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AAL.OQ - Q2 2021 American Airlines Group Inc Earnings Call

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OVERVIEW:

AAL reported that 2Q21 revenue grew 87% vs. 1Q21. 2Q21 GAAP net profit was $19m, or $0.03 per diluted share. Co. expects total revenue to be down approx. 20% vs. 3Q19.

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PRESENTATION

Operator

Good morning, and welcome to the American Airlines Group Second Quarter 2021 Earnings Conference Call. Today's 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, Charm, and good morning, everyone, and welcome to the American Airlines Group Second Quarter 2021 Earnings Conference Call. On the call with us this morning, we have Doug Parker, Chairman and CEO; Robert Isom, President; and Derek Kerr, Chief Financial Officer. Also on the call for our Q&A session are several of our senior executives, including Maya Leibman, Chief Information Officer; Steve Johnson, our EVP of Corporate

Affairs; Vasu Raja, Chief Revenue Officer; Elise Eberwein, Chief People and Communications Officer; Alison Taylor, Chief Customer Officer; and Devon May, our Senior VP of Finance.

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

Before we begin, we must state that today's call does contain forward-looking statements, including statements concerning future revenues, costs, forecast of capacity, fleet plans and liquidity. These statements represent our predictions and expectations as to future events, but numerous risks and uncertainties could cause actual results to differ from those projected. Information about some of these risks and uncertainties can be found in our earnings press release issued this morning and our Form 10-Q for the quarter ended June 30, 2021.

In addition, we will be discussing certain non-GAAP financial measures this morning, which exclude the impact of unusual items. A reconciliation of those numbers to the GAAP is included in the earnings release, and that can be found in the Investor Relations section of our website. A webcast of this call will also be archived on our website. The information 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. 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. Good morning, everybody, and thanks for joining us. This morning American reported a second quarter net profit of $19 million. Excluding net special items, it was a net loss of $1.1 billion. This loss, while large, is the smallest we've had since the start of the pandemic as demand for air travel has improved significantly throughout the quarter. Our revenues in the quarter were 87% higher than they were just last quarter.

At the beginning of this year, we outlined our Green Flag Plan, a set of initiatives that we have focused on to reset the airline and make American stronger as we come out of the crisis. As a reminder, this work focus on 4 key objectives: doubling down on operational excellence, reconnecting with our customers, building on the positive momentum we've established with our team and passionately driving efficiency. By keeping our focus on these areas, we know that when the pandemic starts to recede and the green flag dropped, that American will be ready. Robert and Derek are going to share a lot more details, but the short story is the green flag has dropped. We are indeed ready, and the American Airlines' team is delivering results at the return.

We've flown more customers than any other airline in the second quarter. Our team safely transported more than 44 million passengers on nearly 470,000 flights. It's more than 5x the number of passengers we carried in the second quarter of 2020 and more than 2.5x the number of flights. We've ramped up the operation dramatically in response to customer demand, and our operational performance continues to improve as we grow and scale.

Our team's done a phenomenal job of taking care of our customers. Our on-time performance and our completion factor for the quarter was the best in our history, despite the significant ramp-up in operations. The increases in demand in flying have led to a considerable increase in our revenues. This is the fourth consecutive quarter that American has outperformed our large competitors on passenger unit revenue production. Importantly, while we're producing industry-leading unit revenues, we're also controlling our costs. All of this has led to a dramatic narrowing of our losses, as I noted at the beginning. Notably, we were profitable, excluding net special items for the month of June, the first of such month since December of 2019. We expect our losses to narrow even more in the third quarter as we continue to march back to sustained profitability.

As to our balance sheet, we ended the second quarter with more than $21 billion of total available liquidity, by far the highest in American history. We generated a cash build in the quarter for the first time since the pandemic. With this record liquidity and our confidence in the future, we've begun the deleveraging of American's balance sheet. This morning, we prepaid the entirety of our $950 million term -- spare parts term loan, which

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wasn't scheduled to mature until April 2023. Derek will talk more about our deleveraging plans during his remarks, but I'll just say it feels great now being in a position of prepaying debt well before the term is due rather than continuing to incur it.

In summary, I couldn't be prouder of this team. In response to demand, we're building back on our network faster than our largest competitors. We're carrying far more customers than any other airline, and our team is doing so safely with great care for our customers. We've reshaped our networks, simplified our fleet and built efficiencies into the business that will serve us well for years to come. And today, as the recovery continues, we've begun the deleveraging of our balance sheet. So thanks for the hard work and dedication of the American team. And because of that, we are in the midst of an unprecedented recovery, and it shows in our results. And with that, I'll turn it over to Robert.

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

Thanks, Doug, and good morning, everyone. First, I want to acknowledge the tremendous efforts and resilience of the American Airlines team, but we're still in the early stages of the rebound. We feel really good about the progress that we've made to build back our business differently and the results it's producing. This progress was only possible because of the outstanding work of our team.

This quarter, we rebuilt the operations up from pandemic-level flying, effectively adding an airline the size of the old US Airways over the course of just a few months. We were able to fortify our staffing by completing all the required recall pilot training, bringing back more than 3,000 team members from leaves with thousands more flight attendants returning from leaves this fall and hiring nearly 3,500 new team members throughout the operation. We also plan to hire 350 pilots this year and more than 1,000 pilots and 800 flight attendants next year. As Doug noted, in the second quarter, we operated more than 2.5x the number of flights we operated over the same period last year. We had a second quarter completion factor of 98.6% and an on-time arrival rate of 82.1%. That represents our best-ever performance for those 2 metrics in the second quarter, and the momentum has continued into July.

Demand for our product remains strong, and we're very encouraged by the trends we're seeing in the revenue environment. The recovery is happening. Our second quarter passenger revenue more than doubled sequentially to $6.5 billion as demand surged. On a unit revenue basis, our second quarter PRASM was up 42% sequentially from the first quarter and a 44% sequential increase in capacity. Despite the industry-wide increase in service, this marks the fourth quarter in a row that we've outperformed our peers on a passenger revenue unit basis.

Our net bookings have recovered and are fully recovered, and we're focused on yield managing demand while bringing back the network in full. We've seen no degradation in bookings related to the recent uptick in COVID infection rates. Leisure demand continues to outperform. And in many areas, it has surpassed 2019 levels. Even more encouraging, as vaccinations have increased, business travel has started to return in a meaningful way. Domestic business revenue has -- was approximately 20% of 2019 levels in March, but it more than doubled to approximately 45% in June, with revenue from small- and medium-sized businesses recovering at a faster pace than large corporate accounts. Looking forward, we expect business recovery to continue and accelerate. In the coming months, our share of bookings in key business channels remains ahead of 2019. And customers are telling us that they're eager to travel, and some of our largest corporate accounts have already lifted all travel restrictions and many have already returned to the office.

Critically, the majority have shared their expectation for travel to pick up moving into the fall. We now expect a full business travel recovery in 2022. All of this is great news. And the American team is ready and excited to welcome back our corporate customers. We still expect international travel, particularly long-haul international travel, to be slower to fully return. The reality is many countries have not rolled out vaccines as quickly as the U.S., so travel restrictions and quarantine requirements are still in place in many locations. Whenever restrictions are lifted, we see a quick and dramatic increase in bookings, demonstrating that there is significant pent-up demand for international travel.

For example, demand for travel to Europe has increased considerably in recent weeks with the reopening of the EU. And our book load factor across the Atlantic is approximately 35 points ahead of the same time last quarter, and it continues to strengthen. We're committed to building the best and most convenient global network for our customers as they return to the skies. This includes making improvements in our key hubs, bolstering our partnerships, growing the AAdvantage program, harmonizing our fleet for consistent customer experience and reopening our clubs and lounges.

We continue to invest in our hubs to improve the experience for our customers. At DFW, we recently opened 4 new gates, which will allow us to continue to grow organically at our largest and most profitable hub. And we expect to fly a larger domestic network at DFW this August than we did in August of 2019. In Charlotte, we opened 4 new gates just prior to the pandemic, but we expect to open 3 additional gates before the end of this year. These gates will allow us to grow efficiently in our East Coast connecting hub as customers return to travel.

And at DCA, we have officially opened a new regional concourse, which offers a significantly improved experience for our customers, including an all dual-class regional operation. Importantly, it also allows us to upgauge the hub to larger aircraft overall.

We continue to develop partnerships that bolster our network and improve the customer journey. There's no better example of this than our partnerships with Alaska on the West Coast and JetBlue in the Northeast. Those partnerships are already delivering benefits, giving customers more choice and driving revenue in 2 very competitive markets. American and JetBlue now offer the leading network in New York and Boston, making it easier for customers, particularly corporate customers, to return to travel. Our Northeast Alliance has enabled us to start new service between New York and Tel Aviv, Athens, Santiago and Colombia, and we now have Delhi service slated to start this winter. Our domestic partnerships complement an already broad set of relationships American has around the globe. We have new exciting developments on the horizon, and all these international partnerships will really start to take off as more travel restrictions are lifted.

We continue to focus on growing the AAdvantage program. Our total number of transacting members is the highest since the start of the pandemic and up 50% year-over-year. We've also seen a strong co-brand acquisition growth, which has more than doubled since the first quarter and has climbed back to over 80% of 2019 levels. We're focused on expanding the program itself, growing the membership base and making AAdvantage the centerpiece of our partnerships going forward.

Our fleet harmonization program continues, which not only delivers a consistent customer experience but improves reliability throughout the operation and gives us a more efficient fleet. It also enhances the revenue-generating capabilities of the aircraft while giving us a unit cost tailwind. Our 737s are now complete, and we've completed the interior work on dozens of A321s in the second quarter. We now have just over 100 aircraft left before A321 have a standard onboard product by early next year. Now that our 737 fleet is fully harmonized, our customers will have industry-leading WiFi powering every seat and larger overhead bins. In total, we're now flying more than 350 narrow-body aircraft with new consistent interiors. Most importantly, the customers' feedback on these aircraft has been exceptional.

Additionally, one of the things we know is that lounge space greatly enhances the customer journey. We've reopened 37 Admirals Club lounges in 25 locations, and all of them will reopen by the end of August. Our Flagship Lounge locations will start reopening this fall as premium and corporate traffic returns in the second half of 2021.

Lastly, we continue to make investments to ensure that we're running a more sustainable airline. In the second quarter, we announced an investment in Vertical Aerospace to develop electric vertical takeoff and landing aircraft, doubling down on our focus on emerging technologies to reduce carbon emissions and investing in innovative ways that could improve the customer journey.

Last week, we've committed to develop a science-based target for reducing our greenhouse gas emissions by 2035, supporting American's existing commitment to reach net-zero emissions by 2050. We also agreed to terms to purchase up to 10 million gallons of carbon-neutral, sustainable aviation fuel. We're committed to reducing our carbon footprint and mitigating our most significant climate-related risks, so investors should expect to see more developments like these in the future.

In closing, as more customers return to flying, we're taking action to strengthen and reimagine our business. This work, coupled with the continued efforts of the American Airlines team, will have us well positioned for the post-pandemic world. Now I'll turn it over to Derek.

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

Thanks, Robert, and good morning, everyone. Before I begin my remarks, I want to echo Doug and Robert's comments and thank our team members for their hard work over the past quarter. We've significantly grown our airline since the first quarter, and the process of bringing the world's largest airline back online was not an easy task, but our team made it happen.

This morning, we reported a second quarter GAAP net profit of $19 million or $0.03 per diluted share. Excluding net special credits, we reported a net loss of $1.1 billion or $1.69 loss per share. With the rapid return of demand that Robert discussed, our financial performance has continued to improve. This trend started in March when we began to see a significant acceleration in demand that continued throughout the second quarter and drove net bookings to 2019 levels. This improvement in demand led to an 87% sequential increase in total revenue versus the first quarter. Even more encouraging is that we were able to capture this additional revenue while remaining focused on our cost and efficiency initiatives.

As we have articulated in the past, our goal throughout the pandemic was to prudently keep our capacity aligned with demand while being flexible enough to adapt as needed. We've done just that and moved swiftly to lower our cost structure and drive efficiencies throughout the organization with more than $1.3 billion of permanent cost reductions. This includes $500 million in management headcount reductions, $600 million in labor productivity initiatives and $200 million in other efficiencies. Based on our results, it's clear these actions are beginning to pay off as our second quarter CASM, excluding fuel and net special items, of $0.1261 was up just 11% versus the same period in 2019 despite flying 25% less capacity.

Looking at this from another angle, despite a 44% sequential increase in total capacity, our second quarter total operating expense, excluding fuel and net special items, increased by only 11% versus the first quarter of 2021.

In addition to our improved financial results, we also saw improvements in our cash position and liquidity. For the first time since the pandemic began, we produced quarterly positive cash build in the second quarter of $1 million per day. While $1 million per day doesn't sound like much, we've come a long way from our peak cash burn of approximately $100 million per day early in the pandemic. As a reminder, our definition of cash build includes approximately $12 million per day of regular debt principal and cash severance payments. As a result, we ended the quarter with approximately $21.3 billion of total available liquidity, which was higher than our original forecast due to the increase in revenues and forward bookings during the quarter.

As we look ahead, we feel confident that our record level of available liquidity is more than enough to allow American to navigate the recovery. In the near term, we plan to keep liquidity at elevated levels but expect to step down our target liquidity to approximately $10 billion to $12 billion at some point in 2022. We will continually assess this liquidity target as we make further progress in the recovery, the company returns to sustained profitability, we reduce our net debt levels and we increase our unencumbered asset base. As we have said previously, all liquidity in excess of these targets will be applied to accelerating our deleveraging plans for the foreseeable future.

As we discussed on our last call, American will pay down $8 billion to $10 billion of debt by the end of 2025 through amortization of our existing debt in excess of any additional debt we expect to incur. However, because of the debt we needed to take on during the pandemic, our plan is to accelerate the reduction of debt beyond that natural deleveraging that will occur. We now forecast reducing our debt levels by more than $15 billion by the end of 2025 by using excess cash and free cash flow to pay down prepayable debt, even though most of it is efficiently priced and by not adding to our debt levels by potentially using cash instead of debt for some future aircraft deliveries. This reduction in debt level will be facilitated by the relatively low capital expenditure profile we have had over the -- we will have over the next several years because our fleet modernization program is now behind us.

In addition to deleveraging our balance sheet, this will allow us to smooth our near-term maturity towers and free up high-quality collateral. With this level of debt reduction and continued margin improvement, our plan is to achieve the best credit metrics in the history of post-merger American by the end of that 4-year period, if not sooner.

As evidence of our commitment to delever and our confidence in the future, this morning, we prepaid the entirety of our $950 million spare parts term loan that was scheduled to mature in April 2023. This note had a coupon rate of only LIBOR plus 200, but prepaying it sets the stage for future optimization of our unencumbered collateral pool. The prepayment also results in an improvement of our first lien capacity from $7.5 billion to $8.4 billion. The $950 million prepaid today is in addition to $985 million of debt amortization and prepayments that we made during the second quarter.

During the third quarter, we will also free up 20 Boeing 777 aircraft that will be released out of the 2013-2 and 2013-1 WTC transactions, further improving our unencumbered asset base. The deleveraging of American's balance sheet has begun, and we are committed to a significant steady and continuous debt reduction over the years ahead.

Looking to the third quarter, we expect our capacity to be down approximately 15% to 20% versus the third quarter of 2019. Based on current demand assumptions and capacity plans, we expect another significant sequential increase in our revenue and expect total revenue to be down approximately 20% versus the third quarter of 2019. In total, we expect a pretax margin, excluding net special items, of between negative 3% and 7%. For the full year, we project debt principal payments are expected to be $2.8 billion, excluding the repayment of our revolving credit facilities that we completed earlier this year.

With respect to capital expenditures, we continue to expect full year 2021 CapEx to remain minimal. Non-aircraft CapEx remains at approximately $900 million and net aircraft CapEx, including PDPs, remains an inflow of $1 billion.

Lastly, at this stage of the recovery, we no longer feel that daily cash metrics are constructive in understanding the underlying performance of the business. As such, we will return to guiding to our standard operating and financial metrics as outlined in our investor update that we issued this morning.

So in conclusion, we continue to feel good about the improving demand and revenue environment. Our team has done an amazing job of managing our liquidity and driving efficiencies throughout the organization, and we are very well positioned for the future.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from Catherine O'Brien with Goldman Sachs.

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

So first question on the deleveraging plan. For your plan to prepay, I guess it's $5 billion to $7 billion through 2025 on top of that $8 billion to $10 billion in scheduled amortization, can you just help us think -- can you help us think about the pacing of that prepayment? Of course, assuming it will be tied to free cash flow ramp, are there certain profitability metrics you see as the gating factor or other capital allocation requirements we should be thinking about that might influence that pace? And then I guess maybe like a quick secondary question on the back of that also, could it actually be more front-end loaded as you step down your minimum liquidity next year?

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

Yes. Thanks, Catherine. Yes, it's all going to depend on that as you just said at the end. It's -- as we step down our cash requirements, we will use the cash to pay off the debt. So the way we're looking at it is if we can -- we're at $21 billion now. We just paid down $1 billion, so we're at $20 billion. We'll take that down to $10 billion to $12 billion sometime in 2022. So when we do step it down, we will use all of that excess cash to pay off the debt. We have a significant amount of debt that is prepayable. A lot of that is efficient debt, but we still believe it's the right move to do. So I do think it will be front loaded.

As we look at the amortization today, it's pretty even throughout the 4 years as we look at it. There is more out in probably '23, '24 because the AAdvantage loan does start to amortize out in those years. So that adds to the amortization. But I do believe, as we step down from where we're at today to the $10 billion to $12 billion, and then if we do step down again over time, then all of that cash will go to debt. So I would believe that it would be more front-end loaded as we think about it.

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

Okay. That's great. And then a question just maybe on the codeshare agreements. As codeshare demand is starting -- excuse me, as corporate demand is starting to rebound here, obviously, still in early innings, but can you just talk about how adding a new JetBlue codeshare or the enhanced Alaska codeshare has influenced your discussions going forward, either with corporate accounts where you might have overlap or in regions where your partners have had a stronger presence than you have had historically?

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

Yes. I think, Catie, this is off to -- I can handle that. We are really encouraged, both with the progress and the results that we've seen from both of our domestic partnerships, even though it's really only been the better part of 6 to 8 weeks where Alaska has been up and running and really 3 or 4 weeks where the JetBlue code has been up and running. But very much the design of this partnership is to go shore up on 2 parts where -- of the domestic system where our network was structurally weaker. One is the West Coast and the other is the Northeast, both of which are the largest originating markets for business travel, for corporate travel, for small mid-market travel, however, it might otherwise be.

And so we've had a really encouraging response from corporate customers. We continue to have one. There's a lot of integration work that must be done still, and that's a major focus of us. But we're encouraged by what we see in both cases. First, in the case of Alaska, again, while the results are early, the key indicators, when we put it together, was to ensure, one, more long haul -- a successful long-haul franchise off the West Coast; two, a better network for the West Coast originating customer. Again, that's a business customer. But three, more utility for all of our customers who are in the Midwest and the Southeast and are looking to go West.

And though we haven't seen long-haul emerge just because of the trends that are there, from what we see right now, about 20% or so of the bookings in the public data is all from the Intrawest customer, which is exactly the kind of business customer that we weren't getting before. We're also encouraged that 80% of the bookings, way, way overperformed our expectations, are from customers looking to go West. And we've been able to go and put more demand through these codes while also building the organic network through DFW and Chicago. So we're encouraged by that, and we continue to be as we go and scale out the Northeast partnership with JetBlue as well.

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

Alison, why don't you give a flavor for what you're hearing directly from the corporates as you've been out on the road?

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

Yes. Just to add on to what was said by Robert, having just talked with most of our large corporate accounts, I just see it is simplicity of our network arrangement and contracting with us, as we do that together with our new alliances, as something that really assists the travel manager and the travelers. We have been able to sign our largest, most complex global accounts to both Alaska and JetBlue. It just makes it easier and more seamless for them to have a great network and have great offerings through our joint loyalty partnerships as well and through having a one-stop shop for the sales side of us as well.

Operator

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

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

I guess, Derek, on the deleveraging plan, can you maybe just help us a little bit with maybe the free cash flow build beyond this year? Can you give us a general idea of kind of what level, I guess, net CapEx can be beyond 2021? And can you remind us what your pension contribution requirement is this year and next?

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

Yes. Well, firstly, with the pension, it's going -- I mean with the paydown, it's going to be using the excess cash that we have as we go forward. So just, we'll have a significant amount of that used to prepay the debt. But as we move forward, next year in 2022, we only have about $2.6 million of CapEx, about $1 billion -- we're forecasting about $1 billion in non-aircraft CapEx for the next 4 years, so we've kind of left it at that. It might have come in a little bit below, a little bit above that.

From a gross aircraft CapEx, we have about $1.5 billion in 2022 and $1.8 billion in 2023. And then the other thing to look at is debt payments in 2022, we only really have 1 significant debt payment, which is the unsecured. So we only have about $2.5 billion of debt payments in 2022, steps up to about $4.4 billion in 2023. So each of those 2 years are going to be significant as -- if the earnings are where we believe they are, we'll have some more free cash flow to pay that off.

From a pension perspective, we really don't have any pension contributions in 2022 or 2023 necessary. So -- there's a small one, we think, in 2023 of about $50 million, but 0 in 2022. So not a lot of cash requirements for either capital, debt paydown or pension contributions over the next couple of years, which will enable us to have significant free cash flow to start to delever along with the excess liquidity that we believe we will have over that time period.

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

That's great color. And then my second question, maybe Robert or Vasu, in your down 20% revenue outlook for 3Q, can you maybe provide us a little color on how you see the domestic yields environment progressing throughout the quarter? And if you can, can you give us what percentage of your expected 3Q revenues are already booked now? And how does that compare to pre-COVID levels?

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

Yes. This is Vasu. I can help with both. Look, as we look into 3Q really, we continue to see a lot of the same trends that we're seeing in June and July and the first half of August. As schools go back to return in the second half of August and following Labor Day, there's a natural lightening in the leisure demand that we're seeing. And so as we look out there, we're actually really encouraged by the yield environment. We're seeing yields that are in that period 95% to 105% of where they were in 2019.

As far as how much they're booking, as we get out into September, we're still only about 35% to 40% booked out there. So there's yet a little bit of room out there. And the way we consciously built the airlines as we go into that period, is very much that it will be maybe a little bit less of the opportunistic leisure stuff that we've been doing, a little bit more starting to orient to what we're seeing is the return of business travel. So we're encouraged by the trends that we see out there, but we really are planning that a material amount of business travel won't come back until after the October period.

Operator

And your next question comes from David Vernon with Bernstein.

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

Vasu, maybe could you talk a little bit about how the dynamic on business fares are -- is behaving kind of relative to a normal pre-COVID level? I'm just trying to get a sense for whether you're starting to see some close-in bookings. Or I know the activity levels have improved, but how is the fare dynamic working in there? And if you could also comment a little bit on kind of where you are in getting the traditional sort of revenue management algorithms to kick in?

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

Yes. That's an excellent question. And probably the second one helps give context for the first one, so I'll answer them in reverse order. When the pandemic began, we talked about this thing as a reset. We -- for planning purposes, we take that very, very seriously that we describe the business on a year or over 2 years basis. When it goes to planning the business, we work here and now.

And one of the benefits of having more capacity out there is this enabled us to go and observe demand. So we realized in the early days of this that the pandemic was going to be so big and so devastating that our historical demand forecast wouldn't work for probably a few years into the future. So we've been pretty actively over the last year rebuilding our forecasting system. And clearly, through our Q2 results, there's some great effect and the great work of our revenue management team.

When we came in, in January, and there is still a lot of uncertainty, one of the things that they noticed was that every single peak period we had, had more travel demand than what was there before. And it was actually, the booking curves are actually shifting further and further out with more people willing to pay also high fares closer in. So we very actively set up the summer for that. And if you go and just look at the public data that's there, we very consciously built the airline to try to take as much demand as we could close to departure. And indeed, our market share inside of 14 days in the Q2 period was much greater than what it was outside of 14 days.

So even though the fare environment was depressed, right, even though yields were at 80% to 85% of historical levels, we were taking a lot more share inside the 14 demand where we did indeed observe higher fares, more willingness to pay, more business-style itineraries that were there. And that led to a lot of the results that you see where even though we have more capacity than others, we also have higher loads and high rates.

And what that's also enabled us to do is, we got a much better handle on the nature of business travel. And we do see a lot of changes in trends and patterns that are there. And we believe that, that is really well positioned into the fall. But we have seen the booking curve shift outward. We do see people engaging in business-style itineraries, single-day trips, an overnight with no bag, things like that, and we're encouraged by that return.

So with that in mind, we remain encouraged for how much business travel can start to rebound. And certainly, when we -- when more corporations return to work, we think there will be a 4- to 6-week lag with a pretty material pickup there as well.

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

That's extraordinarily helpful. I guess, maybe just as a quick follow-up. If you think about the partnerships with JetBlue and Alaska, obviously, that executive order came out. There was some commentary in there on the airlines and slots and things like that. Have you guys been directly kind of approached by the DOJ to kind of revisit any of that stuff? Are you worried about that happening? Can you kind of comment on the partnership in the context of the recent executive order?

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

Steve Johnson will answer that.

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

Thanks for the question. As we've said, we've been in discussions with the DOJ about the NEA really since we announced it. And I think the real answer to this question is Vasu's and Alison's comments earlier, but let me just summarize and reframe those.

We designed the NEA for our customers. We designed it to be competitive. We designed it to allow us to do things, to allow JetBlue and American to do things in the Northeast and, in particular, in Boston and New York that we couldn't do on our own. And we designed it to allow us to grow and offer options to our customers that otherwise wouldn't be available. We're committed to that idea. I think what we've done with the NEA so far demonstrates that, that is going to be the case. I just -- we're really excited about the announcement that we made earlier this week about the NEA. And we're confident that at the end of the day, the regulators are going to see the value to customers and really the increase in competition that results from it.

A couple of quarters ago, I was asked a similar question. And I said that we -- with -- the DOJ, in this case, doesn't have a deadline for taking action like they would in the case of a merger, and that we expected them to watch as the NEA was implemented and over time, make a decision about whether it was in the best interest of consumers. That seems to be what they're doing now, and we expect that to continue.

Operator

Your next question comes from Savi Syth with Raymond James.

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

Could you provide on the fleet harmonization side, with this kind of the success you're having with getting that done, just wondering if you could share with the cost and revenue benefit timing and -- what that might look like relative to 2019?

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

Yes. Savi, this is Derek. I think the -- I mean, the cost is all built into the capital plan. So what we've done with all of those projects within the $900 million non-aircraft CapEx because, as you can imagine, most of that stuff was purchased earlier, and now we're just putting it in the aircraft. All the 737s are done. And as Robert said, the A321s will be done by the end of the month. So the cost perspective is already in and it's already complete. What it will do is from an ASM perspective is it will increase ASMs. So it should help the CASM as we go forward because we're adding those extra seats to the aircraft. And that is all built into the CASM guidance that we have as we go forward from a revenue perspective.

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

Just again, remember that on the 737s, we effectively took the seat count from 160 to 172 seats. And on the A321s, which we still have 100-plus left to reconfigure, we're taking the configuration up to 190 seats from either 187 seats or 183 seats. So it's -- again, I'll reframe this in terms of those aircraft have all new seats, all new bins, they have new lighting. They have power. Of course, they already have the best in terms of satellite WiFi. So we have more seats to sell. It's a better product for our customers, it's a win overall. It's something that we really haven't had the ability to go out and market over the last year. So this is something we're excited to do as we finish off 2021 and move into 2022.

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

Yes. And Savi, from an operating perspective, for the airports to have the consistency of aircraft to swap and to move around, it's been -- it's very, very helpful from an operating perspective also.

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

Got it. So we should see some kind of margin benefit as we head into next year as [we get]

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

Yes, into fourth...

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

All of those combined?

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

Correct.

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

Great. And if I might quickly just follow-up on the business corporate demand recovery, appreciate kind of thinking of full recovery next year. Curious what you're thinking you might see kind of exiting this quarter and into the fourth quarter?

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

This is Vasu. Really, as we go through 3Q, we're not seeing a big alteration to the trends that we've seen sequentially so far. And if we're about -- if the corporate revenues are at 45% of where they were in 2019, from January to June, we've seen that build about 7 to 10 points sequentially, kind of month-to-month. And we don't really see anything between now and September, where 7 to 10 points will either be materially higher or lower.

In October, where -- we believe -- we apparently believe there's going to be a change, is that as we've seen companies return to work, especially across the Sun Belt, typically in a 4- to 8-week lag period after that, we start seeing them come back to travel. And with so many areas -- right now, some of the lowest booking points of commencement are the New York corridor, D.C. and the Greater Chicago area. With them, both returning back to school and back to work around Labor Day, we anticipate that really it will be early to mid-October when that demand starts coming back. And Alison could add more, but that's so far been pretty consistent with what we're hearing from our corporates.

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

Absolutely. 50% of our corporate customers have already lifted their travel restrictions, and 2/3 have already planned to return to the offices by the end of 2021. So this bodes well for a continuing uplift in corporate travel. And what we saw in Q1 and Q2, for our largest corporate accounts, we saw an 80% increase from Q1 to Q2. So it's been a steady recover. And it's been interesting for us to see some travel patterns that remain different than they were pre-COVID and some of that remain the same. For example, those that are different is that our travel remains less concentrated on peak days of the week, but the booking curve of corporate traffic continues to normalize towards 2019 levels.

Operator

And your next question comes from Duane Pfennigwerth with Evercore ISI.

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

Your revenue outlook and margin outlook is better than what we were hoping for, which is consistent with peers that have reported thus far. I wanted to ask you about your ability to influence relative margins. You're guiding to kind of mid-single-digit negative pretax margins in the third quarter. Both of your network peers are guiding to positive, at least one is guiding to mid-single-digit positive. So just thinking back to 2019, you're starting from a lower margin baseline. So the same RASM and the same CASM trajectory is going to result in the same ranking on the other side of this pandemic. My question is, what is your plan to change the ranking? Do you expect American to be an industry plus RASM story or an industry minus CASM story? And I appreciate your thoughts.

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

So first off, I mean, as I know you know, looking at relative margins right now, it's hard to do. It's so volatile around how small the profits are and how one airline drivers versus another and how fast revenues are growing. For example, I mean -- while you are right, I guess our 2 large competitors are forecasting to have margins better than our forecast in next quarter, the actuals this quarter were 10 points better than United, for example. So -- but one should not take that germane that we think we're going to have 10 point better margins and deny going forward. My point is just that, that whether or not -- some of it may be forecast plans. Who knows? So maybe forecast -- but some may have -- be more concerned than others, I don't know, we're just trying what we speak.

But to your broader question as to going forward and what we think about relative margin performance, I firmly believe what you're going to see from us is when you look -- when we all get to real profitability and where you can actually compare these types of numbers, say, 2022, American's margin versus our 2 large competitors versus what it was in 2019 will be there, if not exceeding one of them. So that's what we certainly would expect. We expect that -- given what we're seeing today, we expect that given the $1.5 billion of cost efficiencies that we felt into the airline today. So anyway more to come on that, but I would really caution anybody from trying to look at margins today and comparing relative margins as to any sort of indication of where they're going to be in the future because they are moving every quarter. But anyway, it's been 3 quarters now that we've been well ahead of United, but we don't take huge comfort in that. There's just tons of noise in there.

Operator

And your next question comes from Helane Becker with Cowen.

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

As you guys start to think about opportunities to grow the network, where do you think the next -- and as the new aircraft come in? Because I think you're still getting a few new aircraft, especially 787s. Where do you think the next best markets are for those aircraft?

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

Helane, thanks. I'll start, and Vasu can add on. So look, we've done some great work to put in place some new partnerships that Doug has talked about. That allows us to really optimize the fleet overall. And as we take a look at the growth, you'll see that some of the things I talked about, new gates in Charlotte, new gates in DFW, the upgauging of 14 regional gates in DCA. Those are going to be first on the list for us. And we're really happy with the set of assets that we have because they do enable us for some growth in some of the fastest-growing metro areas. But in addition to that, they are really efficient connecting operations as well. So that's first order of business. Vasu?

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

Yes. Robert said it really well. And Helane, what I see very clearly is, certainly due to this pandemic and everything we've seen for the vast majority of cities, all across domestic U.S. and even South America, too. American Airlines has the best network, both globally ubiquitous network. And so we envisioned a lot of where we would organically put assets is there. And then as we start building back international, we built it back in a way where it really grows off of where we're strongest organically, places like Chicago and Philadelphia and Miami and Dallas Fort Worth. But also, we envision being able to launch flights out of New York and Seattle. And we've been really encouraged so far with what we've seen through those partnerships. So a big chunk of our growth, wherever it is, is going to be focused on things that really drive the performance of this company and are positive for us and our customers.

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

Okay. That's very helpful. And then the other question I had, and I think you may have answered this, but I might have missed it. Is the revenue being driven by higher load factors or higher yields or a combination thereof?

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

Yes, Helane, this is Vasu, again. And the reality is both. But as we go back and look at this, when we look at it internally, we actually index it to March 2020 when things kind of were at their lowest point. And if you look at that and just index our results coming out of there, our traffic -- like, our traffic just slowly filled capacity. And the next thing -- the next effect that we've been seeing, as you look at that sequentially, is growth in yields.

So the reality is both, but what we have been more encouraged about, to my earlier comments, too, is that as we get into peak days of a week, peak travel periods, things like that, we are able to go and drive yields in a way that really was nonexistent to us in 2020. So the reality is it's both, but increasingly, yields are taking over, and that's very encouraging for us because, of course, in the way our ASMs are distributed, the more and more we see domestic yield recoveries, the more our business of larger comes.

Operator

And your next question comes from the line of Mike Linenberg with Deutsche Bank.

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

Just 2 here. Robert, I want to go back to the point that you made about a full business travel recovery in 2022. Now are you specifically referring to your domestic business revenue, which I think is about 25%? Are we looking at on a system-wide basis, which is probably a number that's probably 10 to 15 percentage points higher than that? I just want a clarification on that.

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

Mike, domestic. International, as we said in our comments, is still ways off. But as Vasu and Alison have talked, everything we see in terms of trends from a domestic business perspective and boding well for international as well as we go out and we talk to CEOs and in insurance and in financials and in consulting and accounting firms, everything tells us that business is going to come back to where we had seen it before. Maybe it's in different ways, but feel really confident starting with domestic in 2022.

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

Great. Very helpful. And then I just -- Vasu, I want to ask you, not that long ago, I want to say a few months back, I think you were out sort of publicly saying that you were bracing for maybe a bit of a falloff in demand when we got into the fall, largely kids back to school, families or parents back to work, that you would see some impact on one hand.

On the other hand, when you think about maybe Europeans coming to the U.S. getting pushed back into the fall, the cruise industry just starting to reopen, Broadway opens, I think, on September 14. Are we going to see a potential leisure bump because of just reopenings that are happening around the world? And have you sort of rethought that prognostication about a potential demand sluggishness maybe on the leisure side when we get into September, October? What's your latest thoughts on that?

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

Yes. Thanks, Mike. Well, let me clarify my prognostication. I think it's taken on colors that I didn't originally mean it for that investor conference. But really, what it is, is that first and foremost is long-haul international, consistent with Robert's comments a moment ago. Right now, as -- I'll use Europe as the example. As markets there have reopened, we saw a lot of bookings come in, what would be historically late in the European booking curve, which is great. But the vast majority of them are sales as they represent relative style bookings or leisure-oriented bookings. And so as we look out there, there's really not a lot to indicate that real long-haul business travel is going to be coming back following Labor Day.

And again, to continue my European example, really what buffers the European network into the fall is indeed business travel. Now what is unknown to us is if these reopenings continue, there probably is going to be some more marginal demand for Europeans coming to leisure markets in the U.S. and Latin America. But for all intents and purposes, we're presuming that, that's going to be relatively small. We've seen very little to occur this otherwise or the comments Alison made and Robert made.

And then as we think about our short-haul network, both in domestic and then Mexico, Caribbean and Latin America, there, we do indeed anticipate that visiting friends and relatives style markets will actually be seasonally and sequentially stronger than what it would have been in 2019 or 2018. We do anticipate there's going to be more weekend-oriented leisure demand, 3-day weekends, things like that than what we might have otherwise seen. But the reality is what we have in June and what there's going to be in September is likely to be really different.

Right now in June, we see travel where people will go to Missoula, Montana, on a Tuesday and return the following Wednesday. It's pretty unlikely that a trip like that is going to happen with the same degree of frequency when you get -- when people are going back to school. But that's okay, we can go and configure our airline network to go and match the demand that's there. And that's indeed why certainly in our published schedule you see us flying more things into D.C. and New York and starting to add back multifrequency business markets in a 3-day weekend patterns and things like that.

Operator

And your next question comes from Jamie Baker with JPMorgan.

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

My first question related to when Broadway is going to open, but I might be busy at lunch. So a question probably for Robert. So the third quarter capacity guide down 15% to 20%. That's a bit more aggressive than some of your competitors. It is, what it is. But what internal calculus went into that? I mean, is that a function of loss minimization? Is it driven by the maximum amount of staffing that you have, particularly on the pilot side? Is it what you need to operate to avoid seeding share to competitors? Just curious why that figure is down 15% to 20% as opposed to something different?

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

I'll start, and Derek can join in as well. But look, we're planning the airline for where demand is. We're planning the airline to maximize profitability. And it doesn't make sense right now to have assets on the ground. We've got the staff to go out and fly them. And we think that what we're doing is, is profit maximizing for -- or loss minimizing for the airline right now. Vasu, go ahead.

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

Yes. Jamie, this is Vasu. I'll pick up right where Robert left off. He's exactly right. We plan to maximize the marginal economics of the business, and you see that. A lot of what we see in Q3 is extension, quite frankly, of Q2. So if you look at Q2, for example, I was reading through other airlines' print, and for the best-performing airline, their domestic PRASM, we produced the exact same domestic PRASM they did, but our airline was 65% or 70% larger -- or 65% more capacity. So to be able to be that much larger and produce the exact same revenue is a really, really great marginal economic decision because, in our system, we're able to go and create that kind of leverage.

And so the only difference between for us flying at 80% and something more or less than that is that as we go out there, it's a continuation. And you can see it in the published schedules of exactly what's there right now, where about 90-ish percent of the ASM capacity of the company is doing the things that are really working right now, which is flying a lot in the Americas, both in North and South America, the remaining 10% is flying Transatlantic and Transpacific, and that's the best marginal economic decision to make right now. And should that change, we have ample ways to go and respond to that.

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

Okay. That's helpful. And then on Slide 16, you talk about steady state CapEx. I think the problem American had and I guess now the challenge United is facing is that CapEx really runs through peaks and valleys. So sort of a theoretical question. Is there a way to smooth those trends over time? Or are airlines simply perpetually beholden to the product cycle from the OEMs? I'm trying to understand if $3 billion is truly a steady-state number? Or if that's just shorthand for short-term run rate until the next cool shinny thing comes along? That's my question.

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

Go ahead.

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

No, Jamie, I was going to say, I think it may fluctuate up and down a little bit on that. But if you have a -- do not get into the state of where we did before where we had $5 billion, $6 billion, and we were taking 100 aircraft a year. We need to try to smooth it out a little bit better. But the other way to do that is take -- not take new aircraft, take older aircraft, do different things like that. So as you look at that. But if we're going to take -- I don't think it's anything to do with the manufacturers.

It has to do with how do we want to smooth things out over the next 20, 25 years from an aircraft capital perspective because, as you know, aircraft, they can only last a certain point in time. So our view is that we're going to need to replace some each year. We're going to need a little bit for growth each year, and that's where that CapEx comes from. I don't -- yes, it's harder to go, "Okay, we're going to order a bunch and get them all within a 3- or 5-year period. We'd like to smooth that out a little bit more." So Doug, do you have anything to add there.

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

I was just going to add, Jamie, that I think what you're seeing is heads-up replacement issue that's driving this right now largely. So given what's happening is airlines need to eventually replace aircraft, of course. And American did that pretty -- American did with a big order, whenever that was, 2012 or 2013. U.S. Airways already was in the middle of that. So combined, that's why we do have the debt. We have because we have much newer and better aircraft and assets than some of our competitors, and they now have to go through the same thing.

So -- and while we were going through the troubles the industry was going through, people held on to their airplanes longer than we have in the past. So I don't think it's anything related to the OEMs and entirely related to airlines who now have just held on to airplanes long enough that they have to be replaced. American's is not in the situation anymore. United and Delta are. And so you're seeing us now with lower CapEx in the future.

You'll see them with larger in the future. That's the cycle. But once we get through that, you can see us all get to, as Derek said, much more steady and kind of adding capital for growth as opposed to adding capital for replacement.

Operator

And then your next question comes from Hunter Keay with Wolfe Research.

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

By the way, Doug, that aircraft order was almost 10 years ago, almost to the day, by the way.

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

Wow.

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

I know. Time flies. I know. Derek, are you planning on revenue in '22 to be above or below 2019?

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

Revenue above or below 2019?

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

Yes.

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

Above. What do you guys think?

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

Above.

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

I just want to clarify that question. You're planning on '22 revenue to be above 2019?

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

Me? Well, number one, we haven't done our plan yet. So a number -- so we haven't figured out. I do -- I think from a -- what we do know is, we will probably have growth a little bit. We should be back at 2019 levels from a growth perspective in 2022. CASM should be lower than where we are from a 2019 perspective and revenue is going to be dependent on the recovery. So I would -- I will take back my comment and just say, it depends on the corporate recovery, it depends on the international coming back to see whether we can get to that level. But I do know from a cost perspective and a planning perspective from an ASM, we would plan to be pretty close to 2019 levels. From an ASM perspective and CASM, pretty flat on those levels.

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

Okay. All right, cool. And then another quick one for you, Derek. On the $1.5 billion in gross CapEx next year, and I think you said $1.8 billion in '23. Is there a 787 gross CapEx in that? Or are those just operating leases? And what is the latest on the expectation of timing and delivery on those 19 planes?

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

Yes. The 787, there's -- the only gross CapEx -- we only have a few left in 2022. So there's no gross CapEx in that number. That's all other than ex 787. We have 14 788s that are -- 13 that are still left to deliver this year, but 8 of them are delayed at this point in time. So we really don't know the timing of those coming. 12 of them were supposed to come in 2021 -- or 11, excuse me, were supposed to come in 2021 and only 2 in 2022. So the CapEx for those 2 aircraft is very small in 2022. And as you noted, we do have sale-leaseback financing and they are all financed in there. So the CapEx would be very minimal.

We're still working with Boeing on those deliveries. Unfortunately, a lot of them were delayed. We don't quite know when they will come in, but we're working with Boeing to try to get those. And we'd like to get them as soon as possible, but I know they are having issues trying to get those aircraft out.

Operator

Your next question comes from Conor Cunningham with MKM Partners.

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

This might be a strange question, but does your acceleration of debt paydown allow you to be a little bit more aggressive with your network? There's been some pushback in the past just like that your debt burden has hurt you guys from being a little bit more tactical. So I'm just curious if you can be -- if you're going to be more nimble kind of going forward as you start to repay debt?

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

Yes. Thanks for asking because -- anyway. I can't think of one decision we've ever made around here that we said, "Oh, we can't do that because we have more debt." Indeed, we haven't made one. So not to extend the thought that we are being less nimble because we are burdened by debt, and we certainly never felt so. So what we have always -- prior to 2020, as I stated, given the fleet modernization, the airline has gone through and fairly rapid fleet modernization the airline had gone through, we ain't got to a position where we had more debt on the balance sheet than we thought made sense on a going-forward basis. So we had stepped forward a plan to reduce that debt over time. As we went into 2020, the pandemic, obviously, not only delayed the ability to do that but made it even -- just added more debt as we had to add debt to fund operating losses.

So now we can rebuild our efforts. We are very excited that we're going to do that. But not one decision that we stepped here and said, "Oh gosh, we can't grow. We can't do what others are doing. We can't do what we want to do because we have a debt burden." We've never found ourselves in a situation where we couldn't go finance more if we need -- if we wanted to do or invest in the business where we wanted to, we've been doing that and certainly is the case going forward.

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

Great. And then just a couple of months ago, you were at a conference or I think it was Vasu that was there. And you talked about how you weren't going to bring back international less the returns or similar to your domestic market. And I thought that was somewhat interesting. So should we assume that the 60-35 split that you've historically had is going to skew more domestic on the other -- well, I mean, obviously, when things start to normalize and everything to open. Like, how do you view your international network going forward?

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

This is Vasu, and thanks for the question, and I'll clarify that. To my earlier comments, this pandemic was a big reset for us. Prior to the pandemic, our margins internationally were -- certainly trailed our competitors and struggled a lot, especially outside of the time we got to peak summer. And a big part of it was that we had a lot of widebodies that, though they were put to really good use in the summer, really could not earn their carrying costs as we got in the trough season.

A major part of that is that we didn't have big gateways in markets such as New York or the West Coast to be able to launch flights. A big part of it was just the nature of the unique and very expense small fleets of widebodies that we have. And so when we -- when I say that, a lot of coming back -- or a lot of what the pandemic has done has been changing that materially. We have some 80 fewer wide-body capable -- or long-haul capable airplanes in the fleet as we enter the fourth quarter. And as we start to go and build it back, the things that we're focused on, things that can produce real annual returns much as we do with our short haul and narrowbody fleet, and we're seeing that increasingly as you go out there.

If you look out at our -- just in published schedules, we've never been larger in Mexico, Caribbean and Latin America. Indeed, we are almost twice as large as any of our traditional network competitors in the area, and we see more opportunities to be able to grow. Indeed, were it not for restrictions on customer entry, we'd be a lot bigger than just about every one of the countries in South America than what we are today.

Similarly, we see a lot of opportunities through partnerships that we've envisioned and created since the pandemic with -- not just with JetBlue and Alaska, which create really great jumping off points for international but also with Qatar Airways, who's very quickly become our largest long-haul codeshare partner. And we think that will continue beyond and through that partnership that will open up new markets for us that wouldn't have been viable for our customers or for us financially prior to this. So when we talk about bringing it back, we do anticipate growing in long haul, but we need to be able to grow in long haul where we can earn the kind of returns that we earn in the domestic business.

Operator

Ladies and gentlemen, we will now take media question. (Operator Instructions) And your first question comes from Leslie Josephs with CNBC.

Leslie Josephs

When you started this big hiring push in the last few months, are those employees coming in at lower average pay rates for the people that left the company to buyouts, et cetera? And then can you talk a little bit about the booking pace for kind of post-peak summer? I think someone mentioned 35% for September. I wasn't sure if that was just business travel or what. And then through the end of the year, what you're seeing there?

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

Leslie, it's Doug. I'll take the first one. Indeed, yes, the people that come back will come in by definition at lower pay rates. Still very high pay rates, by the way. But yes, we're 90% unionized, so they come in on a unit, on a contract scale that is based upon seniorities. So these people are coming back on lower seniorities, like, they come in at the lower end of that scale and progressing throughout -- progressing on through time. Second one?

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

Yes. Leslie, could you just repeat that question? I want to make sure I understood it right. This is Vasu.

Leslie Josephs

Yes. If you can just give some detail on what you're seeing with bookings post the peak summer period. So I don't know if that's like half mid-August and then through the end of the year. I think you had mentioned before 35% for September. I don't know if that's 35% booked network-wide or just business travel or what you -- compared to what you were just saying? What happened there?

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

Yes. Okay, thanks. That context is super helpful. Yes, look, we're continuing to be encouraged by the booking trends that we see. September -- of course, as we go beyond Labor Day, September is our most booked month, and it's booked at about 35% full. That's not all that surprising to us. And in fact, it's by design because for us at this point, though booking curves have expanded, still about 50% to 60% of our demand comes in inside of 45 days. So it's going to be a while before we really see how the booking curve shapes up. But we are very much encouraged at what we see. We think that traffic will continue to recover. And critically, we've been encouraged that as markets reopen, as companies return to work, then shortly thereafter, business travel comes back, especially business travel for short-haul sectors. So we're encouraged as we go Labor Day and beyond and cautiously optimistic for what lies head.

Operator

And your next question comes from Mary Schlangenstein with Bloomberg News.

Mary Schlangenstein

I wanted to see if you could give us an update on your vendor staffing situation. I think you had talked before about maybe having shortfalls on provisioning and perhaps airport employees in certain job categories. And I wanted to see if you could give us the current status of that, and whether you're still asking employees to volunteer for any jobs?

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

Mary, thanks. It's Robert. So the great news is that we're running a really nice operation in July. And so some of the places that were the most difficult to hire in and some of the things you speak of, like catering and people that assist with wheel shares, we've had really great luck with our vendors to get back on track. And so when we take a look at catering issues, we're right where we need to be. We have the airport staffed fully above and below the wing. And we're going to keep it that way. So we've been working closely with our vendors and feel good about it.

Mary Schlangenstein

So are you then not having any further issues, especially as it pertains to the catering on your aircraft? I mean, is that back to 100%?

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

So yes, we're back to where we need to be, as I said. There's always issues in certain places throughout the system, but we've -- we're running the airline that we need to right now. And as I said, we're going to -- we'll continue to work with vendors on any potential shortfall. Certainly, from an airline perspective, American has the great ability to attract team members. We pay great wages and have great contracts and benefits. And so we've been able to get back to where we need to go. And June was a month in which we saw the issues associated with trying to ramp up as quickly as we did, but we've addressed those, and we're on the right track.

Operator

And our next question comes from Alison Sider with Wall Street Journal.

Alison Sider

We know one of your competitors has started talking about focusing more on the premium side of the business. And I guess, just given that, I'm curious where you see yourselves like positioned? And whether you have any concerns about your product? And specifically, seatback screens, if there's been any regret about taking those off or any reevaluation of that?

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

Okay. I can start, and we can all chime in here. But I'd really like to focus on what we've done, which is really exciting. Over the last 5 years or so, we've brought in nearly 600 new aircraft. So while others may be talking about what they might do, we have that on. We have already brought that in. And as well, any -- in our narrowbodies, as we talked about with our 737 and A320 category configuration programs, that's all about making whatever else wasn't already new to go back into really great shape. We've done a similar thing on the regional side where we brought in new double class -- dual class RJs, especially the E175s, which get a really great reviews from our customers.

And with all that, we've had an attention to making sure that we've got the right product, no matter where it is at in the cabin. We were one of the first carriers to get out there and provision our wide-body aircraft with premium economy seats, which is some of the most profitable real estate on the aircraft. And now we have done as we take a look going forward.

In regard to the product, in-flight, we feel really good about focusing on what customers want most. And so to that end, we were the first in the business to get out and make sure that our aircraft are equipped with the highest-speed WiFi, satellite WiFi that offers full streaming capability on our narrow-body -- on all our narrow-body aircraft. We've got it on our WiFi-ed aircraft as well. Even on our 2 class regionals, we have ground-based WiFi. So we feel great about that because customers have said, "We want to stay connected in flight." And as we take a look going forward, we're intent on making sure that our store content product on the aircraft offers customers the ability to post whatever they want to. And we're also going to be getting back into live entertainment as well.

So from a technology perspective, we know that customers bring -- just virtually everybody, 90% of our customers bring their own devices. Those devices have capabilities and higher definition in terms of screen capabilities than we can put on aircraft right now. And as we take a look going forward, we're going to stay abreast of whatever it is that our customers need. And every day that we take a look going forward, technology improves. And we're going to be at the forefront of whatever comes.

So right now, we feel really good about where we're at. I like what our product does for customers. I like what it means from a sustainability perspective, what we're doing in terms of our in-flight entertainment and making it satellite and WiFi-based. It's lighter. It's more efficient. And ultimately, it can keep up to speed with what customers want. So we feel really good about it.

Operator

And your next question comes from David Koenig with Associated Press.

David Koenig

Robert and Vasu and Alison touched on this. But I wonder on business fares, if you have tried -- in business travel, I wonder if you can say whether business yields -- whether business passengers will be paying the same level of fares they paid before the pandemic or something more or less? And how quickly that's going to happen?

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

Dave, this is Vasu. And the short answer to your question is that right now, what we observe, our business customers are paying a similar fare. But very importantly, as we're building this airline, we want to make it as easy as possible for our customers to return to travel and fly with us. And that means that the more value we give them through our product, the more willing they are to go and pay more for the product.

And so while fare is the same, the reality is that the product that the business customer is going to come back to you in the fall is going to be way different. And for us, the big part of the product is the network, and the network that we'll be selling and marketing to customers, which is not just flight AA flies, but those that JetBlue flies and Alaska and GOL and Qatar Airways, in just North and South America alone, that network is 2x larger than what any of our competitors offer. So that's already a much more compelling thing.

And so the simple way to think of it is for paying the same fare in 2019, you get a much more expansive network. And we are working really, really actively and diligently to ensure that that's delivered in the most reliable way, in a way that's really easy for customers to go and understand and do business with.

David Koenig

I guess I was wondering if you're having to offer concessions on price to bring them back.

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

No. No, that's not been part of it for us. It's about building confidence and returning to travel and make it easy for them to book and have their travel journey with us. And so we work with all our travel partners and with travel managers to get that done.

Operator

And your next question comes from Dawn Gilbertson with USA Today.

Dawn Gilbertson

This question is for Doug or Robert. I'm wondering if you could give us an update on what you're hearing on the federal mask mandate? And whether the tone of those conversations have changed given the spike in cases? And also, I'm curious as to what your stance is on that? Do you think it should stay or be lifted?

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

Dawn, it's Doug. So we're -- we haven't been involved in any conversation. The mandate is in place through September 13. It's put in place by the federal government which is a specifically, and that's where we stand today. I don't know if -- what their view is on to whether it will be extended or whether they will let it expire on September 13. Whatever they decide, we'll enforce, and we'll continue to do so. It's not for us to opine as to whether or not it should be extended or not, that's their job. It's a federal mandate, and we will enforce whatever they put in place.

Dawn Gilbertson

If I could do one quick follow-up. Say, you're lifted, Vasu or anybody, is there any concern at all if it's lifted that especially as we look ahead to holiday travel that maybe families with -- that could hurt bookings with families with unvaccinated children that maybe don't want to get on an airplane without a mask mandate?

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

Yes, we're not going to speculate on that, Dawn. We don't know if it's going to be looked or not. I don't -- again, I -- we certainly haven't seen any -- seen or heard any of our customers indicate that they have any sort of use of it. So we certainly don't know, but it's really hard to speculate on something until we get to that point.

Operator

And your next question comes from Edward Russell with Skift.

Edward Russell

I was wondering, Doug, if you could comment on the American view of the payroll support program. Are those coming off? I know last year, you were talking about how it would allow American see it's staff as well as ramp up quickly in the recovery, yet we've seen some operational issues this summer. So I just wanted to get your view on the relative success or otherwise of the program.

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

Yes. I think it's an overwhelming success. And to the extent there have been issues on growth. I think those are indicative of how successful the program was. Because had it not been for a PSP, you wouldn't see airlines trying to grow like we are 45% in the quarter. You're going to see airlines shut down, and it's an industry shutdown. And I don't know when -- where we'd be at this point. I don't know where we'd be in terms of our economy at this point. But it literally could not have been able to continue flying virtually the entire industry without the support of the CARES program.

And by having it in place, by keeping it in place, as the pandemic continued, what it allowed all of us to do was to keep our team employed. Now they weren't off flying, of course, but they are being paid. We were being paid to pay them by our government. So as we needed them, we needed to, of course, get them back into trading. But they were Americans on board who were put back into training, and there were people that were on leave that we recalled from leave. So if it weren't for PSP, no, that wouldn't be the case. Obviously, we wouldn't furlough. We were not looking for new employees as they would have gone up to do other things. I can't imagine how horrific it would be in terms of not just beyond industry but for our entire economy if it weren't for the PSP program and what it did to maintain the infrastructure necessary to meet the demand that's down here.

Operator

And that concludes the media question-and-answer session. I would now like to turn the conference back to Chairman and CEO, Doug Parker, for any closing remarks.

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

Okay. Thanks, everybody. Just look -- we are just really excited about the momentum we're seeing. It's in the numbers that you can see today, 87% of revenue growth versus last quarter. 45% ASM growth versus last quarter. Cash of $21 billion, 3x where it was when we ended 2019 and that continues into this quarter. And we just couldn't be prouder of our team, the job they are doing to take care of people. And I just -- I can't think of a better indicator of how quickly and drastically the world has changed and to point out that American Airlines today prepaid $1 billion of loan interest and notes that aren't due for 2 more years after all we've been through for the last year or so. We were looking to go raise money wherever we could to make sure we had enough to fund the operating losses that we saw going forward. We've now got ourselves to a position where we're using cash to pay off debt that doesn't come due for 2 more years. It feels really good. And so we're excited about where we are. We're really excited about the future, and we look forward to talking to you as we go forward. Thanks.

Operator

Ladies and gentlemen, this concludes today's conference. Thank you for your participation, and have a wonderful day. You may all disconnect.
