised Internet connection, even if every customer chooses to access in-flight entertainment at the same time.

Additionally, every satellite equipped aircraft can now stream live TV, an amenity that we provide access to our customers free of charge. I should also point out that American is the only U.S. airline to offer live TV on international flights.

Shifting to our network strategy. We remain focused on strengthening our network by expanding operations at our most profitable hubs. With the addition of more than -- with the addition of 100 departures in the second quarter, our DFW hub now offers more than 900 daily flights. This important milestone enables more than 9,000 one-stop travel possibilities through DFW, more than any other airline hub in the world.

As part of that growth, we have started service from DFW to 23 new markets, including service to Dublin and Munich, and increased service to more than 80 existing markets.

This growth marks the largest expansion in any hub in the United States in more than a decade. The early results are very encouraging, with margins on the newly added flights coming in at or above the system average. We remain on track with our growth plans in Charlotte next year and at Reagan National in 2021.

Over the last year, we have also made a number of changes to our international network, eliminating chronically underperforming flights and starting services to unserved markets across the world. Most of these new flights started in the middle of the second quarter, and they are already producing margins at or above the system average.

On the partnership side, we now have final approval from the U.S. Department of Transportation for our proposed joint business agreement with Qantas, which will allow us to better serve customers flying between the United States and Australia and New Zealand. The joint business agreement allows for commercial integration between American and Qantas, delivering new routes and significant customer benefits. It will also allow an expanded culture relationship, optimize schedules on South Pacific services, better access the seats on each other carrier's -- on each carrier's networks, additional frequent flyer benefit and colocation at airports. All of this is designed to better serve our customers. And just yesterday, Qantas announced new service to Chicago and San Francisco from Brisbane. We're thrilled with this news for our customers, and stay tuned for more route announcements from us later this year. We also received approval from the DOT for additional services from DFW and Los Angeles to Tokyo's Haneda Airport.

Shifting gears, our Global Sales and Distribution team produced strong results last quarter as corporate revenue growth was in line with system revenue growth on healthy corporate demand. Our corporate volume continues to grow and further strengthened in the last 6 weeks of the quarter where we deliver industry-leading corporate passenger share performance without sacrificing yields.

We continue to see significant growth in the small-to-medium business segment as evidenced by our nearly double digits revenue growth year-over-year. We continue to see growth across our loyalty program. Existing members are engaging with us more, redemption levels -- redemption bookings are up, and we continue to increase our elite population. Most importantly, we are capturing yield growth in this elite group that outpaces our system average.

On co-branded credit cards, our strong trends in acquisitions, card spend and overall account growth continued in the second quarter with record setting absolute results. We expect that growth will continue throughout 2019.

All of this contributed to record setting second quarter revenue of $12 billion, up approximately 3% year-over-year. On a unit revenue basis, total revenue per available seat mile improved 3.5% year-over-year, which marks the 11th conservative quarter of positive unit revenue growth for American.

We estimate that our unit revenue benefited from the MAX cancellations in the second quarter, but this benefit was offset by share loss in April. We're particularly pleased with these results, given the challenge we had with operational disruptions, the MAX and weather.

I mentioned this on our last call, but I need to say it again, in 2018 we made a big investment in our AAdvantage program, making it more valuable to customers. We significantly increased the inventory available for redemptions in 2018, increasing the value of the miles to our customers, while also giving our customers more flexibility to use their miles.

For the second quarter, these changes had a negative impact of 0.8 points to unit revenue, all of which was noncash. We anticipate a similar impact for the remainder of the year. Normalizing for this, our passenger unit revenue increased by 4.8% in the second quarter, 2 points better than our legacy competitors.

We delivered improved unit revenue across every entity. As we mentioned in our previous calls, we believe we have a unique opportunity to improve load factors without eroding yields, and we have been successful in that effort to execute against that opportunity.

Overall, load factors were up 3.2 points in the quarter on flat yields. Higher loads without compromising yields is a winning combination. We're proud of our Revenue Management team for their hard work and results.

Domestic market strength was broad-based with improved unit revenue across every hub. As I mentioned earlier, our growth at DFW is performing as expected, notwithstanding exceptional operational and weather challenges at DFW during the quarter. We expect the domestic region to be our best-performing entity in the third quarter. Atlantic unit revenue grew by 3% in spite of 1.5 points of currency headwind.

International point-of-sale remains challenging, but we successfully shifted to North American point-of-sale and grew load factor by 3.8 points.

The Latin entity had the highest quarter-to-quarter improvement with unit revenue growing by 4.4% year-over-year. Brazil and Mexico were particularly strong, while we faced headwinds in Argentina and the Dominican Republic.

Pacific unit revenue improved by 0.5 point, thanks to positive unit revenue in Japan, Hong Kong and Australia. The pricing environment for China was soft, but we were able to grow load factor, while we reduced our capacity and exposure to this market.

Looking forward, we expect domestic demand to remain robust. And Latin, again, to be the best-performing international entity. We expect our third quarter year-over-year TRASM to be up 1% to 3% and our passenger revenue per ASM to be about 1 point better than TRASM.

In conclusion, we're incredibly excited about this airline and its future, the heavy lifting of integration is behind us, our large fleet investments are winding down and our network is being optimized with high-margin growth opportunities at our most profitable hubs. We recognize the need to overcome some short-term challenges, but the core business is strong.

And with that, we'd like to turn the call back over to the operator to begin our Q&A session.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Michael Linenberg of Deutsche Bank.

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

2 questions here and maybe they're both for Robert. At the beginning of the year, you were targeting $1 billion of revenue improvement and $300 million of cost saves. And with the MAX groundings and the labor disruption, how should we think about resizing those numbers as we move through the year?

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

Thanks, Michael. So when we take a look at the revenue initiatives we set out at the front of the year, I think the best way to take a look at is, some have outperformed and others we will be able to take a benefit of in the longer term. The one that has really taken a delay is the densifying of our 737 and our A321 fleet. Because of some of the issues that we've encountered with operational disruptions related to the work slowdown, we've had to differ some of those modification lines. We anticipate picking those back up next year and that is benefit yet to come. In terms of outperformance, some of the things that we have really emphasized, certainly basic economy is producing as we had hoped and the work within our Revenue Management team to improve load factor performance has resulted as well.

So we're seeing the $1 billion and as we take a look into the future, we're encouraged that we still have more to come.

Don, do you want to add anything?

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

Yes. I'd just to reemphasize what Robert said. Again, you got to understand our $1 billion in revenue initiatives and how it compares. You've got to normalize for the deferral and recognition rate in FFT. And when you do that, you know revenue is up 4.8%, which is about 2 points better than our kind of legacy competitors, so you can see where the benefit is just in there.

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

And Mike from a cost perspective, we have lot of initiatives, all of them are on target, the $300 million is in the forecast, so that's all built-in, and we are realizing those. There are a few cost headwinds, obviously, as you have these type of disruptions, but that's built into the CASM forecast that I gave you. So some of them are offset by that, but the initiatives that we set out for the One Airline project to get $1 billion, $300 million this year and then another $200 million in 2020 and 2021 are all on target and are built into our forecast.

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

Okay. Yes. And for sure, it's remarkable, given all your headwinds, that you still managed to produce margin expansion, so well done there. Just my second. To Robert, on the JBA with Qantas, I recall a few years back when you announced the joint venture or JBA with Japan Airlines at that time, you did provide a revenue size at that point in time when it was launched, I think it was about $1.5 billion of revenue between you and JAL, and subsequently my sense is that you've built upon that even today, you highlighted some of the positive trends out of Japan, I'm sure that's helping. Can you give us a sense or magnitude of where we are from a revenue base as a starting point with Qantas, just trying to size that joint business agreement, what our baseline is, any color on that would be great?

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

Michael, it's -- the current size today is $1.5 billion, and we don't -- we're really not sizing yet publicly the potential benefits. But we do expect that this is going to be something that's positive overall, and I am pleased with hearing the announcement of some new markets, and I would anticipate that we have more to add to that in the coming months.

Operator

Our next question comes from the line of Brandon Oglenski of Barclays.

Matthew Aaron Wisniewski - *Barclays Bank PLC, Research Division - Research Analyst*

This is actually Matt Wisniewski, on for Brandon. Really wanted just to expand upon the network strategy a little bit more. You said it's little bit early in the DFW expansion. How should we kind of think about the improvements coming through and when would we see ultimately kind of some of the benefits hitting the P&L?

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

Well, I'll just start. The -- we're just now getting into the real upsizing of DFW, which is encouraging. So you're seeing some of the benefits already, but the total run rate of that is going to be as we progress throughout the year. As we take a look forward, as I mentioned, 2020, we anticipate our growth focus to be on Charlotte and so that will ramp up over the first part of next year and then from there its Reagan National after that in 2021.

So Don or Derek, do you want to give more color?

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

Yes. Let me just say this is really just the beginning, right? We just started ramping up DFW during 2Q. We won't see the full benefit of that until we hit the third quarter. That will obviously extend and annualize as we head into 2020 at which point we'll also be adding Charlotte, which will run into 2021, and we'll have an opportunity to upgauge DCA. So we have a lot of, I think, really high quality capacity and network opportunities looking out for the next few years.

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

And Matt, it's Doug. I mean as Robert said in his opening remarks, the early results here are really encouraging. The markets that we have added out of Dallas, as Robert said, are coming in at or above system average margins. As a new startup route, usually your marginal growth doesn't come in at above average margins, in this case they do. That just gives more encouragement to us that there is more -- there's, one, that what we believe what happened is indeed happening; and two, there's more of this we can do and we're looking forward to doing more as we go forward.

Matthew Aaron Wisniewski - *Barclays Bank PLC, Research Division - Research Analyst*

Okay. Great. And then just as a quick follow-up. Specific capacity was down quite meaningfully this quarter. And I would expect -- I thought -- kind of anticipated revenues to kind of be more beneficial because of that. Can you probably add a little bit more color what's going in the Pacific region?

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

Sure, it's Don. I'll cover that. We did have slightly positive unit revenue in the Pacific, capacity reductions we had was the reduction of flying to China, out of Chicago, Shanghai and Beijing. We did see actually positive unit revenue growth in Hong Kong, Japan, also in Australia, with more opportunities coming forward in Qantas. The China market was soft, it was our weakest performing market in the Pacific.

And we had about 1.5 of currency headwind as well in the the Pacific as we went into the third quarter. And I think we're pretty happy that we kind of reduced our exposure to China because that's really where we're seeing some softness, particularly in China upon the self-pricing where we see a pretty weak pricing environment right now.

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

And Matt, Doug, again. So -- also thanks for asking that question because it gives us a chance to talk more about this. Look, given the kind of capacity reduction we're talking about here, I think it's hard for anyone, certainly for those of you who aren't here in the airlines in every day, to try and estimate what kind of impact that would have between revenue per ASM versus cost per ASM. Indeed when we raised our guidance a couple of weeks ago, at least a number of reports suggested while it's really -- it sounded like a cost story, that we've done a better job of keeping our cost in checked in some expected and our revenues came out in line. The reality, at least for those of us who are sitting here and watching results come in, the positive surprises were on revenue, not on cost. I mean, again, not that any of you should be able to figure it out on your own because it is such a different way that happens. But indeed when our capacity is going down because we're having to -- because we're canceling flights very close in, what happens then is you're not able to -- particularly in the peak route, we're not able to protect all that revenue. So 1.5% decline in capacity does not result in 1.5% increase in revenue per ASM or anything close to it, and you're not able -- and it's pretty difficult to go find the marginal revenues or the lower revenue per ASM as you do that.

So at any rate that's what we experienced as the quarter came through as -- even though ASMs were down, the fact that our earnings came out better than we've thought was to us a revenue surprise, not a cost surprise.

Operator

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

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

I have 2 questions. My first question is, what percent of your fleet do you normally replace every year? And how does this year compare to a normal year?

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

I wouldn't say a percent, but we replaced somewhere -- it's been a lot more over the past few years. We've taken deliveries of over 100 aircraft a year for many years in a row since we've gotten here for about 5 years. This year, we were replacing about 65; next year, it will be about 61 and that includes regional also. So the steady state would be somewhere between 40 and 50, if you cap the average age where it is. So I think that's kind of where we're at. And so when we talk about aircraft CapEx going forward, it comes down significantly in '21, '22, '23, steady state would be somewhere in the neighborhood of 40 to 50 aircraft a year when you get out into the '25 to 2030 range.

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

Helane, a good way for us again to make the point that it's a hard question for us to answer because there is no normal, there certainly hasn't been. Since the merger, as Derek said, we've been bringing in 85 to 100 airplanes each year and then retiring a similar amount in this, by far, the most aggressive modernization of commercial airline fleet in the history of commercial aviation.

So that has been the number, and that's now largely behind us. So as we've been doing that also the CapEx, we've had to put into integration and the CapEx we put into all the improvements that have been needed to make into our airline that tapers -- tapers is not a strong enough verb, that comes down significantly, as Derek said, in the coming years, both aircraft CapEx and in some of the nonaircraft CapEx, so we get the benefits of all that investment we're out -- the amount of investment that would go.

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

And then to follow that up, the $1 billion and debt pay down that, I think, Derek mentioned, should we think about that as accelerating through the next 5 or 7 years as your kind of steady-state declines from 100 aircraft to 50 aircraft?

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

From a debt pay down perspective, we have our normal debt pay down schedule, which is somewhere between $3 billion a year over the next few years. So that pay down does not accelerate. I think there are pay down of EETCs and other debts that we have. But as you look at our pay down schedule from -- in 2019, we'll pay off $3.7 billion of debt; in 2020, we have $2.7 billion due; 2021, we have $4.2 billion due. So it turns around $3 billion to $4 billion of debt that's paid off, that's scheduled paydowns that go along with the pension payments. But that's all in the numbers that Doug talked about when we talk about free cash flow. That's all assumed that those debt payments are paid in each one of those years and that we pay off debt as it comes due.

Operator

And our next question comes from the line of Hunter Keay of Wolfe Research.

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

A question about that comment you made about the market share loss in April. Can you give me some color on that comment? What do you mean by that? Where was it, what type of share was it and how do you get that back?

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

Sure, Hunter. It's Don. When we had ended up grounding the MAX, there was a lot of schedule uncertainty as to how long this was going to last and how we're going to move aircraft around to try and cover this. And so during that period sort of really starting mid-March through the third week in April, we did see close-in bookings, and close-in bookings particularly for corporate travel at lag, right? So we definitely lost share, we definitely saw some book away during that time period to our competitors. That did bounce back by the time we got through April. And in fact, if you look at the last 6 weeks of our kind of corporate share performance, we are #1 in the industry in terms of corporate share, so that's really completely bounced back for us. But it was entirely just a response to schedule uncertainty. If you wanted to get your meeting during that time period, sometimes people were choosing out the flask because they were unsure whether they're going to change their schedule on them.

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

I see. And then Doug, when you think about the relationship between employees buying in reliable operations and consistent cost performance, that's arguably the 3 areas that you guys need to show the most improvement, and if we assume all 3 of those things kind of feed into one and other, which order do they have to get fixed? And how do you get started, with the first one?

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

Employees buying in, was that your first...

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

Either way. I mean you can define them any order you want. So it's buy-in, operations and just good cost performance. So like which one has to start first? And which one sort of manifests into the other 2 getting better? And how do you start it?

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

Yes. First off, I'm not exactly sure I'd characterize it that way, but I want to talk about the employee perspective you're getting at which again, I mean, first of all let me just go to the operations. We as a company under Robert's leadership have made great strides in our operations reliability from the time we merged the airlines, improving every year up until 2018. We had a setback last summer related primarily to things like CFM56 engines, things we tried to do our best to fly through and didn't make changes in the schedule, and in retrospect, we realized that we were kind of letting the operation to be the buffer, not something that we'd -- in retrospect, would have made the same decision going forward.

So in response to that, we put in place, again with Robert's leadership and David Seymour's leadership and Kerry's leadership, a huge operational reliability improvement plan for 2019, and -- thank goodness we did, those things have made a large difference in our ability to manage through what we're dealing with now.

So we feel really good about where we are in terms of operational reliability, but for what we're dealing with at the current time, which is a huge increase. And the aircraft out of service to begin the day, that when we are, as we are today, having to start the day with so many airplanes -- more airplanes out of service than we have spares. By definition, that means we're starting the day by canceling some flights and by definition that means it's not going to be a particularly good operating reliability day, so that's the situation with operational reliability today.

Not to say there's not more we can do and won't do to improve it. But once that issue is removed, I'll say it this way, we believe it will work for that issue. We would be running the best airline in the history of American Airlines, which was our goal for this year, and all the data we have supports that, and as Robert noted, we're seeing that on the regional side where we don't have this issue. So operational reliability I feel extremely good about where we are in our trajectory going forward. We do need to get to the near-term issue. So as it relates to culture, anyway, I think I know what you're getting at. I guess, you're not getting that or maybe not for some and if you might, you can tell me.

But anyway, look, it's a fair question and thanks for asking what we're going through relates to all the work we have underway on cultural transformation. What I'll tell you is, the cultural initiatives that we put in place since the time of the merger and again remember back when we put these 2 airlines together 5.5 half years ago, how big an issue that was, particularly given the history of the American Airlines and those things are working. We've made huge strides, thanks to really good leadership, the people that I got to work with, to let our team who -- every time that I most -- when I go out and talked to team members prior to merger, it was all about this company doesn't care about me. Now as we go out and talk to people, we still have issues, but they're rarely there, actually, there aren't that and to the extent there are issues, they're all about desire for more tools to do the job. The way they know how to do it is take care of the customers, which is exactly why you like the team and exactly what our job is to deliver to them.

So look, there is more to do there, but cultural transformation, obviously, takes some time, takes a lot of time, but we're really pleased with the progress we've made to date, and we'll continue to make in the future. Our objective here is to make cultural competitive advantage, not just to improve the culture, not just to transform it from what wasn't a very strong one to one that's really strong, but to make it is so strong that people actually prefer to fly American that's not -- we're not there yet, that's a aspirational longer-term objective, the one we're committed to and one that we think is best for our shareholders.

So that work continues, but really happy with the progress. I think, again, fair to ask, "Gee, if that's the case, then why are you going through this issue right now?" To which I would tell you, look, while that culture work goes on, there is no change in the fact that this is a highly unionized airline and union negotiations will continue to be new negotiations and some of them we haven't even gotten through the first one yet and this is one amazingly enough. We're working on joint collective bargaining agreement with this union, and we have been able to get that done, we obviously got them done quite quickly with all of our other work groups and indeed, we're -- we'll be getting negotiations on contracts that were signed 5 years ago as JCBAs with pilots and flight attendants today.

So it's a source of frustration for sure, but look, this is a different animal, one that we're still trying to work through, but unlike the other contracts we work through, we're dealing with 2 unions here who chose to form one union -- and I'm sorry, a association, a partnership. We're dealing with international unions where the primary decision makers aren't even American Airlines team members. So the culture doesn't make that much of a difference as far as they're concerned. So look, we will work through this, we'll get through a contract and that's the real goal here, of course, is to make sure we get a contract in place. When we do that, we're going to have a long-term contract with our outstanding mechanics and fleet service team members that's going to be industry leading, which -- and that will be a good day. So that will help significantly, but we need get through this joint collective bargaining agreement with this group, and right now, we haven't been able to get through that.

I will add -- I'm sorry for the long answer, Hunter, but I will add on that front what we -- the way we get through a joint collective bargaining agreement is to get back to talking to each other. These negotiations are under the control of the National Mediation Board at this time, which is a good thing. The bad thing is, the National Mediation Board hasn't called a negotiation since April because of -- well, you can ask them why, but the fact is they haven't. And as a result, we haven't had talks. Good news is we heard last night from the NMB that they'd like to have a status conference with all of us on August 15th. That's really good news.

By that time, we think we'll probably have a permanent injunction in place, which will help with what we're dealing with. But look, the goal of this is not to have people coming to work and doing their jobs because the court told them to. The goal of this is to have people coming to work and doing their jobs because they're excited about the company and the future of the company and to do that we need to get a contract in place. We're trying to do, we're working extremely hard at it, and I know that we'll get one. I can't tell you exactly when, but we will get to a contract, and this issue that we're dealing with today will be behind us.

Operator

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

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

Sorry, if I missed it in your prepared remarks. But when do you expect a decision on the injunction?

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

Steve Johnson?

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

We -- you never know for sure, but my best guess would be late next week or early the week after that.

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

And then just as a follow-up, as you think about this cost of the MAX grounding, which you've estimated at $400 million relative to perhaps your future aircraft order book value of about $3.5 billion, is the right way to think about potential compensation as a discount to that future value so maybe a 10% to 12% discount on your existing order book as we sit here today?

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

We wouldn't encourage you to think about it in any way because we don't know. We haven't had any discussions with our partners at Boeing about the details of how this compensation might occur. We saw, as I know you did, they've set aside, they put a reserve aside. We've had high-level conversations with the highest levels of Boeing about what our expectations are, but we haven't had any detailed conversations about how those expectations would be met.

Operator

And our next question comes from the line of Dan Mckenzie of Buckingham Research.

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

Healthy corporate demand that strengthened the 6 weeks in the quarter despite some severe operational disruptions, that's a surprise. But we know there is a direct link between business, travel and operations, so the idea of bookaway when operations are bad. So the question is, I'm wondering if you can elaborate on any bookaway challenges in the third quarter outlook, how they might to be a headwind or an opportunity at some point here? And does the current outlook embed some bookaway?

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

Thanks, Dan. I'll let Don give you specifics, but again, I just want to reiterate some of what Robert said in his comments. While this is going on, our team is doing a really, really great work to make sure while we have operational disruption, it's not felt nearly to the degree it would be otherwise by our customers. First and foremost is once we realize that this was, well, a near-term issue, whether that was going to be going on for a matter of weeks and months, we began -- we begun the process and it continues not waiting until the day of -- to do cancellations, but do them several days in advance that allows us to reaccommodate customers, again, not the best thing you want to do, but much better than having customers probably that their travel's been disrupted on the day they show up at the airport, so that makes a big difference. And then as we do that, particularly as it relates -- probably Don can tell you more about this, particularly as it relates to our most frequent flyers making sure that they're having the least impact of all and to the extent they know that the company is reaching out to them. So we're working really hard on those issues. Don, do you want to say anything in terms of...?

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

Yes. Just to add to that, we actually have been tracking completion factor for our corporate customers, right, so which is not -- we have been canceling flights but kind of which flights are we canceling relative to the kind of travel patterns of our corporate customers. On a year-over-year basis, there hasn't not been a very material change in the completion factor for corporate customers. So we have done a good job of figuring out kind of about the cancel.

And as it pertains to the outlook, we aren't really seeing anything right now that would cause any bookaway, and we expect our performance in the -- for domestic in the third quarter to be pretty similar, maybe even a touch better than it was in the second quarter.

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

Here I'll just give shout-out to our sales team and our customer relations team as well. With any issues, we have opened up new means of communicating to ensure that any issues are addressed. And I've also stepped up our efforts to be out there with our corporate clients and that includes our Head of Sales, Alison Taylor, and myself and a number of the other executives here. So we're hearing firsthand of where the issues are, so that we can get in front of them whenever possible.

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

Very good. Good job. Second question here is, we do have a tale of 2 economies. Obviously we got the industrial, which is slowing and the consumer which is strong, and we've seen this in prior years as well. And I guess, Don, I'm just wondering if you can talk about how you think one affecting the other at some point if they do? What are the key metrics that give you confidence that demand continue to remain firm here? And at this point, are you sort of revising any implicit fourth quarter revenue assumptions?

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

Again if you're going to look at kind of what's been happening, right, we've seen some softness, right, in international point of sale, right? Some of that's currency, some of that's economy, but the domestic market has remained very robust. We've been able to backfill really any international shortfalls with higher yielding domestic-originating business, and we've been able to successfully grow our load factor shortly, we're up actually 2 points overall in the second quarter, and we're up really in every entity. Now as we look forward and we're actually booked ahead as we look forward into future months, and we're not seeing really anything that would make us conservative at this point around continued strength in domestic demand.

Operator

Our next question comes from the line of Jamie Baker of JPMorgan.

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

Most of my questions have been asked and well answered. So 1 from me. I know it's the view of your aviators that some of the reliability issues are related to scheduling practices and maybe some IP deficiencies. This is a difficult one for me to reconcile with the data that I have access to. So I guess the question is, whether you believe are you extracting all the potential efficiency of the current pilot contract? And whether there is some IP investment that does need to be made? If so, what might that cost?

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

So Jamie, thanks for the question. That's the good news at least for all of us and it is terrific. I still believe tremendous upside. So in our operation, so while we are dealing with the mechanic slowdown and weather anomalies and you name it, we're finally getting the chance to run an integrated airline. And as we do that with all of our systems, we're able to move past the point of just integration to taking a look at what the next generation of systems are. So when we take a look at scheduling practices, we know that there are potential efficiencies that we can bring about that potentially saves on flight times. We know that for our pilots and flight attendants that there are ways that we can meet their needs in actually creating more lifestyle improved schedules that should also reduce the impact of redundancies and reserve levels. And we know that there's a lot more work that we can do on aircraft routing as well now that we have the system all in one place.

And don't forget, even when it comes to maintenance operations, we still are operating with a couple of different systems out there. So restricting ourselves in some way. So more upside is how I view things, and thanks for bringing it up because I think the opportunity for investment is good and the payoff will be nice when we get to it.

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

Any guess on timing?

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

In terms of timing, 2020 will be a year in which we have our eyes firmly on operations improvement especially in regard to efficiency. So it's going to be over the next few years. There are some larger or longer term issues in terms of flight management systems and crew scheduling systems where we'll have to move past some of the legacy systems and think about next generation. But there is many improvements that we can make along the way, and Maya, do you want to add anything here?

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

No. I think we're always working on improving our systems. It's just an ongoing aspect of what we do.

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

Good news for us as we have a lot of upside here.

Operator

Our next question comes from the line of Kevin Crissey of Citigroup.

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

Maybe if I could ask you the fast-forward past, we've -- for past, this being the MAX, the mechanics, let's look out whether it would be 2020 or 2021, but let's just if we can start with 2020. Not looking for specific guidance by any stretch at all, but broad strokes is to what all the changes in 2019 does to your 2020 capacity, cost structure? Should we se the kind of the inverse of the negative impacts in 2019 as it relates to 2020 on a year-over-year basis? How should we think about that?

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

Yes. Well, without giving any guidance or considering the guidance we haven't -- that we're not prepared to give just yet on a global basis, and all those, look, I think in terms of what it means for growth next year, it's certainly 2 things going on. One, you have growth being staple this year for these issues that won't. And then on top of that, we've told the growth that we put in place, the growth that we plan to put in place is doing exceptionally well. So you should expect us to continue along that. So this will be -- certainly be a growing airline as we move into 2020.

And then what that means, again, setting aside economic issues that may or may not happen, what it means for us we think is, our ability to certainly vis-à-vis the industry, which is probably the best way to think about because who know what happens to global issues. Vis-à-vis the industry, we think as that happens for all the reasons, we've talked -- for a lot of the reasons we've talked about, which is upside -- that Robert just talked about. I think we would hope that on that growth, you'd see our unit revenues improve at a rate that's greater even than the industry and our cost, as Derek has described, staying well inject and that should result in things like we would hope, margin improvement and certainly, more improvement than the group in total. And if I'm remotely right about that because of what Derek's described in terms of our CapEx profile that, that results in real cash flow generation and certainly more than I think you'll see from our competitors.

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

Yes. And we're obviously looking for a good CASM next year. I had been a little hopeful that it would be this year. Wasn't sure about next year. This maybe creates the opportunity for that. Go ahead, I'm sorry.

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

Yes, more to come on that, but we agree.

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

Okay. And maybe for Don, can you talk about the Transatlantic outlook. There has been some commentary about it being softer, maybe I missed it in the prepared remarks or during Q&A. And if it is softer, as we look to Q3 and beyond, why that's the case?

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

Sure. I guess -- here's the way I describe. We've seen some softness again in Europe point-of-sale in terms of both demand and yields, again, the domestic market's been strong. We've been able to backfill that and grow unit revenue. Again, we were up 3% in the second quarter and that's with 1.5 points of the currency headwind.

Third quarter, again, we don't have quite as much headroom in the load factor side year-over-year. But if you go look out into the fourth quarter on the Atlantic, industry capacity is growing at the lowest rate since it has since 2012, right? So we are really seeing kind of moderating and lower industry capacity, and in particular, the capacity that's coming out of the Atlantic as we head into the fall and winter is really low cost carrier, low price carriers, right, that are taking the capacity out. So I think the Atlantic, although it's some -- we see softness in Europe point-of-sale, I think the capacity profile as we move forward is actually quite positive, and we would expect that to start to translate into improved yields in the economy cabin as we head into the next winter.

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

Excellent. And then if I could sneak in one more with -- we haven't talked about Miami. When we look at the data, the South Florida region looks soft internationally. Is that kind of an area of weakness for you? You talked a lot about regions that were above system average. I assume that might be one that might be below.

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

No. Actually. It's actually been quite good for us. Actually for us, Miami is our gateway to Latin America, right? Brazil, very, very, strong. Caribbean is good. Mexico is very, very strong, and we had over 20% revenue growth in Mexico. And also our profile in Miami actually is -- actually we're quite encouraged about Miami, and it was actually our best-performing unit revenue hub in the third quarter -- or second quarter.

Operator

And at this time, I'd like to open up the call to any media with questions. (Operator Instructions) And again, at this time, I would like to open up the call to any media with questions. (Operator Instructions) Okay. And our first question from the media comes from of Mary Schlangenstein of Bloomberg News.

Mary Schlangenstein

I wondered if -- Don, you had been talking a lot about demand, but can you talk a little bit more in detail about domestic demand, whether you are surprised at how it's held up and specifically, what you think is fueling that ongoing strong demand?

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

Mary, domestic demand has been strong now for a long time, right? This isn't something that just happened overnight. And as I mentioned earlier, when we look at going forward, right, we expect that -- means we're seeing nothing, right, that's off the trend line that we've seen for domestic. So again, I don't -- I'm not -- I don't think we can tie it to anything kind of any recency in terms of anything that's happened domestic. It's just been in this place now for quite awhile, and there's nothing, again, that we see that's going to take us off this trend line.

Mary Schlangenstein

Okay. And if I can ask about the A321neo delays, JetBlue talked this week about hearing of additional delays from Airbus, and can you talk about where you guys are at? How many planes you had delayed and if there has been any additional either time delays or aircraft delays for you?

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

This is Derek. We have not heard of any additional delays. We had conversations with Airbus probably a month ago, and we relooked at the schedule and got those deliveries all setup as part of the XLR negotiations, so that's been said. I haven't heard of any further delays at this point in time, but we'll check back in with Airbus after hearing those conversations to make sure that our aircraft are as planned from our XLR negotiations where we respread them a little bit from the original delivery dates.

Mary Schlangenstein

And can you say how many A321neos are involved?

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

It's more like there is about -- I think there was 5 to 10 that just got delayed and then they just pushed the whole schedule out a little bit. So somewhere in that range or the amount that have been delayed. But what we did as part of our negotiations is just respread to put them in order where Airbus can deliver, and we can plan a little bit better.

Operator

And our next question is from the line of Kris Van Cleave of CBS news.

Kris Van Cleave

Real quick. Can you talk about -- you mentioned that you're having to cancel some flights because of the mechanics issue (technical difficulty)

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

Kris, we completely lost you.

Kris Van Cleave

I was asking how many flights you had to cancel because of the mechanics issue that you had (inaudible) daily number or a weekly number where you are with -- for that, in addition to the MAX?

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

Kris, so what can I tell, as Doug mentioned, every morning, we're seeing a lot of -- more aircraft out of service than had been planned, and we're taking actions to address that. So to -- I can't give you a specific number every day, but it's certainly for impact to the operations. And some days, we've gotten -- on most days, we were way in front of it, so that we're addressing customers' needs, but it can be in the number -- it can be in the dozens of flights a day.

Kris Van Cleave

Okay. And when you look at quickly the MAX, Southwest, they pushed the pact until January. How confident are you in November time line, obviously, confident enough you didn't change it? But do you see that as realistic before the holidays or you have some level of expectation that lingers into January?

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

We're staying in close contact with both Boeing and the FAA, and we're -- I think is up to speed as anybody, and as a matter of fact, Boeing had their earnings call yesterday, and I was in touch with their team last night afterwards. So from what we heard a month or so ago, we really haven't had -- we don't have any new information that leads us to make changes. But we're are staying close and will certainly assess based on what we know today. We should be able to hit the time line of being back up in November.

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

We will continue to reassess real hard.

Operator

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

Alison Sider

Curious if -- just if you could say whether you had any -- done any additional work looking at how customers are feeling about the MAX right now? The sense that sentiment has evolved one way or the other as the grounding has stretched on.

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

Yes. Alison, we don't really have -- the answer to that -- directly to that question is no, we don't have anything specific to give you any insight. Certainly, what we know this. When the FAA declares this aircraft is safe to fly, it will be safe to fly and when American pilots declare that they are comfortable flying it, it will fly. And what I know is our customers will view those 2 things as extremely important in their view about whether or not the airplane is safe to flying or not. And so until that time, I'm certain any customer survey data, which shows some concerns, I believe once we get to that point those will be largely mitigated and certainly will over time. But nothing that we can tell you specifically today about where they are.

Alison Sider

Got it. And just is there anything you're hopping for from Boeing in terms sort of like rehabilitating its brand or restoring trust and confidence in the aircraft. Is there anything you're hopping that they'll do on that front?

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

Again, what is most important to us is that the airplane has been recertified and because the FAA has come to the conclusion that everything that led them to ground the aircraft has been mitigated. When that happens, and our pilots are -- believe they are adequately trained to fly the aircraft and has now -- has been certified that's what we're focused upon. And we believe those 2 set of events more than anything else will make the difference in our consumer attitudes about the aircraft itself.

Operator

And our next question comes from the line of David Koenig of The Associated Press.

David Koenig

I am sorry, I'm going to probably kick the same dead horse that Alison was kicking. But let me put it in another way. Well, first of all, Doug, if you could explain a little bit more you said that you had some conversations with the highest levels of Boeing about what your expectations are relating to compensation, can you say that's new to Mr. Muilenburg or something less than that if it's Robert talking to somebody or whatever? And then secondly, what's your campaign going to be to convince passengers to get on the plane beyond FAA and your pilot showing confidence in the plane, what are you going to do?

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

Yes. David, we have no further information on who is talking to who. But anyway, we have a great relationship with Boeing and they're a great partner, and we suspect they will continue to be great partners as we work through all of this, we certainly have been to date. So that's where we are as it relates to Boeing and again...

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

And I'd just say that one piece of planning that I think is noteworthy is that we anticipate sometime in between the aircraft being ungrounded and when we actually put the aircraft into commercial service where our pilots and flight attendants will get reacquainted with the aircraft and we'll actually be flying some level of our team members around. And so I think that, that is going to be helpful. But as Doug has said that the biggest thing is having our pilots and flight attendants and team all behind this, and ultimately, flying this aircraft is going to be something that is going to be a big part of our fleet, and we look forward to taking advantage of all the capabilities that it offers once it's recertified.

David Koenig

Are you going to have any kind of advertising campaign though?

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

We don't anticipate that at this time. Again, I think the biggest thing is being able to provide really comfortable and certainly reliable service, and that's what when this aircraft is recertified and our team members are out behind it. I think that, that will be something that is a hallmark of this aircraft going forward.

Operator

And our next question comes from the line of Leslie Josephs of CNBC.

Leslie Josephs

Just a question on hiring. Southwest talked about some issues with hiring pilots because of the 737 MAX grounding and some promotion classes. Are you see anything similar with that?

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

No. No, we -- the good news is that American is a fantastic place to work, and we have really for all categories of our team members. We have people that want to join the team, and we're certainly monitoring the pilot sourcing for our regional carriers, but we feel really confident there as well that we have the scheduling practices and compensation tools to be able to track the team members that we need.

Leslie Josephs

Okay. And just 1 follow-up. For passengers who maybe don't want to fly the MAX once it returns or maybe wait a few months for it to fly safely, is there anyway that they can get out of those reservations or without paying a change fee or cancellation fee. That's something you're looking at because we've heard this from some of the other airlines as well.

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

Like others, we'll be sure to make the appropriate accommodations. But over the long run, this is an aircraft that is going to be out in service and flying well, and we anticipate that everybody's needs will be taken care of.

Operator

And this does conclude our question-and-answer session for today. I'd like to turn the conference back over to Mr. Doug Parker for the closing remarks.

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

Excellent. Thanks, everybody. Thanks for your interest, and thanks for sticking with us through this. Any further questions, let our Corporate Communications or Investor Relations know. Thanks for your time. Bye.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This does conclude the program. You may now disconnect. Everyone, have a great day.
