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AAL.OQ - Q4 2024 American Airlines Group Inc Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Thank you for standing by, and welcome to American Airlines Group's fourth quarter and full year 2024 earnings conference call. (Operator Instructions)

I would now like to hand the call over to Scott Long, VP of Investor Relations and Corporate Development. Please go ahead.

Scott Long *- American Airlines Group Inc - Vice President, Investor Relations & Corporate Development*

Thank you, Latif. Good morning, and welcome to the American Airlines Group fourth quarter and full year 2024 earnings conference call. On the call with prepared remarks, we have our CEO, Robert Isom; and our CFO, Devon May. In addition to our Vice Chair, Steve Johnson, we have a number of other senior executives in the room this morning for the Q&A session.

Robert will start the call with an overview of our performance, and Devon will follow with details on the fourth quarter and full year in addition to outlining our operating plans and outlook going forward. After our prepared remarks, we will open the call for analyst 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 today, we must state that today's call contains forward-looking statements, including statements concerning future revenues, costs, forecast 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 this morning, as well as our Form 10-Q for the quarter ended September 30, 2024.

In addition, we'll 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 and for joining us this morning.

And with that, I'll turn the call over to our CEO, Robert Isom.

Robert Isom - *American Airlines Group Inc - President, Chief Executive Officer, Director*

Thanks, Scott, and good morning, everyone. Earlier today, American reported a fourth quarter adjusted pretax profit of $808 million or an adjusted earnings per diluted share of $0.86, above the high end of the guidance we issued in early December. For the full year, we reported an adjusted pretax profit of $1.8 billion or an adjusted earnings per diluted share of $1.96.

I want to thank the American Airlines team for a great year and for their resiliency, continued hard work and dedication to delivering a safe and reliable operation for our customers.

As I have said previously, at American, we're focused on delivering results. As we closed out 2024, we achieved a number of notable milestones. With the ratification of a contract extension with our mechanics and fleet service team members in October, we now have multiyear agreements in place with all of our largest work groups, providing labor cost certainty through 2027.

We delivered nearly $500 million of value through our reengineering initiatives, nearly $100 million more than expected. We announced a new 10 year agreement with Citi to become the exclusive issuer of the AAdvantage co-branded credit card portfolio in the United States, which we expect will drive substantial incremental value to American over the life of the agreement while unlocking even more value for AAdvantage members.

We generated record free cash flow of $2.2 billion in 2024. And I'm excited to report that as of the end of 2024, we have reduced our total debt by more than $15 billion from peak levels in mid-2021, achieving our initial debt reduction goal a full year ahead of schedule.

While there's still much work to do, these accomplishments are clear evidence that the American Airlines team is committed to delivering results and achieving our stated objectives.

Now on to our fourth quarter performance. Total revenue grew 4.6% on 2.5% higher capacity year-over-year. This resulted in our unit revenue inflecting positive in the quarter, up 2% year-over-year and above the high end of our December guidance.

Passenger revenue strength throughout the fourth quarter was broad-based. In the fourth quarter, American's year-over-year Domestic, Atlantic, Pacific and total passenger unit revenue results led US network carriers. While Latin unit revenue was down on a year-over-year basis, we expect short-haul Latin year-over-year unit revenue to be positive in the first quarter. This strong performance is the result of the actions we have taken, and we're encouraged by the trends we see early in the year.

Demand for American's product remains strong as evidenced by the continued strength of our business, premium and loyalty revenue performance. In the fourth quarter, managed business revenue was up 8% year-over-year, a sequential improvement of 2 points versus last quarter, and we continue to see yield strength as we look ahead into the new year.

Premium revenue increased approximately 8% year-over-year. Paid load factor in our premium cabins remains historically high and was up 3 points year-over-year, with strength in both domestic and international. In the fourth quarter, loyalty revenues were up approximately 14% year-over-year, with AAdvantage members responsible for 75% of premium cabin revenue.

2024 was a record year for AAdvantage. Throughout the year, we had a record number of customers enroll in the program with members earning and burning more miles than any year in our history. Spending on our co-branded credit cards was up 9.5% year-over-year in the fourth quarter, further highlighting the value of our loyalty program. American is proud to have an industry-leading travel rewards program that is frequently acknowledged as providing the best value for its members.

Finally, we remain committed to providing a leading customer experience, especially for our premium customers. We're excited to introduce our new state-of-the-art flagship suite on our new Boeing 787-9 and Airbus A321 XLR aircraft later this year. Over the course of the next four years, we expect to grow our long-haul international capable fleet from approximately 125 aircraft today to nearly 200 aircraft in 2029.

Additionally, American has led the way in introducing premium lounges, and we're on track to open our fifth flagship lounge this summer in Philadelphia, which marks the ninth premium lounge across the system.

In the fourth quarter, we introduced boarding automation as a first step to improving the boarding process, and customer feedback has been overwhelmingly positive. American was the first airline to offer streaming entertainment on our mainline fleet. And we're proud to offer high-speed WiFi on more aircraft than any other domestic airline.

In December, we began the installation of high-speed satellite WiFi on our dual-class regional aircraft. We expect the entire fleet will be retrofitted by the end of this year. Additionally, we're in the process of redesigning our mobile app, making it easier to navigate and to provide more self-service options for our customers. Building on these customer-focused initiatives is one of our top priorities, and we'll have more to share in the months ahead.

Momentum in recovering revenue from indirect channels continued in the fourth quarter, and we remain on track to fully restore our revenue share from indirect channels as we exit this year. Our indirect flown revenue share improvement was driven by sequential gains in corporate revenue share, which has been the primary focus of our recovery efforts. Importantly, forward bookings continue to show strength into the first quarter.

As we enter the new year, we're in position to continue recovering share in indirect channels. We've completed new contracts with all of our agency partners that serve our corporate customers and agreed to new agreements with the leisure agencies that serve our most profitable leisure customers.

Additionally, we've reviewed and reworked agreements with our corporate customers most affected by the previous strategy and largely restored share of those travelers in our hub markets. Completing these steps provides a strong foundation for us to continue to compete for that business and restore our share in these important distribution channels and with those customers.

Last year, we took steps to further grow and optimize AAdvantage. In December, we announced a 10 year agreement with Citi to become the exclusive issuer of the AAdvantage co-branded credit card portfolio in the US.

American has had a partnership with Citi for more than 37 years. The strength of that partnership has enabled us to deliver first-class products and customer service to millions of AAdvantage card members, and we're excited to continue to partner with Citi.

Our 2024 cash from co-branded credit cards and other partners were $6.1 billion, an increase of 17% versus 2023. The 2024 amount includes a onetime cash payment received in the fourth quarter related to our new credit card agreement. As we disclosed at the time of the announcement, we expect the agreement, set to begin in 2026, will enable cash payments from our co-branded credit card and other partners to grow by approximately 10% annually.

As annual cash payments from co-branded credit card and other partners approaches $10 billion, we expect annual pretax income will benefit by approximately $1.5 billion compared to 2024. Our expanded partnership with Citi will unlock more value and provide exciting new benefits to our customers. With the agreement completed, the teams have turned toward building the business and we look forward to making several exciting announcements over the coming year.

Turning now to our operation. Thanks to the resiliency of the American Airlines team, we delivered another quarter of strong results despite a difficult operating environment. Operational disruptions are part of the airline business. And in American, we continue to show that operational resiliency and rapid recovery are part of our DNA.

In the fourth quarter, American ranked second in completion factor and on-time departures among the four largest US carriers. For the year, we achieved our second best completion factor since the merger, carrying our largest ever volume of passengers. Looking ahead, continued investment in the operation and the technology that supports it will drive further improvements in our operating reliability and resiliency.

In closing, we've achieved a number of important objectives in 2024, and our performance in the fourth quarter shows what this team and what this airline are capable of. That foundation and the momentum we have built will serve us well in 2025.

Before I turn the call over to Devon, I'd like to take a moment to acknowledge those impacted by the devastating wildfires in Southern California. Our hearts go out to those communities. American's AAdvantage members and team members have donated more than $1.7 million in funds to the American Red Cross to support relief efforts, and we've donated supplies and care packages to families and firefighters in the Los Angeles area.

And with that, I'll turn it over to Devon to share more about our fourth quarter and full year financial results and our outlook for 2025.

Devon May - *American Airlines Group Inc - Chief Financial Officer*

Thank you, Robert. Excluding net special items, we reported a fourth quarter net income of $609 million or adjusted earnings per diluted share of $0.86. We produced record fourth quarter revenue of $13.7 billion, up 4.6% year-over-year, with unit revenue up 2% year-over-year. Fourth quarter unit cost, excluding fuel and net special items, was up 5.7% year-over-year. Our adjusted EBITDA margin was 14.9%, and we produced an adjusted operating margin of 8.4%.

In 2024, we achieved nearly $500 million of savings from our reengineering the business initiatives, exceeding our goal by nearly $100 million. Most of the value in 2024 was due to better workforce management driven by process improvements and technology implementation, along with improved asset utilization and procurement savings.

We also had nearly $350 million of working capital cash release, which exceeded our expectations and helped drive our 2024 free cash flow performance. We remain focused on running the airline as efficiently as possible while enhancing the customer experience.

Moving to our fleet. In 2024, we took delivery of 20 new aircraft and 10 used aircraft, resulting in $1.9 billion of aircraft CapEx. Total CapEx for 2024 came in at $2.7 billion. Looking ahead, we expect to take delivery of 40 to 50 new aircraft in 2025.

Based on our current expectation for new deliveries, our 2025 aircraft CapEx, which also includes used aircraft purchases, spare engines and net PDPs, is expected to be between $2 billion and $2.5 billion, and our total CapEx is expected to be between $3 billion and $3.5 billion. We continue to expect moderate levels of CapEx moving forward, with aircraft CapEx averaging between $3 billion and $3.5 billion for the remainder of the decade.

We ended 2024 with $10.3 billion of total available liquidity and produced record free cash flow of $2.2 billion. During the fourth quarter, we prepaid $750 million of near-term debt maturities and strategically repriced two term loans. We ended the year with total debt of $38.6 billion and net debt of $31.6 billion, our lowest level of net debt since 2015.

With these actions, we achieved our total debt reduction goal of $15 billion from peak levels in mid-2021 a full year ahead of schedule. We are thrilled to have delivered on this commitment and we remain focused on continuing to strengthen our balance sheet as we work toward our stated credit rating goal of BB. Previously, we committed to reducing total debt to less than $35 billion by year-end 2028. We are now committing to achieve that goal by the end of 2027.

Now on to the outlook for 2025. In the first quarter, we expect capacity to be flat to down 2% year-over-year. This capacity is driven by lower capacity in the off-peak months of January and February, which combined are down approximately 3%, followed by growth of 3% to 4% in the peak travel period in March. We continue to expect full year capacity to be up low single digits, in line with expected economic growth and our prior guidance.

Our growth in 2025 is focused on improving our schedule in markets that are not yet fully restored to historical levels, primarily in our northern hubs. We expect our year-over-year capacity growth rates to be fairly balanced between domestic and international operations. We will remain flexible and will adjust capacity in response to demand and the competitive environment in which we operate.

We expect first quarter revenue to be up 3% to 5%. And for the full year, we expect revenue growth of approximately 4.5% to 7.5% versus 2024. This is driven by continued indirect revenue recapture, strong demand for our product and a constructive industry backdrop with supply in line with expected demand.

First quarter nonfuel unit costs are expected to be up high single digits year-over-year. This unit cost growth is driven by the reduction in year-over-year capacity, the mix of that capacity and the new collective bargaining agreements that were reached in the second half of 2024.

In the first quarter, regional ASMs will be up approximately 17% as we return to full utilization, and mainline capacity will be down 2% to 3%.

Based on the timing of our labor agreements and the shape of capacity, we expect unit costs to improve sequentially throughout the year, from high single digits in the first quarter to low single digits as we exit the year. For the full year, we expect nonfuel unit cost to be up mid-single digits year-over-year, with a large majority of the cost growth coming from higher salaries and benefits.

As we look out to 2026, we have certainty in our labor costs and the rate pressure from our new collective bargaining agreements will ease. We expect that in 2026, our year-over-year growth of our salaries and benefits per ASM will be well inside of inflation.

We continue to focus on re-engineering the business to become more efficient. Through best-in-class workforce management, efficient asset utilization and procurement transformation, we expect more than $200 million of incremental cost savings in 2025.

Additionally, we are investing in a multiyear transformation in our IT and tech ops organizations to modernize technology, improve operations and optimize staffing costs. We anticipate continuing to productively utilize our workforce with mainline full-time employee counts staying approximately flat to 2024. This year, we also expect more than $100 million in additional working capital improvements.

Based on our current demand assumptions and fuel price forecast, we expect a first quarter loss of approximately $0.20 to $0.40 per diluted share. For the full year, we are expecting to deliver adjusted earnings per diluted share of approximately $1.70 to $2.70. We expect another year of record free cash flow generation in 2025 and are currently forecasting more than $2 billion of free cash flow for the full year.

Now I'll turn it back to Robert for closing remarks.

Robert Isom - *American Airlines Group Inc - President, Chief Executive Officer, Director*

Thanks, Devon. As we start 2025, the long-term targets we outlined last March remain our focus: growing margins, generating sustainable free cash flow, and continuing to strengthen our balance sheet. Our priorities for this year will continue the momentum we've built in the back half of last year and further our progress toward achieving our long-term targets.

In 2025, we plan to operate with excellence and efficiently deliver safe and reliable operations, take a fresh look at our product and service as we sharpen our focus on the customer experience, continue to strengthen our network, both organically and through our airline partnerships.

Our December announcement with Citi was an important milestone for American. It will allow us to enhance AAdvantage and further strengthen our leading travel awards and co-branded credit card program ecosystem.

All of these priorities, including the restoration of our core sales and distribution initiatives, will allow us to deliver on our revenue potential. And we'll continue our work to reengineer the business as we build a more efficient airline. We know that by delivering on our commitments, we'll unlock significant value for our shareholders.

Operator, please open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) -- (technical difficulty)

From the line of Catherine.

Unidentified Participant

So we don't know exactly what low single-digit capacity growth means for the year. But if I just use 2%, that means RASM grows about 4% for the year versus the 5% going in 1Q in your guidance. I understand capacity growth accelerates over the year. But can you talk about your assumptions on indirect revenue improvement and the industry outlook underlying that full year guide? And just really wondering like what could go better than your base case?

Robert Isom - *American Airlines Group Inc - President, Chief Executive Officer, Director*

Catherine, thanks. I'll start on our expectations for indirect revenue recovery and Devon can speak to capacity, and Steve can add anything that he thinks is important as well. We're on track for recovering what we had lost. We feel really good about the progress we've made in a short six-month period. And as we take a look, and you can see from our notes as we take a look at forward bookings, it really suggests that we've got traction in the marketplace. So I have great confidence that we're going to recover fully as we move through the year.

And then I'd just also note this, that we also believe that from a revenue performance perspective, even outside of indirect channels, we think that we're poised to perform and outperform. You saw it in our fourth quarter results, and I can't speak to others' assumptions, but in an environment where the economy is improving I think that we're going to improve faster than our largest competitors. Devon?

Devon May - *American Airlines Group Inc - Chief Financial Officer*

Yes. And I don't think there's any big moves in the quarterly capacity numbers. We guided to first quarter, which should be down 0% to 2%. The remaining quarters will probably be all up in the neighborhood of 3% per quarter in terms of ASM capacity, which gets you about that midpoint on low single-digit capacity for the year.

Steve Johnson - *American Airlines Inc - Vice Chairman of the Board, Chief Strategy Officer*

Catherine, this is Steve. I'll just follow up with -- you asked about sources of potential upside from our base case. I'll just offer three.

First, I think that there's a decent chance that we could restore our sales and distribution -- restore sales and distribution revenue faster than Robert's by the end of 2025. I think that's an upside.

Second, I would point you to both the third quarter, and especially the fourth quarter, ultimately, we're going to be judged on everything and certainly revenue by our results. And I think the fourth quarter shows what we're capable of.

And then finally, I'd just point to our agreement with Citi. The new agreement doesn't start until 2026. And so the growth that we focus on probably won't start until then. But there is -- to get to that, there is a ramp-up effort underway that I think could provide upside in our co-brand revenue during the year.

Unidentified Participant

That's great. Thanks for the additional color, Steve. Devon, maybe one more for you. As you've reached your medium-term debt goal, can you speak to how you're thinking about capital allocation between now and that longer-term goal in 2027? Understanding you have more deleveraging to do to hit that 2027 goal. And then you mentioned the BB credit rating. But what's the gating factor to consider shareholder returns?

Devon May - *American Airlines Group Inc - Chief Financial Officer*

Well, to start, we are really proud of achieving the $15 billion goal that we set out to do two or three years ago at this point, and we achieved it a year early. But our focus still remains on improving the balance sheet. We've set another near-term goal here to have total debt down another $4 billion, to around $35 billion by 2027.

So we'll focus on that. We'll continue to focus on reinvesting in the business. And as we continue to improve free cash flow and improve the balance sheet, we'll come back and talk more about other capital allocation priorities.

Operator

(Operator Instructions) --

Scott Group, Wolfe Research.

Scott Group - *Wolfe Research - Analyst*

So Devon, I think you laid out CASM going from high single to start the year towards low singles ending the year. It doesn't seem like guidance implies a big deceleration in RASM throughout the year. So can you just talk about like how you see the progression of like price cost on like a net basis trending throughout the year?

Devon May - *American Airlines Group Inc - Chief Financial Officer*

Well, I'll just start by talking a little bit about our cost performance, because right now we are seeing some more pressure in the first quarter than we are during the rest of the year. So to start, we are really proud of our cost performance over the last several years. I'm excited about what the company is doing to reengineer the business and drive more efficiencies. I think we're making really nice investments in technology. The operations team is really leaning into this, and I think we're delivering a more efficient operation, a better operation for our customers.

In the first quarter though, we are seeing unit costs up high single digits. It's a handful of things. We have less capacity in the first quarter than we did a year ago. That starts to change as we grow capacity in the last three quarters of the year. We have a ton of regional capacity coming online. As you know, that's higher cost capacity than the mainline capacity.

It's actually driving average gauge to be down 4% to 5% in the first quarter year-over-year. Stage length is down as well. And then, of course, the labor agreements that were signed in the back half of last year weren't in our base for this year. So we see a lot of cost pressure in the first quarter;

it eases throughout the year. We feel we're incredibly well positioned as we get into 2026. And we know we run the business as efficiently as anybody.

On the margin side, I don't think there's any quarter that show outsized margin improvement year-over-year. We've guided EPS to midpoint of $2.20. So we are seeing a nice EPS improvement year-over-year, but I don't think you're going to see any one quarter pop really materially versus what we performed -- versus how we performed in 2024.

Scott Group - *Wolfe Research - Analyst*

Okay. And then can you just talk about maybe the progression of RASM throughout Q4, and then just regionally how you see RASM playing out in Q1, like transatlantic was up 12% in Q4, can that sustain itself in the near term? Just any regional color?

Robert Isom - *American Airlines Group Inc - President, Chief Executive Officer, Director*

Well, Scott, thanks for that. I'd just point to the fourth quarter in which we had strong performance across the board, so Atlantic, Pacific, and then also domestic, in terms of year-over-year improvement, led our network competitors. And overall, we led it as well.

As we take a look at into this year, I see continued strength domestically. And the strong dollar is absolutely going to have an impact on buying and travel to Europe this summer. So we take a look to March, and as we look to some of our peak periods, spring break and getting into the summer, I see robust demand across the Board.

We've talked about premium traffic as being win behind our sales and also something that I think that we're going to be able to do even better in. And Steve mentioned some of the things that are going to be additive as well in terms of potential for even better performance. So overall, really confident about the year and like what we see and how we can operate in this environment.

Operator

Jamie Baker, JPMorgan Securities.

Jamie Baker - *JPMorgan Chase & Co - Analyst*

Saw an interesting statistic that United throughout yesterday was that the margin gap between its best and worst performing hubs had narrowed to, I guess, the lowest gap in, I think it was 9 or 10 years. We've discussed American's relative performance on these calls and in person for quite some time, but I never asked about the range. Would you be willing to comment on that margin range between your top and bottom hubs and whether it's improving or widening? Obviously, a lot of moving pieces in many of your hubs at the moment.

Robert Isom - *American Airlines Group Inc - President, Chief Executive Officer, Director*

And I'll start, Devon and Steve can add in. Look, it's no secret that we've had to build back our network, and we have a large portion of our network that is supported by our regional fleet. I feel great that, in 2025, we're going to have our regional fleet fully deployed.

And what that's going to last to do is better fill out some of the hubs that, quite frankly, are ready and, I think, willing to support the network in a different way. But we've got to put the capacity there. So you're going to see the largest schedules that we've ever had in places like DFW and Charlotte, Miami in its peak will be bigger than it's ever been.

DCA, which had been a laggard coming out of the pandemic, is now getting back to the performance levels that we had hoped. And we talked about some of the work that we're going to be doing in Chicago. So across the Board, we see performance improving.

Some of the weaker points in our network, as we take a look to the coast, in New York and out in Los Angeles. I'd say this that the schedule changes that we've made in LaGuardia, the largest schedules that we've run since the pandemic, I believe, just as we closed out the fourth quarter, we're really seeing nice results in terms of where we put that capacity. And so from that perspective, I believe that we have improved considerably our New York performance. And I hope and have confidence that that will be something that we can maintain going forward.

In Los Angeles, from that perspective, there are some capacity restrictions. But on that front, that's one where we really do partner well with our One World partner, Alaska Airlines, and we look forward to continuing that progress.

So when you take a look at American, you've always known that DFW, Charlotte, DCA, and now DCA getting back into the ranks, have performed well. Philadelphia is getting back to where it should be. Phoenix has historically been strong. And then as I mentioned, we've got a focus on the coasts and Chicago.

Jamie Baker - *JPMorgan Chase & Co - Analyst*

That's helpful. And then while I have you, Robert, when I last saw you, which I think was in September, you mentioned you were spending half your time on efforts to reconcile with corporate accounts. And I think you said that publicly at a conference or two. And I don't know if you actually meant precisely 50% or if that was just sort of metaphorical.

But by the way you described the effort in your prepared remarks makes it sound like most of that effort is behind you. Is that the right interpretation? I guess, I'm just confused on exactly where American is on the reconciliation front and how managed corporate recovery trends from here.

Robert Isom - *American Airlines Group Inc - President, Chief Executive Officer, Director*

Thanks, Jamie. Look, I will give a ton of credit to our commercial team, led by Steve Johnson, for the enormous amount of work that had to be put in. And they absolutely enlisted me in that effort. And I will say, I don't know if it's 50% of the time, I spend a considerable amount of my time making sure that I was up to speed and talking to our corporate customers and agencies as well.

That work is paying off. It's foundational in that, don't forget, these contracts are set up over a period of time, revenue doesn't show up right away. But we're not resting on that. We're learning from certainly the issues associated with our past strategy. And that, I believe, bodes well for the future. So Steve, why don't you spend some time talking about progress and how you feel about where things are headed?

Steve Johnson - *American Airlines Inc - Vice Chairman of the Board, Chief Strategy Officer*

Sure, Jamie. And let me start by saying the team and I feel good about that. As Robert said, in his opening remarks and, again, just a second ago, we're on track to achieve the commitment that he's made to fully recover our share buyback end of 2025. As I said earlier, I think we can beat that. But it's not a linear process, and it's kind of event-driven, if you'll know what I mean.

We saw in the third quarter, Robert's comments at Bernstein, when he said that we were abandoning the old strategy, that had an impact on share. The restoration of content into EDIFACT had an impact on share. The engagement with our partners in the third quarter, what Robert was just talking about that sometimes referred to around here is the apology tour, that had an impact on share.

The fourth quarter was -- lots of work done in the fourth quarter, but a little bit different, and maybe that accounts for this -- the non-acceleration that you might have been looking for over the course of the last three months.

But the fourth quarter task was actually infrastructure. It was making new agreements with all of our partners in the indirect community. It's an arduous task, kind of counterparty by counterparty. While it was going on, understandably, we were negotiating, so you didn't see a lot of share shift during that period of time. Indeed, some of our partners sent us even stronger messages during those negotiations.

But it was ultimately successful, and we now have new agreements with 30 of the most important TMCs and agencies. And as Robert said earlier, we've modified the economics for all of our significant corporate customers who were impacted by our old strategy.

And as we say, and our partners say even more frequently, three airlines are better than one. And those agreements create real incentives to move business to American. And indeed, the agreements with the TMCs and the agencies create real incentives to reestablish the share equilibrium that existed at the beginning of 2023. So I expect those agreements are going to be big drivers of share shift in the first and second quarter. And so you'll see continued progress.

Operator

Conor Cunningham, Melius Research.

Conor Cunningham - *Melius Research LLC - Analyst*

Hi, everyone. Can you hear me now?

Robert Isom - *American Airlines Group Inc - President, Chief Executive Officer, Director*

We've got you Conor. Go ahead, Conor.

Conor Cunningham - *Melius Research LLC - Analyst*

Someday I'll figure out how to use this -- someday I'll figure out how to use this phone. Can you -- so I'm just trying to take all this. You sound like there's upside indirect corporate share regains and then the loyalty stuff, as well as just like sequentially improving costs throughout the year.

But your full year guidance at the low end suggests a decline year-over-year in earnings. And I'm just trying to understand that part a little bit better. It just seems -- like are you assuming that the main cabin doesn't get any better from here? It just seems really conservative just given what we've heard from you today and what we've heard from others so far. Just trying to understand it a little bit better.

Robert Isom - *American Airlines Group Inc - President, Chief Executive Officer, Director*

Conor, I'll start, Devon can add in here. Look, again, we can only forecast based on what we know and what we see right now. We don't know what others are putting into their models. We've told you that we think there's continued strength and that, in terms of revenue performance is, first, especially given the capacity that we're putting in, we see significant growth in our unit revenues.

Now if there is a better overall performance in the industry, as I said, I think that we'll continue to show outperformance because of the things that we've been doing. So that's my comment in terms of questions about how is your forecast versus what the assumptions others are making. Devon, anything you want to add?

Devon May - *American Airlines Group Inc - Chief Financial Officer*

Yes. I'll just say, midpoint of our guide is $2.20. That's up more than 10% versus what we did in 2024. There's obviously variability in earnings. We think the midpoint is what we seek to achieve. We'd like to do better than that, but we put a range of outcomes because there is still some volatility that's there in things like fuel or some amount of economic risk at a macro level. But right now, we feel really good about the midpoint on the guide, and it's a nice year-over-year improvement, and we hope to exceed that.

Conor Cunningham - *Melius Research LLC - Analyst*

Okay. That's helpful. And then on the Citi contract, or Citi, the renegotiation, I'm just trying to understand that a little bit better. So the economics change in '26. But I think that there's a volume and spend-related component in '25. So can you just help bridge the contribution of how that will evolve, earnings contribution, how that evolves over that -- the change from '25 to '26? It just seems again like there's potential for it to surprise, so just about that.

Steve Johnson - *American Airlines Inc - Vice Chairman of the Board, Chief Strategy Officer*

Sure. Let me see if I understand the question. Our existing agreement includes minimums for new accounts and new business that Barclays and Citi have committed to. Those, we expect them to overperform on those as part of the ramp-up into 2026. Is that helpful?

Conor Cunningham - *Melius Research LLC - Analyst*

Yes. No, that's -- thank you very much.

Operator

Ravi Shanker, Morgan Stanley.

Ravi Shanker - *Morgan Stanley & Co. LLC - Analyst*

I just wanted to start with a follow-up on the corporate normalization commentary. I think you said that you adjusted the economics for some of the biggest accounts there. Can you just unpack that a little bit more? How does the profitability of the corporate business compare to where it was before, now that -- or once the share is normalized?

Steve Johnson - *American Airlines Inc - Vice Chairman of the Board, Chief Strategy Officer*

Sure. Well, the adjustments, we evolved our business with our corporate customers over the course of the last seven or eight months. We talked about this on the last earnings call. Some of this had to do with macro changes that we made, like reestablishing what we call corporate experience, but a certain set of unique corporate experience advantages for our traveling corporate customers, employees, waivers and favors allowing travel agents to, in certain cases, book flights or change tickets that are not completely consistent with the general rules that apply. So some of that was, I think, very helpful.

But as part of the former strategy, we had created a kind of one-size-fits-all discounting system for corporations that, across the Board, for anyone who is impacted by that, that reduced discounts to, I think, an uncompetitive level. And so -- and that impacted about 24% of our corporate customers. Those were the ones that, over the course of the strategy, their contracts came up and we were able to change them.

So with respect to those customers, we've gone back, worked with them, negotiated with them and established economics that are more consistent with the past, and more competitive. In all cases, those -- the revenue from those agreements, even with a little bit better discounting, is going to be very accretive.

Robert Isom - *American Airlines Group Inc - President, Chief Executive Officer, Director*

Yes. And Steve, I think we've said this, that when we talk about sales expense and bringing back a sales team and potential impact on some of the things that we're doing, the overall cost impact is going to be a little less than 1 point of CASM. But again, all of this is going to be highly beneficial to the company.

Ravi Shanker - *Morgan Stanley & Co. LLC - Analyst*

Great. That's a helpful explanation. And maybe as a follow-up, you guys mentioned upgraded WiFi, which is great to hear. But kind of as we kind of enter like a new era of premium cabins, if you will, obviously, you guys have new planes. But how do you think about bring-your-own-device versus screens on seats, and maybe the ability to kind of monetize those screens over time?

Robert Isom - *American Airlines Group Inc - President, Chief Executive Officer, Director*

So Ravi, can you say that one more time? I missed that part of that question?

Ravi Shanker - *Morgan Stanley & Co. LLC - Analyst*

So the question was kind of, as we enter a new era of premium cabins, how do you guys think about bring-your-own-device versus having integrated screens on seats, kind of does one versus the other kind of impact your ability to either kind of sell a premium service or monetize that screen over time?

Robert Isom - *American Airlines Group Inc - President, Chief Executive Officer, Director*

No. So Ravi, thanks for that question. And let me talk about some of the things that we anticipate regarding product going forward. We're really pleased to announce the introduction of our new flagship suite, and that's going to be coming on the 787-9s and the 321 XLRs.

And one of the things you'll note is those are, let's face it, those are international aircraft long haul. And one of the things that we're going to make sure is our customers, especially in the premium cabins and from that perspective, any international seats, that they have access to screens, in addition to the latest in terms of WiFi and streaming entertainment.

So those aircraft are going to be fully equipped. You'll see that we're doing reconfigurations on our 777-300 and adding flagship suites to that and offering more premium seating overall. Same with that, that will come with the latest in terms of technology in seat back as well.

Now from a domestic perspective, we've said that we're really interested in making sure that our customers have access to WiFi, a satellite-based WiFi, on everything that they fly. And while we can't offer it on the smallest regional jets, you'll note that we will have streaming WiFi installed as part of our initiative this year so that all of our larger regional aircraft will have a satellite-based WiFi by the end of the year.

And with that, once you've got that kind of comprehensive approach, that allows us to do some different offerings. So you'll hear more from us as the year progresses in terms of how we can take even better care of our customers, especially those that are the highest tier. And as well, you'll see more in terms of partnerships and relationships. Our relationship with Apple Plus is really something industry record-setting, and we anticipate that that is just the start of where things will go.

Operator

Duane Pfennigwerth, Evercore ISI.

Duane Pfennigwerth - *Evercore ISI - Analyst*

Just on your Northern hub build-out, that comment kind of caught our attention. Can you talk about what inning you're in and maybe expand on how much of your footprint transitioned over to JetBlue, how much of that has transitioned back, and basically what your footprint in your Northern hubs looks like now versus pre-pandemic?

Robert Isom - *American Airlines Group Inc - President, Chief Executive Officer, Director*

Duane, I'll start, and Steve can elaborate further. But I'll just note 2 points right off. And that's LaGuardia and DCA. We're going to be back to our largest schedules, the largest number of seats offered in both LaGuardia and DCA since the pandemic. And that, I believe, is indicative of the focus that we're putting on. And by the way, we're seeing really nice results with that added capacity.

In terms of Philadelphia, that had been one of the markets that had been most difficult for us given the pull-down of regional aircraft. And the same holds true for Chicago. As we restore our regional aircraft lift, the beneficiaries of that are going to be Philadelphia and Chicago. In Philadelphia, Steve, I don't quite know the size of Philadelphia compared to prior times, but I think we're getting close to back to where we were.

Steve Johnson - *American Airlines Inc - Vice Chairman of the Board, Chief Strategy Officer*

Yes, and that's the intention to have Philadelphia more or less the same size as it was pre-pandemic.

Duane Pfennigwerth - *Evercore ISI - Analyst*

That's helpful. And then I don't know if you have a metric to share, but just on how you measure competitive capacity. How do you see that in 1Q and maybe an early read on 2Q versus what you were seeing maybe in 4Q?

Robert Isom - *American Airlines Group Inc - President, Chief Executive Officer, Director*

So Duane, I'll start with this. Look, competitive capacity, it's important, but it's all important to the extent that it drives profitability. We're focused on margins, and we're focused on making sure that we take advantage of the assets and the strengths that we have.

So we're focused on that, but obviously keeping track of what's going on in the marketplace. And if there is an impact in any one of the places that we fly, we're going to adjust accordingly. The good thing about the fleet that we've built up, despite the difficulties that we have with supply chain and aircraft deliveries throughout, is we spent, since the merger, $30 billion plus in terms of new aircraft. We have the youngest fleet. We don't anticipate any big retirements coming up. And we have the ability to flex this fleet in a very economic fashion should we find that conditions warrant expansion.

So you'll see us with moderate growth based on expectations for this year, as we get out into latter stages of 2025 and 2026. If demand and profitability warrant an adjustment, we'll be ready to go.

Steve Johnson - *American Airlines Inc - Vice Chairman of the Board, Chief Strategy Officer*

And I'd just add that, to the extent that you're asking that question based on an ASM growth comparison, I'd just also look at the growth in departures and recognize that, as we grow, we're going to have our growth in the most competitive time channels and most competitive places possible. So it's -- I don't know that ASM is the perfect measure for comparing.

Operator

Michael Linenberg, Deutsche Bank.

Michael Linenberg - *Deutsche Bank - Analyst*

Two sort of fleet related questions here. Just on the comment on growing your international fleet from 120 to 200 by 2029. At that point in time, how many A321neo XLRs will you have in your fleet, at that point? And presumably, that's in that 200 number.

Devon May - *American Airlines Group Inc - Chief Financial Officer*

Yes, that is in the 200 number. And we expect to have 40 neos at that point. 40, sorry, 40 XLRs at that point.

Michael Linenberg - *Deutsche Bank - Analyst*

Right. And then just my second question, as we think about fleets getting old, and I know your fleet is aging and we start and more specifically, wide-bodies and the ability to procure widebodies. I know economically, it makes sense to procure narrow bodies from both OEMs. You guys do that. It's helped you out well with the MAXs and the 321 or 320neos.

Are we at a point where the decision to do that with widebody aircraft, whether it's to procure from different OEMs, or even from two different families within the same OEM when you think about your replacement for your wide-bodies probably later this decade?

Robert Isom - *American Airlines Group Inc - President, Chief Executive Officer, Director*

Thanks, Mike. And I'll start, others can chime in. I really like where we're at in terms of our fleet. We're the operator of the world's largest fleet of 320 family aircraft. We're one of the world's largest operators of 737 aircraft. We've got the MAX 8, and fortunately those are being delivered. And we've got this order out for the MAX 10s.

Now the benefit in having these large fleets in kind of one flavor, it's really helpful from an efficiency perspective, right. We're not out there with a dozen different aircraft types. Our pilots, our flight attendants, our catering, our servicing, our maintenance, engine supply chain, you think about it. It greatly simplifies what we're doing.

We had that same philosophy from a wide-body perspective, and we love the 787 model. The 8s and then the 9s are going to be the real workhorse as we go forward. We know that our customers love it as well.

If we take a look at the 777s, the 777-300 is going to be ramp for some time. And they're going to be getting a refresh. And starting this year, we'll see the benefit of the flagship suites coming out. Those are going to be in the fleet for a long time. We've got a decision to make about 777-200s at some point in time, whether we reconfigure or do something else.

And we're in contact with Airbus, we're in contact with Boeing as well. And we're also mindful of the benefits that we get by having a simplified fleet and with fleet types that gives you great flexibility depending on range and demand.

And the comment about your fleet is getting older, that's true, it just makes for the time. But the fact of matter is we're starting from a much better spot than any of our competitors. As Devon has said, our anticipated capital spending over the long run, and this is to provide, virtually any growth level of growth that we want, especially if we have the ability to keep older aircraft around and hold off the retirement, it is very modest. So a $3.5 billion type range as we take a look out to 2026 and beyond. 2025 is a real low spot in terms of capital spending.

So we already have the lowest average age for our fleet. We don't have retirements coming up. And I see that as others have to invest in their fleet and are talking about numbers that are more than double of those kind of capital expenditures, and the difficulty in, at least with delivery of aircraft these days, I really like where we're at.

Operator

Brandon Oglenski, Barclays.

Brandon Oglenski - *Barclays Capital, Inc - Analyst*

Robert, I guess if you step back, I mean, because obviously, so much has changed in the past year, especially since the Investor Day, I think, in March of last year. But obviously, you've talked about a lot getting corporate share back.

But how would you articulate American's commercial strategy going forward today? And I guess I'm just observing here, but it feels like maybe you're still in a zone of defense. When does that then transition into an offensive front with that strategy?

Robert Isom - *American Airlines Group Inc - President, Chief Executive Officer, Director*

Thanks for that question. And our Investor Day commitments, we stand by them. I don't like that we're not -- we haven't grown margins. And as I take a look out to the future, and as Devon has said, I do believe that we're set up well to grow margins, especially because of everything that we've done from an efficiency perspective.

I'm going to get back to the other side of that equation because it's not just a cost perspective. But you combine the record free cash flow production that we produced, we've done a really nice job of getting this airline set up so that we're not worried about balance sheet issues, and that puts us in a very different position.

I've talked to you about our fleet, and as we take a look going forward, you are going to see this year American absolutely spend a lot more time and focus on energy in terms of improving our customer experience in a way that we can monetize. So from that perspective, we have a foundation built that I think others are trying to catch up on, whether it's establishment of satellite WiFi across all fleets, ultra-premium lounges, which we're going to be introducing a new Philadelphia launch to add to the complement that we already have.

This collection of premium seating on our aircraft and whether it's the new flagship suites and 787-8s -- or 787-9s and the XLRs, or whether it's just the domestic product where we're so strong, we have a regional product that others can't touch in terms of the E-175s.

And in terms of the rest of the fleet, you'll see that the older aircraft that we have, whether it's the 320s and 319s, they're going to be both getting upgraded. And so I feel like we have all the pieces of the puzzle in place to really take off.

Now we've got some work to do putting that together and selling and telling our story better. But we are the largest in the best market in the world here in the US. We've got an enviable position in the biggest business markets when you think about London Heathrow and Tokyo. We've got the best set of partners around the world in those biggest markets. American's got a lot of momentum as we look forward.

Brandon Oglenski - *Barclays Capital, Inc - Analyst*

I appreciate that, Robert. And then, Devon, I know you talked a lot about the cost headwinds this year. But is there any productivity offsets potentially in these new labor agreements and especially in the context of that simplified fleet that Robert was just discussing?

Devon May - *American Airlines Group Inc - Chief Financial Officer*

Not necessarily offsets related to the labor agreements themselves. I think the offsets were fine, and is just a lot of work on efficiency and investing in the right technologies. As we've talked about, last year our re-engineering the business efforts generated about $500 million in value. This year, we think we're going to generate a couple of hundred million dollars. But that's net of some really meaningful investments that we're making in our IT shop, that we're making in our tech ops organization to digitalize all the work that they are doing.

So I feel great about the investments we're making. It doesn't all necessarily pay back in this calendar year. But we look out to 2026, I think where cost profile is going to look really good, I've always said, I look back over the last several years, I think we perform better than anybody when it comes to unit cost delivery.

So we're not necessarily seeing anything in the labor agreements. That's not what we were going after in those labor agreements. But we are running a more efficient business right now and I think we're going to run a more efficient business a year from now than we are today.

Operator

Thank you. At this time, we will be taking questions from media. (Operator Instructions)

Alison Sider, Wall Street Journal.

Alison Sider - *The Wall Street Journal - Analyst*

Curious, after the Starship breakup last week, how concerned are you about sort of the operational and safety impacts from space launches? And is there anything you're asking the FAA to do differently in terms of kind of how it handles those?

Robert Isom - *American Airlines Group Inc - President, Chief Executive Officer, Director*

Well, Ali, thanks for the question. We're in constant contact with DOT and FAA. And no doubt, launches do have an impact on our network, especially given the aerospace issues that are impacted.

So what we do, we coordinate closely. I've got David Seymour here, our Chief Operating Officer. And what -- I think what he'll tell you is that we -- the coordination effort is better than it's ever been, and that one of the things we try to do is work with any launches to make sure that they're as least impactful in terms of time of day that they take place. Dave, do you want to add anything?

David Seymour - *American Airlines Group Inc - Chief Operating Officer, Executive Vice President*

Yes. I think, Robert, you said the right things in our coordination with them. And I think it's just -- but the FAA is going to be very mindful of those launches and how they executed their strategy in locking out a containment zone for that launch. And it was disruptive to us in terms of diversions that we had to do, holding aircraft on the ground, but we recovered well. But as Robert said, the coordination right now that we have with the FAA and air traffic side has never been better, and we're going to continue to work with them on that.

Alison Sider - *The Wall Street Journal - Analyst*

Got it. And I mean, do you know or is there anything you want to be done differently for future launches in terms of the sort of perimeter for the closed air space or the timing of launches or anything you're looking to change from a safety perspective?

Robert Isom - *American Airlines Group Inc - President, Chief Executive Officer, Director*

We're still waiting for the FA to continue their review of that. But on the surface right now, I don't see anything different that we're going to see. They've done a lot of work over the last several years of actually continuing to manage that. So we have -- not as impacted as we were in the past. But we're going to work with them. But I think they need to continue their review of that situation, and then we'll get back and see if we need to adjust plans.

Operator

Mary Schlangenstein, Bloomberg News.

Mary Schlangenstein - *Bloomberg News - Analyst*

I wanted to ask about the IFE on the premium, Devon, that you're talking about going forward. I'm wondering what was -- what's been responsible for that shift in your approach on IFE? It's just competitive pressure, something that consumers are demanding? Or what's behind that?

Robert Isom - *American Airlines Group Inc - President, Chief Executive Officer, Director*

Mary, just you might have mistaken something. In terms of our IFE strategy, in-flight seatback entertainment on our international-based wide-body aircraft, or in the case of the 321 XLRs, those will be equipped to take care of our customers. The rest of our fleet will have satellite-based WiFi, except for the smallest regional jets.

Mary Schlangenstein - *Bloomberg News - Analyst*

Right. But you don't currently have IFE on your international wide-bodies? Or am I wrong on that?

Robert Isom - *American Airlines Group Inc - President, Chief Executive Officer, Director*

We currently have IFE on -- our international-based aircraft.

Mary Schlangenstein - *Bloomberg News - Analyst*

Thank you. Sorry about that. And the other question I wanted to ask was, what changes that you potentially foresee from the Trump administration in terms of either the operations of the FAA and ATC, issues with them trying to step up hiring or make changes faster than the past administration had to change the ATC, issues affecting the airlines?

Robert Isom - *American Airlines Group Inc - President, Chief Executive Officer, Director*

Well, as I said in some earlier comments, I think President Trump and the administration, they recognize the importance of aviation to commerce. They certainly did that during the first Trump administration in response to COVID and the support that was provided to the industry. It's the reason why the industry is as strong as it is today. And that credit really does go to the first Trump administration and the quick reaction.

Now in regard to what we do next, I do believe that it's imperative that we look at investing in air traffic control. We know that there's a huge tax put on efficiency for the airlines, on our customers in terms of the time it takes to fly, and ultimately, we've got to address it because there's a lot of growth that I think is possible and hope for in the industry. But we can't keep on jamming more aircraft into the skies in a way that can't be serviced efficiently.

So today, it takes a lot longer to fly from Chicago to New York or Washington to New York than it did 20 years ago. There's no reason for that. There's plenty of room in the sky. There's technology that we can be deploying that would be helpful from an overall control perspective. And also, our aircraft are actually equipped to handle and to perform in a different system.

So we've got a lot of work to do. It's going to take investment. But have great confidence that will be the type of work that we're able to engage on.

And the last thing I'll just say is that I also believe that the administration will be very cognizant of regulatory issues that can benefit both the airlines and our customers as well, and we'll be working closely with them on that. So I'm very optimistic about the future.

Operator

Leslie Josephs, CNBC.

Leslie Josephs - *CNBC - Analyst*

Just considering what the Trump administration has said about DEI and how they're extending that ordering changes within the federal government. I was curious where American Airlines stands. I see the website says DEI are foundational to American Airlines culture and that you plan to lead the industry with DEI. Any changes there internally? And do you have any concerns about the review at the FAA that the federal government is doing?

Robert Isom - *American Airlines Group Inc - President, Chief Executive Officer, Director*

I can't speak to anything going on at the FAA. I'll just say that, at American, we've always had a philosophy of hiring the best team members that we can possibly bring into the company. We serve 650,000-plus on peak days customers, 650,000-plus customers, of all backgrounds and places throughout the world. We have 130,000 team members that work in all parts of the globe.

Our efforts here are going to be focused on caring for people on life's journey, and in that, we're going to do that in a way that it's beneficial for our customers and profitable for our airline. That's going to be our guiding factor as we go forward, and looking for ways to better take care of our customers and better take care of our team members, that's front and center, and that is where American is headed.

Operator

Thank you. 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?

Robert Isom - *American Airlines Group Inc - President, Chief Executive Officer, Director*

Thanks, Latif. I appreciate everybody's interest and time today. And I'd just like to reiterate that the fourth quarter was a quarter for us in which we laid down some incredibly important milestones. It was important for us to outperform the industry in terms of revenue production year-over-year.

It was important for us to achieve record free cash flow that put us in place to take advantage of a lot of other things that we've been doing in this company to make sure that our balance sheet is as strong as possible. And we're excited about the challenges that we've taken on, not only to restore our revenue performance, but also to expand upon that and take advantage of everything that we've built in this airline over the last several years.

And so I'll reiterate our commitment to our customers, to take care of them in the best possible fashion, and then also reiterate our commitment to our investors. We are intent on growing margins, producing sustainable free cash flow, further continuing to strengthen our balance sheet. And there's a tremendous amount of upside in American right now. When you take a look at our performance and what we're capable of doing as we look out into 2025 and going into 2026, American is poised to outperform. Thank you for your time.

Operator

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