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AAL - Q3 2018 American Airlines Group Inc Earnings Call

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OVERVIEW:

Co. reported 3Q18 total operating revenues of $11.6b, net profit, excluding net special items, of $523m and diluted EPS, excluding net special items, of $1.13.

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PRESENTATION

Operator

Good morning, and welcome to the American Airlines Third Quarter 2018 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.

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

Thanks, and good morning, everyone, and welcome to the American Airlines Group Third Quarter 2018 Earnings Conference Call. Joining us on the call this morning is Doug Parker, Chairman and CEO; Robert Isom, President; and Derek Kerr, our Chief Financial Officer. Also in the room for the question-and-answer session are several of our senior executives, 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 third quarter and provide some additional information on guidance for the fourth quarter. 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, forecasts of capacity, traffic, load factor, fleet plans and fuel prices. These statements represent our predictions and expectations as to future events, but there are numerous risks and uncertainties that 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 September 30, 2018, that was also issued this morning.

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

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

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

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

Thanks, Dan, and thanks, everybody, for joining us. Today, we report a third quarter 2018 pretax profit of $688 million, excluding net special items. Those results include our highest ever revenue performance, thanks to our 130,000 hard-working team members. But unfortunately, a rise in fuel prices outpaced that increase in revenues. Higher jet fuel prices alone increased our quarterly expenses by over $750 million versus the same quarter last year and therefore, our pretax earnings, excluding specials for the quarter were $485 million lower than the third quarter 2017.

The declining earnings has been met with the declining stock price, which neither we nor our investors are happy about. The good news is we're extremely bullish on the future of American and for good reason. This disconnect between the stock price and our view of the future seems to us like a buying opportunity and we're happy to be here to talk to you all about it. So look, there are 5 reasons that we're so bullish. First, we have extensive revenue initiatives underway that are expected to bring more than $1 billion in revenue improvements to American in 2019 versus 2018.

Importantly, the drivers of this value are not share shifts because of a better product like new airplanes or industry-leading WiFi or world-class clubs and lounges, though we certainly believe some upside exist in that regard. This is value that will happen as we simply execute against known projects such as project segmentation, fleet reconfiguration and international network restructuring. Second, we also expect about $300 million in cost improvements in 2019 versus this year. That's the result of our One Airline project, which has been expanded and accelerated in light of higher fuel costs and Derek will discuss that further.

Third, we have the opportunity to grow where we have a real competitive advantage. We have what we believe will be the lowest growth plans in the industry for 2019, but we also have what we believe are the best growth prospects. We have 15 gates opening at our largest and most profitable hub in Dallas/Fort Worth in early 2019. We have routes in and out of Dallas/Fort Worth that will immediately generate higher-than-average profitability versus the marginal profitability that airline growth usually generates.

Fourth, we're dedicated to improving our operating reliability. We've been steadily improving the operating reliability of American according to plan in each year since our merger in late 2013. But that trend changed in the summer of 2018, and we backed there a little bit. As Robert will discuss, we rededicated ourselves to producing the best operational reliability since the merger in -- since our merger in 2019, and that's our top corporate priority. The work's already begun, showing some great results. So this is an even more upside for 2019.

And then fifth, we are nearing the end of our major post-merger capital expenditure requirement. Our capital expenditures at American have averaged $5.3 billion per year in the 5 years since the merger. That over $25 billion is by far the most any carrier has invested in its fleet, product and team in the history of commercial aviation. And the result is a valuable set of assets that will serve our shareholders well for decades to come. And we're going to spend a little under $5 billion in 2019 as we have one more aircraft order to fund. But after that, we're largely done with the backlog and our CapEx drops precipitously to approximately $3 billion in 2020, $2 billion in 2021 and we expect it will remain in the $2 billion to $3 billion range thereafter.

So because of all those items, we're excited about our near and long-term future. We're confident that American will return to revenue outperformance and earnings growth in 2019 and beyond. Now it sounds like we're extremely optimistic is because we're. But please don't mistake confidence for indifference. We're extremely focused on results and execution and completing the hard work necessary to deliver this value. We just happen to be confident it will happen because we know we have the right plan in place and the right people to deliver it. We look forward to proving that over time. And with that, I'll turn it over to Derek and Robert.

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

All right. Thanks, Doug, and good morning, everyone. Before I begin, I'd like to recognize and thank our team who have had to contend with some very challenging weather conditions during the quarter. Their hard work and willingness to go above and beyond on behalf of our passengers in some very difficult circumstances is appreciated by us all.

We filed our third quarter earnings press release and 10-Q this morning. While this was another profitable quarter for American Airlines, earnings were lower due primarily to a 38% increase in average fuel cost per gallon. Excluding net special items, we reported a net profit of $523 million in 2018 versus our 2017 net profit of $729 million, which included a negative impact to pretax earnings from Hurricane Florence of approximately $50 million.

Our diluted earnings per share, excluding net special items in the third quarter of 2018 was $1.13 per share and excluding net special items, our third quarter pretax profit was $688 million with a pretax margin of 6%.

Our total operating revenues were 5.4% to $11.6 billion, the highest third quarter revenue in American Airlines' history. On a unit revenue basis, total revenue per ASM was up 2.6% and this was the eighth consecutive quarter in which we achieved positive unit revenue growth.

Passenger revenues were $10.6 billion, a 4.6% improvement driven in part by a 2.2% improvement in yields. The third quarter saw another excellent performance by our cargo organization. For the third quarter, cargo revenue was $260 million, a 16.4% improvement year-over-year driven primarily by a 12.1% improvement in yields.

Other revenues were up 14.5%, driven primarily by continued strength in our loyalty program. Total operating expenses were $10.9 billion, up 12.4%. The primarily driver of this increase was the higher fuel price I mentioned earlier, which drove approximately $750 million of year-over-year incremental expense. As a result, consolidated cost per ASM was up 9.4% year-over-year.

In this increasing fuel cost environment, we continue to make the reduction of nonfuel cost a priority. When we initially provided guidance on our third quarter of 2018 back in January, we projected that fuel would be up -- would be at approximately $2.10 a gallon and that CASM, excluding fuel and special items would increase by approximately 1.5% on ASM growth of close to 4%.

As fuel cost increased throughout the year, we worked to eliminate nonessential costs from the organization, while at the same time optimizing our network and focusing on reducing unprofitable capacity. As a result of these efforts, our third quarter consolidated CASM, excluding fuel and special items was up only 0.8% year-over-year on an over 100 basis point reduction and system capacity growth to 2.7%.

Turning to the balance sheet, we ended the quarter with approximately $7.4 billion in total available liquidity. During the quarter, our treasury team completed several transactions, including a $500 million upsize of our London Heathrow term loan as well as securing financing for certain 2019 aircraft deliveries.

We now have financing for all mainline aircraft deliveries through June of 2019. In addition, the company made $156 million contribution to its defined benefit plans. For the year, we have made $467 million in pension contributions. One benefit of the rising interest rate environment is that it reduces our pension liability, which all else being equal will lower future pension funding obligations and improve our free cash position in the medium- to long term.

As of today, we estimate our GAAP liability has reduced by $2 billion from the start of the year and our 2019 cash contribution has reduced by about $110 million to $780 million based on year-to-date asset performance. We have lowered our adjusted debt, including pensions by $743 million since the beginning of the year. Now that our fleet renewal program is winding down, we continue to believe that our 2018 year-end adjusted debt will be lower than at the end of the third quarter and we expect that over the next few years, this trend will continue as we naturally delever the company.

We did not repurchase any stock during the third quarter, leaving our available authorization for stock buybacks unchanged at $1.65 billion. The fact that we did not repurchase any stock is not due to a change in our belief that the stock is undervalued. As we have consistently said, our priorities for our use of cash are: number one, to meet our outstanding obligations when due; two, to make appropriate investments in the business; and finally, to opportunistically return any excess liquidity to shareholders. We define excess liquidity as anything above the very high level of $7 billion. As fuel prices rose earlier this year, we began to forecast a year-end cash balance near that $7 billion target level, so we stopped repurchasing our shares. We're extremely bullish on AAL, and would be aggressive buyers at these levels, but maintaining $7 billion of target liquidity is a key component of our capital allocation strategy and we won't violate it to repurchase shares irrespective of our bullishness.

We filed our investor update this morning, which includes our guidance for the remainder of the year. Consistent with our previous guidance given on the last earnings call, we continue to expect our full year system capacity growth will be just over 2%, down significantly from our expectations of approximately 3% at the beginning of 2018.

Despite this reduction, we continue to believe that our fourth quarter year-over-year CASM ex fuel and special items will be flat, and our full year 2018 CASM will be up approximately 1.5%, down 50 basis points from our expectations in January of 2018.

Given the run up of fuel over the past few months, we continue to expect higher fuel expense in the fourth quarter of 2018. Based on the fuel forward curve as of October 24, we are forecasting an increasing consolidated fuel expense of 33% or $2.5 billion for the full year 2018. For the full year, we now anticipate our fuel price to be between $2.22 to $2.27 per gallon.

We also guided to a fourth quarter 2018 TRASM increase of 1.5% to 3.5% to which Robert will provide more details on in his remarks. With our combined revenue and cost guidance, we expect our fourth quarter of 2018 pretax margin, excluding net special items to be between 4.5% and 6.5% and our full year 2018 earnings per share, excluding net special items guidance to be between 4.5% and 5%.

We are still in the process of developing our plan for 2019. With fuel prices remaining high, we are once again reviewing our capacity plans as we are in the middle of our budgeting process. We continue to expect our ASM growth in 2019 to be in line with or below estimated GDP growth and amongst the lowest in the industry. Our capacity growth in 2019 will come primarily from our unique opportunity to add incremental flying to Dallas/Fort Worth, our most profitable hub as well as our fleet modernization project to add existing seats to our narrowbody aircraft, which allows us to grow capacity in extremely efficient way.

In addition to this margin accretive growth, we are confident of successful execution on our business plan, which we continue to believe will include an incremental $1.3 billion in revenue and cost opportunities for 2019.

Given this level of capacity and the incremental cost opportunities, we continue to expect that our CASM growth in 2019 will be in the 1% to 2% range that we previously guided and we'll have a better read once we finish our 2019 planning process by year-end.

In terms of capital expenditures for 2019, we continue to expect that we will spend $2.9 billion on aircraft CapEx as we take delivery of new large RJs that replace 50 seaters, along with narrowbody aircraft to replace our MD-80 fleet that will retire after next summer.

We now believe our non-aircraft CapEx will be $1.7 billion in 2019, a $100 million lower than previous guidance. After 2019, most of our integration projects will be complete. At that time, our obligations reduce considerably and we estimate that total CapEx will be $2.9 billion in 2020 and $2.2 billion in 2021, thus allowing us to generate significant free cash flow.

During 2018, we have adjusted to higher cost by reducing capacity growth, slowing nonfuel CASM growth by pulling forward some of our One Airline cost initiatives and lowering our capital expenditures by deferring aircraft. Going forward, we continue to focus on growing network profitability, executing on our revenue opportunities and further lowering costs throughout the airline. We have an exciting long-term vision for American Airlines and we're pleased with the success of our efforts in 2018. We will continue on this path as strengthening our business in the short term will allow us to take full advantage of the opportunities available to us in the medium and long term. In conclusion, I would like to once again thank our entire team for their hard work in the challenging quarter. And with that, I'll turn it over to Robert.

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

Thanks, Derek, and good morning, everybody. In October, we successfully completed our largest integration project to date, moving all 27,000 American flight attendants into 1 scheduling system. The benefits and efficiencies we'll gain are wide-reaching. Our flight attendants are no longer limited to flying on their legacy carriers aircraft and will have the flexibility to move to different bases. For our customers, will be able to recover more quickly following irregular operations. And it removes the friction point from how we schedule our aircraft and crews, giving us more operational flexibility and the ability to optimize our network and drive efficiencies. This was a massive 4-year effort by our team who invested more than 6.2 million hours to ensure our success. I want to thank all of our team members who work behind the scenes to prepare us and on the frontline who have seen an enormous amount of change.

Progress on integration is one reason our operation is set to improve. Since the merger and up through this past winter, American had been making steady progress and improving core operating reliability, while also achieving important merger milestones. However, this past summer, we fell short of our target that we had set for ourselves. While there are factors like inclement weather and unexpected increases in workload associated with some aircraft types that contributed to our underperformance, we know that we must do better and we will. To that end, our immediate focus is on making sure that our fleet is ready to go each morning and that we resource our team to turn aircraft on time throughout the day.

We have taken immediate short-term action and launched a comprehensive review of our planning processes to ensure that we are ready to deliver better service during peak schedule periods like the summer and year-end holidays. Our efforts are already paying dividend as evidenced by 2 successive 0 cancellation mainline operations this past week and we're also operating greater than 99% mainline completion factor so far in October, despite difficult operating conditions in DFW and also dealing with Hurricane Michael.

On that note, I have to point out what an incredible job our teams across the system did to recover from both Michael and Hurricane Florence in September. In both instances, our teams were well prepared and the greatest testament to how quickly we got back the -- the operation back and running, the testament to that is how quickly we got the operation back up and running, especially out on the East Coast.

On the product side, we've talked a lot about the $25 billion we have invested since our merger in people, facilities, product, laying the foundation for a more efficient and reliable airline. And we're done yet. We continue to make significant investments in our product and we'll continue to grow our Flagship First Dining, our Flagship First Lounges with the DFW opening in the first quarter of 2019.

We're also investing more in our Admirals Club network with refresh projects in Boston, Charlotte B and also in Pittsburgh in the first half of 2019. We have significantly enhanced connectivity on board by adding high-speed WiFi and in-seat power. Half of our long-term domestic mainline fleet now has high-speed WiFi and installations will be complete by next summer.

We're adding live TV to our domestic mainline fleet, a product our international customers have been enjoying since 2016. These transformational investments in our product, which touch every point of the customer's journey, will drive higher revenues and improve customer perception. We continue to play to our strengths when it comes to our network, adding high-quality, high-margin growth and redeployment opportunities at our most profitable hubs. Our 2018 domestic network additions to Dallas/Fort Worth and Charlotte produced margins far above our system average. And in 2019, we'll continue to capitalize on that strength by adding 15 gates and 100 departures per day at DFW.

In 2020, we'll add 7 new gates at Charlotte, enabling another 75 daily departures. In 2021, the new regional terminal will open at Reagan National, allowing us to upgauge to 76 regional jet -- 76-seat regional jet at 14 gates, which today as a practical matter are limited to 50-seat regional jets.

Our sales team has been executing well on its strategies. In the third quarter, we saw corporate revenue growth outpacing top line revenue on improved average ticket values. We have a healthy pipeline of new corporate accounts and made a number of advancements for customers, including our integration with SAP Concur TripLink, so that our corporate customers can now book travel through aa.com, while still receiving their company's negotiated rate. We also launched a partnership with Alibaba to accept Alipay on aa.com/China. Alipay is China's most popular form of payment. American is uniquely positioned with the largest airline loyalty program in the world. Advantage is a key asset for us and our customers, adding $4.2 billion in revenue for the first 9 months of 2018. We have a valuable co-brand model with great partners in Citi, Barclays and MasterCard.

In the third quarter, we saw a strong year-over-year acquisition growth with lower-than-expected attrition and continued growth in card spend. We're excited about the enhanced benefits we announced to our Citi/Advantage Platinum Select card in May and the introduction of a no fee co-brand card in July, the AAdvantage MileUp card. These recent additions to our portfolio build on our already strong value proposition to customers helping to ensure that an AAdvantage co-brand card is the primary card for even more travelers.

Looking to 2019, we'll continue to find new ways to provide choice and value to our customers in our loyalty and co-brand programs. Our segmentation strategy is performing well. Premium Economy is now installed on 92 aircraft and customer adoption of this highly differentiated product has been strong. We also continue to be encouraged with the average fare differential, which is double the coach fare as customers continue to buy up from main cabin. Installations remain on track and will be complete by next summer.

As we look into 2019, we'll further monetize this product with new revenue management and merchandising capabilities. In September, we made basic economy more competitive by removing the carry-on bag restriction, allowing us to offer basic economy to more markets more often. The early results are very positive and have exceeded our initial expectations with approximately 3x more customers now buying up to a higher fare for a main cabin product. Basic Economy is offered across the entire domestic network as well as most of the Atlantic, Caribbean, Mexico and Central America. Our third quarter revenue was up 5.4% year-over-year to $11.6 billion, setting a record for any third quarter. As Derek mentioned, we saw a double-digit growth in our cargo and other revenues, driven in part by continued strength in co-brand credit card acquisitions and cardholder spend.

TRASM improved 2.6% year-over-year of the midpoint of our initial guidance and marks the eighth consecutive quarter of positive unit revenue growth. We saw sequential improvements during the quarter in domestic yield, and that momentum has continued into the fourth quarter. We're also -- we also realized strong performance in our international business, particularly across the Atlantic. There, we saw double-digit growth in passenger revenue and a 7.7% year-over-year increase in unit revenue. The solid improvement was driven by strong yield performance in our premium cabin and the continued benefits of our segmentation strategy led by the Premium Economy and Basic Economy products.

As we had anticipated, our Latin America performance was a little challenging during the quarter due to macro concerns in Argentina, political uncertainty in Brazil and a soft pricing environment in Mexico. The remainder of our Latin America network is performing well with notable strength in the Caribbean and Central America. Overall, revenue for the region still grew by 2.3% albeit on 4% higher capacity, 2.6 percentage point lower loads and an encouraging 1.5% higher yields.

Unit revenue grew in the Pacific for the fourth consecutive quarter with PRASM up 2.4% year-over-year. Premium cabin performance remains strong with Japanese and Korean markets showing the best business performance year-over-year.

Looking forward, we see continued strength in bookings as the demand for our product remains strong. Despite a very tough fourth quarter comparison, we expect our year-over-year system TRASM to be up 1.5% to 3.5% in the December ending quarter. This will be our ninth consecutive quarter of positive unit revenue growth. As we approach the end of our integration, we have the opportunity to pursue a number of initiatives that in many cases have already been implemented by our competitors and have been in our plan for a long time. In 2019, we'll increase revenues by $1 billion, thanks to optimizing our Basic Economy product, expanding the use of Premium Economy seats, further refining our suite of revenue management tools, continuing our fleet harmonization project and many more items. We also expect to become more efficient with more than $300 million of cost initiatives in line of sight and the hub optimization at DFW I mentioned. That will be beneficial to margins and profitability relative to the competition. We're very excited about the future.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question is from Jamie Baker from JPMorgan.

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

Doug, in a presentation you did last fall -- no, no, I guess, it's this fall, I think, it was at Helane's event, you cited that your aggregate margin performance in, I think, it was Charlotte, Dallas and Washington, and what that implied for your other hubs was comparatively poor, kind of round numbers, and implied that Chicago, Phoenix, Miami were a little bit less than half as profitable as the best hubs. I certainly have my views as to what the drivers are for that potential disparity, again, this is all back of the envelope, but I am curious to hear what you think the drivers might be and whether there are any solutions for those weaker hubs?

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

Yes. Thanks, Jamie. First, let me clarify, because also on those numbers we include LAX and New York, right. So you shouldn't assume that, that's Miami, Chicago and Phoenix.

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

Okay. That's fair.

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

So -- but nonetheless fair point I think. As you look -- anyway, there is -- what I'd tell you is, again, every airline I've been at it's often the case. You have some parts of the system that do better than others, but they all contribute to the system. And indeed, that's certainly the case with operations like JFK and -- like our L.A. and New York operation and indeed our Miami operation right now certainly is underperforming on a financial basis, given the economics of the region. So -- but Chicago, Phoenix are solid and those others will be solid over time where they contribute to the rest of the system because of what they provide us and our ability to serve the corporate traveler. So we're -- what we're really saying, we're really happy with the route network as it exists today. Expect no changes and particularly happy with the fact that we have the ability now to grow in those that are the most important -- well, not most important, I shouldn't say, but those that have the highest revenue -- the highest profit generation capabilities, DFW, Charlotte and DCA. And we've done a nice job, I think, of filling out all the rest of the others to a critical mass.

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

Jamie, I just wanted to add though, in terms of the kind of adjustments we're making, we do think that, in all our hubs, whether it's growing or redeploying assets to Charlotte, DFW and DCA that, that will make those even stronger. But then some of the actions that we've recently taken are specifically designed to ensure that places like Chicago and Miami perform better as well. And so we know that the reductions in the Chicago to Asia flight is definitely going to help there. You know about the gate additions that we've made, which further strengthen the connectivity capabilities of Chicago as a domestic connecting hub for us. And then in terms of Miami as well, we have some underperformers, São Paulo, Belo Horizonte, that we made adjustments to and we're keeping an eye on all of South America to make sure that we're strong as possible.

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

Thanks, Robert.

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

Appreciate. Oh, I'm sorry, something else?

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

No, I said, thanks to Robert. Go ahead.

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

Okay. And a follow-up for you. Robert, you talked enthusiastically quite a bit about the operations. When it comes to fuel, it's a fairly simple analysis to calculate how much time is required by the airline or the industry to recoup higher prices. What I'm not able to figure out is when operations improve, how long does it take to win back some of the corporate share that you might have shed in recent years. So first, do you have an opinion on that lag? And second, what level of corporate share recapture, if any, does your internal 2019 forecast assume?

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

First off, Jamie, let me tell you that there hasn't been any loss in corporate share at American. We've had a really solid quarter in corporate revenue. As I mentioned, growing faster than top line revenue growth. And as we take a look, it's broad strength across the corporate led by professional services. We've got a healthy pipeline of new accounts, 450 new managed corporate accounts signed just this past quarter and a lot of enhancements coming. We haven't seen any weakness or fall off. And as a matter of fact, we're really pleased with what we have seen, and improving operation is only going to drive more benefit.

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

And the 2019 numbers don't assume any sort of increase, so except there is some, there would be upside, Jamie.

Operator

Our next question is from Duane Pfennigwerth from Evercore ISI.

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

So you've been pretty conservative and pretty subdued with your domestic capacity growth, and I wonder if you could just expand a little bit on kind of the 3Q performance because 1% domestic RASM relative to peers, relative to what, frankly, the economy did, what happened there? How do you see that going forward? And how did you post 2%, 3% domestic revenue in the third quarter?

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

Okay. This is Don. I'll take this one. Again if we go look at our domestic performance, what we see is improving trends. If you look at our third quarter performance -- or revenue performance in domestic was better than our second quarter unit revenue performance, which was also positive. We're seeing improved yields in the domestic business, not only in the third quarter, but in particular as we look forward into the fourth quarter. Lot of this is driven by changes in the pricing environments, particularly in ULCC markets. Business demand remains pretty robust. We're seeing improvement in close in yields. Strong corporate demand, Robert mentioned that our domestic corporate revenue grew at 10% in the quarter, and that remains -- continues to be positive as we look forward. So as we look at our domestic performance, we, again, saw improvement as we went from Q2 to Q3 and we expect as we're looking into the Q4 outlook that domestic will improve again.

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

And then just a quick follow-up for Derek. Can you speak to the pension gains that were in non-op in '18? And how you see those trending into 2019?

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

Oh, the pension gains, they will stay for another 3 years, I think, and then run off, but it's -- so that's -- they'll be -- year-over-year will be the same as we -- as in your 2019 model of the pension gains.

Operator

Our next question is from Joseph DeNardi from Stifel.

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

Doug and Derek, you talked about the CapEx profile coming down in 2021. Just want to be crystal clear that those numbers have moved around a little bit it feels like the past couple of years or so. Are you guys both committing to no more than $3 billion in CapEx in 2020 and no more than $2 billion in 2021?

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

It's an estimate. Go ahead, Derek.

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

Yes. I mean, I wouldn't say we'll commit to anything, but I think -- I mean, they've moved and they've been pushed out really and it's really driven by the deliveries. So yes, we're set with the deliveries in 2019, 2020, 2021. And the aircraft deliveries were in from an aircraft CapEx, 2020 is about $1.2 billion and 2021 is $1 billion and 2022 is $1.3 billion and we have no reason to change that. So I would say, yes, that is where we're going to be from a total CapEx perspective. And the run rate, as we go forward, should be in that 2.5% range steady-state, even going forward from there because we don't have any plans for any new aircraft at this point in time going forward since we've already really gone through the fleet replacement program and taken on over 600 new aircraft now since the merger.

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

So Joe, let me try and do -- anyway, what we believe, and I think it's a belief that makes sense. Let me just share the assumption behind what Derek just said, which is we don't have any need at this point for additional aircraft to replace older aircraft, which we did have over time and there is no -- and that's -- so that's what the current plan calls for. I guess the only reason -- the only way it would go up from that is for some reason, we decide we want to grow like in excess of what we currently believe, then we go decide we need to go find other aircraft. But anyway that's ...

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

And Joe, there's only one -- I mean, from a fleet perspective, we have -- still have some 50-seat aircraft that we'd like to replace with larger gauge aircraft, 2-Class aircraft, and we haven't committed that yet and looked at that. So we have an opportunity in the regional space and that's really the only place from a mainline and wide-body aircraft everything is really in place for the next 4, 5 years.

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

Okay, that's very helpful. And then Robert, you mentioned something in your prepared remarks about a credit card that you guys have with Citi and Barclays. It sounds pretty exciting.

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

Yes, it is.

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

Robert, can you spend, in respect for my colleagues, can you spend 90 seconds talking about that? Assume I know nothing about the partnership, how do you guys get value? How does the business work? I would love to hear more.

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

All right. Well, first off, we have to start with our -- the AAdvantage program. So our loyalty program, which is the largest program and we believe the best out there in the business. As a benefit, there is the opportunity to align with partners and in this case, we're aligning with Citi and Barclays. They can brand their credit card and offer benefits to their customers when they acquire credit cards and then also spend on those credit cards by earning miles that are redeemable ultimately in our program. American is obviously paid for those miles. Those miles are a nice business for us and something that we're able to offer customers value for that keep people really interested. At the end of the day, the value is in the American brand, the value is in the service that American offers, flying people to the places that they want to go and that is something that a lot of different partners want to be part of, and in this case, Citi and Barclays.

Operator

Our next question is from David Vernon from Bernstein.

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

I just had a question on the cadence and the timing of when the new gates are going to open up and how impactful the redeployment of some of the capacity into those better margin hubs is going to be, like how should that affect the trajectory of earnings as we move through 2019?

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

Derek can help me out a little with this. The gates are going to start layering on in May and we'll fill them up over time as the summer progresses. And in terms of benefits in either growth or redeployment opportunities, that will layer in and we have haven't yet given any estimates on how much that will improve, but we do know that it is going to be profitable for us.

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

Yes, I agree. And David, that's not included in the $1 billion revenue synergies or revenue opportunities that we talked about. As we -- we're working to get those gates open as soon as we can and we'll layer that in as we move forward from a revenue perspective into the 2019 forecast.

Operator

Our next question is from Hunter Keay from Wolfe Research.

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

So look, you guys talked about corporate revs being strong, you're not the only one, but you're also paying for that, again, with these TMC commissions that are up hugely across the industry. But I know there has been a little bit of an effort in the industry early this year to sort of get back some of the front-end commissions you're paying to the TMCs. I'm wondering, a, how that's going? How we should think about the trajectory of these TMC or these agency commissions going forward? And if you want to include how NDC ramping may help to offset some of these agency commission expense, that would be great?

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

Okay. Hunter, this is Don. In terms of commission expenses, this is really competitive marketplace, right? So we really focus on competitiveness and that's really the focus, right? So in terms of trajectory and TMC or any kind of commission costs, we've been actually relatively flat. And our goal going forward is really to stay competitive with our big competitors on a network basis. As for NDC, our focus on NDC is to improve the products, right, that we offer to our customers, particularly our corporate customers and it is less of a cost initiative for us than it is ability to be able to put more products and particularly bundled products in front of our corporate customers.

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

And then Steve Johnson, one question for you. Can you talk, the U.K. is announcing that it's going to review the existing ATI you have with BA. I was surprised by this, a lot of people that know things were surprised by this -- know better than I do on this topic were surprised by it. Can you tell us what they are going to be examining? And if you want to fold that into a broader conversation about how regulators are viewing ATI and JVs in general these days, that would be great?

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

Sure, Hunter. Thanks. It's really good question. First, I suppose if you were surprised, shame on us a little bit. The arrangement with the Atlantic Joint Business has always been that it would be reviewed by the European regulators in advance of its 10th anniversary, which is in 2020. As Brexit has unfolded, that responsibility moved from the EU to the U.K. and they for reasons, I think, are just -- they just had the resources available to start doing the review now. We are very optimistic about how the review is going to come out. These joint businesses are -- really provide fabulous consumer benefits and all of the studies that we've done of the Atlantic Joint Business in particular and JVs in general have demonstrated that, and there certainly is no joint business that has come close to what we've been able to produce for consumers than our Atlantic Joint Business.

I suspect the review will take a few months. There will be, I'm sure, a report written at some point in time, but our expectation is that they are going to firmly endorse the Atlantic Joint Business and reach conclusions like the ones that I've just described. These -- I maybe just take a minute to go on. I mean, this work that we've done to review joint businesses has now been 17 or 18 years of robust data from joint businesses. And we've assembled and put it into our advocacy around our Qantas joint business application and our 2 applications that are forthcoming. It's really very compelling. And we expect both U.K. and the United States DOT to recognize that and firmly endorse the joint business concept going forward.

Operator

Our next question is from Michael Linenberg from Deutsche Bank.

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

Robert, you mentioned that with the change in your sort of carry-on bag policy that you're seeing 3x the number of passengers now buying up and I guess, presumably, that's just because you're able to offer the Basic Economy in a lot more markets. As I recall though, I think that you weren't initially pleased about the percentage, about the buy up, maybe it was under 50%. Can you give us a sense of maybe how that percentage is trending with the recent change in policy?

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

Mike, it's Don. We're actually ahead of what our expectations are for this launch. So when we launched this change in the carry-on bag restriction, we knew that, that would allow us to have the product in more markets more often. And we expected as part of that, that we would see the sell-up rate go down, but the number of customers selling up go up, and that, that rate is going to be positive for us. And what we observed is that the number of customers buying up hasn't in fact -- the percentage of customers buying up hasn't materially changed. So we expected to see that drop from the kind of low 60s down to about 50%, but it's still sitting around 60%. So that's actually much better than we expected.

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

Okay. Very good. And then my second question, and I'm not even sure who can answer this as it relates to Venezuela. I saw in the news out that, I guess, airlines doing business in that country will have to transact in their crypto currency, the petro. Just curious about whether or not that actually is going to impact you, and whether or not that is legit or not, any color on that?

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

It shouldn't be. I mean, we sell only in dollars. And that those markets, although we've reduced our capacity pretty significantly, Venezuela continue to be really very profitable for us.

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

Yes. And I understand that Venezuela, just to give you an idea, right, that's 0.2% of our system revenues. So we don't have a lot of exposure there anyway.

Operator

Your next question is from Savi Syth from Raymond James.

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

One quick follow up before my question. On the regional trend, is it fair to assume domestic continues to sequentially improve, which it sounds like from your comments, but what about the other agents from a sequential standpoint should we expect?

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

Okay. This is Don. Yes. So domestic, we're seeing some improvements. And I'll just add that if you go look at our performance last year in the fourth quarter, domestically, we were many, many points higher than everybody else in the fourth quarter. So to get some sequential improvement there is quite positive. We're expecting Atlantic and Pacific actually to perform in line with what we had in the third quarter, but we're seeing continued softness in Latin America.

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

Got it. That's helpful. And just, if I might ask on the operating reliability, again, Rob, I appreciate the color that you provided there on trying to fix that. The kind of the near term improvements are encouraging, but it is off season. So what gives you confidence as you kind of head into next summer that this continues? And is there kind of some network changes that need to be made to address some of the issues?

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

Well, the confidence stems from a lot of work that's been done over the years that is coming to fruition. So getting FOI, our flight attendant integration, behind us I think is a big step. As we take a look at aircraft reliability as well, I do think that there are some things that we can do and are doing to make sure that we start the day off right and that's really encouraging. And then, as we take a look at network and schedule, there are always opportunities to rationalize fleets to make routings more efficient, to make better use of reserves and spares and so all that's under consideration.

But when I take a look back over the course of the year, and yes, we're dealing with more of a shoulder season right now, but I do take a look at what we've done in really difficult operating conditions such as hurricanes and some really inclement weather here in DFW and am impressed by the recovery that we've made and our ability to actually perform well in those conditions. So I'm encouraged. I see the results. As I take a look at the steady progression we made from '14 to all the way through '17 and then through the first quarter or so of '18, I see us back on that kind of trend line that will show improvement going forward.

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

And I'm guessing that to drive some cost improvement. Is that kind of reflected in that 1% to 2% guide then?

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

Yes, it should drive cost improvement. We will give -- it is within that guide of whether we do that, but we still haven't gone through the planning process. And as we go through the planning process, we'll see the adjustments that Robert's talking, whether it's from a schedule perspective or an operations perspective and build that into the 2019 budget.

Operator

Our next question is from Helane Becker from Cowen.

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

Just like one question here. What do you estimate your fuel recapture has been maybe year-to-date?

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

I don't think we have that number, Derek. Let me just calculate in here while we -- anyway, this is not a number that we actually calculate, but I can tell you having looked at what -- I think, what others do is just -- it's how much of your earnings change versus how much of your fuel prices change, which any of us can calculate. What you'll see is it is going to be a lower number than our 2 largest competitors and which is another way of saying, "How come your earnings have fallen more?" or Fuel prices, have gone up about the same amount as a percentage of expense. So the question I -- if you're asking us, "Why have your earnings fallen more?" I'm just trying to get to the core cause. It is because our revenues haven't gone up as much. Our revenues are up but not as much as those 2 airlines. A trend that we've been narrowing over time and as we talked on last quarter's call, we started to see that widened in 2018, a trend we don't like, a trend that we expect is going to reverse itself back in 2019. But, anyway, there is separate stories for separate airlines. One of those -- one of our large competitors had not their best year last year. So they're comparing to that, of course. When you look at us versus that airline on a 2-year basis, we're still up on unit revenues versus that carrier. But anyway, so that's just a year-over-year comp issue.

And then -- but versus Delta, that's one that we've been narrowing nicely about -- for a couple of years in a row and started to widen. But as we look at that, I think, it's much what they are doing a better job than we can today of making sure these -- the sell-up activity is available to their customers. It is where -- They have products that are there where people buy and that they're available in channels that we don't have it available in yet. So we view that as upside, because a big piece of our $1 billion of revenue initiatives is getting to the point where others have gotten and we just hadn't yet, but will in 2019 in having those products available in more channels and easier to purchase. So we view it as upside. But anyway, so Helane, when you look at it, it's -- I'm only getting as whatever the number is, you will see it's lower. However you calculate it, ours are going to be lower than those and the reasons driven by our revenues not increasing at the same -- our unit cost x fuel you saw was like less than 1% on some pretty small growth, so that's not the issue. It is just relative revenue performance and the relative revenue performance as I described.

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

Right. Got you. And then just to follow up on that. As you guys, I think, Derek, you said and I know it's in the annual report, you talked about that large number of regional jets that are coming in next year. So as we think about your gauge for next year, how should we think about that relative to, I guess, revenue because gauge comes down next year or goes up?

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

I think the -- I mean, part of what's going on next year is our reconfiguration project. So the gauge should actually go up next year a little bit as we bring on the aircraft, as we modify the 321s and the 73s. And from a regional perspective, the gauge should go up also. So in both cases, I would expect gauge to be a positive next year, which, as you know, is positive growth for us. So I think, it could be around 1% of gauge as we take the mainline and regional combined next year.

Operator

Our next question is from Kevin Crissey with Citi.

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

I'm not sure, who is best positioned to answer this, but when you benchmark American cost structure and efficiency metrics against your peers, what areas present the biggest opportunities aside from maybe the Dallas/Fort Worth that you noted?

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

I'll start, Kevin and the team can chime in. Versus our peers, I mean, again, our -- it stays with adjusted cost structure, American versus our 2 largest competitors, looks all -- all in all reasonably close indeed, if not around the top of each other. So it's not so, but nonetheless, we do think we have -- primarily due to the merger, still some costs that we can reduce, which is part of -- which is a big piece of this 300 -- part of the -- again, the merger -- the operational integration getting completed, the $300 million we talked about it. So that's the biggest thing that we have that they don't. There are differences between carriers. We have higher ownership cost because we have new aircraft, they have higher fuel and maintenance costs because they have old airplanes, things like that. But when you add it all up, our cost per ASM minus stage-length adjusted basis for the 3 airlines, all look awfully similar at this point in time.

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

Okay. And when we think about the specials, they're still a significant number. And I know you've had obviously the merger and you had the fleet restructuring, but it's a large number and it's been a large number for quite a while. How should we think about that and I know you can't necessarily predict it, but it's a relatively consistently large number. Is that something that we should think about going away over time because you've been running at kind of $0.5 billion to $1 billion a year?

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

Yes, look -- absolutely, you should think about it going away over time, because it should. But I'll just note that it's real -- they're real numbers, of course. I mean we did just do this largest flight operations integration that Robert talked about, that took all sorts of training for our flight attendants that would not have happened had we not done a merger. So it's right and appropriate to pull it out as a special expense and yes, I guess, it's nearly 5 years later, but it's -- that's when it happened.

So that number should now continue to come down, certainly, the merger related. We, like other airlines, to the extent their fleet restructuring and things like that to continue, which we anticipate. But we think it's always right, for the benefit of our investors, to point out who does feel like onetime events versus recurring events. So it's hard to predict what those will be over time. But the merger-related expenses, absolutely, you'll see it continue to go down and that should go away over the next couple of years.

Operator

Our next question is from Brandon Oglenski from Barclays.

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

Doug, I just want to come back to your response to Helane there on your relative underperformance this year. I guess, what are the concrete steps as you look into 2019 that you're taking to correct the relative underperformance in revenue and margins between your bigger peers here or your biggest fears?

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

Yes, well -- okay, again, and we're going to have others to chime in, the biggest things in the $1 billion of revenue initiatives are, product segmentation, which again for the most part is Basic Economy and Premium Economy, but also having the ability to sell those in more channels and more easily to our customers. And again, that's execution against initiatives that we have underway and that we -- and again, not reinventing any wheel here. These are just -- those are areas that other carriers have that we just don't have yet, but we will have in to 2019.

The fleet reconfiguration, the harmonization of our fleet that continues and will be largely in place in 2019, is a good piece of that number, which we weren't able to do in 2018 as we didn't have the fleet reconfigured. And this international network restructuring that we keep talking about, that where we were -- when we we were -- where we were flying some flights internationally, it's a pretty large losses like our Chicago to China routes that we've reallocated. And then there is just all sorts of other smaller type initiatives that add up to a reasonably large numbers that, again, is somewhat -- some of those are just getting a little catch-up because of what -- as we've been going through our merger and other airlines had more time than we have. We get to like items like the night boarding, auction process being better automated than we have today.

So a number of initiatives that we look at, again, none of these things are taking share away from someone else because we think our products are going to be a whole lot better even though we do. It's all about being sure that the existing demand or the existing demand grown naturally is producing higher unit revenue because we're doing a better job of executing of business plans.

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

I guess, as there are a lot of urgency in the organization to drive a higher profitability, is that a top priority for the team?

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

Yes, Brandon. And again, as I said in my comments here, like, please -- look, the fact that we're confident, please don't take it as indifference. We have a huge performance-based culture around here. We have people very fired up. We certainly don't like seeing our earnings fall more than others, and -- but we know why it is, we know what we need to do, we're highly competent, we have the right plans, right people and place and that's why we're confident in saying things like we're going to -- you're going to see the revenue up, you're going to see the revenue outperformance that we like in 2019 you're going to see earnings improve in 2019 because we are focused on it.

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

And to just add, the confidence also comes, just knowing that this is going to happen. So when Doug talks about Premium Economy, we know that by the end of this year, we will have our 777s completed. We know that by the next summer, we will have our 787 fleet done. We know that by next summer, that we're on track to have 50% of our 737 reconfigurations done. Those are things that we absolutely know. We know that the changes we've made in terms of network are now coming to fruition. While we talk about changes that we've made to Brazil, we talk about changes that we've made in China, those are now just being put into the schedule. And then, as we take a look forward, and again, numbers that we haven't included in that, we know that those gates are going to come online, those are on track. And so the confidence here is rooted in really things that we're going to be executing on and we're know they're on track.

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

I appreciate that should be good for the stock if that works.

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

Thanks, Brandon. We agree.

Operator

Our next question is from Dan McKenzie from Buckingham Research.

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

The multi-year CapEx outlook for me is very helpful. Doug, on the past call, you offered a multi-year road map on debt and leverage. And I think the expectation was that leverage will begin to fall in 2019. Since until we've had higher fuel margins have contracted. So I'm hoping you or Derek could once again update us on the thought process here for leveraging each of the coming 3 years. Does it needs to go higher before it begins to fall in 2020, in 2021?

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

Let me give you kind of a generic answer and then Derek could provide any mathematical details that he cares to provide. So look, anyway, here is the issue on the debt is as follows. I mean, and again, Derek can give you some estimates, I think, on what has happened already. We are indeed reducing somewhat, but yes, earnings matter and any projections, of course. But to the point -- to the extent of what we just described is accurate and we believe it is, that is earnings improvement and CapEx declines what you should see is a natural delevering. Because again, we didn't go add debt for any -- because we were trying to get some optimum debt level, we wouldn't add a debt because we we're adding a lot of assets and the best way to fund those assets was through some really efficient debt. And we've thought and continue to believe that was in our shareholders best interest. So as those -- as you move forward and there isn't a need to continue to do aircraft transactions, you should expect us to pay off debt as it comes due and there is a substantial amount that comes due in the next few years. Pay it off as it comes due. I don't think -- yes, there is nothing that we're going to go pay off in advances. It is all incredibly efficient deb. But as it comes due, we will pay it off and we won't replace it. So you should expect a natural deleveraging as we move forward with higher profitability and lower CapEx.

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

Okay. Don, Latin America has been very volatile absent, a JV in the near to mediate term, how do you saw it for the shortfall versus peak revenue in the region? Are you seeing demand plans beginning to inflect and how long is it going to take to dig out of the revenue hole there?

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

Okay. First of all, I know, we talk about LATAM, we often think about different piece of LATAM, but LATAM is a complicated part of business. So Caribbean, Central America kind of northern rim markets excluding Venezuela have actually performed pretty well. The weakness that we've seen has been in Argentina, Brazil and Mexico. As we look forward into Brazil, we're taking capacity actions. We reduced capacity by 10% in September, October, and we're reducing capacity by 20% going forward in Brazil.

Mexico, we've seen a very tough environment there, particularly pricing driven by capacity increases and some concerns probably over travel warnings. But as we look forward into the fourth quarter, we're seeing demand come back a bit. We mentioned in the call last year, we have a number of initiatives in ERM and sales space around kind of real off-peak load factor performance. We're seeing some real improvements in the load factors in Mexico. As we look forward, although the yield environment remains weak. So overall, Latin America, we are down, in a revenue perspective, 1.6%. Parts of it are doing really well, parts of that aren't doing well. And where we are not doing well, we're focused on capacity and our load factor performance.

Operator

(Operator Instructions) ladies and our question is from Andrew Tangel from The Wall Street Journal.

Andrew Tangel

You indicated that Americans lagged the United and Delta on upselling and offering premium products to customers and tap into the higher controller revenue. Could you give us a better idea of why that is -- What the holdup has been? And where else in your judgment, you've not been fast up to increase revenue?

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

Yes, I'll let Don do that. And I think, again, I mean it's not that we haven't been fast enough. I mean the reality is this, we've been in the middle of an integration. We have all sort of needs. So I don't want to make it sound like anyone here hasn't been proactively working to get all sorts of things done. And we do find ourselves today in a position where we are working on some initiatives that aren't yet completed that will allow us to do better than we're today. Go ahead, Don, where we are versus others?

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

Yes, I mean we have actually done a pretty good job of growing our ancillary revenue streams. In the third quarter, ancillary revenues are up 18%. We relaunched our Main Cabin Extra product in June. And since we've done that, we have seen revenues from Main Cabin Extra grow at 24%, but we see that we actually have more opportunity beyond that. And the big opportunity for us is we don't really -- we haven't yet built out our infrastructure to be able to push offers out to customers effectively between time of booking and time of check-in. And that's a big window where we can put ancillary offers in front of our customers to increase our ancillary revenue stream even more than we've been able to go do it and that's really an IT infrastructure question. And then we have a project underway. We expect to be able to be more effective in doing that in 2019.

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

Yes, and correct me if I'm wrong, Don. But particularly bookings that are made outside of aa.com...

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

In the third party channels as well.

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

In the third party channels, Andrew. Others have more ability to push out offers to their customers, there are many third party channels than we do today, but we'll get that corrected.

Andrew Tangel

And one follow-up. This year, United has embarked on a growth plan that the customer regional flying with their mid-continent hubs. How much market share have you lost to United as part of that? And how much of a threat or has that growth plan proven to American So far this year?

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

Well, again, first off, I don't know that we can like particularly say versus that. We certainly haven't seen any discernible market share shift. Probably the best way to answer that, which I'll let Don do is, however -- is if to the extent we're seeing it versus anybody else would see it be in Chicago and just talk about how, what we're seeing in Chicago on year-over-over basis...

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

Yes, so the biggest overlap we have in Chicago, but we flew our largest scheduled from its departure at Chicago we have ever flown this summer. And as we look at our performance in Chicago, it was our highest year-over-year unit revenue producing hub.

On the corporate side, our corporate revenue in Chicago is up 15%. Our share gap, the way we measure our corporate market share relative to our capacity is actually up by 0.5 point. So that's also positive. We haven't lost a single corporate account in Chicago. So we feel pretty good about the way customers are stuck with us this year.

Operator

Our next question is from Conor Shine from Dallas Morning News.

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

Are we just hoping to get a little bit of any color you guys can provide in terms of what you guys are employee restructuring? You guys announced earlier this summer, you mostly targeted upper management. Has that been completed? Has any sense of scale in terms of number of positions impacted or dollar figures that you guys could shed on that?

Elise R. Eberwein - *American Airlines Group Inc. - EVP of People & Communications*

Conor, it's Elise. We're really pleased with how it went this past summer. Out of about 550 direct run above employees, we had an uptake of about 100, which was higher than our expectation and we're happy for those people who were elected to move on, but even happier with the people who renewed their vows and elected to stay. We're in the process of working through the rest of the levels now and we're seeing good results there too. So stay tuned for more.

Conor Shine

When you say levels, have you gone below the director level at this point in time?

Elise R. Eberwein - *American Airlines Group Inc. - EVP of People & Communications*

Yes, we're still working through that.

Operator

Our next question is from David Koenig from The Associated Press.

David Koenig

Most of my questions were asked and answered, but I did want to know, I think maybe Derek was looking for a figure when Doug was answering Helane Becker's question. Was there, first of all, ever a figure on how much fuel cost increase you are recapturing with fares and fees?

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

Yes. No, we don't have that number, I guess. But anyway, you can get it from analysts. Go ahead, Derek.

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

It is 40%.

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

40%, thanks.

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

Calculated the same way that Delta and United have calculate it.

David Koenig

40%, okay. And on the 1.5% to 3.5% TRASM guide for 4Q, how much would that be if you took out cargo and credit card and stuff like that? How much would the PRASM part of it be?

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

We don't -- we actually look at it that way. I mean, these things are really interrelated, so we focus on our TRASM number.

Operator

Our next question is from Leslie Josephs from CNBC.

Leslie Josephs

I had a question just about labor in general. If you could just give us an update on what's going on with the mechanics. You have pilot negotiations, I think, coming up soon. Also there's been a bunch of protests with some of the regional employees too and you gave the pay raise, I think, it was 1.5 years ago that you've first announced it. Is it possible to give further pay increases to your employees going forward?

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

Well, I'll do an overview, and Leslie, you can fill in any blanks if there are any. So as it relates -- Leslie, so on our fleet services and mechanics, the IAM -- IAM-TWU (sic) [TWU-IAM] partnership association, I should say, negotiations, we as soon as those contracts become amendable, the company asked that we go to the National Mediation Board for assistance. We just haven't been able to despite everyone's best efforts to get that contracts closed up and we think it makes sense for the National Mediation Board to bring us there, to get us there. So that's done, that we think is a very positive development. So it's now in the hands of the National Mediation Board to actually oversee those negotiations and that will begin shortly. So hopefully, that will bring us to the conclusion that we were able to get it done with the parties themselves.

Yes, we do have at the end of 2019, our flight attendant and product contracts become amendable. So we will open those negotiations some time in 2019. And as those are 5-year contracts, that we signed 5 years ago. So that's where it stands. All in all though what I'd tell you is the team is doing a great job. The leadership team has done a really nice job of taking care of our team, and is making a huge difference in our -- in the way that our team is out taking care of our customers and we're really happy with the way all of that is -- and we hope to get these negotiations all completed as they come due...

Leslie Josephs

And is it possible to get -- some of the workers will get an increase in pay, I know that there's some sort of mechanics and...

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

I'm sorry, you're asking about the regional carriers, Steve, on the wholly-owned subsidiaries?

Leslie Josephs

Yes.

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

So, we have several negotiations going on with our wholly-owned subsidiaries. The 2 leading ones are the negotiations with our ground employees at Envoy and Piedmont. One of those has been agreed with the union and is out for ratification now. The second of those, I would expect to be concluded as soon as the first ratifies. And there is pretty big pay increases built into those -- the tentative agreement for the first and what we have on the table for the second.

Operator

Our next question is from John Biers from AFP.

John Biers

On the, you guys, this has come up in the other calls as well, but the strength of corporate traveling has been a positive for the airline industry of late. Do you think the growth in that area is sustainable? Are we peaking? Has it peaked? What's your sense there? And are you seeing any kind of breakouts? Is it stronger corporate travel? Is it stronger within the U.S., domestically? Or does it -- is it also very strong overseas?

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

This is Don Casey. Yes, corporate travel has been very strong this year. It's been broad-based. It's been spread across really kind of all of the industrial areas that we focus on. The early indicators for next year, based on surveys that kind of other bodies do is that the expectation is that corporate travel will remain strong into next year and will likely grow.

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

I'll just add too. As we take a look going forward, I know that we see opportunities in continuing to engage with small- and medium-sized businesses. We have an AirPass program that really appeals to really a very small accounts and we see great traction there. So there is continued opportunity for us to expand how we connect with businesses, especially smaller businesses.

Operator

Our next question is from Mary Schlangenstein from Bloomberg News.

Mary Schlangenstein

I just needed to clarify 2 things, please. On the fuel cost recapture, was the time frame on that is third quarter or year-to-date, the 40%?

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

That's year-to-date. 40% year-to-date.

Mary Schlangenstein

And Elise, on the buyout or whatever you all are calling them, do you expect those to go below management level where we see any like frontline employees or at that level affected?

Elise R. Eberwein - *American Airlines Group Inc. - EVP of People & Communications*

No, Mary. This is an exercise to go through sort of post integration and look at our management headcount and make a reduction 5%, Derek.

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

Yes. And Mary, that -- sorry about that. That's just third quarter, the 40% is just the third quarter recapture, not full year. Not year-to-date, just third quarter.

Operator

Our next question is from [Tracy Rekowski] from Reuters.

And our next question is from Ted Reed from Forbes.

Ted Reed

My question is for Robert. I know you're working hard now to improve operations, but your operation seems to be in leadership about a couple of years ago, and they didn't seem to have deteriorated. Why have your operations been deteriorating past couple of years, is it just weather? Or is it something more?

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

No Ted. Well, first off, I just go back and we've been having merging airline, integrating a lot of different areas over the past number of years. But as I said in my comments, in terms of our core operating reliability, but for the really major events, we've been pleased with modest continued improvement in those things that are really important to our customers and drive customer satisfaction and likelihood to recommend scores. And again, as we took a look into this year, we've been making steady progress and then, springtime, summer, we fell off. We think there is some reasons behind it, a lot of additional work, some other onetime issues. But at the end of the day, we need to do a better job of making sure that we're prepared for peak season, that we have aircraft available first thing in the morning and that we do a good job of turning them throughout the day.

Those our basics, we're good at that. I know that as we progress through the summer and really have everybody take a look at what went on, it will get back to the track that we were on. And so, I look at this as more of a blip and something that as I look in to 2019, will be certainly more of a strength and an opportunity for efficiency and improvement to the P&L. So upside for us.

Ted Reed

I just don't have a clear sense of why it fell off?

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

Well, so, I'd point to few things. Certainly, inclement weather is something that is always an issue, but that's not the focus area. We had -- at the start of the summer, we had some -- a lot of extra work inspecting 600-and-some-odd TFM, 56-7 engines, fan blades that hadn't been expected. We had an inordinate number of engine changes with some of the newer aircraft deliveries that we're working with the aircraft manufacturers. I'm making sure that we get a fix for that in the long run. And then I'd say that on our -- some of the fleets that we're retiring, our Super 80s fleet. That was something that it took a little bit more work than we had anticipated. But you put all that together, and no excuses, that's something that we can plan for and do better and we have. And we are and we have and we will make sure that we cover as we get into peak season is coming up.

Operator

Our next question is from Robert Silk from Travel Weekly.

Robert Silk

So you all mentioned that commission payouts sort of flatten this year, but there were big jumps last year like more than 30% and you're still up about 8%, I think, this year, or through the first half of this year on commission payments. What in general -- and you're not alone in doing that, what in general has driven, just higher commission payouts across the industry?

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

This Doug and as Don said, it's competitive. But anyway, it's a competitive business and there are really 3 of us that compete mostly on this. And if someone decides they want to really go after the business and do it through higher commissions, we need to be competitive. So that's what's been happening. And as we've seen other carriers in an effort to win back some business they've lost, lower commissions and we need to compete for that. I expect, as you see things normalize that will change.

Robert Silk

Has there been any sort of -- Is there any greater sort of -- have you also concentrated more on segmentation, and on driving profits in the front of the plane? Has there been any sort of recognition that has been more -- Has that driven the desire to reward agencies more of a deal with these high-end customers?

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

No. I mean, clearly, all of the -- we're all focused on high value customers and customers end up paying higher fares on average. And a lot of our activity in our sales organization is really B2B activity focused on corporate customers and agencies that drive a lot of that business. And that revenues growing as I said at a very, very strong pace right now.

Operator

At this time, I'm showing no further questions.

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

Excellent. All right, thanks everybody for your interest and we appreciate it. Bye.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This concludes the program. You may now disconnect.
