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AAL - Q3 2016 American Airlines Group Inc Earnings Call

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OVERVIEW:

AAL reported 3Q16 total operating revenues of $10.6b and GAAP net profit of $737m.

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PRESENTATION

Operator

Good morning, and welcome to the American Airlines Group third-quarter 2016 earnings call. Today's conference is being recorded.

(Operator Instructions)

Now I would like to turn the conference over to your moderator, Managing Director of Investor Relations, Mr. Dan Cravens. Please go ahead.

Daniel Cravens - *American Airlines Group, Inc. - Managing Director of IR*

Thanks, and good morning, everyone. Welcome to the American Airlines Group third-quarter 2016 earnings conference call. Joining us on the call today is Doug Parker, our Chairman and CEO; Robert Isom, our President; and Derek Kerr, our Chief Financial Officer. Also in the room for a question and answer session is Elise Eberwein, our EVP of People and Communications; Bev Goulet, our Chief Integration Officer; Maya Leibman, Chief Information Officer; Steve Johnson, our EVP of Corporate Affairs; and Don Casey, our Senior Vice President of Revenue Management.

As is our normal practice, we're going to start the call with Doug, and he will provide an overview of the third-quarter financial results. Derek will then walk us through the details on the quarter, and provide some additional information on our guidance for the remainder -- or for the fourth quarter. Robert will then follow with commentary on the operational performance and revenue environment. Then after we hear from those comments, we will open the call for analyst questions and lastly, questions from the media.

Before we begin, we must state that today's call does contain forward-looking statements, including statements concerning future revenues 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 numerous risks and uncertainties could cause actual results to differ from those projected. Information about some of those risks and uncertainties can be found in earnings press release issued this morning, and our Form 10-Q for the quarter ended September 30, 2016.

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

A webcast of this call will also be archived on our website. The information that we're giving on the call is as of today's date, and we undertake no obligation to update the information subsequently. Thanks again for joining us this morning. At this point, I'd like to turn the call over to our Chairman and CEO, Doug Parker.

Doug Parker - *American Airlines Group, Inc. - Chairman & CEO*

Thanks, Dan, and thanks everyone for being on. We released earnings this morning, as Dan said. Pretax earnings, excluding special items, of $1.5 billion, that's down from last year's $1.9 billion. That's generally bulked by declining unit revenues -- our total TRASM and was down 2.2% versus last year and increasing unit costs, driven primarily by investments in our team.

While they're down, they're still the second-best third quarter in the history of American Airlines, behind only the third quarter 2015. Also, because of our share repurchase activity, our adjusted EPS was actually up even though earnings were down, from $2.77 up to $2.80 in the quarter. These results are due to the fantastic team at American, who do an amazing job for our customers every day. We're truly grateful (inaudible) what they do.

On the revenue front, Robert will provide a lot more details, but we're encouraged by the trends. Our TRASM, as I said, was down 2.2% in the third quarter; but that's better than we have seen in terms of the decline in recent quarters, and it's better than our competitors are experiencing.

In fact, the month of September TRASM was actually improved year over year, view which was the first month of year-over-year TRASM improvement for American Airlines since November of 2014. Now of course September was helped by the calendar on the year-over-year basis, which is why we at American don't really like to focus much on monthly unit revenue numbers, but the trend's good, and it appears to be continuing, as Robert will discuss.

Our unit costs grew in the quarter, and Derek will provide more detail on that. But the primary driver of the unit cost increase is decision to invest in our team. We have pay increases and profit-sharing that are by far the largest drivers of the cost increase, and we're pleased to be able to provide those improvements to our team members.

We've now reached new agreements with all of our work groups, so the large increases are behind us. Furthermore, as we complete more of our integration in 2017, we will be able to begin eliminating some of the redundancies that still exist because of two airlines, and that will help us reduce expenses in 2018 and beyond.

As to integration, we had enormous success earlier this month with the flawless integration of our fight operating system with [VOS]. This is an extremely complicated system of integration that's led to operational disruptions of other airlines as they've gone through mergers, but our team executed it without a hitch.

While we're doing all that, we continue to invest in the product and improve the product. We added 12 new aircraft as part of our unprecedented fleet renewal program in port. American's fleet is now more than 40% younger than our large network peers, and that gap is widening. We added 10 new destinations to our network, including five to Cuba, and new service from LAX to Hong Kong. Next month we'll begin daily flights to Havana, cementing our position as the largest carrier to Cuba.

We continue to make enormous improvements to our clubs, including in this quarter the re-opening of a renovated Admiral's Club in Rio de Janeiro, and the refurbishment of our London Heathrow Arrivals Club, which now has 29 shower rooms and a business center.

In summary, the US airline industry has been transformed, and American Airlines is well-positioned for success in the New World. We're producing record profits or near-record profits despite a soft economic environment, and we're using those profits to improve customer service through important investments in both our product and our team. We're returning the excess cash to our shareholders through share repurchases.

Though there's much work ahead, the American team continues to prove we are up to the challenge. We're extremely pleased with where we are, and very bullish on the future of American Airlines.

Now I'd like to turn it over to Derek, who will provide more details on the financial results, and then to our recently reported President, Robert Isom, who will discuss operating performance and the revenue environment. Derek?

Derek Kerr - *American Airlines Group, Inc. - EVP & CFO*

All right. Thanks Doug, and good morning, everyone. We have filed our 10-Q and earnings press release this morning. In that release, our third-quarter 2016 GAAP net profit was $737 million, or $1.40 per diluted share. This compares to our third quarter 2015 GAAP net profit of $1.7 billion, or $2.49 per diluted share. If we exclude the special charges, we reported a net profit of $933 million in the third quarter 2016, or $1.76 per diluted share, versus the third quarter net profit of $1.9 billion in 2015, or $2.77 per diluted share.

Our GAAP third quarter pretax profit was $1.2 billion, equating to a pretax margin of 11.2%. Excluding special charges, our third quarter pretax profit was $1.5 billion, which resulted in a pretax margin of 14%. Excluding the effects of special charges and the non-cash tax provision of $449 million, our third quarter 2016 adjusted fully diluted EPS was $2.80 per share, compared to $2.77 in the third quarter of 2015, reflecting a 22% reduction in our fully diluted average share count during the quarter.

We continue to see sequential improvement in the revenue environment during the quarter, which Robert will talk more about. For the quarter, total operating revenues were $10.6 billion, down 1.1% year over year. Passenger revenues were $9.1 billion, down 2.2%, driven by a 0.6% decline in yields.

Cargo revenues were down 5.1% to $171 million, due primarily to a decline in international and domestic yields. Other operating revenues were $1.3 billion, up 8.5% versus the same period last year, due to the impact of the new credit card deals signed with Barclays US, Citi, and MasterCard on July 12, 2016.

Total GAAP operating expenses were $9.2 billion, up 5.2% versus the same period last year. This increase was driven by investments in our people through contractual increases and the introduction of profit-sharing plan; investments in our product, investment which includes our fleet, as Doug talked about; and investments in our operation.

These investments were offset in part by lower fuel costs. Our average mainline fuel price, including taxes for the third quarter of 2016 was down 12.4% year over year to $1.46 per gallon.

Third quarter mainline cost per ASM was $0.1196, up 5.6% year over year. Excluding special charges and fuel, our mainline CASM was $0.0932, up 8.9% year over year. Regional operating cost per ASM in the third quarter was $0.1885, which was down 5.2% from the quarter in 2015. Excluding special charges and fuel, regional CASM was $0.1508, a decrease of 4.4%, due to the continued shift to more efficient large, regional jets.

We ended the third quarter of 2016 with approximately $9.2 billion in total available liquidity, comprised of cash and investments of $6.8 billion, and $2.4 billion in an un-drawn revolver capacity, well in excess of the $6.5 billion minimum liquidity we seek to maintain for the foreseeable future. The Company also had $635 million classified as restricted cash during the quarter.

We did generate $1.1 billion during the quarter of cash flow from operations, and made $372 million in debt payments. We continue to believe it is important to retain liquidity levels higher than our network peers, given our overall leverage and the fact that we have not yet completed our fleet renewal program, which will be substantially complete in 2017.

During the quarter the Company took advantage of favorable market conditions, and completed several financing transactions, including a re-pricing of the Company's 2014 term loan, collateralized by our London Heathrow slots, which reduced interest by 25 basis points; and the issuance of 814 million WTC, consisting of both AA and A tranches, which priced at a blended rate of just over 3%. In the third quarter of 2016, the Company returned $669 million to its shareholders, including quarterly dividend payments of $53 million and the re-purchase of $616 million of common stock, or 18.2 million shares. Since our capital return program started in mid-2014, the Company has returned $9 billion to shareholders through share repurchases and dividends.

Including share repurchases, shares withheld to cover taxes associated with employee equity awards and share distributions, and the cash extinguishment of convertible debt, our share count has dropped 31%, from 756 million at merger close in December 2013 to 519.2 million shares on September 30, 2016. At the end of the third quarter 2016, the Company had approximately $555 million remaining on its current share repurchase authorization.

Turning to our guidance for the remainder of 2016, we continue to monitor our capacity plans. In our IR update issued last week, we lowered full-year 2016 system capacity guidance by 0.5 point, and are forecasting it to be up approximately 1.5%. For the fourth quarter of 2016, we expect our mainline capacity to be 57.5 billion ASMs, and our regional capacity to be 7.84 billion ASMs. Our consolidated capacity will be flat year over year in the fourth quarter.

On the cost side, we're forecasting year over year mainline CASM excluding special items and fuel to be up approximately 5% to 7%, while regional CASM, excluding special items and fuel, is projected to be down approximately 3% to 5%. For the fourth quarter of 2016, we expect our mainline CASM excluding fuel and special items to be up between 8% and 10%. This year-over-year increase is driven primarily by investment in our people of about 6 points, maintenance timing of 2 points, and D&A from new aircraft and increased CapEx of one point. Regional CASM, excluding special items and fuel, is expected to be down by approximately 3% to 5% in the same period.

As we look forward for the first time since mid-2014, year-over-year fuel prices are expected to be higher through the remainder of the year. Based on the forward curve as of October 17, our mainline fuel price forecast for the fourth quarter of 2016 is $1.59 to $1.64 per gallon, while our regional fuel forecast for the fourth quarter is $1.65 to $1.70. Despite these higher fuel prices, we expect our full-year 2016 consolidated fuel expense to decrease by approximately $1.2 billion year over year.

Using the mid-points of the guidance we just provided, along with the revenue guidance that Robert will give, we expect our fourth-quarter pretax margin excluding special items to be between 4% and 6%. For capital expenditures, we still expect total gross CapEx to be approximately $4.4 billion in 2016. We have 20 deliveries worth approximately $1.1 billion which will occur in the fourth quarter, and we expect to invest $300 million in non-aircraft CapEx in the quarter, which is $1.2 billion for the full year, which includes continued integration work, and investments to improve our product and operations, some that Doug referred to in his comments.

Looking out to 2017, we are taking a disciplined approach to matching our planned capacity levels with anticipated levels of demand. We are still in the process of developing our operating plan, so our formal capacity guidance will come out when we report fourth-quarter earnings; but we currently expect our year-over-year system capacity to be up approximately 1% in 2017. We expect full-year 2017 domestic capacity to be flat, while our international capacity expected to be up approximately 3.5%. Our international growth is driven primarily by our Pacific entity, as we annualized the new routes added in 2016.

We will also know more about our 2017 unit cost projections after we complete our operating plan; but as Doug noted, we now have the bulk of our cost increases behind us. As we look to 2017, we expect the full-year impact of our labor agreements will add approximately 2 points of CASM; but otherwise our core CASM growth should be around 2% on a very modest 1% growth in ASMs.

As Doug also noted, with the integration nearing completion we will be able to begin the process of eliminating some redundancies in 2017, which will help our unit costs in 2018 and beyond.

In conclusion, we couldn't be more proud of more than 100,000 team members who continue to deliver outstanding results. We continue to make great progress integrating our airlines, most recently with our flight operating system cut-over, and we've already seen some positive results. We are also excited about the commercial initiatives our team is working on, and looking forward to reporting on their continued success on future calls.

Thanks again for your time this morning. With that, I will turn it over to Robert.

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

Thanks, Derek. Good morning to everyone. Appreciate that you're joining us. I'd like to start out by thanking our 100,000 team members for their outstanding work during the quarter.

I'd characterize this quarter as being one of operational and commercial challenges, but I would like to underscore positively that we have executed integration items exceptionally well. Despite all these challenges, our team's commitment to taking care of our customers and each other has never wavered.

Summer ops performance was challenging for both employees and customers. The primary driver was inclement weather that seemed to settle over a number of our hubs throughout the summer, most notably Dallas, or DFW.

In addition, we struggled to operate our expanded Los Angeles schedule reliably, primarily due to airport and facility constraints. We're working with LAWA so that we will be better able to meet our customers' demands to fly American from Los Angeles going forward.

I'm happy to report that our reliability has rebounded to new record levels across our system in September as a result of number of factors. Those trends have continued well into October, and we expect that they will continue. Again, I appreciate the efforts of our front-line team to take care for customers throughout the summer, and especially and most recently, during hurricane Matthew.

We have successfully completed some major integration milestones over the past few months, including a single flight operating system for our pilots, dispatch, and aircraft. I'm so appreciative of our 15,000 pilot, the APA, our IT and flight ops teams for their efforts to ensure a seamless cut-over.

We've also put new uniforms on all of our employees. We have interim agreements with our fleet service and mechanic work groups, tentative agreements now with our flight crew training instructors and SIM engineers. Once these tentative agreements have been ratified, all American team members will be benefiting from pay increases that resulted from our merger. So much of what we're striving to accomplish going forward would be difficult to address without having the integration work completed, and completed well.

As we start to think about our plans for next year, there's good reason to believe that American will improve versus the industry in operations performance. We're taking a fresh look at how we schedule our aircraft for reliability. Our 777 200 reconfigurations will be completed by December 2017.

Our 787 fleet has reached a critical mass, allowing for easier recovery from off-schedule ops. With a single flight operating system, our aircraft and pilots can now be used interchangeably, instead of being managed as separate entities. We're also making big investments in service recovery, and customer notification tools for passengers and employees that will continue to roll out next year.

On the revenue front, our third-quarter TRASM was down 2.2%. While the revenue environment is still challenging in certain areas of the world, we have observed improvements in many places. The third quarter was much better than the second quarter, so we continue to see improving trends.

As Doug noted, in September we had positive year-over-year TRASM and PRASM, and that's the first time this has occurred since November of 2014. We're seeing improving trends in cargo, as well. September marked the first time since December 2014 that our monthly year-over-year cargo revenue has improved.

Domestically, consolidated PRASM was down 1.8%. This was our best result since the first quarter of 2015. We saw strength across the board, with all hubs having second-derivative improvements. Los Angeles and DCA were top performers year over year.

Internationally, we have lapped the dollar strengthening last year, as well as declining international surcharges. Latin was our first entity to turn positive, with PRASM up 1.8% for the quarter, driven by a 25% year-over-year improvement in Brazil PRASM, as capacity rationalized and the real strengthened. In addition, there was continued strength in Mexico.

The Atlantic was our worst-performing international entity, down 11.2%. The main drivers of performance are continued capacity increases, specifically from low-cost carriers; the devaluation of the British pound as a result of the Brexit vote, and lingering impacts from recent terrorist attacks.

Across the Pacific, PRASM was down 10.5% on capacity increases of 28.7%, with continued weakness in China due to excess capacity, and growing into our new services from Los Angeles to Hong Kong, [Panata], Sydney, and Auckland. We're pleased to see corporate passenger demand holding up, driven by our domestic entity. In the third quarter we saw increases in both absolute revenue and revenue share, and we see similar trends developing in the fourth quarter.

Looking forward, we see some choppiness in the fourth quarter due to holiday shifts, with September and January benefiting from traffic shifting from October and December. We expect November to be the strongest month of the quarter versus 2015.

Regionally, the domestic fourth quarter looks about the same as the third-quarter due to holiday shifts. In Latin America, we expect continued sequential improvement, and low-single-digit increases in PRASM. We expect the Pacific and Atlantic to remain challenging, with low-double-digit year-over-year PRASM declines. With that, we expect our fourth quarter TRASM -- not PRASM, but total RASM -- to be down 1% to 3% year over year.

We expected our fourth-quarter decline to be smaller than our third-quarter decline, despite a more difficult fourth quarter year-over-year comparison. As we look forward to 2017, we expect continued second-derivative improvement in year-over-year TRASM performance, and look forward to getting to positive TRASM in the first half of the year.

In conclusion, it's an exciting time to be at American Airlines. We've made a tremendous amount of progress over this past year with respect to integration, operational improvement, and getting back on path to positive TRASM. All of these important steps are critical to restoring American Airlines to its rightful industry-leading position. We have a lot of work left to do, but we're confident we have the right plans, the right team in place to execute, and we look forward to reporting back on future successes.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Joseph DeNardi, Stifel.

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

Hi, Joseph.

Joseph DeNardi - *Stifel Nicolaus - Analyst*

Hi. Robert, just a question on the decision to cut some capacity out of fourth quarter. How much of that was planned, versus related to some of the operational challenges you're having at LA? Was that decision seen as an EPS-accretive action, or is that just driven by a focus on improving RASM?

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

Thanks, Joe I appreciate the question. The capacity that we are planning for the fourth quarter is really a result of all plans. There's not much that we would say is attributable to anything operationally.

Joseph DeNardi - *Stifel Nicolaus - Analyst*

Okay. Then was that -- was the idea to reduce capacity relative to the prior plan just designed to improve RASM, or was that seen as also beneficial to earnings? I'm just trying to understand the pressure put on CASM. Are you expecting a better increase on the RASM side?

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

Look, the capacity we have out there we think best meets demand. Ultimately, we think that's margin accretive We think we have the right schedule out there for the flying that we can do.

Joseph DeNardi - *Stifel Nicolaus - Analyst*

Okay. Derek, you mentioned again that you're caring some excess liquidity as you get through this CapEx bubble that wraps up next year. What's normal liquidity for you guys look like once you get through that?

Derek Kerr - *American Airlines Group, Inc. - EVP & CFO*

I think as we've said, we can go down -- our minimum number is going to be about $6.5 billion. We do have some things coming up in 2018 with the pension payments. We have about a $1.4 billion pension payment in 2018, as we start going forward.

We need to look out all the way through that time period to make sure that we have cash levels at that point. We're very confident where we're at today and where our levels are at today. I think we can take it down a little bit from here, but I want to make sure that we get through all of the aircraft purchases next year. Then I think it gets into the -- as we said, $6.5 billion is our minimum that we feel we can go down to, and we're significantly above that today. We have opportunities to continue to return cash to our shareholders.

Doug Parker - *American Airlines Group, Inc. - Chairman & CEO*

This is Doug. Just to add on, Derek just said a minimum. I don't think it'll go below that. It's a target, and we would like to keep -- we think it's a safe amount, a good bit more than our competitors. That's what we do rather than in exchange for having some higher leverage. The way we protect ourselves is making sure we have a lot more cash than anybody else does. We have target cash balance of $6.5 billion. We're higher than that now. We're investing heavily in the airline and in our people. We'll continue to do so. We're investing for the future. To the extent we continue to be well above that number, we consider that excess cash, and return it to our shareholders.

Joseph DeNardi - *Stifel Nicolaus - Analyst*

Great, thank you.

Operator

Hunter Keay, Wolfe Research

Hunter Keay - *Wolfe Research - Analyst*

Thanks, good morning. This is a question for Don Casey. Don, I'm going to ask you a very generic question, just because I want to hear you talk (laughter). Feel free to go anywhere with this, but I'll just say, can you tell us what you saw on the domestic yield environment as the quarter progressed? Maybe you want to spend a minute or two talking about Dallas, now that we're lapping the Wright Amendment. What's happening in that market? I'll tell you what, I'll leave it at that. Talk about Dallas and overall optimistic yields, thanks.

Don Casey - *American Airlines Group, Inc. - SVP of Revenue Management*

On the domestic front, as we went through the quarter we saw improving near-term yield. Yields start to improve across the domestic business starting in August. From a RASM perspective, we saw improved year-end RASM build going back to April. As for Dallas in particular, in August it was the last tranche of the Southwest expansion for Dallas. When we look at the Dallas performance right now, it's really in line with performance across the rest of the system.

Hunter Keay - *Wolfe Research - Analyst*

Good, thanks. A little more on debt, Derek. Scott said he didn't believe in artificial debt targets. Your stock has been doing nicely. Your RASM is getting better. At a certain point here, people are going to start moving away from it if you're not, I think, perceived to be taking a more assertive approach on your balance sheet. Again, the next three to six months as RASM gets better, that's fine. But you're running the risk of people transitioning to more quality stocks in the space, if you will, if you're not taking an assertive approach on debt.

Maybe talk about -- rather than just talking about liquidity, let's talk about debt holistically. Is there any thought to providing -- making a slide that shows where you want to be on debt targets over the next two, three, four years? It works for Delta, and I think it's a nice story to tell for some of the incremental long-onlies that might be a little put off as everybody's RASM gets better mid-point of next year? Thanks.

Doug Parker - *American Airlines Group, Inc. - Chairman & CEO*

Let me start. This is Doug, and then Derek can provide details. First off, I would just -- frankly, we don't agree with the premise. Shareholders can make their own decisions, obviously, based upon what we do. But our view is the best thing for our shareholders is to ensure that we have sufficient amount of liquidity to withstand any sort of down-turn, but the cost of getting to or worrying about credit ratings is in a basis where we're borrowing against aircraft at 3%. It doesn't necessarily -- actually doesn't seem to be -- that goal in and of itself doesn't seem to be in our shareholders' best interest. Somewhat surprised with shareholder -- with people like you with push-back on this. At least hear us out, because we think we're doing what's best for shareholders.

At the end of the day, we're producing -- we are producing profits at levels this industry has never seen before, but consistent with what other industries do. We're very bullish on our ability to continue doing that over time. As we do so, the first thing we do is invest back in our Company. This Company needs a good bit of investment. We're investing at levels that no airline has ever invested before. The aircraft modernization I talked about has us now at aircraft levels that are at age levels that are well below our competitors, something like 10 years and falling for us, and 16, 17 years and increasing for them.

Investing on top of that, something that Derek said, $1.5 billion next year on improvements in the airline. Those are good investments, and we're excited about those. Those will provide returns for our shareholders. Those are long-lived assets. We're not off spending it on ancillary businesses or trying to do something we're not. We're doing what we think is right and we feel very good about that investment and that return for shareholders.

Once we do that, then we look to make sure we've paid down on any high-cost debt. We've done that. Derek and his team have done a phenomenal job of getting to while we have a larger amount of debt on the balance sheet than our peers, the cost of that debt is low.

As we look to each -- the incremental decision, by the way, comes down to that. We're adding airplanes as we do this modernization. Should we use some of our cash balance to pay for those aircraft, or should we avail ourselves of 3% debt. We think the best thing for our shareholders is to avail ourselves of the 3% debt. That leases us cash balances that are in excess of the target. We think the right thing to do with that is to return it to our shareholders. But the way we protect ourselves is having a much higher liquidity balance than others. That's the cost of it, but it's a much less costly thing than paying -- than not availing yourself of low-cost debt.

The other point I would make is even if we did those things, even if we started paying cash for aircraft, we would still have higher debt, because we have better assets. When you have airplanes that are nine years old versus somebody else with 17 years old, you're going to have higher debt, because you have much better assets, and they're going to be here for a long time, as our we. That's why we're doing this.

At any rate, we believe we're in the right spot. We're very comfortable with our leverage. We're very comfortable with the balance sheet, and we're doing the right thing for our shareholders.

Hunter Keay - *Wolfe Research - Analyst*

Okay, thank you.

Operator

Jamie Baker, JPMorgan.

Jamie Baker - *JPMorgan - Analyst*

Hi, good morning, everybody. Doug, your pre-tax margins are now the lowest in the business, dropping below those of United for the first time in a long time. Do you expect to remain the worst in the business?

Doug Parker - *American Airlines Group, Inc. - Chairman & CEO*

That's seasonal. They do better in the third quarter than we do. No, is the answer. I expect what you'll see in 2017 is us do better than our competitors in terms of certainly year-over-year margins. You're seeing it already in the RASM. That will continue into 2017. You'll see on the cost front, as Derek noted, the reason the margins declined even though we're having better RASM right now of course is because our CASM's up more.

That's because we've gone and take care of our people faster, and gotten ourselves to a point where we have in every work group, less than three years since the merger, we now have everyone on new pay scales that reflect the job they're doing for us. That's increased our cost by a good bit. They were well below. We had to do that. We're happy we did that. Our shareholders should be happy we did that, but it's behind us now.

We have one of those that was done mid-year, which is the TWIM, as Derek talked about, so that will have a year-over-year impact, but it's in the current cost structure. Beyond that, we don't see any other cost increase, certainly over and above inflationary rates in the airline. I think what you'll see as we go through 2017 is better revenue per ASM improvement on a year-over-year basis, and better cost performance, as well.

Jamie Baker - *JPMorgan - Analyst*

Okay, I appreciate it. Robert, I continue to purchase the absolute lowest fares that American tends to publish, because I can. As I noted on Delta's call, I am prohibited from doing so when flying them because economy basic is walled off. Can you give us an update on the timing and any potential earnings magnitude that you would associate with the rolling out a similar ULCC matching de-contented product, however you refer to it internally?

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

Thanks, Jamie. With basic economy, as you know, we've been working on it for some time, and we're on track. We're prepared to launch at the end of this year. Right now, our game plan is going to be to hold off on that and to go to start to roll out in January. This comes a little bit from my operations background. I want to avoid the holidays and disruption to our folks. We're on track and ready to go. But any details on that are going to have to wait until we roll out. We're not at this time making any projections on revenue performance associated with the product.

Jamie Baker - *JPMorgan - Analyst*

In light of the no answer, can I just ask the inevitable question? If you aggregate November, December, and January on a domestic basis, will RASM be positive or negative?

Don Casey - *American Airlines Group, Inc. - SVP of Revenue Management*

This is Don. I will answer that.

Jamie Baker - *JPMorgan - Analyst*

Hi, Don.

Don Casey - *American Airlines Group, Inc. - SVP of Revenue Management*

When we looked at the entire system -- not just domestic, but looked at the entire system from November through January -- we would expect our overall TRASM performance to be flat to slightly positive.

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Jamie Baker - *JPMorgan - Analyst*

Excellent. Thank you, everybody.

Operator

Rajeev Lalwani, Morgan Stanley.

Rajeev Lalwani - *Morgan Stanley - Analyst*

Hi, thanks for the time. First question -- just in terms of the guide for 4Q, how conservative is it, just given what we saw the last quarter? What are you assuming on the close inside, and than any other assumptions that you can share with us would be great?

Don Casey - *American Airlines Group, Inc. - SVP of Revenue Management*

This is Don again. When we do the forecast, we try and pick the mid-point, and we did that again this quarter.

Doug Parker - *American Airlines Group, Inc. - Chairman & CEO*

I would just point out that is improvement. If we had 2.2% TRASM in the third quarter, and we're giving you a 1% to 3%, and Don's saying the mid-point we felt was 2% then, that's improvement, slight improvement of course. The fact is the fourth-quarter year-over-year comp is harder than the third-quarter year-over-year comp because of all these calendar issues we keep talking about. Having even the same performance third quarter to fourth quarter on a year-over-year basis is improvement. We believe our forecast highlights an improving trend, which is what we're experiencing.

Don Casey - *American Airlines Group, Inc. - SVP of Revenue Management*

I will add that due to the holiday shift, specifically the Christmas holiday shift, we expect the impact of that on Q4 PRASM to be 1 point.

Doug Parker - *American Airlines Group, Inc. - Chairman & CEO*

That just moves into the first quarter next year, correct?

Don Casey - *American Airlines Group, Inc. - SVP of Revenue Management*

It just moves into the first quarter. At a mid-point of 2, absent the holiday shift, that would be base business improvement up 1 point.

Rajeev Lalwani - *Morgan Stanley - Analyst*

Great, and then in terms of the capacity growth for next year, can you talk about cadence through next year, and then some color on the break-down by region? I think you provided some color on Asia, but just looking at any of the other parts of the world? Then also how did you arrive at flat domestic growth next year? What's underpinning that?

Derek Kerr - *American Airlines Group, Inc. - EVP & CFO*

Yes, this is Derek. I think we're going to have to hold off on that until we get to the -- we're still working through it. That's our projection right now as we're doing our plan. When we get on to the fourth-quarter call, we will give regional and cadence by quarter. As of right now, we just have a full-year number, and we're working through the plan. We'll just have to wait until the next quarter for that.

Rajeev Lalwani - *Morgan Stanley - Analyst*

Okay, maybe just one question. I think you talked about growing a good amount in Asia. Can you maybe just highlight why you're growing so much there, just given some of the PRASM figures we saw in the release today?

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

The growth you see is really as a result of additions that we've made this past year. As we take a look into the next year, it's going to be growing into the services that we've put there. We think that our network is well-suited to support those routes, and our customers demand the service there. We look forward to serving the region in the long run, and we're in the right cities.

Rajeev Lalwani - *Morgan Stanley - Analyst*

Thank you.

Operator

Michael Linenberg, Deutsche Bank.

Michael Linenberg - *Deutsche Bank - Analyst*

Hi, good morning, everybody. A couple here. On the credit card deal with the MasterCard exclusivity, Derek, I guess I missed that when the original press release came out. I know you've had a really long-term relationship with VISA. Is there any incremental benefit, or were the numbers that you gave us when that was announced, does that also include moving over to MasterCard from VISA?

Derek Kerr - *American Airlines Group, Inc. - EVP & CFO*

That concludes moving over to MasterCard.

Michael Linenberg - *Deutsche Bank - Analyst*

Great. My second question for Bob, or Robert, you talked about basic economy and rolling that out in early 2017. Can you talk about the international premium economy, which I believe is actually rolling out this week? How long is it going to take to ramp up across your international system? What should we think about potential revenue upside from putting this product out across your fleet? By the way, when do you get it fully up and running?

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

For international premium economy, the great news is that we're seeing it come out on our 787 900 deliveries, which is fantastic news. As those ramp up, we'll have critical mass to start selling. Right now you can buy into those seats, which is good news. As we get to the point of being able to offer it consistently next year, we'll be able to start selling the premium economy cabin.

Doug Parker - *American Airlines Group, Inc. - Chairman & CEO*

Mike, we are doing the modifications. We have to go through on all of our wide-body aircraft, the ones that aren't delivered with it. The brunt, the biggest portion of them will start coming in 2018. We will have all of those aircraft going through mod in 2017. We will monetize those seats through probably MCE, our main cabin extra product that we have today until we get to the critical mass, and then we'll be able to put out, roll out the premium economy. I think it's more of an 2018 impact than it is a 2017 impact, due to having to modify all of our wide-body aircraft for that product.

Don Casey - *American Airlines Group, Inc. - SVP of Revenue Management*

This is Don. I'll just add that we also -- we have to create the infrastructure in SABRE to sell a fourth cabin. That's a big IT project that is under way right now. We're expected to have that completed in early next year. We'll start selling the fourth cabin in mid-February for flights beginning -- the beginning of April.

Michael Linenberg - *Deutsche Bank - Analyst*

When we think about the magnitude, the run rate on this, is this like $0.5 billion, $750 million type program when it's up and running? Is that -- or am I just way out of the ball park on that?

Doug Parker - *American Airlines Group, Inc. - Chairman & CEO*

I don't know Mike that we've given those numbers, but it's hundreds of millions of dollars. I think we're quite comfortable saying that. It's a great product for our customers, in addition. Frankly, the way we saw this was being able to look at our partner's information, BA doing similar flying as we are across the Atlantic, and getting higher RASM because of this product. It helps in a number of ways. We're excited about it. It certainly is a meaningful impact to our customers and to our revenues.

Michael Linenberg - *Deutsche Bank - Analyst*

Yes. No, I'm looking forward to it, as well. Thanks, Doug.

Doug Parker - *American Airlines Group, Inc. - Chairman & CEO*

Thanks, Mike.

Operator

Helane Becker, Cowen and Company.

Helane Becker - *Cowen and Company - Analyst*

Thank you, operator. Hi, guys. Thank you for the time here. I have just a couple of questions. The first is, do you have to make any changes in IT to accommodate the rules the DOT issued yesterday, with respect to on-time performance specifically?

Doug Parker - *American Airlines Group, Inc. - Chairman & CEO*

Perhaps. We don't know yet. If it is, it's not material versus all the other stuff we have our IT group doing in terms of integration otherwise. There may be something in there, but that's not a large issue for us.

Helane Becker - *Cowen and Company - Analyst*

Okay. My second question is, when you think about your head count, I know you guys have talked about it being over-staffed as you work through all the integration. As we look ahead to maybe 2018, and there's -- I assume you're going to reduce through attrition, what's the normalized level we should be thinking about?

Doug Parker - *American Airlines Group, Inc. - Chairman & CEO*

Let us work through and give you the numbers over time. I'm not sure we know that number yet. What we know is we do indeed have -- because we're still not fully integrated number -- a number of areas around the Company where we have not just more people, but more resources than we need in all sorts of areas. We will make sure we do it in a way that's -- as quickly as we can, and also in a way that takes care of our employees.

It's really important to us. That's a big project for us through 2017. I wouldn't expect it would be able to yield major cost savings in 2017, because we're still going to be running two airlines for a good part of 2017. But it's a big focus of the teams' efforts to move forward, is to be sure that we are indeed endeavoring to make sure we don't get to one airline and still have the infrastructure of two. We'll work through it. As we know more, we'll let you know.

Know that it's not insignificant, or we wouldn't talk about it. It's something that we think's going to be able to yield some nice cost improvements, as it should. Part of why our costs are where they are right now is because we're running two separate airlines in a lot of areas. We'll work through that as we go through 2017.

Helane Becker - *Cowen and Company - Analyst*

Okay, and the other question I had was in -- with the Atlantic and your joint venture with BA and Iberia and the other carriers, have you been able to think through what the right level of capacity is, given the huge increase in capacity from what I would call low fare and other airlines on the North Atlantic this past summer, and what it's likely to be next summer? Maybe too far away, but I'm sure you're giving it some thought.

Doug Parker - *American Airlines Group, Inc. - Chairman & CEO*

Let me try, and then Don can chime in if I'm off. We have to be careful when talking about capacity, of course -- capacity plans based upon others. What we know is while those other carriers are having an impact, what we fly is incredible important to American Airlines, and don't have any material plans to do anything other than what we're doing right now, and plan to continue to do so. It's a huge part of our network, an important part of our network, and important to our customers. The relationship with BA and Iberia are very important ones. As capacity comes on from others, of course yields fall and we work through those things. I don't expect you'll see us just decide that we're the ones who should be looking to have our capacity go away. Don?

Don Casey - *American Airlines Group, Inc. - SVP of Revenue Management*

I'll just add, in the upcoming winter season, we're actually reducing our capacity by 6%, so we are taking some action. Those capacity reductions are focused on markets where we face some structural challenges. But where we have partners, we continue to maintain our capacity going forward.

Helane Becker - *Cowen and Company - Analyst*

Great. Thank you for your help.

Operator

Duane Pfennigwerth, Evercore ISI.

Duane Pfennigwerth - *Evercore ISI - Analyst*

Hi, good morning. Nice to speak with you on a Thursday for a change. It's a good format. I just wanted to follow up to actually where Joe started the conversation on capacity. If we look at this year, I think you started out about 3%, and were finishing up about 140 basis points below that. Could you quantify how much of that was due to regional supply constraints? I wondered if you would be willing to get specific on Republic's restructuring? What were the aircraft you expected to be flying in the original plan that went away?

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

Duane, I think it would be hard for us to break that out right now. But our reductions are really a result of not only a little bit due to regional supportability due to pilot concerns, but also South American concerns, and then just adjustment throughout the system. I think that where we stand right now is where we need to be. We've got a fleet and a route network that's meeting the demand that we think that's out there.

Doug Parker - *American Airlines Group, Inc. - Chairman & CEO*

Again, they're not reductions, of course. We're still -- it's not increasing a rate that at one point in the future we forecast we would be. It's not because of aircraft numbers. It's because of utilization of aircraft, and we respond to demand. That's really what's going on here, Duane, for the most part. We look out a few quarters and think where we may be based on the aircraft we have and what we have coming, and then as we get closer in and see what's happening with demand, we may make schedule changes. That's what happened here.

Duane Pfennigwerth - *Evercore ISI - Analyst*

Okay. I may follow up with you on the -- I thought you had mentioned some impact from Republic previously, but I can follow-up.

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

Duane, it's just the overall of the shortfall. About 1/3 of that comes from total regional issues. Some of that is of course Republic; some of it is issues associated with pilots to fly it, other partner regionals, and our wholly owned, as well.

THOMSON REUTERS

Derek Kerr - *American Airlines Group, Inc. - EVP & CFO*

Joe, this is Derek. We did put in our Q that we have reached agreement with Republic on a go-forward plan, which did take out about 20, 25 aircraft out of the contract. We've reached that agreement with them. Obviously they still have a process to go through to get out of bankruptcy, but our deal moving forward has reduced aircraft, and we're in pretty good shape where we're at with Republic.

Duane Pfennigwerth - *Evercore ISI - Analyst*

Okay, that's great. Robert, I wanted to ask you a question, old org structure versus new org structure. What were some of the less-than-optimal aspects of getting a network plan from the other side of the house, and then you having to deliver that from an operational perspective? I guess more importantly, what are the implications of an engineer -- and I mean that in a very flattering way -- of an engineer now owning both the network plan and ops?

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

Duane, thanks. Look, our Company has been so focused on integration, merger, huge initiatives, that the adjustments that we've made in terms of work structure are really designed now that we're getting past some of these major integration milestones to start looking at how we can really optimize the running of the Company day to day. To do that, we know that we've got to collaborate, and we all have to be focused on the same goals. I think we've got a org structure and fantastic people running each of the operating groups, and they're committed to doing that. Any difficulties that we've had, I think we're just going to be more well-suited to collaborate, communicate, and make sure that we're all aligned going forward.

Duane Pfennigwerth - *Evercore ISI - Analyst*

Okay. I think you answered half of that, but I appreciate the time.

Operator

Jack Atkins, Stephens.

Jack Atkins - *Stephens, Inc. - Analyst*

Good morning, thanks for the time. Following up on that last question for a moment, Robert, now that you're in your new role, has the strategy at all changed with -- as far as the competition with the ULCCs in your markets? As you look at your network today, are there any specific items or projects now that you're in your new role that you look to undertake over the next 12 months?

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

Thanks for the question. Look, I've been part of this Management team since the get-go. In terms of how we go to market and the strategies that we are intending to pursue, I feel like I've been part of those. The direction that we're headed isn't going to change. We're going to be incredibly competitive with all comers, especially in our hubs. You won't see much of a change in terms of philosophy as we go to the market place and compete.

In terms of going forward, there's things we want to do, we want to certainly excel at. One of them is running a fantastic airline, one that is best in the business on all levels. That's operational as well as revenue performance, and certainly from the perspective of meeting customers' expectations. That's going to require that we really engage all of our people in a way that we haven't before. I do view going forward that one of the primary points of emphasis that we're going to make is involving all of our people, and making sure that they are equipped and well-trained, and treated in a fashion where they help us out-perform the industry.

There's a lot of other things that we have going on. Certainly we want to make sure that we have all of our forward-looking strategies with alliances, alliance partners, our network in the best fashion. But it all leads to the same place, which is having the best networks, the best people, and the best product for our customers.

Jack Atkins - *Stephens, Inc. - Analyst*

Okay, great.

Doug Parker - *American Airlines Group, Inc. - Chairman & CEO*

Hi Jack, it's Doug. That was a great answer by Robert, but also I just want to chime in a little bit on the specifically on the ULCC piece you mentioned. As Robert said, there's absolutely no change. We need -- we have to compete aggressively on price against carriers like that. When they come, when they add flights to our hubs we actually have a competitive advantage, because we have so much connecting activity.

The one game-changer -- maybe a big stretch of the word -- but actually, certainly an improvement in how we can do that and still not -- and still be as good for American Airlines as it can be is basic economy. That product, when we have it in place, will allow us to do just that; but not have the same amount of dilution we have to American Airlines. The impact to the Spirits and the Frontiers will be the same. We would aggressively manage their prices. As we put that product in place, it will have some attributes that some of our customers would rather don't care to purchase, or are willing to purchase other attributes for more.

Right now, as we match, it pretty much -- we're not able to do that. That will allow us to do what we're doing today, continue to do what we're doing today, which is as Robert said is what we're going to do, but also do it in a way that allows us to provide another -- more utility to our customers, and gives them a product, in addition to the one that's at the absolute lowest fare.

Jack Atkins - *Stephens, Inc. - Analyst*

Okay, great. Thank you, Doug and Robert. As a follow-up question, it seems as though with whether it's cabin segmentation or international revenue opportunities or reducing redundancies in the organization over the next couple of years, there's a huge revenue cost opportunity at American, which should drive significant (inaudible) profitability. I'm curious, as you guys think about how to communicate that going forward, is there going to be maybe an opportunity for us to get from you guys detailed financial targets long term? I think that would really help folks understand the earnings power here.

Doug Parker - *American Airlines Group, Inc. - Chairman & CEO*

Okay, thanks of the comment. We'll take it under advisement. Look, I understand the value that could provide. Just know that I've been doing this way too long. I'm often reluctant to do -- it depends on how we define the target -- but what I don't like doing is suggesting that we can protect the future of this business. It is incredibly volatile. It will be volatile. I think it will be profitable. I think it's dramatically change, but the volatility doesn't change.

We sometimes are less comfortable than others trying to set things like margins, margin targets, when we know that some things that affect those margins are outside our control -- primarily the economy and fuel prices. I will tell you this. We couldn't feel better about American Airlines' future and its financial future. I also will tell you that based on what we think about the future, we're extremely bullish on the American stock, which is why we continue to purchase at the levels we do.

As we look out, targets or no targets, our projections even in difficult economic environments have this Company being nice and profitable, and it doesn't feel like our stock reflects that. We're happy to give you that guidance, and let you go do your numbers. What we do, the way we manage the Company, is make sure we're optimizing for the long term.

We're doing all those things, but we are remiss to try and tell you that when we add those up, here's what it looks like to us and therefore here's what we will produce, because we know there's a lot of volatility in what we're able to produce. Our job is just to make sure we can manage around that volatility. We can. We're excited about that. We'll work to see if we can give you some more guidance than we have in the past about longer term, but just understand that's our concern.

Jack Atkins - *Stephens, Inc. - Analyst*

Okay, great. Thanks again for the time.

Operator

Julie Yates, Credit Suisse.

Julie Yates - *Credit Suisse - Analyst*

Derek, can you talk about the opportunities on the cost side, now that the integration is largely behind you? We've seen structural cost-reduction programs a few years after the other mergers. When do you think American could announce something similar, and where more specifically are some of the opportunities?

Derek Kerr - *American Airlines Group, Inc. - EVP & CFO*

I think as we talked about on the call, we're going to be going through 2017 from a -- we have talked about having excess head count in certain areas, just duplication of work just because we're running two different airlines. That's the primary area that we'll work on as we move forward. As we said on the call, I think we're going to look at that stuff starting in 2017, and it will start to affect us in 2018.

I think what we want to do is we're going to go through the budget in 2017. We're going to see where everything is, and then try to work with each one of the teams to figure out how we take that out over the time period into 2018. I think it's more, as we've talked about, an 2018 issue than it is a 2017 issue -- mostly in just inefficiencies of trying to run two different airlines, all throughout the Company. It's not just one point. It's all throughout the Company, as we've tried to get ourselves where we want to be from an airline and running the best airline we can.

Julie Yates - *Credit Suisse - Analyst*

Okay, and then just a question on capacity in Latin America. You guys have obviously taken a lot of capacity out. You're certainly seeing the benefits of that today. How are you thinking about resuming growth now that the entity has turned? Are you worried about latent capacity coming back in next year?

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

Hi, Julie, it's Robert. For us it's a wait-and-see. We're pleased with the signs of some growth, and we're going to hold on to that for a while and see where things go.

Julie Yates - *Credit Suisse - Analyst*

Okay, and one final one. Robert, when would you expect the transatlantic PRASM trends to flatten out?

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

I'm going to ask Don to --

Don Casey - *American Airlines Group, Inc. - SVP of Revenue Management*

Okay, so it's Don again. We do not see it in the foreseeable future. Capacity in the first quarter, industry capacity is going to be up 7%, and we don't see signs of that abating. Until that abates, it's going to be hard to see a positive trajectory in the Atlantic.

Julie Yates - *Credit Suisse - Analyst*

Okay, thanks very much.

Doug Parker - *American Airlines Group, Inc. - Chairman & CEO*

Thank you.

Operator

Dan McKenzie, Buckingham Research.

Dan McKenzie - *Buckingham Research - Analyst*

Hi, good morning, guys. Thanks for squeezing me in here. This will be for Robert or Don. Does the revenue guide factor in the potential loss of a coach here with Alaskan? How material could that impact be if it's lost?

Don Casey - *American Airlines Group, Inc. - SVP of Revenue Management*

The revenue guide does not, and I don't think if we did it would change. It wouldn't be a material impact to the guidance.

Dan McKenzie - *Buckingham Research - Analyst*

Okay. Then Doug or Derek, my question was on debt, as well. We all know absolute debt levels are higher than they've been historically, but with respect to the underlying business, I'm wondering if you could just help investors understand the leverage metrics relative to where they've been historically, maybe on an American stand-alone basis, so leverage metrics today, relative to some average over some period of time that make sense. As you look at those metrics and as you feel comfortable about those metrics, is it that you expect profits to continue growing faster than the debt? I wonder if you could just help us understand what do those metrics look like under your stress test?

Doug Parker - *American Airlines Group, Inc. - Chairman & CEO*

Sure. Thanks for bringing me back to it, I know when I said we're comfortable, what I meant was we're comfortable with where it is at this time. Because looking into the future, what we expected is you'll see those metrics continue to improve. I wasn't trying to suggest we're comfortable keeping them exactly where they are, although we may be.

The reason we're comfortable with them at this time is because of what you. We have very good line of sight as to what our capital requirements are going forward. We have a very -- we feel good about our -- certainly even in different academic times, stress testing against things like recessions, about what our earnings would do as we go forward. That gives us comfort that we are in a good spot right now, and when things come up like 3% interest it seems to be an absolute no-brainer to us that the right thing to do is to take those -- that debt on, rather than using cash to pay airplanes, and to use that cash for better purposes. That's what we're comfortable about.

What happens over time, I would expect -- again, without getting into targets -- is you will see certainly the metrics that are tied. Coverage ratios, for example that tie earnings to debt levels, you would see those get better over time. Earnings continue to get better, and as earnings gets better and the debt gets lower, we are also, I should note, while we're well ahead of everyone in terms of modernizing our fleet, there will come a time that we've gotten that done in the not-too-distant future, and you won't see the debt continue to come on at these levels. As debt gets lower over time and earnings continue and EBITDAR margins, et cetera, stay where they are, you'll see those numbers get better. That's why we're comfortable with where we are today.

We're comfortable with where we are today because of the reasons I said, and believe we have the right structure in place. As insurance, we carry a lot more cash than others, but we think that's a better way to do this for our shareholders than to go and pay cash for airplanes, rather than take a 3% debt.

Dan McKenzie - *Buckingham Research - Analyst*

Thanks for the time.

Operator

Darryl Genovesi, UBS.

Darryl Genovesi - *UBS Securities, LLC - Analyst*

Thanks for the time. Just to follow up on some of your comments around aircraft age, I know you inherited a significant majority of your order book from your predecessor, but is the longer-term plan to maintain the same relative age advantage over your competitors that you have today, because I think doing so would imply a much different longer-term CapEx profile than allowing the fleet age to mean revert.

Doug Parker - *American Airlines Group, Inc. - Chairman & CEO*

Aircraft age is not a metric that we look at to measure versus our competitors. I'm just pointing out where it is. But we don't have a goal to say we need to be below the others in aircraft age. But it's noteworthy, particularly when we get to conversations about relative debt levels, to point out how much stronger our asset base is, is my only point. The best way for me to communicate that to you is to point out how much younger our fleet is.

Look, it is absolutely a customer advantage. When you get on one of our new airplanes verses one of our older airplanes there is no doubt that it is a much better in-flight product, and you can tell the difference. We feel good about that. But you're right, the orders were in place and they're coming, and we're taking them.

The bigger point I'm trying to make here is these are -- if you look in the very near term, you may say oh my gosh, these guys, they have all this debt. These are 25-year assets. Those airlines that have 17-year-old airplanes won't be able to have 42-year-old airplanes 25 years from now. At some point -- my point is we're ahead of them. I'm not suggesting they need to go spend enormous amounts of capital in the very near term. But they will need to do something, and we won't have to at that point in time. That's the way this works.

At any rate, our goal isn't to make sure we have the absolute youngest. It's nice when you're in that position. But to the extent you want to look at relative debt levels, you need to look at the asset base. Our asset base is just worth tremendously more than theirs are.

Darryl Genovesi - *UBS Securities, LLC - Analyst*

Great, thanks for that. I could just ask you on -- or maybe Robert, whoever wants to comment -- can you give us some sense of how your view on your Phoenix hub is evolving, given your recent I'll say emphasis on Los Angeles and the existing presence in Dallas?

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

Thanks, Darryl, appreciate it. Phoenix hub does well for us. It serves the same purpose that we viewed it as over since the start of the merger, and it's a great connecting hub. It's got a growing metro area, and it's serving our network very well.

Darryl Genovesi - *UBS Securities, LLC - Analyst*

Great, thank you.

Doug Parker - *American Airlines Group, Inc. - Chairman & CEO*

LA is different. LA is the largest international gateway that we feed, and are looking to expand; but they are complementary, not competitive.

Operator

Andrew Didora, Bank of America.

Andrew Didora - *BofA Merrill Lynch - Analyst*

Hi, good morning, everyone. One question for Robert. When I look at your on-time performance stats, they really start to lag both your network peers, starting about six months ago or so. Is there a reason for this? Is anything going on with the integration that would have caused this? I can't imagine that it's all the LA issues that you mentioned in your prepared remarks. I know you mentioned solid corporate share earlier, but have you heard anything from your corporate customers on this performance? Thanks.

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

The answer in terms of corporate customers, the answer is no, we haven't heard anything. We're performing very well, as I said in my remarks with our corporate business.

In terms of the summer and the fall-off, that's really where I look at things. As associated with the schedule, I think we quite frankly, we were pretty aggressive in terms of the schedule we put out this summer. We had issues in Los Angeles. We definitely had I think an inordinate amount of weather issues associated with DFW, and then Charlotte and Miami, and that was problematic. It seemed like we were in a recovery phases a lot during the summer.

THOMSON REUTERS

As I said before, we have a lot of integration tools that we didn't have that we will have in the future. That is on building the airline back after disruption, and making sure our customers and their baggage is taken care of. One of the things you'll note though is that we continue to be really strong in terms of our departing on time performance, the (inaudible) performance. That's something that we'll continue to see. I think that will translate into more competitive arrivals within 14 performance. You'll see as well that our completion factor, as we move from operating two systems and really three systems in regard to our pilots down to one, that we've got a chance to do much better.

I'm very optimistic of where we're headed. If you take a look at where we're at right now, schedule reduction associated with the fall season, with changes to our Los Angeles operation, we're operating back at near record levels, and that should continue. Again, as I said before, all efforts are focused on making sure we work together to put out a schedule in 2017 that we can operate reliably and competitively with the best in the business.

Andrew Didora - *BofA Merrill Lynch - Analyst*

Great, thank you.

Operator

That ends the analyst questions. We will now take questions from the media.

(Operator Instructions)

Andrea Ahles, Fort Worth Star-Telegram.

Doug Parker - *American Airlines Group, Inc. - Chairman & CEO*

Hello, Andrea.

Andrea Ahles - *Fort Worth Star-Telegram - Media*

Hello, good morning. I would like to follow up a little bit on Helane Becker's question regarding the possibility of reducing head count and how that might be done in 2017. Are you looking at actually doing any layoffs or reductions in force, particularly at headquarters where you may have overlapping functions as you operate, as you go from operating two airlines down into. Can you give a little more color detail on that?

Doug Parker - *American Airlines Group, Inc. - Chairman & CEO*

Sure, absolutely not. I'm glad you asked if we made it sound that way. We have in pockets of the airline in different groups, we will have -- we have because we're running two airlines, people that are -- where we have more people that we don't need and we get down to one. But we will manage that over time through attrition, through, if it's a labor group early outs, whatever works for our people to make sure we do that. We don't have any intention or do we care to go through like you describe. We'll do this in a way that works for our team.

Andrea Ahles - *Fort Worth Star-Telegram - Media*

All right, thank you.

Operator

Mary Schlangenstein, Bloomberg News

Mary Schlangenstein - *Bloomberg News - Analyst*

Hi, I want to follow up on Andrea's question. Do you guys have some sense of the number of positions that you're talking about that you have redundancy across your work force?

Doug Parker - *American Airlines Group, Inc. - Chairman & CEO*

Nothing we can talk about yet. Again, this is more of a beyond 2017 initiative. We're going to do the work through 2017. We still do have two airlines. Doesn't look that way to our customers, we know. But we still have two fleets we need to keep separately so the flights aren't integrated. While we have that going on, we can't do any of this work. We'll endeavor through 2017 to figure out where it is. As we know more we will let people know more, but the good news in this is we have regular attrition rates. We have ways -- we have people who look to retire early. We'll work through those things as it becomes an issue. Right now the reason we mention it is simply because it's important to the analyst community to understand that will be something that comes beyond 2017.

Mary Schlangenstein - *Bloomberg News - Analyst*

You will only consider things like early retirement, buy-outs, no involuntary furloughs? That's what you're saying?

Doug Parker - *American Airlines Group, Inc. - Chairman & CEO*

Yes, as we sit here today, May, that's what I think. That's correct. Conditions could change. Also, I don't want to make this sound like some enormous number of people. We have pockets of people throughout the organization, as I said, and we'll work through to make sure this works out for those who are either looking to leave or want to leave on their own, as they -- as we have natural attrition, we just won't replace them. This is nothing about furloughs and layoffs. It's all about the fact that as you move from two airlines to truly one airline, we'll be able to get some cost efficiencies.

Operator

Edward Russell, Flightglobal.

Edward Russell - *Flightglobal - Media*

Hi, thank you for taking my question. I wanted to ask a bit more about the premium economy roll-out on the rest of the wide body fleet. You outlined a target of getting it done in 2017, yet I wanted to -- with the business class roll-out, that ended up being delayed. How do you plan to achieve the roll-out in 2017?

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

Edward, the premium economy is eventually going to go on our A330-200 fleet, the 777-200s, 777-300, and then our 787 fleet. As we said, 787 nines are starting now, and as Don mentioned, we should have for sale in terms of a different class of service next year. But the reconfigurations are going to take place over the course of the next really 18 months, 24 months. We're not going to be ready along all those fleets until June of 2018.

Edward Russell - *Flightglobal - Media*

Okay, got it, thank you. How many, roughly, how many do you forecast the reduction the number of economy seats on these aircraft as you make the modifications, or are they going to -- this is an install issue, and is it going to be a neutral?

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

I think we're talking about a row, generally. That will vary on different aircraft types, but it should be about the way it rolls out.

Edward Russell - *Flightglobal - Media*

About a row. Okay, as econo. Thank you very much.

Operator

Conor Shine, Dallas Morning News.

Conor Shine - *Dallas Morning News - Media*

Thanks for taking the question. I was wondering if you could talk a little bit more about the improving TRASM trend. What are the factors that are driving that improvement? Is it just the reduction in capacity growth going forward, or are there other elements to that?

Doug Parker - *American Airlines Group, Inc. - Chairman & CEO*

Don, do you want to take it?

Don Casey - *American Airlines Group, Inc. - SVP of Revenue Management*

Yes, sure. There's two areas that really driving the growth. One is Latin America. Latin America, both Brazil where we've seen 25% increase in revenue year over year. Mexico is performing strongly. We've had positive revenue growth in Mexico. Venezuela is contributing to overall unit revenue growth, as well.

Domestic business, the trend there really has been positive. As I mentioned earlier, we have seen close-in yield strength. We've also seen a stabilized pricing environment that's been pretty tumultuous this year. But as of kind of late July, it kind of evened out. When we look at the domestic business from an O&D perspective, we're seeing the best and strongest yield performance in connecting and flow markets in domestic business, which ties a little bit back to my earlier comments on pricing. Also, we're seeing the benefits now of the credit card deal that we did in the second quarter, as well.

Conor Shine - *Dallas Morning News - Media*

Great, thank you.

Operator

Ted Reed, The Street

Ted Reed - *The Street - Media*

Thank you. I had a couple of questions about Latin America, some just answered. Are these gains in Latin America -- are they sustainable? How much of an edge do they give you over your competitors with less presence in Latin America? Also, when are you going to be able to make money in Cuba? Will this be a factor in improving PRASM in Latin America, or will it be less valuable there?

Don Casey - *American Airlines Group, Inc. - SVP of Revenue Management*

When we look at the -- this is Don, again. When we look at the trends in Latin America, we would expect -- Brazil is a big factor, obviously, on the overall result. We're expecting our performance in Brazil in the fourth quarter to be better -- materially better than the performance in the third quarter. We think our performance of Latin America overall is going to continue to get better.

As for Cuba, I think everyone is struggling a little bit in terms of selling in Cuba. There are a lot of restrictions that are still in place that made it difficult to sell. Right now we're seeing the greatest strength in terms of forward looking in the Havana markets, where we've had a long presence with our charter operation, but I think Cuba is going to be a bit of a long road, I think.

Doug Parker - *American Airlines Group, Inc. - Chairman & CEO*

We're in it for the long haul. This not something we didn't expect. This is really a new market. At any rate, we're excited to be the largest carrier there, and we're committed to Cuba and making it work. We'll work through the start-up to get it to the point where eventually we all expect it will be.

Don Casey - *American Airlines Group, Inc. - SVP of Revenue Management*

Excited about the start-up of Havana on November 30.

Ted Reed - *The Street - Media*

Quickly, I assume the vast majority of sales are in the US in Miami?

Don Casey - *American Airlines Group, Inc. - SVP of Revenue Management*

Yes, they are.

Ted Reed - *The Street - Media*

All right, thank you.

Operator

That concludes today's question-and-answer session. At this time, I will turn the conference back over to Mr. Dan Cravens for any additional or closing remarks.

Doug Parker - *American Airlines Group, Inc. - Chairman & CEO*

This is Doug, thanks everybody. Again, I -- look, the story to this from my perspective listening to all this is this team, when we did this merger less than three years ago, the biggest questions we'd get on this call was concerns about our ability to manage the integration. I couldn't be more pleased with the work the team's done to get through flawlessly things like PSS and just now FAS. That delay, sitting here, has helped us. As a management experience, this is a full team effort, which is why it's so hard. It takes cross-functional work while people are trying to actually do their full jobs, to.

We're elated that that concern we've been able to take off your list of concerns. That's important, but what it's more important about is it shows what a great team we have here, and the things we can do. Now with much of that work behind us, not all of it, with much of it behind us we are extremely excited about everything that we have going on, particularly the investments we're making in our people and our product that will accrue to our customers. The upside of that provides us, we're in this for the long term. We're excited about the long term, and we appreciate your support. Thanks.

Operator

That concludes today's presentation. We thank you all for your participation. You may now disconnect.