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AAL.OQ - Q1 2021 American Airlines Group Inc Earnings Call

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OVERVIEW:

Co. reported 1Q21 revenue of $4b and GAAP net loss of $1.3b, or $1.97 per share. Expects 2Q21 total revenue to be down approx. 40% vs. 2Q19.

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PRESENTATION

Operator

Good morning, and welcome to the American Airlines Group First Quarter 2021 Earnings Conference Call. Today's conference call is being recorded. (Operator Instructions)

And I would now 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, Crystal. And good morning, everyone, and welcome to the American Airlines Group First Quarter 2021 Earnings Conference Call. Joining us on the call this morning, we have Doug Parker, Chairman and CEO; Robert Isom, President; and Derek Kerr, Chief Financial Officer. Also on the call for our question-and-answer session are several of our senior executives, including Maya Leibman, Steve Johnson, Vasu Raja, Alison Taylor and Devon May.

Like we normally do, Doug will start the call with an overview of our quarter and the actions we've taken during this pandemic. Robert will then follow with some remarks about our commercial and other strategic initiatives. After Robert's remarks, Derek will follow with the 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, 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 March 31, 2021.

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

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

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

Thanks, Dan, and good morning, everybody. This morning, we reported a first quarter pretax loss, excluding net special items of $3.5 billion. The loss was driven, of course, by the extreme drop in demand for air travel due to the global pandemic. Our revenues in the quarter were down 62% from the same period in 2019.

In the midst of this difficult environment, the American Airlines team produced remarkable results. We flew more customers than any other U.S. airline. We did so reliably and safe. We produce the highest passenger unit revenue of any global U.S. carrier while having more available seats for sale. We completed the largest financing in airline history, a $10 billion transaction, secured by the most valuable loyalty program in the world, the AAdvantage frequent flyer program. And excluding that principle, we were cash positive in the month of March, our first such month since the beginning of the pandemic.

These results and more were made possible by our incredible team. Without their resiliency, creativity and compassion, we'd be facing a very difficult future. Instead, thanks to their hard work and determination, we're starting to see light at the end of this very long tunnel -- this very dark tunnel, and we're on a path that has us well positioned as demand for air travel returns. That path forward is guided by what we're calling our green flag plan.

For our industry, this pandemic has been much like a yellow flag during an auto race, where everyone slows down, takes a pit stop and get their cars ready for when the race resumes at full speed. We've used this period to improve and prepare, so that when the green flag does drop, it appears to be on the horizon. American will be ready.

That plan is centered on four initiatives. I'll take a minute to walk through those at a high level, and then Robert and Derek will expand on what we've achieved to date and what we see on the horizon. First, we're doubling down on our commitment to operational excellence. We had a great operation in the first quarter, carrying more than 24 million passengers on nearly 340,000 flights. During our business day of the quarter, we had more than 430,000 customers flying on our aircraft. That's the highest we've had since March 2020. Our goal is to run the most reliable operation at American Airlines history once everyone is back to a full schedule. And the steps we put in place, including more reliable, profitable scheduling, new tools and technology to assist our team and customers during irregular operations and our claim commitment, will ensure we achieve that goal.

Second, we're taking this opportunity to reconnect with our customers. Robert will talk more about what we're doing. As customers return to the skies, they will see an even better American Airlines. One with the broadest and best global network has now been enhanced by new partnerships. And one with innovative technologies and procedures that make travel more convenient for our customers and ensures they feel safe and comfortable as they return to fly.

Third, we're planning to build on the positive momentum we've established with our team. This past year has tested our team in ways we could have imagined, but it also brought us much closer. We worked hand-in-hand with our union leaders to ensure that team members felt cared for, even as we experienced by far the most difficult financial circumstances in our industry's history. We're committed to building on that progress and continue to work together to ensure our team feels cared for every day. On that note, we are very happy to tell 13,000 team members they could tear up their warn notices, following the passage of the COVID-19 Relief Act that included an extension of the payroll support program. We will continue to welcome team members back to the operations as we increase our schedule. In fact, earlier this week, we announced we will begin hiring pilots later this year to prepare for 2022 and beyond.

Finally and importantly, we are committed to passionately driving efficiencies across the organization. Derek will elaborate on this. But we are really proud of the aggressive and innovative ways the team has worked to position us to be more efficient on the other side of this pandemic. The efficiencies we've built into the business over the past year will drive more than $1.3 billion of permanent non-volume-related savings in 2021 and beyond.

So before I turn it over to Robert, I'll close with this. We are a long way from where we need to be. This crisis is far from over, and we have to continue fighting to give our customers, shareholders and team the company they deserve. But there is no doubt, the pace of the recovery is accelerating. And thanks to our team, in a thoughtful and proactive plan as the green flag drops, American Airlines is ready.

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

Thanks, Doug, and good morning, everyone. I also want to thank our entire team for everything that they've done for our airline throughout the pandemic. This phenomenal group continues to rise to the occasion and deliver for our customers every day, and we're incredibly grateful.

Our first quarter revenue of $4 billion was effectively flat on a sequential basis versus the fourth quarter of 2020. However, our demand and revenue trends accelerated significantly as the quarter progressed. In January, our total revenue was 34% of what it was in 2019. And by March, it was 46% in 2019. This trend was driven by strong leisure demand in the U.S., Mexico, the Caribbean and Latin America. This momentum has continued as our 7-day rolling average of system daily net bookings has reached 2019 levels this week. And this is in spite of business and long-haul international demand remaining weak, with net bookings of roughly 20% of their level -- of their 2019 levels.

That said, there are early signs of recovery for business. Small business demand, which was roughly 17% of our system revenue has been improving steadily as vaccination rates have increased and as markets reopen. An increasing number of our largest corporate accounts are coming back to the office and indicating that they'll be traveling in the third quarter and confirming in-person board meetings, conferences and events for this year.

Importantly, we're focused on turning improved bookings and load factors into a leading unit revenue performance. We have continued to shape our network and our customer experience as nimbly and thoughtfully as possible, and we're seeing the results. The first quarter of 2021 was the third consecutive quarter in which our passenger unit revenue materially outperformed each of our network competitors. Thanks to our team, our likelihood to recommend scores have improved for the last 3 quarters as well. Based on our results in the first quarter, we're on track to have our best LTR year since the merger.

We have used the pandemic to reset our airlines that it consistently outperforms for our customers, our team and investors. The first sign of this is in our summer schedule and second quarter capacity plan. We expect to fly approximately 80% of our 2019 system seat capacity in the second quarter, and this increases to 90% this summer. We'll continue to do on a larger share of our assets to market where we can create unique value for our customers, and therefore, generate passenger unit revenue premium relative to our competition.

When compared to 2019, we expect to find 90% of our domestic seat capacity during the summer peak and 100% in DFW and Charlotte. Our domestic network will constitute 85% of our system seat capacity in the summer peak. We expect to operate 80% of our international seat capacity compared to 2019 in our peak. Our organic network in the Americas creates more unique choices for customers and more profitability for the airline. As such, in our summer peak, our Latin American network is expected to be the same size as it was in 2019. Our short long-haul Latin America network will constitute approximately 12% of our system seat capacity in the summer peak.

By contrast, our operation has been much more challenged in the Atlantic and Pacific as those markets have yet to fully reopen. And as a result, in our peak schedule, seat capacity in those parts of our network will only be 40% of what it was during the same period in 2019. Our Atlantic and Pacific networks will constitute just 3% of our system seat capacity in the summer peak. We expect to bring these markets back slowly and only when demand conditions warrant. It's important to note there is significant pent-up demand for international travel, and we're seeing it most in markets like Tel Aviv and Athens where market reopenings are leading to steady increases in demand. As borders continue to open throughout the world, we'll be ready because of the changes that we made to our fleet and network and the strength of our partnerships around the world.

Overall, we will deliver any increase in capacity in a more efficient and reliable fashion than we did in 2019. We've accelerated the retirement of over 150 older aircraft in our fleet, leaving American with by far the youngest fleet of our global U.S. competitors. We intend to have all of our remaining aircraft active this summer and no longer sitting along tarmacs around the country. As Derek will share in a few minutes, we'll soon complete the harmonization of our Boeing 737 and Airbus A321 fleet, driving superior cost efficiency, a simpler operation and a better customer experience.

Just as we is the past year to adapt our fleet network, we have also developed partnerships to offer our customers a seamless network in markets where we have structurally underperformed. This has been most true on the West Coast and in the Northeast. We have been unable to grow these markets organically due to infrastructure constraints. However, through our recently announced partnerships with Alaska and JetBlue, we can now offer customers the largest network in these 2 regions and bring a level of competition and choice that has long been lacking. Of course, to make these partnerships work, the experience must be seamless for our customers. As we like to say, an elite customer anywhere should be treated as an elite customer everywhere. We have several initiatives underway to make that a reality, including our announcement just yesterday to deliver on the next phase of our partnership with JetBlue.

As we look towards the recovery, reconnecting with our customers will be centered on being the easiest airline to do business with. Our goal has always been to remove as many friction points as possible, and in the first quarter, we took a number of steps to help simplify the travel experience for customers as they return to flying. We've enhanced our travel planning tool to help customers make informed decisions on where they travel and what to expect when they get there, add a new pre-flight COVID-19 testing options, expanded acceptance of VeriFLY, the mobile health wallet that simplifies and verify travel requirements. VeriFLY is now accepted for all of our international flights in the U.S. to the U.S. and our flights from the U.S. to 11 countries. Our partners, Aer Lingus, British Airways, Iberia, Japan Airlines, now also accept VeriFLY.

Building a curb to get contactless journey will be an ongoing effort as we reimagine safe and convenient travel in a post-COVID era. At DFW, we have expanded our touch technology trial to allow customers to use biometric scanners to check their bag's prior to departure, and we'll utilize that same technology to allow customers to gain entrance to an Admirals Club lounge later this year.

And today, as we celebrate Earth Day, I want to highlight some important strides we've made to run a more sustainable airline. The most important thing any airline can do is retire older aircraft and replace them with new, more fuel-efficient aircraft. And we've done that at American, with $24 billion of investment over the past 7 years and a retirement of more than 650 older aircraft.

But we need to do more to reach our goal of net-zero carbon emissions by 2050, and we have our eye on sustainable aviation fuel. SAF is the most promising advancement available to us in the near to mid-term. We've been taking delivery of SAF for almost a year, and in the first quarter, we reached innovative offsetting agreements with 2 of our customers, Deloitte and Kuehne+Nagel. We appreciate that the Biden administration and many in Congress have engaged with our industry on climate issues or encouraged by the fact that we have common goals, especially when it comes to SAF.

So in summary, over the past year, we've greatly simplified and modernized our fleet, rationalized our network and made many changes to our business and operations to ensure customers have flexibility and peace of mind when they return to travel. We're encouraged by the trends in demand for air travel across all sectors and believe American is well-positioned for the recovery in the months and years ahead.

And with that, 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 too want to take the opportunity to thank our team. Their leadership and hard work truly embodies what American Airlines team members are known for.

This morning, we reported a first quarter GAAP net loss of $1.3 billion or $1.97 per share. Excluding net special credits, we reported a net loss of $2.7 billion or $4.32 per share. Robert talked about many of the commercial activities we're working on and the trends we're seeing in the demand environment, so I'll focus my remarks on the cost side of our P&L and our balance sheet as we look to the future.

Throughout the entire pandemic, we have remained focused on keeping our capacity aligned with demand while preserving the maximum amount of flexibility to respond as demand returns. We took aggressive actions to reduce our cost structure, and we have reduced our first quarter total operating expense, excluding net special items, by 26% versus 2020 on a 39% reduction in total capacity. Nonfuel operating expenses, excluding net special credits, were up 6% sequentially from the fourth quarter as we gradually added back capacity.

We ended the first quarter with $17.3 billion in total available liquidity, including approximately $3.1 billion of PSP2 funds we received from the Treasury Department during the quarter. We were recently notified that this amount will be increased by approximately $463 million to be received in the second quarter. In addition, we expect to receive $3.3 billion of PSP3 funds by the end of the second quarter.

We saw positive trends in our daily cash burn rate throughout the quarter. Our average daily cash burn was approximately $27 million per day, which came in better than our guidance of $30 million per day. This happened despite the drop-off in demand we saw in January and February and a significant increase in fuel prices at the beginning of the quarter. As a reminder, our definition of cash burn includes approximately $9 million per day of regular debt principal and cash severance payments. For the month of March, our estimated average daily cash burn rate was approximately $4 million per day. And excluding approximately $8 million per day of regular debt principal and cash severance payments made in March. As Doug noted, the company's cash burn rate turned positive for the month.

During the quarter, our Treasury team did a phenomenal job of continuing to strengthen our liquidity through a series of capital market transactions. Notably, we completed our $10 billion financing transaction that was backed by the AAdvantage program at a blended rate of 5.6%, less than half of what we would have been able to do last summer, and use those proceeds to repay in full the $550 million secured loan we had with the Treasury Department. We also had $530 million of aircraft amortization payments, including the maturity of our 2011-1WTC, which, together with mortgage maturities, resulted in 35 mainline aircraft and 9 regional aircraft becoming unencumbered.

During the quarter, we also repaid in full our $2.8 billion of revolving credit facilities. This was a liquidity-neutral transaction that reduced the company's outstanding debt by $2.8 billion. Importantly, we still retain the flexibility to either draw upon these revolving commitments again as needed or leave them undrawn until October 2024. During the quarter, we took delivery of 7 Boeing 737 MAX aircraft, and we expect to take 1 more delivery later this year. As a reminder, these aircraft were built while the MAX was grounded and were efficiently financed through leasing transactions. In addition, we recently exercised our remaining deferral rights on 18 Boeing 737 MAX aircraft that were previously scheduled to be delivered in 2021 and 2022. These deliveries are now expected to occur in 2023 and 2024.

Lastly, we reached an agreement with Boeing related to our remaining 787-8 deliveries. Under the revised terms of the agreement, we have elected to defer and convert 5 787-8 aircraft to 787-9 aircraft. These deliveries are now expected to occur in 2023. The remaining 14 deliveries of 787-8 aircraft have been rescheduled to occur by the end of the first quarter of 2022, and all of these aircraft will retain their existing financings.

In January, the company made $241 million in contributions to its pension plans and marks the new COVID-19 relief bill, included, among other things, funding relief for single employer pension plans. These new funding rules reduced the company's remaining required cash contribution for 2021 to 0, while lowering our projected required contributions over the next 5 years by over $2 billion. Under these new provisions for funding purposes, the combined plans are expected to be funded in excess of 90% for plan year 2021.

As Doug and Robert mentioned, we are starting to see signs of what appears to be a strong economic recovery. This fantastic news makes our $1.3 billion of efficiency measures even more important as we repair our business for the return to a more normal environment.

On the fleet side, we have talked a lot about our fleet simplification efforts and the elimination of smaller sub-fleets, which resulted in the removal of more than 150 older and inefficient aircraft. Many of these aircraft -- retired aircraft have already been sold. And by May, we will have completed disposal of all of our 730 -- 767 aircraft and Embraer 190 aircraft, generating more than $300 million in proceeds.

Our fleet changes are expected to drive significant operational and cost savings in 2021 and beyond. With only 4 mainline aircraft types remaining, we will see improved aircraft utilization and operational efficiencies in the back half of 2021 through the increase in gauge and reduction in inactive aircraft, including spares and maintenance allocations.

Additionally, our fleet harmonization project is picking up steam, and we expect to have our entire 737 fleet completed in the second quarter of this year. These aircraft have 172 seats and come with larger overhead bins and in-seat power. We expect to have the A321 fleet completed by the end of this year. Aside from a better customer experience, these projects will provide significant opportunities to improve revenue production and lower our unit cost now and well into the future. So when demand returns to more normalized levels, we'll be able to fly -- efficiently fly 2019 levels of capacity with approximately 10% fewer aircraft.

In terms of our balance sheet following our transactions in the first quarter, 32% of our outstanding debt is prepayable without penalty. After all the COVID-related financings we have completed to date, our average cost of debt is approximately 4.5%. As we have said in the past, we will naturally reduce our debt from where we are today by $8 billion to $10 billion over the next 5 years through regularly scheduled debt amortization. We know going forward that since we are now starting at a higher debt level on account of pandemic-related debt, we will need to delever even more.

In the near term, we plan to maintain higher liquidity levels until we are generating sustained positive cash flow. Once this occurs, when combined with our efficiency measures and a lower CapEx profile, we plan to use any excess cash flow to more strategically delever our balance sheet by proactively retiring prepayable debt and concurrently increasing our unencumbered assets. As part of our plan, we also anticipate resetting our target minimum liquidity level.

Overall, we expect second quarter total capacity to be down approximately 20% to 25% versus second quarter of 2019. With these capacity and demand assumptions, we expect to see a significant increase in our revenue versus the first quarter with our total revenue to be down approximately 40% versus the second quarter of 2019. These inputs lead to an estimated second quarter pretax margin, excluding net special items of between negative 27% and 30%. We presently expect to end the second quarter with approximately $19.5 billion in total available liquidity, which includes the additional PSP2 and PSP3 funds I mentioned earlier. That would be the highest liquidity position in company history and our fifth consecutive quarter of increased liquidity despite the demand-driven operating losses we have incurred over that period. Given these projected liquidity levels and the positive cash and demand trends, we are no longer looking to raise liquidity at American for the first time since the pandemic struck.

For the full year 2021, our debt principal payments will be $2.8 billion, excluding the prepayment of our revolving credit facilities. In the second quarter, we expect to pay down $595 million of aircraft and engine debt in addition to the $250 million PDP facility we paid off earlier this month. Our full year CapEx is still expected to remain minimal. Non-aircraft CapEx will be $900 million. And due to our negotiated settlements with Boeing attractive aircraft financing and our already modernized fleet, our net aircraft Capex, including PDPs, will be an inflow of $1 billion.

While we feel great about how much we have accomplished, we recognize that we still have a long way to go to get our business back to normal. Our team has done an amazing job of bolstering our liquidity, conserving cash and driving efficiencies throughout the organization, and we are very well positioned for the future.

And with that, I'll open up the line for analyst questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Joseph DeNardi with Stifel.

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

Doug, 2 questions for you on the loyalty program. I wanted to ask you a question I asked a few years ago at your Investor Day. Given how valuable the loyalty program has become and how lucrative the business of selling miles has become, do you need to reconsider what American Airlines is? Are you an airline or are you a marketing company?

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

Yes. We're an airline, Joe, and always will be. The managed program is a big part of that, which helps us to market the airline.

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

So Doug, in 2019, your loyalty program generated roughly the same amount of EBITDA as Marriott did. My question is, did you know that? Does that surprise you? And lastly, why don't you allocate 40% of the time on these calls to the loyalty program since that's how much EBITDA it represents for you all?

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

Thanks, Joe. Yes, look, I don't think it's possible to separate the EBITDA -- the AAdvantage program from the EBITDA airline. They're inextricably linked, and you can't have one without the other. So anyway, that's what I believe. So the -- and therefore, we talk about running the airline, which what we do every day. And again, the AAdvantage program does indeed -- is an incredibly important part of that. Our -- because we do such a good job of running an airline, people want to have miles in our loyalty program. People want to have credit cards that allow them to earn miles as they spend to earn miles so they can fly more on our airline. Those are all good things. But you can't have one without the other, and I don't think it's right to try and separate one P&L from the other.

Operator

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*

I guess just maybe Robert or Doug. Robert, you talked about international lagging. You talked about calling out transatlantic, and yet we are seeing headlines over the last week or so about the potential opening of at least the U.S./U.K. corridor maybe as soon as the month of May, maybe June. Can you just give us an update on what you're hearing and whether or not we're going to see maybe unfettered access between the U.S. and U.K.?

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

So we're -- Mike, we're certainly hopeful, and we encourage our government to engage with the U.K. But look, this is a matter -- a bilateral matter, and it's one that first have to be predicated on confidence and safety of travel. So we're encouraged and we're certainly ready when the opportunity allows it. And we know, as I said, that there's tremendous demand, both from a corporate and from a leisure perspective, to take advantage, but we're going to have to make sure that we're coordinated with all parties, governments and government agencies to make sure that we're doing it in an appropriate manner.

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

Great. And then just my second call, just to Vasu on JetBlue, American. I mean, I know it's early. Any sort of quick wins with respect to flow traffic between the two of you in JFK and Boston? And then the story -- I mean, certainly a lot of criticism in -- at least it seems in the press and from other entities out there, and yet it feels like the story that's not being told is just the number of new service. And I just think about the phase that was just launched in the last day or two, the number of markets that maybe didn't exist before that now exist like a JFK Cali, JFK Boise and then the number of city pairs where you're going from 1 to 2 or 2 to 3 or 3 to 4. For whatever reason, that story doesn't seem to be out there because I sort of view that as being enhancing competition, not taking away from it. So any sort of update that you can give on -- with respect to that alliance?

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

Yes. Mike, thanks for the question. It's a great question. And look, it'll be a start to the story about that because you're absolutely right. AA and JetBlue together, the fastest-growing airlines in the whole Northeast corridor. Not just adding new services that certainly AA would have never thought possible to JFK daily, but arguably in which JetBlue wouldn't have thought possible, such as Boston and Cincinnati. And there's a lot of things, but really -- so the first part of your question, it's all been enabled, really the customers are the true voice of this because if they like it, they'll fly on it. And we've seen that so far.

So March was our first month in which we turned on the codeshare. We only had about 3 weeks' worth of bookings. And at least for JetBlue on AA, that was only about 25 to 30 markets. But JetBlue has already become our largest global codeshare partner. That's a little bit weird because so many of our international partners are flying 5% to 10% of their schedule, but what we do draw some encouragement from is that our codeshare scope is vastly smaller with JetBlue than just about any of our major partners. And as we look at these things, we look at not just the total revenue production on us, but how much of that revenue is really incremental that is coming in higher fares than what we -- what AA is organically booking or coming in periods where the flights were light. And we're finding that somewhere between 30% and 40% of that is incremental with similar rates in Alaska, and that compares extremely favorably to our historical global alliances.

So that, for us, as much as anything, is an indication of exactly what you said, the customer is voting. And the customer really likes the new services, likes the service expansion that's there. And as long as that's the case, it's going to be attractive for us financially. And so we'll continue to grow and innovate and try things that would not have been possible without a partnership such as this.

Operator

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

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

Can you just bridge us from the current international demand commentary of kind of 20% of normal or maybe that was a March comment, 20% of normal and then getting to 80% from a capacity perspective this summer?

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

Yes. This is Vasu. I can help with that. That -- a big part, when we quote international, we're quoting both our long-haul business and our short-haul international business. Of note, the way we get to 80% is that we are envisioning a long-haul business, which will be, come our peak summer schedule in July, 40% of its 2019 size. But a short haul of international business, which will be north of that, something like 20% larger than what it was in 2019, with our long-haul Latin American network being something like 80% of 2019, right? So -- but maybe even the more colorful way to say is that, for us, long-haul is going to be a very small part of our system this summer. Our total long-haul network, Transatlantic, Transpacific and long-haul Latin America will roughly -- will be about 3% to 5% of the seat capacity of the airline from the Peak July schedule.

So a lot of what you see is, in our international numbers, is more capacity going into the short-haul network, which, for us, has proven to be the most resilient part of the whole system ever since the pandemic started. No matter what the headlines have been, no matter how the market turns, we've always defined bookings rebounding fastest soonest and greatest in those markets. And you see that in our RASM results, replying the biggest schedule in short haul, international and producing the greatest comparative RASMs out there, too.

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

And then just a follow-up for Derek. On the net aircraft CapEx inflow of $1 billion, can you just tell us how much of that is sale leaseback proceeds? And how much of that is sort of PDP refunds?

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

Yes. Our net aircraft CapEx is about $145 million, so direct sale leaseback of aircraft is about $2.7 million. So we have about $2.7 million -- $2.6 million of aircraft CapEx, and that's all financed by direct lease and sale leasebacks. And then the PDPs is about $850 million.

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

Okay. Sorry, just a small point of follow-up there. Can you give us a sense for where aircraft rent might be kind of exiting this year?

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

Yes. Aircraft rent, we'll exit -- we have about 350 in the first quarter, exit around 400 in the fourth quarter.

Operator

Your next question comes from the line of Helane Becker with Cowen.

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

So I have 2 questions. One is, you guys said that you flew more passengers than any other airline, and I know your cargo revenue was fairly strong as well. But I was looking at your revenue compared to the -- just your absolute revenue, not your unit revenue, and it was lower than that of like Delta, and I'm kind of wondering what you think accounts for the difference. And then my follow-up question is related to -- are you talking to the

Biden administration about reopening borders, obviously, safely, but reopening borders this summer to gain at least some summer international traffic?

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

I'll take the second.

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

Yes. I can just -- I can try to take the first. Look, I can -- I don't know the detail on Delta's number. I can tell you this, that it's not passenger revenue and it's not cargo revenues.

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

So what is it? (inaudible) Anyway, we know exactly what it is in there. They do have business we don't have.

On the Biden Administration, absolutely, Helane. I mean as Mike had asked about U.K./U.S. corridor, we're heavily involved in that, given our relationship, given our -- how large we are to the U.K. and our relationship with BA, of course. And we're in regular contact. The -- look, what we support is a risk-based data-driven approach to restoring international travel. What we've seen is pre-departure testing for international rail has been in place early this year. CC recently eased the guidance for domestic travel report. Vaccinated persons, following a lengthy study of that issue, so all these factors were taking into consideration. As formal guidance for travel is being developed, I think -- I know the administration understands that. I know they understand the importance of international travel and restoring international travel to the economy. And we all need to go look at this in a risk-based way. No one wants to rush for certain, and no one's pushing that either.

So anyway, I think it's going to happen gradually. We're going to do it in a way that works with our governments and works with other governments to ensure that it's done in a way where it's safe. No doubt, there's enormous pent-up demand for it. And we see that as some other countries have relaxed their restrictions on things like coordinates. So we'll keep working on it. Everyone who's involved are working productively. There's no sort of -- there's certainly sort of pushback on our size. We all want to do this in a way that makes sense.

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

Yes. And Helane, the biggest difference on the revenue side is the refinery, just so you know.

Operator

Your next question comes from the line of Hunter Keay with Wolfe Research.

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

So business travel, it's always been, obviously, a little bit more cyclical and riskier, but higher reward. Leisure travel tends to sort of endure and recover better. So you knew that. But as you drive out, whatever, $2 billion in cost, you densify your aircraft, is there a thought maybe that you don't want as much of that corporate share on the other side of this? And then maybe, obviously, I know business travel is important to you, I understand that. But maybe like an 80-20 leisure business mix makes more sense for American longer term, given your network footprint and the cost savings and the seat densification and all the other factors, just around the periphery, does that make sense?

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

No, we don't think so. And again, we think -- actually, we're building a network that will serve business better than their network, and we're excited about that. So as soon as travel returns, we're building the airline to be there for them. And I think we'll be able to do that as well or better than anybody else.

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

Okay. And then, Derek, can you help me think about the SWB line in '22, '23 as we contemplate juniority of the pilots and some of the headcount cuts on management, if we assume the capacity is at or maybe slightly above 2019 levels?

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

From a salary perspective?

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

Yes, like an absolute SWB, not necessarily unit basis, but on just an absolute salaries basis relative to where you were pre-COVID with juniority and all that other stuff?

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

Yes. I think we're going to have a significant amount of retirements as people went out. So when we talk about CASM in 2022 from a cost perspective on all of the groups, we should be down year-over-year from that perspective. So as we go out throughout the year, we're increasing just because from a salaries perspective, we have brought everybody back. So it will increase as we go through the second quarter, but then we should be pretty flat as we go into the third and fourth quarter as we have already brought everybody back for the flying that is for the rest of the year. So it should be -- we should be in pretty good shape as we go forward with that. We all have contracts that are up, so it depends on when those negotiations happen. But on a steady-state basis, we'll be pretty flat throughout the rest of the year from a second all the way through the fourth quarter.

Operator

Your next question comes from the line of Jamie Baker with JPMorgan.

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

First one for Robert. So a question I frequently get is how quickly American can ramp up capacity in the event that an incremental market opens up. And in more stable times, it kind of felt like it was about 3 months between something happening, such as a spike in fuel and flown capacity actually reflecting that change. Where are we today? For example, if the EU announced today that vaccinated passengers are welcome, and I'm not suggesting this is going to happen, what months would we see that additional capacity?

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

So Jamie, I can start and others can chime in. First off, just in terms of market openings, just realize as well, we're dealing with booking curves, right? Much different than the domestic, where so much of the bookings occur within 30, 60 days. For some of these long-haul markets, even for business-related travel, the booking curve is much more extended. So even if markets were to reopen, so much of the actual window for purchasing for the summer has actually passed us by. So we're going to be smart about how we ramp capacity up so that we make sure that we can match a full demand profile with the aircraft. And that actually matches pretty well with the kind of timing that's required to get aircraft in position, pilots in position and cities that have actually been mothballed in so many parts of the world, back up and operating as well. So for us, to be able to actually be able to serve these markets, we're dealing with timelines that are in kind of the 3- to 6-month range. Vasu, you want to add anything to that?

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

The only thing I'll say is the very specific part of your question, look, in 45 days, we can go and out in the market and sell it and operate it in a way that we couldn't have done before the pandemic. But to Robert's very good point, that doesn't mean that we should or that we would because so much of it is -- especially as markets reopen, is what's the best marginal use of the capacity that's out there? And just to add the dose of quality it is that even if so much of Europe opens up right now, the reality is we're, let's call it, 60% to 65% of the way through a historical booking curve for Europe, and a lot of the customers that would have gone there have already booked trips to Hawaii or Florida anyway. So the marginal value of that capacity may be a lot less than what might meet the eye, at least in the Americans.

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

Excellent. All good points. And then second question, and this is related to the second quarter guide. It feels somewhat reminiscent of last summer's strategy. And we talked back then about the low marginal cost capacity given PSP and where fuel prices were and why it made sense to fly more than your competitors, right? This year feels like a more calculated decision, less of a sort of grow or die decision to, I think, somewhat paraphrase what Vasu has said in the past. But the question I'm getting from investors is whether this summer's plan is markedly different than when you basically tried something very similar last year. Any thoughts on that?

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

Yes. I'll start, and Robert can chime in. Yes, it's dramatically different. And that -- well, first off, last summer, what we saw was what looked to be a real drop in the pandemic rates. And as we saw that we started to add back when we got the second spike, demand fell off, and we adjusted accordingly. So all that was the right decision, it was based on that and nothing else. In this case, we have vaccines and the rates absolutely are falling. And as a result, you see not just us doing this, but virtually every other everyone. So anyway, it feels -- again, I don't exactly -- I wouldn't concur exactly with what happened last July. Last July, we saw rates falling. It shows that capacity when they spiked back up, we pulled it back. Now we're seeing vaccinations resolved, something which feels much more permanent, should that not be the case, you'll see us pull back. We can be very flexible, and we will be. I don't think that will be the case. Nothing about this feels anything close to that, but that's the distinction.

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

And Jamie, I would just add 1 thing to that. Building off of Robert's comments in the section, that what you see out there in our schedule is actually really indicative of where the airline is going. 85% of our capacity this summer will be deployed in domestic, almost 95% of it is between domestic and short-haul international. And as you look at it for the last 3 quarters of the pandemic, though we flow relatively more capacity, we've also produced more in nominal PRASM than certainly what any of our network competitors have. But critically, when you look out there this summer, where the capacity is going is really important. But what we call the big 4, Dallas, Fort Worth, Charlotte, Phoenix, Miami, are roughly 65% to 70% of our system capacity. And I'll put a little more color on it. In the first quarter, while our system produced PRASM that was maybe 16% -- 15% to 20% larger than what our network competitors were, Charlotte and DFW produced PRASMs that were 30% and 35% larger, with Phoenix and Miami pretty close to the 15% to 20% range, too.

So a lot of what you see out there is actually -- there's some opportunism in there about flying Saturday-only trips or leisure-heavy trips or things like that. A lot of it is -- or as Robert said in his opening remarks, or getting the capacity of this network to market where we can produce outside value to customers and therefore, outside RASMs to the airline.

Operator

Your next question comes from the line of Dan McKenzie with Seaport Global.

Daniel J. McKenzie - *Seaport Global Securities LLC, Research Division - Research Analyst*

A couple of questions here. Regarding the plan to prepay $8 billion to $10 billion in debt through natural amortization, does that include or exclude the plan to use surplus free cash flow to prepay debt? And the reason I'm asking is it just seems like American could pay down substantially more than $10 billion over the coming 5 years. And if that's correct, I'm just wondering if you'd be willing to provide sort of a bigger picture number of what that could ultimately look like.

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

Yes. It does not include anything extra. That's just what we have in amortization going forward. We're not ready to say, but I agree with your premise, that our liquidity is sitting at $19.5 billion at the end of the quarter. We're going to go through the process of figuring out where we need our liquidity in the short-term and where we need it in the long term. And it's not -- it doesn't need to be at $19.5 billion. But as we said, until we see sustainable cash production, we're going to hold the cash where we're at and keep our cash levels higher than we need. We will then use that to go do that. So as I said, we have a lot of prepayable debt. So once we're ready, we will go down that process and be able to delever more than the $8 billion to $10 billion. But I just wanted to make sure that, that $8 billion to $10 billion number, everybody knows, it's going to happen.

It has to happen as we go forward and pay off the debt that's due, aircraft debt, unsecured, things that are going to come due over the next few years. But you're right, Dan. It's -- it can be a bigger number, it's just we want to wait till we get through everything, and we're comfortable to move forward.

Daniel J. McKenzie - *Seaport Global Securities LLC, Research Division - Research Analyst*

Understood. Okay. Vasu, a fleet that is 10% smaller, so call it 10% less flying. I'm wondering if you can provide some insight on the overhang to margins, say, in 2019, with that portion of the fleet. And the reason I'm asking this question is just based on what American has done on the cost side, based on what you're doing on the revenue side, it just seems like normalized earnings in this next cycle are going to be higher than they were in the last cycle. And I'm just wondering if you guys would agree with that or what do we need to keep in mind?

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

Yes, some others can speak to what our earnings profile might look like, but you are on to something that we have made this airline materially more efficient through the pandemic here. This summer, we'll be almost 150 airplanes down. But in the schedule, we'll only be about 80 or 85 airplanes down. So all of that delta is efficiency. It's inefficient airplane that went away, its superior gauge economics, superior utilization, wherever we have it. So if you went to back half 2019, we could fly roughly that same airline with materially fewer jets, and the network would be oriented a lot more to places where we could produce an outsized RASM. So that is very much the conscious design. I mean the whole point to the earlier remarks about the Green Flag Plan is to deliver an airline that can outperform in the future, and we think we've done that, but the proof will be when we do.

Operator

Your next question comes from the line of Savi Syth with Raymond James.

Savanthi Nipunika Syth - *CIMB Research - Research Analyst*

I wonder if you could talk about how you're thinking about the cadence of capacity as you kind of move away from the summer and kind of -- I know there's a lot of uncertainty. But right now, a lot of the demand is being driven by leisure. But should we expect that this level of capacity or better as we move into the fourth quarter?

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

Savi, I'll just -- look, we're going to be incredibly flexible as we go forward. I mean we've given a lot of detail as to what we intend to fly this summer. If things progress as we hope with vaccinations increasing and then hopefully, international markets opening up. And based on what we're hearing from our corporate customers in coming back to work, back into the office and setting meetings and events, we're optimistic. But it really is dependent on the continued containment of COVID and people getting back to business.

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

To Jamie's question, we have enormous flexibility in this regard. The schedule we have built is designed for the current amount of -- for the current leisure-based travel, that's why we have a 777s flying in the United States. They're not made to do that, it's not going to be happening a year from now. So as international markets open up, that's where those aircraft can be deployed. And -- but again, we're going to wait for the demand to come back before we deploy the aircraft there. But right now, I think the team is doing a really nice job deploying airplanes where the existing demand is.

Savanthi Nipunika Syth - *CIMB Research - Research Analyst*

Great. And then if I may just follow-up on -- partly your response to Hunter's question, just how much of kind of the 2Q costs are related to kind of getting capacity back online versus actually the capacity can be produced in the quarter? I was just wondering, as that kind of -- how much is in the number today that might wind down as you kind of increase capacity going ahead?

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

There's really not -- I mean, we don't have a lot of costs built into the second quarter for -- to get the capacity back up. Most of the aircraft have been ready to go. We will have higher costs, but the higher costs in the second quarter really due to volume-driven costs. So our maintenance costs will be up because our power by hour costs will be up and things like that. But there's no built-in cost to retrain. There's no big built-in cost to get the fleet back up because the fleet is ready to go. Our team has done an incredible job of maintaining those aircraft over the last year and having them ready.

We didn't malfunction any aircraft. We didn't put them in a desert. We don't have to bring them back and spend a lot of money on engine costs and anything like that. So there's not a lot, I would say, in the second quarter to build the airline back up other than volume.

Operator

Your next question comes from the line of David Vernon with Bernstein.

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

Robert and Vasu, maybe could you help us understand the cadence of sort of leisure fares? What I'm trying to get at is where we are today in sort of 1Q on a sort of like-for-like distance-neutral basis, the per fares versus kind of a precrisis level. And then how the fare environment is changing as we move into the summer months? Obviously, we're adding a bunch of capacity, a bunch of demand is coming in. I'm just trying to get a sense for how the revenue management systems are working in terms of setting fares that would be expecting to see in sort of 2Q, 3Q.

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

Okay, Vasu can help me with the real specifics. I'll just say this, though, to kick it off, which is being able to leverage yields is dependent on having base bookings. And from that perspective, as I said in my remarks, firstly, we're seeing not only bookings, but real load factors that actually allow for some optimism about where pricing is going. So Vasu?

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

Yes, that's right, David. We have seen an inflection point with yield, which is, for us, any -- the thing that we most draw in terms of encouragement. To put some context to it, when we came into the first quarter of this year, our selling spares were roughly half of what they were a year ago. For half of last year's price, you could gain access to the American Airline system. As we go out into the summer, there's something like 90% of where they were a year ago. And indeed, in our leisure markets, and by leisure to be really specific here, we count that as short-haul international and also all the obvious domestic markets, Vegas, Orlando, Florida, things like that. Our seat capacity there is up about 25%.

But there, our yields are about 95% to 100% -- bookings are 95% to 100% of what we were taking a year ago. And so that, for us, as much as anything, is really key because we are in a place now, if you'll notice the commentary, we're not spending a lot of time talking about bookings because in our system, engineering bookings is not the issue anymore. So much of it is about getting yields back and getting RASMs back, especially in our domestic system. As big as we are historically in our network and the way we're shaping it the summer, domestic RASM is key to our success. And given what's happening with traffic, yield is super important. So we are doing all we can to go and yield up wherever we see it.

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

So just to clarify, were you referring to 95% of 2020 levels or 2019 levels?

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

2019 levels, sorry. All years in my comments is actually 2019. I apologize.

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

Yes, that was slightly frightening. Just as maybe a follow-up, Derek. You mentioned before managing the airlines to a little bit lower level of leverage. How do you think about talking to your Board about the financial liability risk when you've got all these unencumbered assets? I think one of the things that maybe surprised a lot of us is that there were a lot of assets that you could tap into for debt and credit. How do you think about managing or measuring that or maybe communicating that to the market going forward so that we maybe have some visibility into additional liquidity that you could tap outside of like the traditional kind of debt-to-EBITDA metric just given the fungibility of the assets that are in the network, particularly if you buy down more aircraft with cash?

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

Yes. I think, number one, we're not looking for more liquidity. So that's like -- the good news now is I come in every day and not have to go look for liquidity. But we will keep everybody up-to-date on the unencumbered assets. And as we look forward and if we have excess cash, we're going to manage it properly to figure out what is the best thing to pay down as we move forward. So we are going to have conversations with the Board on liability management that we're going to discuss, what are we going to do over the next year or 2 years. That if we have excess cash, what do we pay off and what's the best things to unencumber as we move forward.

In today's environment, our unencumbered assets are $3.7 billion. They grow every time we pay off aircraft and AADCs. We have the first lien capacity of about $7 billion. So we have the ability to do more, but the good news is we're not looking to do more right now as we go forward. So I think the key is, as we move forward, what is the liquidity levels we need to be at, what are the ratios we want to be at as we move forward and how do we best do that over the time period with any excess cash that we have above the amount that we need. And so we'll be having those discussions over the next -- every Board meeting, and we'll be discussing that with our Board for a period of time as we move forward through this recovery.

Operator

Your next question comes from the line of Myles Walton with UBS.

Myles Alexander Walton - *UBS Investment Bank, Research Division - MD & Senior Analyst*

I was just wondering, to clarify on the no longer looking to raise liquidity. Would you also be comfortable saying that you have no interest, at this point, accelerating the deleverage with additional equity? And then maybe if you can just give us a bit of color on the walk from $17.3 billion to $19.5 billion, and the PSP contribution in there. And if that's as simple as sort of $1 billion underlying cash burn offsetting the PSP?

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

I'll take the first one. And I think I can do the second one also, but Derek can do better. So we -- anyway, on the first point, yes, when we say we're not looking to raise liquidity, we're not look at the raise financing and that includes equity. And as Derek said, we believe -- we know that we have just through our normal amortization schedule $8 billion to $10 billion of debt going down over the next 5 years. And as was noted by Dan McKenzie, we have the ability to do a little bit more than that so long as the recovery continues on the path that it appears to because we'll end up with more cash than we need.

So that's how we would choose to delever over time. And then again, I'll try to be quick because I'm already talking, but Derek can probably do it better. The -- if you -- I think what you're asking is, if you have the PSP payments and you look at our cash, you actually see that it's not as much as the PSP. The reason for that is seasonality of -- first off, the seasonality of sales is not as strong in the second quarter as the first. And we also -- and the debt payments are larger in the second than the first. But even if you excluding debt payments, we're still cash positive in the second quarter, excluding debt payments on that forecast.

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

Debt and interest.

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

Debt and interest. Thanks, Derek. So that's what is seasonality. I will use this to go on a little so for because -- this is why, by the way, we -- there are GAAP principles. It's because cash flow has a lot of seasonality. So we're going to be -- there was a real reason at some point when we were talking about cash burn, cash burn, cash burn because the market had real interest in where people's cash flows were and how much cash they were burning. We're all well past that. And if we keep talking about cash burn, we're going to keep commuting people because there's huge seasonality in cash in airlines. There's huge seasonality in debt payments. And when we were -- when all of us were making large profits, we still had quarters where we had decline in cash. So that's why you go back to GAAP principles, and include things like accruals and smoothing and matching principles so that you can keep yourself actually know what's going on in the airline. So anyway, that's what some of the facts. I'm glad we're going to stop talking about cash burn and get back to talking about earnings. But anyway, that's the reason, but thanks for asking.

Operator

Your next question comes from the line of Stephen Trent with Citi.

Stephen Trent - *Citigroup Inc., Research Division - Director*

I was just curious what you guys are seeing, if you could give a little more color. I think you mentioned that you're going to hire some pilots later this year. Any color with respect to what this could mean from a headcount perspective? And is American planning to apply any ESG-type filters on the hiring as some of your competitors have telegraphed that you want to diversify their base?

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

So yes, look, it's great news that we're looking at hiring pilots later this year. And it's due to a number of factors, most notably that we've had significant retirements over the past few years. So this is going to put us in a position to fly and be flexible wherever we need to be. From bringing pilots on though, we're incredibly excited about the work that we've been doing, both at the mainline airline and within our regional airlines as well. We also have been marching down the path to ensure that those that are coming into our regional airlines are wholly-owned and also our mainline really represent the face of the country. Most notably, ensuring that we have more women and people of color that are taking the ranks of -- the pilot ranks. And so you'll see that we have a cadet program that now has over 350 people in it. That's just going to grow in the future. And as we look forward, we anticipate getting a substantial number of our total pilots brought in through that program. So very excited about where we're headed.

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

And that program is diverse.

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

And that program is, by and large, designed to bring in, again, people of color and females into the pilot ranks.

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

Females and people of color.

Operator

This completes our analyst portion of the Q&A. We will now move to media questions. (Operator Instructions)

Your first question comes from the line of Alison Sider with Wall Street Journal.

Alison Sider

Yes. I was wondering if you could talk a little bit about the latest issue with the 737 MAX and whether that creates any challenges for you all in kind of rebuilding confidence in the plane that something else has come off after all the vetting that happened sales to find the latest problem?

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

Aly, it's Robert. Look, I am really pleased with Boeing and the industry. We coalesce around safety. And so with the MAX and -- with any aircraft, it's critically important that we take the right steps when there's any potential concerns. And in the case of the 737 MAX. And these, at least for us, these 18 aircraft, we have a pretty good idea of exactly what the issue is and the remedies that need to be attended to. So the work that we're doing is with both Boeing and the FAA. We're waiting on a service portal to be developed, worthiness directors to be dropped and then getting the work done in those aircraft back up in the air. We hope that, that's just in a matter of weeks and not longer.

In terms of the impact on our schedule, look, we've been flying the MAX now for 4 months back and incredibly successfully. Passenger reaction has been really that they like the product. They like the aircraft. And as we take a look going forward, even with 18 aircraft out of service right now, there is virtually no impact to our schedule. We've been able to use other aircraft to fund the needs for the airlines. So overall, I think we've -- as an industry with Boeing and certainly with the FA, we've made all the right moves, and I have great confidence that this aircraft is going to be in the skies and the safest and most reliable for years to come.

Alison Sider

Okay. I mean have you seen any increase in book away on the MAXs that are still flying? Like is there any sign that customers have any elevated concerns?

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

Not at all.

Operator

Your next question comes from the line of Leslie Josephs with CNBC.

Leslie Josephs

You mentioned that bookings were ticking up. Of course, looks like a much stronger summer than last year. What are your projections for after summer vacation season starts to wane? Do you expect a lot of that leisure demand to go away? And do you think there's going to be enough business demand to replace it?

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

Leslie, this is Vasu. Thanks for the question. Look, it remains to be seen. Throughout the pandemic, it's always difficult to forecast or prognosticate that far out. Those things are recovering, that difficulty remains. So it remains to be seen, as Robert and Doug mentioned earlier. Though, for us, the real lever is our capacity. And if things change, we can change with it. Over the last year, we have any number of tools and techniques to go and make the airline pretty nimble and responding to it. So first things first is to manage the summer and then we'll treat fall as it gets closer.

Leslie Josephs

Okay. And then the bookings that you have so far, are you seeing that they drop off after August or July? Or is there any one point where you see kind of a slowdown?

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

We're seeing pretty consistent bookings growth throughout periods. Indeed, where bookings are falling is a conscious decision on the part of the airline so that we don't do things like, for example, sell-out Thanksgiving week too soon. But we see continued strong bookings as we go out there. We just want to make sure they're coming in at their (inaudible).

Operator

Your next question comes from the line of Mary Schlangenstein with Bloomberg News.

Mary Schlangenstein

I want to ask first real quick, if I can go back to Alison's question on the MAX, I wanted to see if you have any information or can you comment on if there's the frustration level on the fact that you haven't yet gotten a service bulletin on that repair, which originally, the talk was that those repairs would be fairly simple and straightforward. But now it's been weeks and you don't have anything yet from Boeing?

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

Not at all. That's the FA's job, and they do it well, and we work really well with them. And as Robert said, we all coalesce around safety, that's part of the process, but at least they're (inaudible).

Mary Schlangenstein

Okay. And if I can also ask, Vasu, if you could talk a little bit about the wide-bodies domestically and what plane you're flying where domestically?

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

Yes. Mary, I can talk a little bit about it. But really, the biggest story on the wide-body is just how -- frankly how dynamic the airline has gotten in managing capacity around the system, which is frankly easy to do in the world of scheduling. It's a lot harder to actually deliver it for our customers and do so reliably in a way that they like. And so through the pandemic because international demand is falling, sometimes even as opposed to 45 or 60 days from departure, we've been taking out international flights. But as we've seen strong bookings in, say, Miami or what have you, we've been putting those wide-bodies in there.

So a big part of it is very dynamic, and it changes a lot. What we're most encouraged about is wherever we've seen them, indeed, we've been able to deliver it on short notice and for our earlier comments in a way our customers like. Our customer satisfaction scores have indeed never been higher. The only real method beyond that to where the wide-bodies go this summer if they are concentrated disproportionately and what we call hub-to-hub markets, those are markets like Miami, DFW and also our big Sun Belt market, especially in Miami. So we're now in a place where Miami to New York is all on wide-bodies, Miami to Los Angeles on wide-bodies, Miami to Boston largely on wide-bodies, too. So we don't anticipate very many material changes versus what you see on the schedule. But if things change in international, that's a real lever for us. The marginal capacity of that is probably better spent in domestic right now than what it is in most of long-haul.

Operator

Your next question comes from the line of David Koenig with the Associated Press.

David Koenig

I guess this is for Vasu. I wanted to follow-up on what you were saying to David Vernon on fares. The 90% -- as you approach this summer, the 90% of 2019 levels, is that due in any part to more business travel? Or is it pretty much just that you can get higher fares from leisure travelers? And then to follow up on that, is that pretty much leisure fares across your system, domestic and short-haul international?

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

Thanks for the question. And look, to be clear, that 90% of the book yields we're taking right now, there could be any number of factors that impact that they actually come in at once the summer is all said and done. But yes, it is primarily driven by lease demand growth. We are seeing signs of business growth, but it's coming off of a small base, and it's still a pretty small part of our system total. So most of the yield growth we're seeing is from the leisure travel segment. And frankly, a lot of what yield growth is there is just because we're seeing a lot of cases where, especially on peak holidays and things like that, where, frankly, the demand for seats is greater than supply of seats, and so that's what produces higher yield.

David Koenig

And that's pretty much system-wide?

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

No, it's not. Our system is really uneven. It's much more heavily concentrated among our domestic leisure and short-haul international markets.

Operator

Your next question comes from the line of Dawn Gilbertson with USA Today.

Dawn Gilbertson

I wanted to ask a question for you, Vasu. The State Department earlier this week raised the travel alerts to their highest level for most countries. I'm wondering if you have seen or expect to see any impact on bookings? And if not, why not?

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

Dawn, it's good to hear from you. I'll start and others can add. But if you look at the range to be seen in the last, whatever, it's been 48 hours, maybe 96 hours since it's happened, it's been too early to tell what's going on and what its impact to bookings might be. If indeed, there is one, we have ample tools to be able to adjust the airline should it come to pass. But then also the last thing I'll add to it is, from my earlier comments, the way we've configured the airline this summer is very much to make it resilient to just these kinds of changes where 85% of our capacity is in the domestic system, in large part because we realize that the recovery is not just going to be choppy from a demand perspective, but choppy from a market opening perspective as well. And so by building the plan like that is something that we could deliver upon for our team and our customers and create a lot more resilience as the world recovers.

Operator

Your next question comes from the line of Kyle Arnold with Dallas Morning News.

Kyle Arnold

I know you have some plans and you announced the plans to start hiring some pilots. Do you guys have any -- will there be any need going to the year for other employee groups, flight attendants or groundworkers or gate agents?

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

The answer to that is, yes. And you'll see that throughout our network, and it's especially from a passenger service, a team member or those folks that work on the fleet side of things, we're going to have needs throughout the network, but it's really just based on location needs more than anything else. And too soon to say anything about where we stand with our flight attendants, but I can tell you that I anticipate that there will be a need there as well.

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

Yes. The part is kind of -- we have so many of our -- took this opportunity to take leads that what we're doing rather than hiring new flight attendants is bringing flight attendants back from leave earlier than their leave would have extended. So having them come back off of leaves than they would have otherwise. Once we get through that, we'll need to hire, but we're not there yet.

Operator

Your next question comes from the line of Edward Russell with Skift.

Edward Russell

Robert, could you tell me a bit more about how many aircraft American needs to reactivate to fly all of its fleet this summer? And what types are still needing to be reactivated?

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

No, we're -- we have aircraft that are ready to go. Of course, we had -- we're -- as Derek mentioned in his comments, we're accelerating our reconfiguration program, our harmonization programs on the 737 and A321. So we'll have some aircraft that are caught up in that. But the way to look at our fleet is that they're all out there and maybe not utilized as much as they will be, but we feel great about the work that our maintenance team has done to keep everything ready to file when necessary.

Edward Russell

So just a follow-up, you don't have any aircraft temporarily stored anymore at this point? Is that the way to characterize it?

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

Correct. Yes.

Operator

And at this time, I would now like to turn the conference back to Doug Parker for closing remarks.

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

Fantastic. Thanks, everybody for your interest. If you have any further questions, please let us know. Appreciate your time.

Operator

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