

Q3 2025 Earnings Call

Company Participants

- Devon May, Chief Financial Officer
- Neil Russell, Vice President, Investor Relations
- Robert Isom, Chief Executive Officer
- Steve Johnson, Vice Chair and Chief Strategy Officer

Other Participants

- Atul Maheswari, Analyst, UBS
- Catherine O'Brien, Analyst, Goldman Sachs
- Conor Cunningham, Analyst, Melius Research
- Dan McKenzie, Analyst, Seaport Research Partners
- David Vernon, Analyst, Bernstein
- Jamie Baker, Analyst, J.P. Morgan
- Leslie Josephs, Analyst, CNBC
- Michael Linenberg, Analyst, Deutsche Bank
- Niraj Chokshi, Analyst, The New York Times
- Scott Group, Analyst, Wolfe Research
- Sheila Kahyaoglu, Analyst, Jefferies

Presentation

Operator

Thank you for standing-by, and welcome to American Airlines Group's Third Quarter 2025 Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speaker presentation, there will be a question-and-answer session. (Operator Instructions) I would now like to hand the call over to Neil Russell, Vice President, Investor Relations. Please go ahead.

Neil Russell {[BIO 16483376 <GO>](#)}

Thanks, Latif, and good morning, everyone. Welcome to the American Airlines Group earnings conference call. On the call with prepared remarks, we have our CEO, Robert Isom; and our CFO, Devon May. In addition, we have a number of senior executives in the room this morning for the Q&A session. After our prepared remarks, we will open the call for analysts' questions, followed by questions from the media. To get in as many questions as possible, please limit yourself to one question and one follow-up.

Before we begin, we must state that today's call contains forward-looking statements, including statements concerning future events, costs, forecasts of capacity and fleet plans. These statements represent our predictions and expectations of 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 that was issued earlier this morning, Form 10-Q that was filed with the SEC earlier this morning, as well as in our Form 10-K for the year ended, December 31, 2024, filed with the SEC on February 19, 2025. Unless otherwise specified, all references to earnings per share are on an adjusted and diluted basis.

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

Thank you for your interest in American and for joining us this morning. With that, I'll turn the call over to our CEO, Robert Isom.

Robert Isom {[BIO 6783069](#) <GO>}

Thanks, Neil, and good morning, everyone. This morning, American reported an adjusted pre-tax loss of \$139 million for the third quarter or a loss of \$0.17 per share. This result was at the higher end of the guidance provided in July and was driven by stronger revenue performance. We see that performance continuing and have adjusted our fourth quarter and full-year guidance accordingly. I'm proud of the team's hard work and resilience throughout the third quarter. They executed well despite tough operating conditions.

At American Airlines, we're proud to be a premium global airline with an enduring legacy of innovation and a commitment to caring for people on life's journey. We've built an airline positioned to excel over the long-term and are focused on delivering for our shareholders, customers and team. That said, we recognize there is significant revenue opportunity ahead of us, and we're excited about the good work underway to accelerate our revenue growth and view that as considerable upside as we move into 2026.

The revenue momentum we've seen and the opportunity ahead is a product of our sales and revenue management initiatives, scaling our new agreement with Citi, restoring capacity in our hubs and using consistent improvements in the customer experience as a value multiplier to everything we do. Much of this foundation has been laid thanks to the efforts of our commercial team and Steve Johnson. Last year, I asked Steve to step-in and lead the commercial organization to quickly stabilize and re-energize this part of our business.

We knew we'd hire a new Chief Commercial Officer in the future and I'm grateful to Steve for taking this on. He and the team have strengthened our commercial position and we're now in a great spot to make a transition. And today, we've named Nat Pieper, as America's new Chief Commercial Officer. Nat has more than 25 years experience in leading commercial and financial teams at Alaska, Delta and Northwest Airlines. And most recently, the oneworld Alliance.

He's a seasoned airline executive who understands the complexity of highly integrated organizations. I've known Nat for more than 20 years and he's exactly the kind of leader we want at American. He'll officially join us on November 3rd, at which point Steve will return to his role as our Vice Chair and Chief Strategy Officer.

So with that, let's talk more about some of the work that the team has delivered. Leading off with our focus on-sales and distribution, we continue to build-out our sales organization and are aggressively using our loyalty program to win-back customers, especially in competitive markets. In the third quarter, we grew our corporate revenue by 14% year-over-year. This result is further confirmation that our sales and distribution efforts are being well-received by our customers. Exiting this year, we expect to have fully recovered the revenue share that was lost by our prior sales and distribution strategy. We'll now shift our focus to growing our share beyond those historical levels, which we believe that combined with revenue management investments and retailing optimization will produce significant value for the airline.

Next, deepening our relationship with Citi and expanding our co-brand card portfolio will further the growth of our industry-leading loyalty program. We're excited for our exclusive partnership with Citi to begin on January 1. The teams at American and Citi have been hard at work executing a successful cutover of our in-flight acquisition channels to Citi earlier this month. In addition, we've recently launched our new mid-tier Citi Advantage Globe MasterCard, expanding our card offerings to meet travelers at every level.

Our partnership with Citi will provide more benefits to our customers and is designed to drive growth in our credit card acquisitions and penetration over the coming years. The upside is significant as we approach the end-of-the decade, we expect remuneration from our co-branded credit card and other partners to reach approximately \$10 billion per year. At that time, the incremental annual benefit to operating income is projected to be approximately \$1.5 billion compared to 2024.

On the loyalty side, active advantage accounts increased 7% year-over-year in the third quarter with our highest-growth in enrollments coming from Chicago, which was up approximately 20% year-over-year. Advantage members are more engaged, generate a higher yield versus non-members and are a key driver for premium cabin demand. In the third quarter, spending on our co-branded credit cards was up 9% year-over-year, as customers continued to favor Advantage Miles, as their preferred rewards currency.

We remain focused on strengthening our network by scaling our hubs. We're proud of our hub network that we have with eight of our hubs located in the 10 largest metro areas in the US. This year, our growth was focused on Chicago, Philadelphia and New York. American has a long history in all three cities with a base of corporate and premium customers that are loyal to the American brand.

Our improved schedules along with our new sales and distribution strategy and other product improvements are helping us win local high-value customers. Performance continues to track in-line with our expectations. This targeted expansion will continue through the fourth quarter and into 2026, as we add more cities and more frequencies to improve our offering for customers. Our ability to grow capacity in premium markets will be further supported, as we take delivery of new aircraft and reconfigure our existing fleet.

These efforts will allow us to grow our premium seats at nearly two times the rate of main cabin seats and grow our live flat seats over 50% by the end of the decade. Additionally, we're excited about the significant investments in airport infrastructure happening throughout our system, headlined by rapid construction of the new Terminal F and enhance Terminals A and C at DFW. When complete, DFW will be a world-class facility and the largest single carrier hub in the world.

All of this is intended to deliver a consistent and elevated travel experience for our customers, whether on the ground or in the air. And it's not just facilities. The investments we continue to make in customer experience are the value multiplier on top of everything we're doing.

With the ongoing rollout of our new flagship suite designed to elevate privacy, comfort and luxury, we're continuing to reimagine and advance the premium travel experience. Customers have responded very positively to this product on our new Boeing 787-9Ps, which led Americans' wide body aircraft and customer satisfaction. We will offer the same product on our 321XLRs and our 777 fleets in the coming years.

We're also investing in the onboard experience of our regional aircraft, including the installation of high-speed satellite Wi-Fi to maintain a consistent premium experience across our fleet. We're proud to offer high-speed gate-to-gate satellite Wi-Fi on more aircraft than any other airline,

keeping our customers connected while traveling. Thanks to our new sponsorship with AT&T, this amenity will be complementary for our Advantage members starting in January.

We announced several exciting updates to our leading lounge network, including plans to open new flagship lounges in Miami and in Charlotte, and we'll expand our Admirals Club lounge footprint in both markets as well. We also introduced several additional premium enhancements, including new amenity kits, improvements to our food and beverage offerings and a new partnership with Champagne Bollinger. We continue to explore partnerships to elevate the art of travel, like our new coffee partnership with Lavazza that aligns with our focus on refined offerings and exceptional service throughout the travel journey.

Nothing matters more to our customers than flying on a reliable airline. While this quarter presented challenging operating conditions, the American team quickly recovered, minimized disruptions and maintained a resilient operation for our customers. Thanks to continued investments in technology, including the expansion of our Connect Assist platform, we've enhanced the connection experience and successfully preserved customer connections. The team is focused on investing in the right areas and we're committed to executing on our initiatives to deliver on our revenue opportunities.

Before closing, I'd like to take a moment to recognize the dedicated aviation professionals who continue to uphold the safety and security of our industry during the government shutdown. We're hopeful that action will be taken to reopen the government as soon as possible.

And now, I'll turn the call over to Devon to share more about our financial results and outlook.

Devon May [{BIO 17603829 <GO>}](#)

Thank you, Robert. Excluding net special items, American reported a third quarter adjusted loss per share of \$0.17, a 50% beat versus the midpoint of our prior guidance. We continue to progress on our commitment to deliver on our revenue potential. We produced record third quarter revenue of \$13.7 billion, which was about a percent ahead of the midpoint of our initial guidance. Domestic year-over-year PRASM improved sequentially each month and turned positive in September.

While premium continued to outperform main cabin, we've seen improvement in the main cabin since its low point in July. That momentum has continued into October, and we're encouraged by the bookings we have taken for November and December. Our international entities performed in-line with the guidance we gave in July. After a very strong second quarter, unit revenue in the Atlantic region was down year-over-year due in part to the macro uncertainty during the peak booking window and a continued seasonal shift in-demand from the third quarter to the fourth quarter. That said, Atlantic was our most profitable region during the quarter and we expect Atlantic unit revenue to be solidly positive in the fourth quarter.

In Latin-America, unit revenues were down year-over-year as the short-haul Latin market was oversupplied during the quarter. American's presence in the region, the premium services we offer and the scale we have in Miami and our other Southern hubs allow for profitable results in this environment and a continued long-term competitive advantage in the region.

Lastly, Pacific year-over-year unit revenue declined mid-single digits in the quarter. We expect fourth quarter unit revenues to be approximately flat year-over-year off a very strong 2024 base, supported by strength in the premium cabins. Premium continues to perform well with year-over-year premium unit revenue outpacing main cabin by 5 points in the third quarter. Capitalizing on

this demand, American is continuing to invest in expanding our premium offerings across the customer journey.

While already recognized amongst the US network carriers for having the highest-rated and most consistent lie-flat product across our long-haul fleet, we are elevating this experience with the investment in our new flagship suite, which we launched with our high premium Boeing 787-9. As Robert said, in the coming quarters, we'll expand this product further with the introduction of our A321XLRs and the retrofit of 20, 777-300 aircraft, which will increase premium seats on this fleet by over 20%.

We're excited to announce that we'll continue scaling our new flagship product on our 777-200 aircraft. These aircraft, which will be receiving a nose-to-tail retrofit will see a 25% increase in lie-flat and premium economy seats along with new in-flight seat back entertainment system. Additionally, we continue to expand premium on our domestic aircraft. We are retrofitting our A319s and A320s, where we will grow first-class seating by 50% and 33%, respectively.

With these investments in our existing fleet along with our new deliveries, our premium seat growth will outpace our non-premium offerings. Our total capital expenditures in 2025 are expected to be approximately \$3.8 billion, which includes the delivery of 51 new aircraft this year. Longer term, capital expenditures remain consistent with our prior guidance and our current expectations for 2026 are approximately \$4 billion to \$4.5 billion of total CapEx.

We continue to make progress in strengthening the balance sheet. Total debt at the end-of-the third quarter was \$36.8 billion, down by \$1.2 billion from the second quarter. We ended the quarter with \$10.3 billion of available liquidity. At the start of the year, we made a commitment to reduce total debt by approximately \$4 billion to less than \$35 billion by the end of 2027. Just nine months after making that commitment, we are more than 50% of the way to achieving that goal.

Now on to our outlook for the remainder of the year. For the fourth quarter, we expect capacity to be up between 3% and 5% year-over-year, as we continue to build back our hubs and adjust our schedules to meet evolving seasonal demand trends. We expect fourth quarter revenue to be up between 3% and 5% year-over-year. If we achieve the midpoint of our guidance, we'll deliver flat unit revenue in the quarter after being down 2.7% in Q2 and 1.9% in Q3.

Fourth quarter (inaudible) is anticipated to be up 2.5% to 4.5% year-over-year, in-line with the guidance we provided in July. We are continuing our multi-year reengineering the business effort to utilize technology and streamline processes to enable an improved customer and team member experience while driving a more efficient business. These efficiencies are being realized through best-in-class workforce management, efficient asset utilization and procurement excellence.

These efforts have resulted in \$750 million of annual savings versus 2023. As a result of the investments and process improvements we have made, most mainline work groups are operating at higher productivity levels today than they were in 2019. With labor cost certainty through 2027, American is able to focus on our long-term efficiency efforts while executing on our commercial and customer initiatives.

With this fourth quarter guidance, we expect to deliver an adjusted operating margin of between 5% and 7% and earnings per share between \$0.45 and \$0.75, over 2 times higher than the midpoint of our implied fourth quarter guidance from July. This brings our full-year EPS guidance to a range of \$0.65 to \$0.95 per share. Based on these earnings and capital projections, we expect to generate free-cash flow of over \$1 billion for the year.

I'll now hand the call back to Robert for closing remarks.

Robert Isom {[BIO 6783069](#) <GO>}

Thanks, Devon. We're positioning American for long-term success. Our commercial efforts in sales and distribution and revenue management are taking root, driving business and premium revenue outperformance. We're poised to take advantage of the new relationship being launched with Citi in 2026 to grow the world's first and largest airline loyalty program at unprecedented rates. We started down the path of restoring our network presence, further expanding our industry-leading footprint in North America, the world's most important aviation market, all powered by the youngest and most fuel-efficient fleet. These efforts are being bolstered by our focus on elevating the customer experience, evidenced by the continual announcements this year of exhilarating upgrades.

Finally, we'll always remain focused on efficient capacity production. We've been a leader in this space for years and we'll continue to make smart investments that drive efficiencies in our business. We're looking-forward to closing out 2025 in strong fashion. And with this groundwork, we plan to deliver meaningful long-term value for our shareholders in 2026 and beyond.

Thank you for your interest in American Airlines. Operator, you may now open the line for questions.

Questions And Answers

Operator

(Operator Instructions) Our first question comes from the line of Scott Group of Wolfe Research. Please go ahead, Scott.

Q - Scott Group {[BIO 15308951](#) <GO>}

Hey, thanks. Good morning. So I think I saw you said that September unit revenue was positive. Fourth quarter guide is sort of flat. So maybe just explain that change. And then within that, I think I just heard you say domestic unit revenue, you think is flat in Q4 as well. Maybe just some thoughts, premium versus domestic and how that shapes out.

Operator

Gentlemen, please standby. Company, please unmute the line.

A - Robert Isom {[BIO 6783069](#) <GO>}

I'm -- I'm sorry, Latif, I think we were on mute there. So we'll start this over. Steve, you want to take this question?

A - Steve Johnson {[BIO 1457782](#) <GO>}

Sure. Latif, can you hear me now?

Operator

Yes, sir. Please proceed.

A - Steve Johnson {[BIO 1457782](#) <GO>}

Thanks. Yeah. Scott, thanks for the question. What we've seen, I think is what you've heard from the other airlines is July was a really very difficult month for the industry. August was better than July, September better than August. And indeed, we did inflect positive during the month of September. October looks better than September and the fourth quarter looks strong. But that has been driven interestingly largely by improvements in -- for us anyway, in main cabin revenues.

The premium revenues, as we've discussed, have been strong all year long, really not faltering, notwithstanding any of the economic uncertainty we went, but that economic uncertainty and Liberation Day and all of that has played a very -- it's been very difficult on our main cabin revenue, the demand from our most price sensitive customers. In any event, the projection that we have for the fourth quarter of being flat year-over-year is a sequential improvement, quarterly sequential improvement.

Something we're excited about is a combination of good performance, I think in the domestic entity, good performance across the Atlantic, in the North Pacific and in South America. And a little more uneven performance in the South Pacific, largely because of capacity and then year-over-year, not great performance in short-haul Latin-America, again, a capacity issue that entity, while down year-over-year, it remains a really important part of our business and a profitable part of our business, as we have real network strength from Miami and DFW and Phoenix into those regions.

So I think we're excited about the sequential improvement in being able to project that flat revenue year-over-year.

Q - Scott Group {[BIO 15308951](#) <GO>}

Okay. And then I want to see if you want to provide any sort of early thoughts for next year. So if I look at Q4, right, we've got capacity up 3% to 5%, what are we saying unit cost up 2.5% to 4.5%. Is that sort of the right way to think about capacity and unit cost for next year? And ultimately, what I'm trying to figure out is what's the visibility or confidence in sort of a price-cost inflection next year.

A - Devon May {[BIO 17603829](#) <GO>}

Hey, Scott. We're just in the planning process for next year as we sit here today. So we're not guiding to capacity or unit cost performance at this point, but we'll stay consistent with what we've been saying on that front is we have this fleet plan that can allow us to grow somewhere around mid-single digits. Our guardrails on capacity production are -- at one end, we just want to understand what sort of economic growth and what sort of demand growth we're seeing. And we like where we're at on that front.

The other side is where the competition is at. And lastly, just what sort of growth opportunities we have. We're really excited about the growth we put into the market this year, primarily in Philadelphia, Chicago and New York. Those markets will continue to grow in 2026, and we're also excited about growth opportunities in Miami and in Phoenix. On the cost side, I think you see it in our numbers, we believe we manage cost and efficiency better than anyone. It's been a very formal and long-standing effort. And so next year, we look out -- yeah, we're looking for margin expansion as we head into 2026.

Operator

Thank you. Our next question comes from the line of Sheila Kahyaoglu of Jefferies. Please go ahead, Sheila.

Q - Sheila Kahyaoglu {[BIO 17240338 <GO>](#)}

Good morning, guys, and thank you for the time. Maybe digging a bit deeper into the capacity and premium investment comments. Now that you have also the 777-200 fleet going, the schedules are loaded up 5% in the first half of next year. The fleet grows a similar amount assuming no retirement. So how are you thinking about the mix in premium versus main cabin and short-haul versus long-haul?

A - Robert Isom {[BIO 6783069 <GO>](#)}

So I'll start. Thanks, Sheila. Well, first off, in terms of capacity mix, international domestic, it takes a strong domestic and very strong hubs to support a thriving international operation. And so we'll keep a balance in terms of that growth. And it's really exciting in terms of premium offerings. So our premium seating, we expect -- especially now with the 787-9, 9Ps, the XLRs, the reconfigurations we're making, the premium seating is going to grow roughly twice the rate of what our non-premium offerings would grow.

And even more specific in terms of our lie-flat international capable seating and that is going to grow by 50%, as we look out towards the end of the decade. So we feel really excited about it. And it all plays into what we're seeing in the marketplace that people are willing to pay for experience and we're going to make sure that we have a hard product that they enjoy.

Q - Sheila Kahyaoglu {[BIO 17240338 <GO>](#)}

Great. And then maybe if I could ask another one on just domestic hubs. You mentioned Chicago enrollments are up 20% year-over-year for AAdvantage. Lots have been said about this market. When you look across domestic hubs, where are you seeing the greatest level of unit revenue improvement, either sequentially or year-over-year? And how are you thinking about capacity next year?

A - Robert Isom {[BIO 6783069 <GO>](#)}

Well, I'll just start. Look, we're pleased with our efforts in Chicago. Certainly, we've done a nice job in growing that back. And as you look towards next year, that's a hub that will be over 500 departures. And we have a -- just an incredible base of customers that are waiting for us to really get back into the marketplace. Those advantage enrollments, overall, we grew 7%. But in Chicago specifically, 20%, I mean that's a really remarkable number.

We're going to take advantage of that desire for our product, as I mentioned. And as we look out into the future, we anticipate that Chicago will return to its rightful places as one of our largest and more profitable hubs. So capacity, at least in Chicago as we take a look at, we're going to fly what we can. It will be again over 500 departures capacity throughout the rest of the system. It's really focused on restoration of flying in Philadelphia, Miami, Phoenix. We've already have DFW and Charlotte appropriately sized.

So we're really excited about what we're going to be able to bring back to markets that quite frankly, because of regional aircraft and delivery delays. We haven't been able to serve as thoroughly as we'd like.

Operator

Thank you. Our next question comes from the line of David Vernon of Bernstein. Your question please, David.

Q - David Vernon {[BIO 16688886 <GO>](#)}

Hey, guys. I hate to bang the same drum, but maybe I'll ask the same question in a slightly different way. If we think about what percentage of premium seats are in the mix kind of as we end 2025 and how does that change if you can put a number on that, that would be helpful as well as any sort of commentary or directional commentary on the relative buy-up from what would be considered a non-premium versus a premium seat. I think what we're trying to all kind of model out here is what kind of unit revenue lift you could get because the product mix is changing so much next year.

I appreciate the twice the normal fee growth rate, but I think what we're trying to do is really kind of help handicap what kind of margin expansion should be coming from that product investment? Thanks.

A - Steve Johnson {[BIO 1457782 <GO>](#)}

Thanks, David. A great question even if it is bang in the same drum, it's -- this is a really good story for the industry, really good story for American. As I've said earlier and the guys said in the opening remarks, premium has been strong all year despite economic uncertainty. If we look-back a long-time, some of us have been in the business for a long-time. I can just remember discussions about whether we could ever, as an industry find a way to get people to pay more for better products and services. And I think the answer to the question these days is a resounding yes.

A part of what we're seeing is -- and I have to say it feels like a post-pandemic new normal. It's just been so consistent and so consistent through difficult economic circumstances. But it's always -- premium has always been driven by business. There -- and there remains a component of that, that's business demand, but a business doesn't always let their employees fly in premium. And so what - really what we're seeing is, I think a renaissance or maybe a new beginning for premium leisure.

And this goes to my comment about our customers being willing to pay more for better services and better products. Our premium cabin is now 65% load factor is we think is premium leisure. It's outperformed the main cabin by 5 percentage points, 5 PRASM points year-over-year. Our paid load factor in premium is up 2 points year-over-year and is now nearly 80% and we were selling on a paid basis only in the mid-60s before the pandemic. Nearly 50% of our ticket revenue comes from premium.

In recognition of those market dynamics, our focus is on taking advantage of that and growing that. Robert and Devon talked about the additional premium seats that we're adding to the fleet. We're designing better products. We have easier ways and super simple digital ways to upgrade and lots of opportunities to upgrade on a wallet-friendly basis. It's really, I think, becoming just a really important and really exciting part of our business.

Q - David Vernon {[BIO 16688886 <GO>](#)}

Okay. And then maybe as you think about beyond the hard product investment, right, and that however, that mix shift is going to change in the number of seats. Robert, when you're talking to the team or maybe and working with Nat, as he's ramping up. When you think about the product investments or experience investments that you need to make, what are the two or three areas that you are most focused on with the team?

A - Robert Isom {[BIO 6783069 <GO>](#)}

Thanks, David. Well, the good news on this is that we're really bringing to fulfillment a number of investments we've made over-time. And then adding to that this reimagined and reinvigorated customer experience effort here. As you know, we launched a new team that has been taking a look at just in-flight amenities and products. And so that whether that's again relationships with great brands for coffee or champagne, whether that's getting back into the creature comforts with amenity kits and things like bedding and duvets, those things are all happening.

We're mixing that on-top -- so that in-flight experience is then being mixed with an on-the-ground focus. And so whether it's the investment in the facilities that we're making throughout the system, notably our premium lounges, which again we have already the biggest network of premium lounges, we're just only going to add to that in places like Charlotte and Miami. So I'd say that's the second thing. And look, you do need to have the hard product. And so as we've talked before, first-off, no one has a more consistent lie-flat product than we do.

I'm super-excited about the new deliveries of 787-9s and the XLRs. But on-top of that, you know, whether it's our A320s, our A319s our regional aircraft and what we're -- how we're equipping them with satellite Wi-Fi, that's all fantastic. And then what we announced today, the 777-200 reconfigurations, that is a big deal for us because extending the lives of those and putting those into service really gives us a capital spending holiday in terms of fleet replacement. So it's a win-win-win for our customers, for our company and most certainly our investors.

Operator

Thank you. Our next question comes from the line of Dan McKenzie of Seaport Global. Please go ahead, Dan.

Q - Dan McKenzie {[BIO 15071178 <GO>](#)}

Oh, hey, good morning. Thanks for the time, guys. Congrats on the outlook here in the quarter. Going back to an earlier question on Chicago and the response that you expect it to return to its rightful place as the largest and one of the more profitable hubs. And that, of course is pretty different messaging than what we heard from one of your chief competitors there. So just a couple of questions. One can the airport support two strong competitors longer term? And what does history tell us?

And then finally, with the 20% improvement in enrollments, is that enough for you to help close that margin gap there in '26 or 2027?

A - Robert Isom {[BIO 6783069 <GO>](#)}

Well, thanks, Dan. I'll just again restate what we've been saying all along. Of course, Chicago can support two hub carriers. It's been doing it forever. American has served Chicago now for almost 100 years. And so we're looking to serve it well into the future. I've talked about a hub, it's going to be our third largest hub. There aren't many 500 departure hubs out there. It's critically important to our customers in Chicago and those that connect in the region, it ensures that there is service, competitive service.

And I think that that's probably the thing that maybe a competitor doesn't like that we're going to be there. We're going to be investing in Chicago and there aren't going to be really any impediments to us building out the network and the footprint that we need there. So thanks for the question. Really excited about Chicago and what's coming up in 2026 and beyond.

Q - Dan McKenzie {[BIO 15071178 <GO>](#)}

Yeah, pretty good. And then, Robert, you mentioned the \$1 billion cost labor disadvantage to competitors on CNBC this morning. Is it your sense that this cost disadvantage should go away in '26, at least in theory? And can the domestic supply backdrop support the higher fares needed to offset that increased costs or whether or not more capacity needs to exit?

A - Robert Isom {BIO 6783069 <GO>}

Well, you'll have to ask that question of our competitor that is obviously has profits that are built off of a labor cost advantage. It's a labor cost advantage that isn't just rate. And so, I can't imagine that is something that moves into the future. It's not -- it's certainly not something that would -- we would ever contemplate at American over the long-run.

Now in regard to ultimately improving margins in the business, this is where American, I think has a tremendous opportunity. So first-off, we already have market rates built-in. We already have labor cost certainty. And I think that that enables us to launch the efforts that we're undertaking. And so whether that's the restoration of our network. We know that we have the pilots and flight attendants and everybody that is going to be -- they are going to be situated to fly the network and to rebuild some of the places that we've quite frankly lost some share in.

We know that we're set up well, as we move into 2026 with our new Citi deal, which is going to produce a tremendous improvement in terms of net income going forward. And I mentioned earlier about sales and distribution, and I gave Steve credit for helping set the team up. We've made tremendous progress. One of the things I'm so proud of is that from a managed corporate revenue perspective that we performed 14% better year-over-year. Nobody else is doing that.

And the good news on that front, we're not all the way there. We have not only some share left to catch-up as we exit the year, but we're not going to stop on that front. And underscoring all of that is the work that we're doing in premium that we've talked about. And so I feel really positive about American's positioning no matter the economic backdrop and everything that I see bodes well just in terms of what we do well. I think the domestic supply-and-demand is coming back into balance. I think that the places that we serve are the fastest growing in -- certainly within the country and we're poised to really take-off, as we go into 2026.

Operator

Thank you. Our next question comes from the line of Jamie Baker of J.P. Morgan Securities. Please go ahead, Jamie.

Q - Jamie Baker {BIO 3406456 <GO>}

Hey, good morning, everybody. First question probably won't come as much of a surprise reminiscent of what I've been asking this season. So this whole idea of premium leisure yields eclipsing corporate yields, at least in some markets is interesting to me because I think most investors still think of corporate yields as kind of the gold standard. So my question to American is how prevalent is this across your domestic market -- well, across all markets, I suppose.

And does it make you think any differently in terms of how aggressively you pursue corporate share if premium leisure yields may be the future? Any thoughts on that?

A - Robert Isom {BIO 6783069 <GO>}

Oh, Jamie, thanks for the question. And this is one where I think we've learned some lessons. Quite frankly, corporate travel is incredibly rich in terms of yield. And while we love what's happening from the premium space, premium leisure, we need both. And that's why we're

doubling down in terms of our investment in our sales team. We like what we see and we think that there is upside for American.

Now I'll note one other thing, which is you know we talk about business travel and it has not recovered in terms of passengers to the levels that it was in 2019. I think that there's a lot more room for growth. I don't know if we ever get back to the total percentage of business as a percent of total revenue, but there's a lot more that can be gained. And as we take a look at what's going on in the world right now and with even continued return to office and this desire to meet face-to-face and renew connections, I'm very optimistic on that front.

Now from a premium leisure perspective, yeah, we've got to be ready for it and that's why we have a fleet that I think is tailored to meet those needs. And we're going to make sure that we have a great product offering to attract those customers. And that will be a key to margin expansion. And it's -- look, American is a premium carrier to begin with, and we're only going to become more.

A - Steve Johnson {[BIO 1457782 <GO>](#)}

And Jamie, I'd just add that while we do see the phenomenon right now where there's a lot of premium leisure demand, it's really good yields. We got to remember that business has been with us forever and it's going to be with us forever. It's really important to remember that business travelers are very frequent travelers. Even if they're a little bit less than our premium yields now, they're still 1.5 to 2 times the yields we get from other sources.

They tend to be Advantage members and Advantage members give us more business. They tend to be co-brand card holders. And they -- a business -- regular business travelers in an effort to accumulate miles and participate in loyalty programs tend to move their leisure travel to the airline that they fly on business. And in some ways, you can even think of our business travelers as being some of the source of our premium leisure demand.

So I think a really exciting part Robert mentioned, we -- right now -- I mean we calculate that business travel is only 80% of what it was in 2019. And that's an absolute number, not adjusted for the size for the growth in the economy. So very significant upside. And as Robert said, I mean, we'd love to fill the airplane with business travelers and premium leisure travelers.

Q - Jamie Baker {[BIO 3406456 <GO>](#)}

Got it. Thank you. And Devon, while I have you a quick follow-up on the air traffic liability, your drawdown from the second quarter to the third quarter was the most modest that I've seen, at least going back a decade and it was quite a bit less than the drawdowns at Delta and United. I assume the American's domestic international balance may have something to do with that, maybe it's attributable to some of the second quarter challenges and subsequent recovery, whatever the case, it jumped out at me, maybe it shouldn't have. Any thoughts?

A - Devon May {[BIO 17603829 <GO>](#)}

Well, I think it's in part due to some of these seasonal trends that you're seeing. So a strengthening fourth quarter just means there's going to be more bookings for fourth quarter travel that happened in the third quarter, so less of a drawdown on that front. Relative to United and Delta, there may be some entity mix there and perhaps just some of our relative performance in the quarter. But I think more than that, it's just the seasonal trends we're seeing in demand.

Operator

Thank you. Our next question comes from the line of Tom Wadewitz of UBS. Your line is open, Tom.

Q - Atul Maheswari {[BIO 20316449 <GO>](#)}

Good morning. This is Atul Maheswari on for Tom Wadewitz. Thanks a lot for taking our questions. First, on the shape of the fourth quarter RASM or yield, you mentioned that September RASM turned positive and October looks better than September. So implicit on those points is that November and December would be a little worse than October for you to be flattish for the full fourth quarter. So the question really is the expectation around November and December being a bit slower than October, is that simply due to American being cautious given difficult compares you and the industry have from the demand strength that you saw during the holidays last year?

Or is there something in the current bookings data that suggests that December or the holiday yields are tracking lower than what you're seeing for this month? Thank you.

A - Steve Johnson {[BIO 1457782 <GO>](#)}

Thanks. And really good question and I'm sorry that I wasn't more clear about that. I mentioned October as being part of a sequence that we're seeing and I think that the industry is seeing. I didn't mention November and December because we just don't have a lot booked at this point in time. And so I just didn't pick up on it. We're -- I will say about November and December, I think we're getting very encouraged by the way the holiday periods are booking and seeing -- as we have throughout the year during trough periods seeing a little bit of softness there.

But we'll -- we're, I think, focused on our best estimate right now of where the quarter is going to-end up is flat year-over-year. And we'll take another look at that as we see more bookings for November and December come in.

Q - Atul Maheswari {[BIO 20316449 <GO>](#)}

Got it. That's helpful. And then just as a quick follow-up. As you run-rate the normal historical share in the indirect channel that you expect to get back to in the fourth quarter. How much revenue lift does that provide next year, especially in the first three quarters of the year? I guess another way to ask it would be like in the past, you've mentioned like about \$1.5 billion of shortfall due to the prior strategy, how much was recovered this year and what's left to be recovered in '26? Thank you.

A - Robert Isom {[BIO 6783069 <GO>](#)}

Well, Tom, thanks for the question. We don't have a full run rate of recovery in because it's something that progressed over the course of the year. As we take a look out into next year, it's going to be built into any of the guides and the forecast that we give. I think a good indication though is just the level at which we're outpacing our -- some of our principal competitors and things like manage corporate travel. So feel really good about that.

And as we exit the year where I do think we'll be fully restored, then the objective is moving on to actually doing better than that. And from that perspective, what we will measure ourselves on going forward, okay, will be overall unit revenue production. And of course, we'll always break-out from a corporate perspective.

A - Steve Johnson {BIO 1457782 <GO>}

Yeah. And just to think about it, we -- as we've gone through the year and improved our sales and improved our share in indirect channels, you've seen that sort of step-up over the course of the year. So next year, we're going to have the benefit of that continued step-up plus the run-rate of that which we've already captured and returned to American.

Operator

Thank you. Our next question comes from the line of Catherine O'Brien of Goldman Sachs. Please go ahead, Catherine.

Q - Catherine O'Brien

Good morning, everyone. Thanks for the time. I wanted to ask more of a theoretical question on CASM. So you guys have done a lot of work on building efficiency into the system. And just wanted to understand, is the fourth quarter a good example of what the business can do like low-to single -- low-to-mid single capacity growth drive, low-to mid-single CASM-ex or there's more to go here and CASM-ex could ultimately be lower on that level of growth. Just really trying to get a sense of what you think CASM-ex could look like on the base-case mid-single-digit capacity growth over the next couple of years. Understanding there's always going to be some lumpiness year-to-year.

A - Devon May {BIO 17603829 <GO>}

Yeah. And I appreciate you kind of starting the question with, it's at least somewhat dependent on the level of capacity growth that sits out there. Right now, we're working through the 2026 plan. What I will give some color on is just the lines of the P&L right now, where you are seeing some costs growing at a greater rate than inflation in some areas maybe where we're going to see some potential goodness. But labor right now, as we've talked about, we have contracts with all of our large front line team members.

So the step up in labor isn't much more than inflation, although we do have a couple of labor groups pilots, for example, that will get a 4% increase next year. That's consistent with the industry. So if it's going to outpace inflation, it won't be by much. Other areas like airport rent and landing fees will continue to grow at a rate greater than inflation. Maintenance is kind of TBD at this point, but that will kind of come and go dependent on the year. What you're seeing in the fourth quarter right now, I think we can do better than that longer term but let us work-through the plan for 2026 and then we'll work to get some longer-term guidance out there.

Q - Catherine O'Brien

Great. And then, Devon, probably a second one for you. You've made great progress on the balance sheet even in a tough year demand-wise. I think looking back at my notes from the 2024 Investor Day, the longer-term goal is to get to net-debt below \$30 billion and leverage below three times in 2028. I guess, is that still the goal? And really, is that your ultimate goal? Or do you believe there's benefit to taking leverage lower than that over-time versus a longer-term one, but just trying to get a picture of how you're thinking about capital allocation over the next couple of years. Thanks.

A - Devon May {BIO 17603829 <GO>}

Yeah. Well, just one step at a time. We're incredibly excited to have hit our first goal of total debt reduction of \$15 billion. We did that a year earlier than planned. We completed that last year. The next goal we set out for total debt was that it would be inside of \$35 billion by the end of 2027. That's another goal we brought in by a year. We're really pleased with the progress right now. It's happening because we have pretty limited capital needs right now. We've talked about being able to grow the airline at 5%, but we're doing that with aircraft CapEx in that \$3 billion to \$3.5 billion range.

That's a really nice spot to be in. And in a year like this, even where earnings aren't exactly where we want them to be, we're producing really nice free-cash flow that we're using to improve the balance sheet. And so that's where we're at now. We fully expect to hit our \$35 billion goal. That would, to your point, put us inside of \$30 billion of net debt and hopefully well inside of that. We have this goal at that point, obviously, to be within our net-debt to EBITDA leverage ratios of about three times once you get to that BB credit rating. To get there, we have to continue to focus on improving margins and improving earnings. And I think we're focused on all of the right things there. Where we go beyond that point, we'll see. I think a BB credit rating puts us in a really good spot with the borrowings we're going after.

Operator

Thank you. Our next question comes from the line of Conor Cunningham of Melius Research. Please go ahead, Conor.

Q - Conor Cunningham {BIO 18956527 <GO>}

Hi, everyone. Thank you. Just talking about sort of thinking about building blocks for 2026, I think a big one is just the loyalty component. I was curious if you could just remind us what you think the incremental dollar value is from just the loyalty step up alone. It seems like a pretty big lever for you all and a pretty massive driver for earnings in general. So just any thoughts around that would be helpful. Thank you.

A - Robert Isom {BIO 6783069 <GO>}

Yeah, thanks. Conor, we'll just go back to what we've been saying. The new Citi relationship, I think, launches us into an opportunity to grow cash remuneration by 10% per year. And ultimately, we see as we go out towards in achieving \$10 billion of remuneration, we see another \$1.5 billion of net income flowing through. So that's all -- those are really sizable numbers.

Q - Conor Cunningham {BIO 18956527 <GO>}

Agreed. Okay. And then maybe we could talk about just -- there seems to be a lot of talk about just like CASM-ex and RASM and all that stuff. And I think that the industry in general probably needs to move more towards if we're going to invest in the product, we should expect margins to improve in general. So if you could just talk about how you're thinking about investment spend in the customer service product and what that could mean to are you earmarking a sizable chunk of costs associated with that knowing that you'll get paid back for it on the customer side. Just any thoughts around the investment spend that you need to have in the product going-forward? Thank you.

A - Robert Isom {BIO 6783069 <GO>}

Sure. Hey, Conor, yeah, the name of the game here is to grow margins, increase profitability and ultimately increase shareholder value. So everything we do, we've been incredibly thoughtful,

diligent, efficient in terms of when we deploy capital. But as Devon said in his comments, we have look a capital expenditure profile that others would love to have. The -- what we are spending, I believe is going to, number one, drive the revenue benefits that continue to drive revenue benefits that we see.

And if you take a look at our guide and the outperformance or the improved performance in the third quarter and what we're anticipating in the fourth quarter, now that's a result for us of revenue performance. Now again, we will continue to be incredibly efficient in terms of how we deploy our capacity. But the opportunity for us going into next year, I think, look, we have a better opportunity than most. Domestic capacity, I think is more in balance. That benefits American.

We've got catch-up to work to do from a sales and distribution perspective. That benefits American. We finally have our Citi bank deal that's coming into play. That will start in January. We have a network that is fantastic, but again, has been able to serve all of our customers' needs. And as we restore in places, we're going to be a more formidable carrier from the perspective of premium and business traffic and the better carrier for all of our alliance partners to deal with. So there's a lot of opportunity for American and I think in many respects that will benefit American more than others.

Operator

Thank you. Our next question comes from the line of Michael Linenberg of Deutsche Bank. Please go ahead, Michael.

Q - Michael Linenberg {BIO 1504009 <GO>}

Oh, yeah. Hey, good morning, everyone. I guess a question to Devon. Just given the age of your 777-200ER fleet, how much of the decision to make the nose to tail investment was a function of just lack of new widebody availability? And what is -- what is the cash payback period of those investments?

A - Devon May {BIO 17603829 <GO>}

Hey, Michael. You know what, this has actually been something we've been planning on doing for a while. This is an aircraft we think we can run well into the next decade. And obviously, it's time to go through a cabin refresh. We have a nice product on there right now, but the new flagship suite is going to be a fantastic addition to it. We think it pays back really nicely over the useful life of the airplane and sets us up well for our CapEx requirements in the next decade.

A - Robert Isom {BIO 6783069 <GO>}

And I'll just add -- I'll just add that -- there's a lot of capital that has to go in this business from the perspective of aircraft, certainly facilities and we're going to get full use out of what we buy. I think that's something that's paid off for certainly one of our competitors over time. We're not looking to have the youngest fleet forever. We like what we have. We're looking to have a product that appeals to customers and one that is we're really smart about and how we get full use out of it over its lifetime.

Q - Michael Linenberg {BIO 1504009 <GO>}

Great. And then just a second question, given that we're day 23 in the shutdown and I know you guys have sizable presence at Reagan, we have seen the volumes really trend down, especially the last week at Reagan. What is it -- what are you seeing there? And is it just really contained to the DC area on the government shutdown? Thanks for taking my question.

A - Robert Isom {[BIO 6783069](#) <GO>}

Well, first-off, I just -- I'm going to start with -- I've been in constant contact with Secretary Duffy about the impact of the government shutdown and doing everything we can to mitigate. And from that respect, huge shout out to TSA, CBP our air traffic controllers. For the most part, they've been keeping the air system running and airports running fairly well. In terms of the business impact, government travel, it's important to us, but it's something that is certainly less than \$1 million a day in terms of revenue.

So the impact, while it's there is something that I'm quite confident when the government reopens, there's going to be some pent-up demand and hopefully we get back on track pretty quick. In terms of Reagan, overall, we have had some difficulties in terms of operating delays and issues with air traffic control, I'm also confident that those are things that are temporary and that as we progress through the year, that should also be a benefit to American as we go into 2026.

Operator

Thank you. At this time, we will be taking media questions. Again, we will be taking media questions at this time. (Operator Instructions) Please standby while we compile the Q&A roster for media questions. First question comes from the line of Leslie Josephs of CNBC. Please go-ahead, Leslie.

Q - Leslie Josephs

Hi, everyone. Thanks for taking my question. Just wondering with the push to premium, what is your end goal? Is it to catch-up to Delta or United margins and what would you be satisfied with? And what inning would you say American is in that transformation? And is there any limit to the amount you're willing to spend to get there, thinking of everything from onboard amenities to eventually a new plane? Thanks.

A - Steve Johnson {[BIO 1457782](#) <GO>}

Thanks, Leslie. Good question. I would just frame it in the way we frame all questions about how we think about the business and how we invest. We're interested in providing a service for our customers and meeting demand. And we're very excited about the growth in premium demand, again, because it's -- it allows us to serve our customers better and allows us to earn higher yields. And we are going to invest and provide product and grow the number of the capacity of our premium cabins on as our customers demand us to do.

And we'll invest as much capital in that as is appropriate and will allow certain to return and will allow us to provide the service that our customers are demanding. As I said earlier, we spent a lot of time way back when in the ancient days of the airline industry wondering if our customers would pay more for a better product. And the answer to that question is a resounding yes, and we're going to respond to that and respond to it for so long and to the extent that our customers demand it.

Q - Leslie Josephs

And where do you think American is in that process? And also if I could add about the operation, do you have any idea of the cost of improving the operation and what steps you want to do to improve reliability? Thanks.

A - Robert Isom {[BIO 6783069](#) <GO>}

So Leslie, thanks. Well, the great thing about the airline business, we run every day and we're going to run this year and for the next 100 years. So there is no end to the game. And so in terms of where we're at right now, really excited about getting the hard product up to par and beyond. Love what we're doing with our lounges. You'll just see continued attention and investment. And from -- yeah, I want to talk about the investment side of things. From the hard product side of things, the reconfigurations, the new aircraft deliveries, those are built into our capital plan. So that's nothing necessarily extreme. What we're doing from an operating expense perspective is we're taking a look at where we can take expenditures today in the case of our new coffee brand.

We've always provided coffee. We have a much better brand now associated with it in Lavazza. And in terms of overall expenditures, while there may be some differential brand, if not considerable. And so when we take a look at other aspects of our operation, we're doing things in a more efficient way and yet at the same time, able to provide our customers with a much better experience. So I'm not looking for a number specifically, I look at our entire P&L, maybe save fuel and look at the entire expense category, is something that is dedicated to improving and taking care of our customers.

A - Steve Johnson {BIO 1457782 <GO>}

And Leslie, I'd just add, we've over the course of the last year, we've added customer amenities and improvements and responses to our customers' advance at a dizzying pace. But it's just -- as Robert said, it's an infinite game. It's going to continue. I probably have three dozen new ideas for a customer experience improvement just sitting on my desk that I'm going to look forward to hand it -- hand-off to my successor here in a week or so.

But it's -- this is going to go on and it's -- I think it is a part of the business that is going to address a lot of the questions that people had here today about how we're going to afford to pay the labor bill, how we're going to afford to pay for the -- at the increased cost of operating the airlines. I think it is through these ideas of just providing a better customer service, more opportunities for customers to enjoy better products, more premium, more amenities that customers will look forward to enjoying on American Airlines and throughout the industry.

Operator

Thank you. Our next question comes from the line of Niraj Chokshi of New York Times. Please go ahead, Niraj. Niraj, please make sure your line is unmuted. And if you're on a speaker phone, lift your handset.

Q - Niraj Chokshi

Oh. Sorry about that. I was just wondering if you could talk a little bit about how you're balancing sort of the focus on kind of core hubs with opportunities to grow in sort of the non-hub markets where there might be populations and demographics that you want to -- that might be beneficial?

A - Robert Isom {BIO 6783069 <GO>}

Sure. Yeah, first-off, we already were fortunate to have our hubs position in the fastest-growing metro areas. And our hubs, I think we represent eight of the 10 largest metro regions and that's something that we're going to benefit from going forward. And then I just take a look at what we've done recently. We made sure coming out-of-the pandemic that DFW and Charlotte were restored as fast as we could. And we've done a nice job of that.

DFW has some new capacity coming on with new Terminal F and a remodeled terminals A and C. We're going to take full advantage of that. American will continue to be the largest carrier in DFW and we think that we're only going to grow our presence there. Charlotte, we've taken a little bit of a break in terms of growth there. We definitely need to make sure that operates efficiently and runs well. But then as you take a look at opportunities for growth in 2026, the near-term and then even right now, it is going to be focused.

This past year 2025 was on New York and Chicago. As we take a look into 2026, it will be those two, but along with Phoenix and Miami and Philadelphia. And I'll note that while Miami operated one of its largest schedules, both Phoenix and Philadelphia are far from being to the size that they were. And the cool thing about that is, we're not building \$100 million gates to go fly there. That's an opportunity for us and you'll see substantial increases in terms of deployment.

But of course, as we always talk, we operate with the guardrails of making sure that we're paying attention to the supply-and-demand environment, overall GDP. And you also at the other side, making sure that our market-share and our presence is competitive with our primary competitors.

Q - Niraj Chokshi

Thanks. You -- since you mentioned GDP, I'm just curious, do you feel like is that relationship as steady as it's always been, there's some talk about it's maybe not as closely tied or I'm just sort of curious what your thoughts are on that.

A - Devon May {[BIO 17603829](#) <GO>}

I'd say for some revenue streams, it's not as closely tied. And there's some parts of GDP growth that don't drive air travel. But in general, there's still a large component of our travel that's somewhat dependent on the economic environment and economic growth. So it's a component of how we think about revenue. We obviously do a lot of other things as we go through our forecast, but airline revenues aren't completely disconnected from economic growth.

Operator

This concludes the Q&A portion of the call. I would now like to turn the conference back to Robert Isom for closing remarks. Sir?

A - Robert Isom {[BIO 6783069](#) <GO>}

Thanks, Latif. We appreciate everybody's interest in American, and we look forward to getting back to work and delivering on our commitments. Thanks.

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect.

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