

John Waldron: I'm delighted to introduce Doug, who's the chairman and CEO of American Airlines. Doug, you've been in the industry for 30-plus years and were the CEO during 9/11 and the '08/'09 crisis. What lessons have you drawn from those prior crises? And what is different about the current moment?

Douglas Parker: In terms of the severity of the crisis, this is the worst we've ever been through. In terms of managing through it, we managed through as we have the others. It's important that, you know, you're out communicating with the team, letting them know everything. Certainly not sugar coating the issues but letting the team know everything we know as we know it. Letting them know what we don't know. So much is driven by demand that dropped off in a way that no one really knows when it will exactly return or when it would exactly return. We were upfront about that and made sure the team understood everything we could do.

And then the other point I'd make is it was really important to us and I think it's always important in times like this to ensure as you're going through a crisis, you don't let the crisis change who you are. We started from the beginning telling our team, look, this is as bad as it gets. We don't know, you know, exactly how long this is going to last, but we know we're going to get through it. And what's going to matter when we get through it is how we treated our team, how we treated our customers when we come out the other end. And we can't lose sight of that. You know, adversity reveals character.

And we've worked really hard to make sure and I feel very good about how our team has made sure that as we manage through this, as we manage the crisis, we're certainly not spending money on anything we don't need to, but we're also not saving money in ways that we don't feel good about. Some of our competitors simply refused to give refunds, cash refunds to customers when they canceled their flights. They tried to give them -- they gave them vouchers instead. And, yeah, there's an inclination to want to do things like that, but we wouldn't do that because we were indeed canceling flights. And those customers had the same economic impact as a lot of our team members have. So we didn't do things like that.

We have some of our competitors chose to, after the CARES Act, you know, reduce the hours of some of their employees, less than 40 hours even though we were being paid to pay our people. That didn't seem right to us. So at any rate, I feel really good

about how American has managed through this both in terms of managing the crisis but also staying true to ourselves.

John Waldron: So let's talk a bit more, Doug, about how you've adapted as quickly as you have. You mentioned some of it just in your response there, but from my vantage point you guys have been very nimble and really adapted to the current crisis but also been thoughtful about what may be ahead. You know, there are things I know you're doing in terms of cleaning procedures and other things on the airplane. Maybe you can just talk about some of the more specific things you've done, you know, from an adaptation standpoint.

Douglas Parker: All right, yeah, so, look, in managing the near term we started talking immediately about, you know, it's not really rocket science when you're seeing these kinds of losses because of drop in demand. There's really three things we needed to do. One, build up liquidity. Certainly spent a lot of effort in making sure we're bolstering the balance sheet to withstand this. Second, making sure we're doing everything we can to reduce the cash burn. The team's done a really nice job of that primarily in doing things such as accelerating retirement of aircraft that we were going to be keeping in the fleet for three or four more years. We used this opportunity to come to the conclusion we should retire those airplanes now. Take those expenses out of the system, not just the flying itself but the inefficiencies of having different aircraft types we've now reduced from the system. So accelerated a lot of what we would have done otherwise and gotten our cash burned down really quickly. And from what was up to, you know, something in the \$70-80 million a day back in April down to \$25-30 million a day as we sit here today. Again, still a good bit of cash burn, but most all of that is driven by cost reductions as opposed to revenues because of course revenues haven't come back that much. So that was the second thing.

And then the third thing is doing everything we can to get people flying again. It's not as easy as us just doing it, but we certainly had to make people understand that it was safe to fly. That I know we've made huge treads there both as an industry and as an airline. All of us have worked through to ensure people understand how safe it is to fly. Numerous studies now proving that fact. The fact of the matter is -- and again, as all this evolved, none of us knew exactly what the right things to do were frankly. So at first, remember, there was a lot of talk about surfaces. So we spent enormous amount of efforts on cleaning the surface of the aircraft because

customers get on. Early on there was, you know, the view was, oh, you shouldn't wear masks. But as soon as it became clear that was the case, our industry was the leader in making sure that customers are required to wear masks on the aircraft. The fact of the matter is, aircraft air circulation is as good as it gets. The aircraft is circulated every two to three minutes on an airplane, and it goes, you know, through HEPA air filters and, you know, from the top of the aircraft, down to the bottom, then out the back.

All of that results in a product that as long as people are wearing their masks and we're doing everything we can to make sure that that is enforced, which we are, it's an incredibly safe product for us. The best data I can give you on that is that our flight attendants and pilots who are flying airplanes, you know, three or four times a day for three or four days a week have the lowest COVID rates within our company. Much lower than the industry average because they're in a safe environment.

So anyway, we've done all of that as we needed to. I know there are some people out there who still just don't want to get on an airplane because they don't understand all that. We've made huge strides in that regard. The biggest problem for us now getting people to fly is them having something to do when they fly. Not having travel restrictions, not having quarantine restrictions when they fly. Having business to do when they land. Those types of things.

So we'll keep working. We're continuing to work on that one. The vaccine news of this week obviously is welcome news in that regard, but we don't want to lose weight on that. People are willing to fly. We're seeing that in leisure destinations for certain. But mostly what people need in order to fly is a reason to travel. And right now for the most part that's to go to the beach, to go to the mountains. We need it to be to go to work.

John Waldron: So Doug, you and I have spent some time during the crisis just talking about, you know, managing a company and leading your people through, you know, an environment like this. You've become quite an external spokesperson for the industry, but you've also obviously had to be an internal spokesperson in your company and get people comfortable that, you know, you're going to make it through a challenging period. Just talk a bit about how you think about that, how you've tried to, you know, spend your time, you know, navigating through those external and internal, you know, components of leadership, if you will.

Douglas Parker: First, I'm fortunate to have a team that can run the airline in my absence. So if I have to go off to Washington for a few weeks, the airline runs just perfectly fine and arguably better than when I'm here. But you're right, the organization still needs to know, you know, where we're going, and that's a good bit of my job. So anyway, I don't view it so much as a balance. Again, it's part and parcel of the job. We always need to make sure we're on the same page. It sometimes can feel like a conflict, conflicting messages. They're not of course. But we got to be careful with it, that, you know, when we're off asking for government assistance, that can mean to some that if we don't get the government assistance, oh, my gosh, we're going to be, you know, in serious hurt.

That wasn't the case, by the way, back in March for the entire industry. Without CARES 1, I don't know where this industry would be. That's not so much the case here with this second round of CARES. The second piece really is about supporting the team, without getting into great detail for everybody that doesn't care as much as we do about this. But the CARES Act provided for something called payroll support to the airline business. What that meant is we are funded by the government to pay our team. And they pay us not everything we pay but a good bit of our payroll and essentially a pass through. And in exchange for that, we agree to not furlough anyone and to not cut anyone's pay.

So we're employing a lot more people than we would otherwise because the government's paying us to do that. It's a fantastic policy, particularly for a business like the airline business that has this critical infrastructure that's going to help the economy rebound. We don't think we're special, but we are unique. And that once we start getting pilots out of training, once we have aircraft in mothballs, we don't just start those back up the next week. It takes months and in some cases years if we get airplanes that have been sitting on the ground for too long, if we get pilots that are out of training to be here when you all need to be traveling again and when our economy needs that pickup. When vaccines need to be distributed. That's critical infrastructure.

And this program supports that infrastructure infrastructure. So while it is indeed money to the airlines to pass onto our team, this isn't money as I just described that we necessarily have to have to survive. But it's money that we think makes a lot of sense from the perspective of maintaining critical

infrastructure. Particularly there's going to be a bill passed after, you know, some sort of stimulus passed after the inaugural. You know, we can't wait that long. And we're not alone in that I don't think.

John Waldron: Let's talk about ESG and sustainability, a topic that is becoming evermore, you know, kind of prominent on a daily basis, you know, across markets and obviously from a government standpoint. I'm just interested in your perspective on how you think about it holistically as an airline business, recognizing, you know, kind of what you do every day and how you prosecute your commerce every day but knowing that the ESG mantra is kind of out there and how you think about getting to be a more sustainable company over time.

Douglas Parker: Yeah, we, like all companies in the United States, are working, spending a lot of time working through this, making sure that we're doing everything we possibly can, one, because it's just the right thing to do. And two, we know it's a big part of the business going forward. So start with this. You know, for the airlines, 99.5% of our carbon footprint is driven by burning jet fuel. So I'm not going to ignore the other half percent of course. There's really important things we can do, but by far the biggest thing we can do is make sure that we're burning less jet fuel to transport the same number of customers.

The best thing any airline can do for that right now is to have efficient aircraft. What that means is airplanes that are newer aircraft. And we have that. We at American, the reason we have more debt than others is because we have newer aircraft than others that we debt financed. So we have the youngest fleet amongst the largest airlines in the world. That is the best thing we can do for the environment. That's what we'll continue to do.

Now, we can make even those airplanes more efficient. Things like sustainable fuels, which we are investing in and are very excited about. How we really get our carbon footprint really minimized is through sustainable fuels and working over time to make that happen. But right now, there's just not nearly enough capacity for sustainable fuels to fund any sort of real airline capacity. So the best thing we can do is have the youngest fleet.

And, look, if customers want to figure out what the best thing they can do for the environment if they're flying, you should

try and get yourself on the newest airplane you can. That's where your incremental weight is going to burn the less fuel, it's on newer aircraft. And those are at American.

John Waldron: So Doug, you've talked a lot about the demand side and, you know, how it comes back, when it comes back, how much of it is business versus leisure. We've sort of covered that. I'm interested in your perspective on the supply side. You know, now that we've been through this pandemic for many months and we're not finished by any stretch, but you kind of have a better sense for, you know, maybe how people think about supply in the industry. I'm just interested in your perspective on the supply side of the equation.

Douglas Parker: Yeah, it's still hard to say. I mean, so much of the supply right now is sitting on the ground just because there's not enough demand even to fly the airplanes you own. So we're closely monitoring what everybody's actually doing in terms of deferrals, in terms of accelerated retirements. I know what we've done. We've accelerated the retirement of about 150 airplanes. We've pushed back another 150 airplanes or so in terms of deferred deliveries.

We're going to be at least 10% lower in 2021 than we were in 2019. I think the industry is going to be in a similar range. So, I mean, that may not sound like that big, but in a business like ours, I mean, 10% capacity change is enormous in terms of, again, in a business with such high leverage around it. Around, you know, just taking 10% of your costs and still being able to generate the same amount of revenue in this kind of marginal business is big. So I think it's going to be sufficient. And, again, maybe not to get us back to 2019 profitability in 2021. But certainly as we get into 2022, etc., and again I'm talking about versus 2019. And we were all growing. I mean, based on what everyone thought the demand was going to be in 2021, that's got to be 20% lower than where we were headed.

So there's been a lot done. I think there will be more to come. And I think the industry has done a pretty good job of certainly matching the supply with maybe not the 2021 demand but certainly not far behind.

John Waldron: Doug, I just want to thank you for your time. You've been terrific during the pandemic. You've been terrific outside the pandemic. But in this period, you have stewarded the airline and the company extraordinarily well, and I wish you continued good health and success. Take care.

This transcript should not be copied, distributed, published or reproduced, in whole or in part, or disclosed by any recipient to any other person. The information contained in this transcript does not constitute a recommendation from any Goldman Sachs entity to the recipient. Neither Goldman Sachs nor any of its affiliates makes any representation or warranty, express or implied, as to the accuracy or completeness of the statements or any information contained in this transcript and any liability therefore (including in respect of direct, indirect or consequential loss or damage) is expressly disclaimed. The views expressed in this transcript are not necessarily those of Goldman Sachs, and Goldman Sachs is not providing any financial, economic, legal, accounting or tax advice or recommendations in this transcript. In addition, the receipt of this transcript by any recipient is not to be taken as constituting the giving of investment advice by Goldman Sachs to that recipient, nor to constitute such person a client of any Goldman Sachs entity.

This transcript is provided in conjunction with the associated video/audio content for convenience. The content of this transcript may differ from the associated video/audio, please consult the original content as the definitive source. Goldman Sachs is not responsible for any errors in the transcript.