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AAL - Q1 2019 American Airlines Group Inc Earnings Call

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OVERVIEW:

Co. reported 1Q19 total revenues of $10.6b, net profit, excluding net special items, of $237m and diluted EPS, excluding net special items, of $0.52. Expects 2019 diluted EPS, excluding special items, to be $4-6.

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the American Airlines First Quarter 2019 Earnings Conference Call. (Operator Instructions) And as a reminder, today's conference call is being recorded.

I'd now like to turn the conference over to Dan Cravens, Managing Director of Investor Relations. Please go ahead.

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

Good morning, everyone, and welcome to the American Airlines Group First Quarter 2019 Earnings Conference Call. With us in the room this morning is Doug Parker, Chairman and CEO; Robert Isom, President; and Derek Kerr, our Chief Financial Officer. Also in the room for question-and-answer session are several of our senior execs, including Maya Leibman, Chief Information Officer; Steve Johnson, our EVP of Corporate Affairs; Elise Eberwein, our EVP of People and Communications; and Don Casey, our Senior Vice President of Revenue Management.

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 first 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 will open the call for analyst questions and then 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 events and -- 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 risk and uncertainties can be found in our earnings press release issued this morning and our Form 10-Q for the quarter ended March 31, 2019.

In addition, we'll 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 on the Investor Relations section of our website. The webcast of this will also be archived on the website. The information that we're giving you today's -- on the call this morning is as of today's date, and we undertake no obligation to update the information subsequently.

So thanks again for joining us. At this point, I'd like to turn the call over to our Chairman and CEO, Doug Parker.

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

Thank you, Dan. Thank you all for being on the line. Let me start by thanking our 130,000 team members for the outstanding job they did of taking care of our customers and each other during some really difficult circumstances. Robert will talk more about disruption this 737 MAX issues has caused to our customers and team members, but our team has responded remarkably. And our customers and shareholders are the beneficiary of that work. So we are extremely grateful.

As to earnings, we announced this morning, pretax results for the quarter of $314 million in profits ex-specials, which is $0.52 a share. As we head into or begin to prepare for the peak summer travel season, the fundamentals of our business remain strong. Demand for our product is high. Our near-term forecast, though, has been affected by the 737 MAX grounding, which we currently estimate will negatively impact our 2019 pretax results by approximately $350 million, and that assumes that they are flying as we currently have them scheduled, again, by August 19.

And the recent bounce back in oil prices hasn't helped either. Our current estimate for 2019 fuel expense is approximately $650 million higher than it was when we spoke on this call just 3 months ago. But despite these challenges, we're still -- anticipate our 2019 EPS to increase approximately 10% versus 2018. And as we move to 2020 and beyond, we anticipate our free cash flow production will increase significantly as our historic fleet replacement program winds down. So we're really bullish on American Airlines and on AAL as evidenced in the quarter by us purchasing approximately $600 million of American Airlines equity.

So with that intro, I'm going to turn it over to Derek to go through a lot more numbers, and then Robert will take you through more analysis as well. Derek?

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

Great. Thanks, Doug. Good morning, everyone. And before I begin, I'd like to recognize our team also who did a great job taking care of our customers during the quarter despite a number of challenges, including a government shutdown, challenging storms at our largest hubs and obviously the grounding of our 737 MAX fleet. Dealing with these issues has not been easy, and they have done it with professionalism and commitment. So from all of us, thank you for all of your efforts.

We filed our first quarter 2019 earnings press release this morning. Excluding net special items, we reported a first quarter net profit of $237 million. This is versus $353 million in the first quarter of 2018. Our diluted earnings per share, excluding special items, in the first quarter were $0.52 per share, down from $0.74 per share in the first quarter of 2018.

Our first quarter 2019 pretax profit, excluding net special items, was $314 million resulting in a pretax margin of 3%.

Before I give more details on our financial performance, I'd like to provide an update on our fleet. As you are aware, on March 7, 2019, we announced the unplanned removal of 14 737-800 aircraft from service for remediation work following the installation of new aircraft interiors resulting in the cancellation of approximately 940 flights in the quarter. Work on these aircraft has been completed and all aircraft have been returned to service.

In addition, on March 13, 2019, the FAA grounded all U.S.-registered Boeing 737 MAX aircraft. Our fleet currently includes 24 Boeing MAX 8 aircraft with an additional 76 aircraft on order.

As a result of the grounding, we canceled approximately 1,200 flights in the first quarter. In aggregate, we estimate that these grounded aircraft and associated flight cancellations negatively impacted first quarter pretax income by approximately $80 million, $50 million of that is attributed to the MAX. We have now removed all 737 MAX flying from our schedule through August 19 resulting in the cancellation of approximately 115 flights per day or approximately 2% of daily capacity during the summer period. Although these aircraft represent a small portion of the company's total fleet, the financial impact is disproportionate as most of the revenue from the cancellations is lost while the vast majority of the cost remain in place. In total, we presently estimate that 737 MAX cancellations, which we assume right now will extend only through August 19, to impact our 2019 pretax earnings by approximately $350 million.

Despite the challenges of our fleet, our total revenues were a record for the first quarter at $10.6 billion or a 1.8% increase over the first quarter of 2018. Our total RASM was up for the 10th consecutive quarter as TRASM increased by 0.5% to $0.1587, also a record for the first quarter.

This revenue growth was driven in part by the continued success of our Basic and Premium Economy products as well as initiatives to drive higher load factors in the shoulder periods, all of which helped grow passenger revenues by 1.9% to $9.7 billion in the first quarter.

Our cargo yields grew by 5.5% for the quarter, but a reduction in available cargo capacity due to reductions in our flying to China and Latin America meant that cargo revenues were down 4% to $218 million.

Our loyalty program continues to drive revenue growth, and other revenues were higher by 1.9% to $708 million for the quarter on higher card acquisitions.

Total operating expenses in the first quarter of 2019 were $10.2 billion, up 2%. When fuel and special items are excluded, our unit cost increased in the first quarter by 2.7% compared to 2018 due primarily to increased maintenance expense, contractual increases in salaries and benefits, facility rents and depreciation and amortization.

Turning to the balance sheet. We ended the quarter with approximately $7.2 billion in total available liquidity. So far this year, our treasury team has completed a number of transactions including securing financing for 30 new aircraft through mortgage and sale leaseback transactions. With the exception of 3 regional aircraft delivering in the fourth quarter, we have committed financing for all aircraft deliveries through 2019, and we have committed financing for 25 of our 2020 deliveries. We continue to evaluate financing options for our remaining mainline and regional aircraft deliveries.

We made contributions of $364 million to our defined benefit pension plans in the first quarter. For 2019, we still expect total contributions for the year to be approximately $800 million. Driven by strong asset performance in the first quarter, we estimated that the funding status of our plans has improved by over $300 million as of March 31 compared to year-end or approximately 380 basis points.

In the first quarter, our debt including pensions continued to decline driven by contributions to our pension plan and through debt amortization. We continue to expect that our 2019 year-end debt

(technical difficulty)

compared to year-end 2018. As the elevated CapEx associated with our refleeting program ends after this year, we expect this trend to continue for the foreseeable future.

We remain committed to returning cash above our target liquidity to shareholders as market conditions merit. During the first quarter, we repurchased 16.7 million shares for $600 million bringing our share count to 444 million, a 41% decline in the share count since the merger in 2013. Our available authorization for stock buybacks is now $1.1 billion and expires at the end of 2020.

We filed our investor update this morning, which include our guidance for the second quarter and full year 2019. Due to the ongoing impact of the grounding of our MAX fleet, we now anticipate capacity growth of approximately 2.5% for the full year and approximately 0.7% in the second quarter. While lower than our original plan, this capacity growth will still allow us to fully execute our growth plans at our DFW hub, which will be the primary driver of our ASM growth for the rest of the year.

For the full year, we now expect that our 2019 cost per ASM, excluding fuel, special items and new labor deals, will grow by proximately 2.5% driven primarily by increases in maintenance expenses, higher regional cost due to volume of flying, higher airport rent expense and contractual salary and benefit increases. This 50 basis point increase from previous guidance is solely due to the reduction in ASM growth that I mentioned earlier. Due to lower ASMs in the second and third quarters, we now expect that our CASM will increase by approximately 4.5% in the second quarter with growth of approximately 3% in the third quarter. Fourth quarter guidance remains unchanged at approximately 0.5%.

Fuel price increases -- increased sharply during the first quarter of 2019. We are forecasting that our average fuel price will be between $2.14 and $2.19 per gallon for the second quarter of 2019 and $2.13 to $2.18 for the full year. Our anticipated consolidated fuel expense for the full year is now approximately $650 million higher than our expectations at the start of the year.

For revenue, we expect that our total revenue per ASM will grow by between 1% and 3% in the second quarter. Robert will provide more detail on the revenue environment in his remarks. But given the cost guidance I outlined above, we expect that our second quarter pretax margin, excluding net special items, will be between 7% and 9%. Had we not had the impact of the MAX cancellations on the second quarter, we would have forecasted year-over-year margin expansion.

Due to the impact of the grounding of our MAX fleet, which is about $0.60 per diluted share, and a significant increase in fuel expense for the full year, which is about $1.25 per share, we now anticipate that our earnings per diluted share, excluding special items, will be between $4 and $6 per share in 2019, an increase of approximately 10% at the midpoint over our 2018 adjusted earnings per share. We still anticipate that we will see margins expansion in the back half of the year.

We continue to anticipate an incremental $1 billion in revenue improvement and $300 million in cost reductions from One Airline cost initiatives in 2019. However, with fuel expenses where it is currently forecasted for the remainder of the year, we plan to take another look at all of our initiatives and our growth -- our planned growth in the second half of the year in 2020.

We have revised our expectations for aircraft CapEx in 2019, which now anticipate it will be $2.7 billion, down from $3 billion in previous guidance due to primarily to the late delivery of 5 A321neo aircraft that will now be received in 2020. As a result of the delay of the neo deliveries in -- to 2020, total CapEx will now expected to be $4.4 billion in 2019, $3.6 billion in 2020 and remain unchanged in 2021 at $2.2 billion.

So far, 2019 has presented some unexpected challenges, but our team has responded admirably to take care of our customers and each other. We're excited about the opportunities we have to grow our business for the rest of 2019 and beyond. And we look forward to executing on all of our plans.

With that, I will turn it over to Robert.

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

Thanks, Derek, and good morning, everyone. Before I begin, I'd like to thank our team members for doing a great job of taking care of our customers. Their dedication to commitment to delivering outstanding customer service was a crucial component in our ability to generate record first quarter revenues. This was no easy task, particularly given the challenges we faced with our fleet and weather.

As we prepare for summer, our focus is around planning for the busiest travel period of the year. And as Derek mentioned, on April 14, we made the decision to extend the cancellations of our Boeing 737 MAX aircraft through August 19. Our team has done a remarkable job in taking care of our customers, and it's been a real challenge given the magnitude of this disruption.

For flights through August 19, we have had to reaccommodate almost 700,000 customers. 700,000 customers from almost 15,000 MAX cancellations. And it's not just our passengers, it's literally thousands of our crew members that have had their work schedules altered on very short notice. And that means that our reservations, customer relations and crew resources teams have been working nonstop and overtime to take care of our customers and team. So again, from all of us to our colleagues, thank you.

Based upon our ongoing work with the FAA and Boeing, we are confident that the MAX will be recertified prior to August 19. But by extending our cancellations through the summer, we can plan more reliably for the peak travel season and provide confidence to our customers and team members that we will operate our planned schedule.

Once the MAX is recertified, we anticipate bringing these aircraft back into service as spares to supplement our operation as needed during the summer. As we have discussed on past earnings calls, we have several initiatives to improve our operating reliability. The initiatives we are undertaking are making sure that our aircraft are ready to start the day, depart on time and then turn throughout the day on schedule. We also continue to evaluate and refine our planning processes to ensure that we are ready to deliver better service during our peak travel periods throughout the year.

While we still have a lot of work to do, I am pleased to report that despite the challenges we have had with our fleet, we've improved our competitive position for reliability. Our relative on-time performance and completion factor both improved. We've seen particularly strong performance from our Northeast hubs in Philadelphia, DCA, LaGuardia and JFK. And our regional operations have been outstanding, delivering the expected results from our continued investment in the regional fleet, the simplification of our Eagle Partner portfolio and performance initiatives to ensure consistency across the regional business. We've made steady improvements in our international widebody performance as well delivering the best quarter of on-time performance in our history, and we're setting new reliability records for our cargo customers as well.

On the products side, we have continued to take big steps forward in creating a world-class customer experience. During the first quarter, we opened newly renovated Admirals Club in Boston and Charlotte nearly doubling the seating capacity. And our renovation project at Pittsburgh just finished up last week. We will also be growing our network of Flagship First Dining and Flagship Lounges with DFW opening later in the second quarter.

During the first quarter, we announced new innovative and exclusive partnerships that further differentiate American from competition with the private suite at Los Angeles International Airport and with Blade, a helicopter transfer service at both LAX and JFK. These new partnerships further enhance American's already well-known 5-star service offerings for premium customers.

In addition, we announced an enhanced partnership with Hyatt Hotels. Elite members in both the Advantage and World of Hyatt Loyalty Programs will be rewarded with more ways to earn points, miles and status on qualifying American flights in Hyatt Hotel stays.

On the digital front, in-flight WiFi has long been a frustration for airline customers as slow speed and frequent outages had made for a difficult experience. This is no longer the case with American. We have now had -- we now have the bandwidth to meet their needs -- our customers' needs as our installations of high-speed WiFi throughout our domestic fleet are nearly complete. We've also activated free live TV on nearly all of our mainline aircraft. And we continue to be the only U.S. carrier to offer live television on international flights.

In addition, we launched a new exclusive partnership with Apple giving our customers access to Apple music to stream more than 50 songs, playlists and music videos on any domestic flight equipped via satellite WiFi. These are just a few of the examples of the investments that we have made in our product that further differentiate American from the competition.

As we look to our network, we are leveraging our strengths with high-margin growth planned at our Dallas-Fort Worth and Charlotte hubs. The first stage of that growth commences in May, where we'll begin using our 15 new gates at DFW, which will add approximately 100 departures per day. We've already begun selling tickets to 23 new routes and additional frequencies in over 70 markets. And the early results are encouraging as both bookings and yields are coming in at rates higher than the system average. This marks the first opportunity for significant growth at one of our most profitable hubs. We are excited about adding this capacity, particularly into the diverse and robust North Texas economy, which is one of the fastest-growing regions in the U.S.

We remain on track with our growth plans in Charlotte for 2020 and at our hub in Washington, DCA in 2021.

Our global sales and distribution team produced strong results last quarter as corporate revenue growth outpaced system revenue growth on healthy corporate demand and improved corporate fare environment. The team continues to execute on making American Airlines the easiest airline to do business with, including recent corporate recognition enhancements. Corporate customers now receive complimentary priority access, which includes a priority check-in, priority security and group fore-boarding. And during irregular operations, corporate customers now receive a higher prioritization for reaccommodation.

Working with our corporate customer advisory board, we receive guidance and feedback on this and other strategic initiatives solidifying American Airlines as the preferred airline for business travelers.

The first quarter was also another record-breaking quarter for new corporate account acquisitions ensuring a strong and healthy pipeline for future corporate growth. Based on our recent corporate customer survey, 90% of respondents said that they plan to increase or maintain their spend in 2019 as compared to last year. So we feel confident about corporate demand for the remainder of the year.

In loyalty, we continue to see strong growth in advantage flyers along with more customers qualifying for elite status with year-over-year yield improvements exceeding system increases. We're also seeing strong growth in redemption bookings. We set first quarter records for acquisitions and spend on our AAdvantage credit cards, and we expect that to carry forward for the full year.

As we've previously mentioned, the enhancements to our Citi/Advantage Platinum Card and the introduction of the no-fee MileUp card last year have increased customer engagement in both acquisitions and retention. This quarter, we're excited to announce new benefits for our Barclays' red and silver aviator cards beginning on May 1. New card features include an annual companion certificate, enhancements to the travel experience with credits for onboard WiFi and food and beverages. With these changes, we believe we offer an unrivaled portfolio of cards to engage a broad range of customers.

Our product segmentation strategy continues to provide choice for our customers and drive incremental revenue for the company. With our Premium Economy retrofit program now complete, American has more aircraft with this differentiated product than any other U.S. airline. The average fare for Premium Economy continues to be twice the coach fare, making it the most profitable use of square footage on our widebody aircraft. We are an industry leader in this category, and our customers are noticing as we were recently recognized by TripAdvisor for having the best Premium Economy product for the -- for North American carriers in their Travelers' Choice Awards.

All of this resulted in record first quarter revenue of $10.6 billion, up approximately 2% year-over-year. On a unit revenue basis, total revenue per available seat mile improved 0.5% year-over-year. This marks the 10th consecutive quarter of positive unit revenue growth for American. We are pleased with our revenue performance. Although we were slightly below guidance, we were on track until the middle of March and the grounding of MAX, after which we saw close-in softness through the balance of March due to schedule uncertainty resulting from the MAX-related cancellations.

Also, as a reminder, in 2018, we made a big investment on our AAdvantage program, making it more valuable to customers. We significantly increased the inventory available for redemptions in 2018, increasing the value of the mile to our customers, while also giving our customers more flexibility to use their miles. For the quarter, these changes had a negative impact of 0.9 points to unit revenue. We anticipate a similar impact for the remainder of the year. Normalizing for this, our passenger unit revenue would have increased 1.5% in the quarter, a solid result considering the impact of the MAX grounding and our exposure to weak long-haul Latin markets.

We led the industry in year-over-year performance in both the Atlantic and Pacific entities as we were able to grow load factor in a weak pricing environment. The Pacific also benefited from our network restructuring to China and our partnership with Japan Airlines. Japan unit revenue grew by double digits.

Our normalizing unit revenue for the domestic business grew by 1.2%, in spite of the MAX grounding. Latin performance was weak for American in the first quarter due to Argentina and Venezuela unit revenues, which were down by over 20%, and also difficult year-over-year comps. We expect the Latin entity to move to positive territory in the second quarter.

Looking forward, we expect our second quarter year-over-year TRASM to be up 1% to 3%, a 1.5 point sequential improvement from the first quarter. This incorporates a negative 0.5 point impact due to the MAX grounding and a negative to unit revenue because the MAX cancellations are higher-yielding, lower stage-length flights from an overall system perspective. And we are reaccomodating passengers into seats that would have otherwise sold at higher fare levels.

So as we prepare for the busy summer season, we're all excited about what the future holds for American Airlines. We're intensely focused on creating value for our shareholders by running a great operation, continuing to improve our product and taking advantage of the opportunities to strengthen our network.

With that, we'd like to turn the call back over to the operator and begin our question-and-answer session. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from David Vernon of Bernstein.

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

I wanted to ask a little bit about the guide-down on fuel and how you're thinking about the revenue environment as we get through the year. Obviously, you can't give us guidance on what TRASM should be doing. But I wanted to make sure there isn't something that's following on from the disruptions caused by MAX that might make it harder for you to go ahead and exercise a little bit more pricing in a market where there's less capacity and higher fuel cost.

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

Okay, sure, David. This is Doug. And let me take the guidance point, and then Don can talk more about the environment and so. Anyway, the guidance change was simply -- again oil prices are -- just the change in our price compared to 3 months ago was $650 million higher for us. We didn't build into our guidance hope that because oil prices were higher than they were 3 months ago, the fares in the future are going to be higher than they are today. That may be the case, we shall see. But we didn't do that. In this case, yes, they're 3 months higher -- the $650 million are higher than they were 3 months ago. But they're not much higher or much different than they were a year ago or certainly throughout 2018. So they went down for a period of time. At the time we gave our last guidance, they had recovered. That doesn't -- well we'll do everything we can, of course, to make sure we're pricing to cover our cost and increased cost. As to the guidance itself, largely just as the fuel price being adjusted back to current levels versus where they were 3 months ago. Don, you want to talk about the environment and so?

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

Yes. Sure. So just we did see during the first quarter a bit of weakness in leisure yields. This was driven primarily by price reductions and flow in connecting markets in the domestic business plus some sporadic and aggressive pricing in (inaudible) markets. The biggest impact, however, was just the grounding of the MAX through the end of March and through April. As we look forward, from where we are right now, our load factors are up in future months. And the yield environment has stabilized, and we're seeing growth every week and also are pretty happy with what the outlook looks like, which is one of the reasons why we've guided up a 1.5 point from the first quarter.

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

Okay. And then maybe just as a quick follow-up to that. I think some of the other airlines in the quarter have said -- have actually called out a little bit more sequential improvement in things like corporate bookings. Can you comment a little bit on how the close-in bookings look at current for American?

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

Sure. Again, as we went through the quarter, we saw through January and February a very, very strong close-in yields for bookings within 13 days of departure. With the MAX cancellations, we did see some share shift. This was caused by the fact that we reaccomodated customers onto flights and just less seats out in the market to go sell. That is an impact to the end of March and really through April as well. And we saw just because of schedule uncertainty as we canceled the schedule in 3 tranches, some customers moving away just due to schedule uncertainty. That has now kind of come back. And we're seeing the same kind of close-in yield improvements that we saw in January and February.

Operator

And our next question comes from Jamie Baker of JPMorgan.

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

The August 19 MAX date would seem to imply that recertification would need to occur sometime in July. I mean I suppose you can operate the aircraft as spares once you have the green light. But obviously, you need several weeks to sell the inventory. So that July timing seems to be at odds with a growing consensus that a global regulatory consensus may be needed. And of course, rolling cancellations such as this diminish shield production. So why wouldn't the better, more profitable strategy be removing the MAXs into the holidays, adjusting labor lines accordingly and reaping the RASM benefits associated with that reduced capacity?

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

Okay, Jamie. Let me try first the premise. And then if you'd like to explain why -- if we did what you're suggesting, I think that would not be -- that would actually hurt earnings, not helping.

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

By all means.

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

Yes, certainly, on the premise itself when these aircraft come back into service. As Robert said, we after getting every piece of information we can from the FAA and Boeing who've been working closely with us, of course, we came to the conclusion that we needed for our customers' certainty in booking and for our team members to put the start-up date as far out in the future as we thought with -- as we said to the FAA and Boeing that we need like 95% certainty that the aircraft -- that what we're going to be selling will actually be flown. That's what we think about August 19. There are all sorts of different suggestions as to what is required to do this. But the reality is the FAA and the DOT regulate the U.S. carriers. They're working closely with Boeing. Everything we see at this point it there is a fix that makes the aircraft airworthy for any airline. And when that -- when they make that determination, we expect the aircraft will be recertified. And again, we believe August 19 is a date that gives us a lot of certainty, gives our customers certainty. And expect actually it will be certified well before that day. So that's why we set it there because we think it's well outside the date. So actually that's where we are, (inaudible) doing something different than that. And that is why we did it. That's because we believe the aircraft will be certified before that. And certainly hope that's the case.

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

Okay. Second, and this may be a little bit tougher. Can you give us a feel for how many new hires you've made in pricing and revenue management over the past 970 days? Not entry-level, but any mid-to-high level type hirings?

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

Well, maybe you can tell us why you'd like to know that? I am just confused what you're trying to get at, Jamie?

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

I believe that your marketing department received a blow roughly 970 days ago with Scott's departure.

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

Okay. Thanks. Don?

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

There really hasn't been anybody. And so mid-market, mid-level and up in the organization is -- are all people that were here when Scott was here.

Operator

And our next question comes from Darryl Genovesi of Vertical Research Partners.

Darryl J. John Genovesi - *Vertical Research Partners, LLC - Principal*

Derek, can you just help provide some sensitivity around -- some earnings sensitivity around a potentially longer 737 MAX grounding? I mean, I guess, I'm looking for something like if we lose it for an extra month, then the EPS it is x? Can you -- are you able to do that?

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

It will be harder to do. But I mean I can give you what the EPS impact -- I mean we said it's $0.60 for where we're at. The -- by month or by quarter, right now in the second quarter, we said it was a $350 million impact. We had $50 million in the first quarter, approximately $185 million in the second quarter and approximately $115 million in the third quarter. So I would say the $185 million in the second quarter is a full quarter. So that's a number that's there the whole time. But that is the summer and that's the peak. So it might be a little bit higher than if it continued into August, September, October. It might have a little bit less effect where we probably have a little bit more room. I mean the reason we took it down to August 19 is that's when the end of the summer is and when the peak is. So we may have a little bit more room in August and September to cover some of the flying. So I think that's the best we can do right now from that effect. But you got $0.60 a share, and then the impact about $180 million in a full quarter.

Darryl J. John Genovesi - *Vertical Research Partners, LLC - Principal*

That's good. That's helpful. And then Robert or Don, just looking at booking trends that you've seen since the MAX was initially -- or maybe even going back to before the MAX was grounded, but when some of these headlines started coming up, have you seen anything in booking trends that would suggest lock-ins on the part of your customer base to take 737NG flights? I mean, I guess I'm just thinking to the infrequent traveler a 737-800 and a 737-8 sound like more or less exactly the same thing. So just wondering if you've seen anything like that yet? And if that's something that we should worry about even post the return to service by the MAX?

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

The answer to that is no. There's not a significant change in load factors from what we can see. I think the bigger issue has been schedule uncertainty. Don't forget that to get to where we are now, we had to go through a series of tranches and cancellations that were all close-in. And as Don had mentioned earlier, we had -- for close-in bookings, we saw share shift that definitely benefited some of our competition. The good news is that now we've canceled further out, that certainty is back. And it really gives us something that we can go out with our sales and distribution teams to give confidence that, that schedule is certain. But in regard to questions about preference for aircraft types, we don't -- we haven't seen anything like that.

Operator

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

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

Your (inaudible) is about over -- actually over $3 billion in merger-related costs being pulled out of CASM now 5 years after the merger. You're not the only airline to do that. And so sorry to isolate you here. But curious to know when these are going to stop? And how much of the special items this quarter or in that $3 billion have been cash?

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

I'll intro and then Derek give the details. Look, really good question, one that we ask ourselves all the time and our auditors ask us. But the reality is what we -- we're very careful about what we include in special items. They are meant to be items that are nonrecurring items. Therefore, to give all of us, our investors in particular, an idea of what the ongoing financial performance of the company is. So -- and the fact of the matter is, in an airline, merger-related activities still go on 4 and 5 years later, and they still are. So we work through with our auditors to figure out what exactly things that are going on that are still related to merger. We still have issues related to the merger. It's something we -- just this quarter we got our flight attendants on to one scheduling system. So they can work together. There's a lot of work to do in maintenance and other items. So they are items that we wouldn't do if it weren't for the merger. They wouldn't have been in either company's P&L if they were separate. They're there because we merged 2 airlines and have to incur expenses as a result of the merger. But Derek, any more detail?

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

Yes. What I would say is it's exactly right. I think from a cash standpoint, the merger and integration items are cash items that come out of cash. Whereas I think the fleet restructuring is noncash and it's just bringing forward catch-up depreciation and accelerated depreciation. Example is the aircraft that -- as part of the merger, we're doing our, we call it, the Oasis project or the project to conform the aircraft and make sure that they're -- all the seats are same on both A321s and the 73s. That makes us go on the newer 737 aircraft and retire like the seats in the videos on the back 5 years earlier, and that's catch-up depreciation that you put in there. So that's noncash. Merger and integration is almost all cash as you break out the 2 numbers.

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

Okay. That's helpful. And then, Robert or whoever, maybe Don, you talked about Dallas growth and obviously, you referenced the economic strength in the region. But capacity in the DFW area is going to be about 50% higher this summer than it was in 2010. How are you thinking about that in terms of maybe over-saturating the market, competing against yourself either via local or connecting basis and just managing the risk around some of this growth?

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

I don't think we're actually up 50%. I'm not sure where...

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

Not you. No. No. Don, not you. It's the DFW area, between you and Love Field, to be clear. Sorry.

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

Yes. Even looking at us and Love Field, I'm not sure how you get to a 50% number. Maybe a big part of their growth in Love Field is capped, right? So there's really no departure growth happening at Love Field right now. We're growing about a 100 departures, right, DFW from 800 to 900. But anyway.

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

Don, I'm sorry. I was talking about, just to be clear, from 2010. It's a long time ago. Not year-on-year. It's arguably a cherry (inaudible) to the point it has a lot more capacity now than it was 10 years ago. And I'm just trying to make sure how you guys are thinking about the competitive impact either from yourselves or others? That's what I'm getting at.

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

Sure. Well, as we get from 2010 to 2018, right, which was up until last year, it's been one of our best-performing hubs during an entire time period, right? We're growing it this year. A big percentage of the customers we're going to grow are going to be connecting customers, right? So not really reliant just on the DFW market. And again, when we look at the early results in terms of the -- how the new markets are booking up, they're booking up at or above the system average, I think we're pretty encouraged.

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

Yes. And one thing I'll add, Jamie, is -- I'm sorry, Hunter, I need to retire, and it's not intentional, I promise.

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

Jamie and I were just discussing that earlier this morning, ironically.

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

I know. Sincere apologies to you both. So look, again, this is one of these once-in-a-lifetime opportunities that are good for the airline on every -- in every way. It is our largest hub. The chance to expand it by a 100 departures doesn't come along very often. It's -- frankly, it's not so much about Dallas as it is about the United States because we connect -- we will be connecting most of those people over Dallas much more to markets that we weren't able to sell before in some cases that our competitors were able to sell and other cases that we just sold not very efficiently. So it's these things, as Robert noted, we add these flights. They come in at system average. They don't need to build-up their markets. But there's demand for the travel. And you fly an airplane in the Dallas-Fort Worth, and it connects people to hundreds of markets that they didn't have opportunities to fly to before. It's building up the hub, getting it to be even more powerful than it is today. And it's really -- it's very nice growth.

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

Hunter, I'd just add that these 15 gates in this satellite E, it's a fantastic opportunity. So versus going out and spending tens of millions of dollars for a gate anywhere else for growth, these are a fraction and fraction of that kind of cost. And we're ready to go. So excited.

Operator

And our next question comes from Jose Caiado of Crédit Suisse.

Jose Caiado De Sousa - *Crédit Suisse AG, Research Division - Research Analyst*

I was hoping we could start just with the cost of the MAX grounding, which you quantified at $350 million for the year. I guess I'm struggling to reconcile that with what we heard yesterday from your cross-town competitor, which has larger fleet exposure than you do but appears to be guiding to a lesser MAX impact for the full year. Could you just maybe walk us through why that might be and the moving pieces there? Is that maybe a function of where you concentrated your MAX fleet? Just any help there.

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

Okay. First, well anyway, I don't think that their number -- their absolute numbers that they gave one. And if they did, if it's dramatically different, so...

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

And the only thing we could figure out from their guidance was they went -- CASM was worse by 4%, and RASM went up by 1%. So a 4-point basis point reduction in earnings, which would be over -- on their margin would be over $250 million in the second quarter, so...

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

So -- but we shouldn't speak for that.

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

Yes.

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

But our analysis at least on what they said looked consistent with ours is what we should say. We may be missing that. But we just looked at what they said came close to the numbers as Derek said that way. So it seemed totally consistent. In terms of the absolute number, the inconsistency versus ours a little bit is Robert suggested that our RASM in the second quarter would be lower than it would have been otherwise. They suggested it would be higher and they have higher CASM and we didn't have (inaudible) up that much. And again this is not speaking for them only for us but trying ourselves to understand why that may be. That is that we see more of a revenue per ASM change and they see -- we see revenue per ASM falling actually and they see it going up a little bit in the second quarter. A few points to make. One, in -- the 737 MAX, of course, is an entirely domestic airplane. So in the American Airlines system, while the domestic revenue per ASM is a higher number than revenue per ASM international and could largely (inaudible). So Southwest obviously doesn't have that issue. They don't -- anyway, so they're not taking out their highest revenue per ASM flying. In this case we are. It's just the math issue basically. But that would have an impact.

The other point you know that I imagine is the case Robert talked about how painful this is to us. At American, in the near term, when we have people who have bought travel in advance, so in our pricing model, some leisure travelers with advance purchases who have bought lower-price tickets and then we cancel them in the relatively near term in a peak, we need to provide them seats that we were holding back for higher-price customers -- for higher-yielding customers. So that has a real impact on revenue per ASM. And again, Southwest pricing model has less of that than ours. So those again is our best guess as to why they may be seeing a different thing on revenue per ASM than we are. But the total profitability impact to us looked right in line with where we are. But if we're wrong on that, let us know. What I can tell you for certain is we feel really confident with our number. We spent a lot of time on it, and we feel really good about our estimate.

Jose Caiado De Sousa - *Crédit Suisse AG, Research Division - Research Analyst*

Yes. That's totally fair. Dough, I know it's not clean math but that's helpful. Just switching gears, Robert or Don maybe, I was hoping you could give us an update on where you are with those IT initiatives or that infrastructure work that you were doing that was going to enhance our ability to kind of pushout more offers and drive more ancillary conversions. Is that project completed and contributing already?

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

No. Don you can -- and Maya can add in here, too. It's -- we're on track be able to really put some nice offers out to customers that post-purchase but preflight at the end of this month.

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

And that's right. Our first product is really it's an upsell. So if Fidelity push offers at upsell in the premium cabin. And we're going to be in market with our initial product by the end of May.

Operator

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

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

First question is really just sort of a clarifying question regarding the full year guide. The narrative in the first quarter was off-peak pricing weakness because there was too much capacity. And as I just kind of look at the growth that you guys are laying out for the fourth quarter, it's up 6%. And not asking you guys to give a revenue forecast for the fourth quarter, but I'm just hoping you can clarify whether the kind of the revised guide does factor in some off-peak pricing weakness that is probably likely to manifest in the fourth quarter or what gives you comfort that the fourth quarter won't be a repeat of the first quarter?

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

Just let me -- when we talk about growth for this year, it is DFW and then the start of Charlotte. So again, as we take a look at any of the growth that -- as Don had mentioned earlier, any of the growth that we had planned for this summer, and as we extend out into that schedule for DFW and Charlotte, we think that, that is smart growth and it's growth that is going to maintain performance for us as we take a look out through the end of the year.

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

Okay. But I'm just trying to clear, does the fourth quarter factor in potentially some pricing weakness? Or there is a -- I mean, maybe you can just help -- because that -- Hunter's question actually was my question as well. Maybe you can you just help us understand the nature of the growth. What percentage of the growth is smaller high-yielding markets? What percent is kind of the larger competitive markets that maybe lost on folks just as we kind of think about the revenue trajectory through the end of the year?

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

Again, the bulk of the growth is going to be focused on Dallas, right, skewed to overall domestic growth. Domestic has, again, higher nominals, right? So the entity mix as we head into the fourth quarter is going to be favorable for us.

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

Smaller markets though? I mean, like 50% of the growth out of Dallas is to smaller higher-yielding markets? Is there -- can you just help give us a little bit more clarity there?

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

50% regional. So that would be the case.

Operator

And our next question comes from Susan Donofrio of Macquarie Capital.

Susan Marie Donofrio - *Macquarie Research - Senior Analyst*

Just wanted to get some more color on your international markets in terms of the trends you're seeing. And if you could also just provide a little more color on competition in those markets?

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

Okay. Sure. This is Don. If you go look at the first quarter, Latin was our most challenged entity for the quarter. Particular for Argentina and Venezuela, where we saw revenue declines of more than 20%. Just as a reminder, we did end up suspending operations to Venezuela on March 28. So that won't have an impact as we look forward. We also in the first quarter had particularly difficult comps in Latin America. Unit revenue growth from the first quarter last year was up 12% while the rest of the industry grew in the 5% range. We also faced some currency headwinds in the first quarter in Latin America by about 1.7 points. But as we look forward into the second quarter in Latin America, we expect Latin America actually positive in the second quarter and we expect Brazil to have positive unit revenue in the second quarter as well.

In Atlantic, we did see softer pricing in the economy cabin during the first quarter, which we were able to offset with higher load factors. Premium demand did hold up. We were able to improve our yields in the premium cabins. U.K. was our top-performing market in the first quarter and we have not really seen any impact at this point related to Brexit. And we expect similar to potentially slightly better performance in Atlantic as we look into the second quarter.

Pacific was our best-performing entity for the quarter with unit revenue growth about 9%. Gains were really in both yield and load factor and across both economy and business cabins. So just very broad strength in the Pacific. Every entity in Pacific have positive unit revenue growth led by Hong Kong and Japan. We benefited from our restructuring of our operations to China and our partnership with China Southern. So we added 5 additional coacher cities to Beijing and Shanghai. We now cover either through our own metal or through our coacher with China Southern 86% of demand. So we expect Pacific looking forward to be solidly profitable in the second quarter -- sorry solidly positive in the second quarter as well.

Susan Marie Donofrio - *Macquarie Research - Senior Analyst*

Great. And then just as a follow-up. Is there anything you're doing in terms of further integration of your alliance partners?

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

That's just an ongoing process, right? So with all of our joint businesses, we have a roadmap of initiatives on how we're going to better integrate our services because that's really key. It's creating more seamless experience for customers across the combined networks.

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

And there's good news on the horizon. We're very confident that our Qantas JV will be approved to go forward sometime soon and that's beneficial, and we're constantly at work with IAG, especially BA on making sure that everything that we do is making our product more consistent and easier to use for our customers.

Operator

And your next question comes from Andrew Didora of Bank of America.

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

Really just one question, Doug. As you outlined in your release, free cash flow should increase significantly heading into 2020 and really kind of be the first year of true free cash flow generation since the merger. I know this has been the story given your CapEx program and I know that cash doesn't come in the door for a bit. But can you maybe give us a sense of what your priorities are going to be for that free cash flow as you stand right now?

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

Yes, thanks Andrew. That will be consistent with what you've seen from us to date. And then looking -- and our view on capital allocation goes like this. As we generate cash, we use it first -- again having generating cash having invested in the operation but having produced revenues in excess of what we've spent in the operations. We then look to invest in the business in any manner that can get returns for our investors to meet our thresholds. Those obviously, as we get through all of this both merger, capital expense and fleet monetization expense fall off. So we'll have -- we have less need for CapEx is what we're saying. We then look to -- with the cash flow that still exists, free cash flow that comes, we look to make sure that all of our debt is efficient and not at a level that is of any -- is remotely concerning. So if there's any debt that can be -- that is at high levels can be prepaid, any debt is coming due, is amortizing, we pay off and may or may not decide to refinance based upon where we're at the time. Having done all that, if -- what we want to be certain is at least in today's environment that we have at least $7 billion of liquidity at any time. That's an enormous amount of cash for a company our size. But that is the cost to our shareholders of us being more leveraged. What we know is, as confident as we are in the future, we need to prepare for any short of -- any sort of Black Swan-type event that could require us to need additional capital. So we hold a lot of cash with the view that, that's more important in those time than having unencumbered airplanes, which are our defense in those times. So having done all of that, to the extent there's still free cash flow, that goes to our shareholders because we determine that we've used what we've generated to as best we can and having no other alternatives, we look to give it back to our shareholders. If we believe the stock is undervalued, the best way to do that is buy back our shares. If we happen to believe the stock is fairly valued, we would look to do things like dividends. So that's what you should expect.

Operator

And our next question comes from Joseph DeNardi of Stifel.

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

Kind of along those lines, you've got the free cash flow outlook over the next few years. You know what your stock is trading at now. Is there any thought to kind of pulling some of that forward? You've talked about eventually lowering the $7 billion to something like $5 billion. What are your thoughts there at this point?

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

Yes. Thanks. I don't believe I ever said the $7 billion -- that we're going to lower this $7 million to $5 billion. So I just want to correct that. But what I have said I think is that $7 billion is a really high number for a company our size. I'm always careful to note that because some people started talking about that is some sort of a minimum cash. It is nothing close. That's a maximum cash basically that you could run this airline. It's up to probably $2 billion of cash before you started being -- before you started having sort of issues about the future. But -- so we hold basically a $5 billion cushion, I think, I said. And maybe at some point, I think, it will be -- it will make sense to relook that number. But where we are today, we still believe that's the right number we still do have. We still are working through merger issues. We still do have some large CapEx expenditures in this year. And frankly, we still -- this earnings level that we're projecting isn't what we believe is an earnings level that gets us excited about producing that number either. So for all those reasons, we think $7 billion is the right number at this point in time. And as aggressive as we are in terms of wanting to return capital to shareholders certainly and aggressive at these valuations and wanting to repurchase shares, we are equally, if not, we are more aggressive in our view that we're not going to violate the $7 billion cash number as we move forward. We think that's important that we keep in place that as we sit here today. As we move forward, I suspect we'll come to the conclusion that we don't need to have that large of a number. But we're still working through. All the issues I said and as we do so, it feels like the right number now.

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

Okay. And then just on the 3, 5, 7, I mean I know the proxy will come out shortly, can you just talk about whether the bonus will got funded in 2018 because I think you fell short on a pretax income basis of the $3 billion? And then how you're thinking about that going forward? And any changes you're kind of thinking about on the 3, 5, 7?

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

Yes. Happy to. And again, the 3, 5, 7 if anyone else doesn't know what we're talking about, we haven't had that for a while, our short-term incentive plan tied to pretax profits with the threshold of $3 billion, target of $5 billion, maximum of $7 billion, which as we've stated is our long-term yield about the profitability-generating potential of this company. In 2018, you're right, on a reported basis, we were slightly below $3 billion on any pretax level. But this calculation is made prior to the payments themselves, of course, and prior to profit-sharing. So what you'll see in the proxy is that while it was reported number below $3 billion for the -- in terms of the planned calculation, it was slightly above $3 billion. So the team got a 51% of their target bonus in 2018.

As we move to 2019 and setting the plan, we -- as to the named executive officers, me and my direct reports, are still on, in 2018, the 3, 5, 7 plan. But look, we got to be careful about making sure that while we may believe that's a long-term future, we got to make certain that we have incentive plans that allow our team to believe they have a reasonable chance at getting their bonuses in any given year. So we did amend the plan for everyone below the NEOs to be split into 2 components now, a financial plan and the operational plan, 50-50 of each in the financial piece we tied for 2018 -- for 2019, I'm sorry, to $4 billion of pretax earnings and starting at 0, much like the profit-sharing does. So that's where we set it going forward. (inaudible) seeing, which I think you probably care about more is what is our view about 3, 5, 7 over the long term. It's still -- again, we've said it there, I still believe this company has the potential. I will tell you, as we sit here today and given where we are for the past couple of years, as you think about explaining to people where you think you are, I would say certainly as you go into 2019, it feels a lot more like 3, 4, 5. 4 is a good year, 5 would be a great year and 3 is not a very good year. I don't try to make any big statement there about our long-term view of the company but just rather let you know what it feels like today. And really what I'm saying is it's tightened somewhat that range. And we'll see where it goes going forward. But what I would also point out is if you want to go build numbers like that into models into the future, you're going to find -- I believe you will find that our stock is well undervalued because it's not trading like a -- it's certainly not trading like a 3, 5, 7. It is not trading like a 3, 4, 5. And that's where we believe we are today.

Operator

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

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

I just had two quick follow-up questions. Just on the summer operations in Dallas, I recognize that you're getting additional gates. So it's not like you're working more gates. But just given the extra flying, are you comfortable with kind of the air side capacity and that we are not going to see something like we saw in LAX a couple of years ago?

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

Yes. A great news on that is we've had teams at -- hard at work for literally over a year to make sure not only the facility is ready to go but service management at the airport and then also ATC is ready to go. And so when we take a look at from a regional perspective or from mainline perspective or whether you're talking about gates or equipment or personnel, we've already ramped up to a considerable level. We're not quite at the 900 level yet but we will be at the end of this month and really confident about where we go -- where we are going forward.

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

Helpful. And just a quick follow-up on the capacity. You mentioned that you will take a look at forward capacity, if kind of fuel stays higher as we get into the shoulder periods again. Is that more kind of a domestic perspective? Or should we think it international and domestic? Or how should we think about kind of where the potential cuts could come?

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

Well, we haven't said anything about cuts. But what I would say is that we're always on the lookout to make sure that we're optimizing profitability for the network as a whole. And so both international and domestic are interrelated and it's a network business. So as we take a look, we will evaluate our hubs, we'll evaluate our fleet and certainly all the cities that we fly. But it's -- I'll underscore again. When we talk about the DFW flying for the remainder of the year and the growth that we had planned for the year, it's largely DFW-related. And the kind of things that we're doing is we're adding some new markets, some new spokes to DFW, places like (inaudible) and Del Rio and Harlingen, places that we haven't served and then increasing capacity from a perspective of frequency out of DFW to some markets both smaller and midsized that we think that's going to make DFW stronger overall for the long run.

Operator

And we will now be taking questions from members of the media. (Operator Instructions). And our first question comes from Tracy Rucinski of Reuters.

Tracy Rucinski

Dough, you seem really confident about the MAX being ungrounded by August 19. But there is still some uncertainty from global regulators. So my question is, if the FAA recertifies the MAX but other regions or countries like Europe or Canada have issues, will you still fly it?

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

If the FAA recertifies the MAX, we absolutely will fly the airplane. That's our regulator. The -- and if the FAA determines that it's airworthy, it is absolutely airworthy and anyone that is flying on an aircraft will know that for certain. Look -- but this is part of the issue that FAA and DOT need to work through and administration needs to work through. I don't know that, that's us in the area that will develop or not. But to be clear, we're regulated by the FAA. We know that, that aircraft with our pilots, with our training systems, with our aircraft is airworthy will be -- certainly will be airworthy if the FAA recertifies it. And we will -- and so yes.

Tracy Rucinski

Okay. And if pilots ask for added levels of simulator training on checklists related to test failures, like runway stabilizer, will you provide it? And is there any possibility that additional training demands either from pilot unions or global regulators could delay the return to service of the aircraft?

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

Again, our pilots are critical to this and we've been working -- our pilots have been heavily involved in all of this work. We -- that's what gives -- what will give us confidence and what will give the flying public confidence that the aircraft is safe to fly will be when American Airlines pilots say that it's safe to fly. Because I can tell you for certain that if an American Airline pilot decides that the plane is safe to fly you can be 100% certain of that. And not because -- not out of bravado, out of analysis, out of understanding the aircraft, out of training, out of knowing that their copilot has been trained accordingly. So absolutely our pilots will be not just involved but critical to this process. We'll make sure that whatever time the aircraft is deemed airworthy that our pilots will have a leadership role in ensuring that they are comfortable with that. So that's a given, and we'll make sure that will be done. But again, we believe based on what we know now that will -- that by August 19 we will pass those thresholds.

Operator

And our next question comes from [Allison Seiter] of Wall Street Journal.

Unidentified Participant

Since the two crashes, there's just been a lot of discussion about pilot training standards around the world. Just wondering if you have looked at some of your partner airlines if you're having any concerns or questions about training at partners and if that's something that you have conversations with them about?

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

So the good news is that we work very closely with all of our partner carriers. And as a process when we establish relationships, we do extensive reviews of their operations as well. And so from our perspective, we feel very comfortable with the lower carriers that we deal with and as well with our joint business partners. And we'll continue to make sure that customers flying in American Airlines, whether on American Airlines or with any of our partners that they're getting the best service, the most safe and reliable service that you can get.

Unidentified Participant

And are those ongoing conversations? Have there been any through like renewed looks at standards or procedures at other airlines? Or is that something that sort of happens as the outset when a partnership creates?

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

No. It's a constant process.

Operator

And our next question comes from Patti Waldmeir of Financial Times.

Patti Waldmeir

Can you say anything about what compensation you may be seeking from Boeing for the cost that you've referred to on this call, the cost of the grounding and even things like staff working overtime to rebook passengers and things like that?

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

Yes. All of our efforts at this point are working to make -- to get the airplane recertified and flying again for our customers. And our team members were working closely with Boeing. At the appropriate time, we'll talk about what this has done to American. Boeing is a very -- is a good and longtime partner and we'll work through that privately. But nothing that we had any conversations at that point yet. At some time perhaps we will, but right now we're focused on working together to get the airplane back and recertified.

Operator

And our next question comes from John Biers of AFP.

John Biers

Just -- most of my questions have been answered already. But I wondered, are you -- how does this whole situation with the 737 MAX affect the way you think about Boeing versus Airbus going forward?

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

Boeing is a phenomenal company that fields great airplanes as is Airbus. Obviously, we're not happy about this issue but no one is. Tragic events and what we care about is safety and we will work together as this industry always does to ensure that safety is the number one focus and we don't compete on safety nor do aircraft manufacturers. So we will as an industry make certain that this is addressed in a way that ensures that all aircraft are 100% safe. And as that happens, we're certain that both manufacturers are committed to that as we are.

John Biers

Do you feel like you have a clear understanding of what went wrong with the aircraft in the 2 crashes at this point?

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

Well, certainly not. I'll just chime in here. Look we have to -- first off, we operated 737 MAX very successfully for a number of months and really hadn't had to deal with any anomalies. So what we're doing is working with the FAA and with Boeing on what's been reported from the incidents, to make the aircraft better and correct any deficiencies, and I know that when we get through with addressing the issues related to MKS software that it's going to be an even better plane. And so again, from our perspective, we have what you know about issues related to the aircraft. We certainly have our own experience with it, and we're constantly working to make sure that we make the aircraft better. And we look forward to recertification.

Operator

And our next question comes from Ted Reed of Forbes.

Ted Reed

I have two questions. First, I'd like to know about Munich. I don't understand the reasoning behind canceling Philadelphia and then starting Munich-Charlotte and Munich-Dallas?

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

Ted, we're constantly taking a look at how the marketplace works. And for us, it's just better connecting opportunities. And so we think that it's going to be a great flight. And hopefully, it will lead to better things in the future.

Ted Reed

Looking strong from the 2 new -- from these 2 hubs?

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

Yes. It is. And for smaller markets, you just need a lot more connecting traffic to make them work.

Ted Reed

Secondly, I thought the pilot talks were going to go rapidly. But now it seems that they're going slowly and that there might not be any kind of deal till next year. Is that the case?

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

We've just begun negotiation with our pilots. The talks are happening well in advance of the amenable date, which is January of 2020. So we're happy to be talking well in advance of that, and we would be -- it would be nice to get something done before the amenable date. That's I think both party's goals and we'll keep working towards that. Nothing new to report.

Operator

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

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

All right, closing remarks. Thank you. Thank you for your interest. If you have any questions, give Dan or corporate communications a call. Thanks again. Bye.

Operator

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