Q2 2026 Earnings Call

Company Participants

- Devon May, Chief Financial Officer
- Nat Pieper, Chief Commercial Officer
- Neil Russell, Vice President, Investor Relations
- Robert Isom, Chief Executive Officer

Other Participants

- Alison Sider, Wall Street
- Andrew Didora, Bank of America
- Catherine OBrien, Goldman Sachs
- David Vernon, Bernstein
- Duane Pfennigwerth, Evercore ISI
- Jamie Baker, J.P. Morgan
- John Godyn, Citi
- Leslie Josephs, CNBC
- Michael Goldie, BMO
- Michael Linenberg, Deutsche Bank
- Ravi Shanker, Morgan Stanley
- Savanthi Syth, Raymond James

Presentation

Operator

Thank you for standing by, and welcome to American Airlines Group's Second Quarter 2026 Earnings Conference Call. Currently, all participants are in a listen-only mode. After the speaker's 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, Lateef. Good morning, everyone, and welcome to the American Airlines earnings conference call. On the call, with prepared remarks, we have our Chief Executive Officer, Robert Isom; our Chief Commercial Officer, Nat Pieper; and our Chief Financial Officer, 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 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, please note 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-K for the year ended December 31, 2025, and subsequent quarterly reports on Form 10-Q. 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 and investor presentation, each of 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. American delivered a quarter that shows the commercial initiatives we've implemented over the past few years are producing meaningful results. We achieved record quarterly revenue on year-over-year growth of more than 16%. Every entity we serve and every cabin we offer improved meaningfully. This outstanding broad-based revenue performance reflects the strength of our commercial strategy anchored in four pillars. Elevate the customer experience, grow the global network, drive premium revenue, and lead in loyalty.

Executing solidly on that strategy in the second quarter helped offset nearly 50% of the $2.2 billion year-over-year increase in fuel expense. We remained focused on efficiency in the second quarter and held non-fuel year-over-year unit cost growth to under 3%. We built the airline to succeed in any environment and are pleased to report that we ended the second quarter with over $11 billion in available liquidity.

Our revenue results this quarter continue to build on the momentum we've gained over the past few years with significant progress across each of our four pillars. Being a premium global airline means delivering an outstanding customer experience in the air and on the ground.

In the quarter, we announced or delivered enhancements on all fronts in our app, elevated food and beverage offerings, new and retrofitted aircraft, and especially new and refreshed lounges. American continues to lead the industry with the most premium lounges, and we'll further expand our lounge footprint in New York and Dallas-Fort Worth.

These enhancements are further supported by stronger operational performance. Regardless of the weather or other challenges, we've implemented numerous operational improvements and equipped our customers with new capabilities to manage through disruptions.

Our global network is rooted in having the most comprehensive footprint in North America. And after years of constrained growth, we've regained share in all of our hubs and gateways by reestablishing our presence in Chicago O'Hare, growing in Philadelphia and Phoenix, and flying our largest schedules ever in DFW and Miami.

The working customer experience and the return of our network has produced the intended results: winning back high-value customers and setting the stage for premium revenue growth. Premium revenue continues to outpace non-premium, and we've been especially encouraged by our corporate revenue.

All that leads to a loyal customer base. The AAdvantage program is already the industry's largest, and we saw enrollments grow at record rates again in the second quarter. No doubt some of that growth is due to the launch of our new co-brand relationship with Citi in the superior utility that our offerings provide our customers. They clearly like what they're seeing.

We believe the macro environment positions American well, not only for the third quarter and the remainder of this year, but also the longer term. The revenue environment remains positive for the industry as demand for air travel remains strong. Consumer spending remains resilient, underpinned by a healthy labor market and a sustained preference for travel relative to other discretionary categories.

The price of air travel remains a bargain. Demand is showing up broadly across all cabins, and real airfares are still lower than in 2019.

Lastly, the industry capacity setup is constructive for American Airlines. With industry supply and demand in better balance, and a strategy that is delivering as promised, we're confident American has the most upside over the longer term.

None of the progress we've made in the second quarter would be possible without the efforts of the American Airlines team. And I want to thank each of them for the commitment to excellence that makes American a premium global airline, one that flies more customers every year than any other airline in the world.

Looking ahead, we expect demand to remain strong, and our commercial execution to keep improving through the back half of the year. Even against an expected nearly $6 billion year-over-year fuel headwind, we anticipate full-year adjusted earnings to be break-even at the midpoint of our guidance range.

We believe our strong revenue momentum, on top of an efficient cost base, will continue to drive progress over time. And as fuel prices normalize, American is poised to deliver expanded margins, sustained free cash flow, a stronger balance sheet, and increased value to our shareholders. I look forward to the back half of 2026, and I'm especially excited for what we see as we look ahead to 2027 and beyond.

And with that, I'll turn it over to Nat to walk through the revenue results and the progress we've made across each of our four commercial pillars.

Nat Pieper {BIO 17122440 <GO>}

Thank you, Robert. Before I begin, I want to thank our 130,000 team members, especially our operations team, for taking care of our customers during a very busy summer. Revenue growth in the quarter came in at the high end of our initial guidance, with total revenue increasing 16.3% year over year.

Revenue strength was broad-based, reflecting robust demand for our product and an improving pricing environment. Geographically, all regions exceeded our initial expectations during the quarter. Domestic unit revenue increased nearly 11% year-over-year, with Washington National, Dallas-Fort Worth, and Los Angeles the standouts.

Atlantic unit revenue was up approximately 9% year-over-year, led by London. Pacific unit revenue increased 15% year-over-year, with Japan performance noteworthy. And finally, Latin America unit revenue was up approximately 7% year-over-year, keyed by recovery of Mexico beach demand.

Across the Commercial division, we remain focused on executing our four-pillar strategy. The first pillar is to elevate the customer experience. In the second quarter, we saw further evidence that our customer experience commitment is resonating. Total NPS increased five points year-over-year. And for on-time flights, NPS improved for the 15x in 17 months. American also achieved a 7% year-over-year improvement in the ACSI survey, one of the strongest gains in the industry.

In May, we announced plans to install Starlink, the most advanced high-speed Wi-Fi, on our fleet beginning in 2027. Connectivity is increasingly important to customers, and investments like this strengthen our competitive position.

Demand for premium continues to be strong. We're growing our premium capacity through new deliveries of Boeing 787-9 and Airbus A321XLR aircraft, and by executing fleet retrofit programs on our 777-300s, 777-200s, A320s, and A319s. During the quarter, American increased live-flat and premium economy capacity nearly twice as fast as main cabin capacity. These initiatives help us capture higher-margin demand while offering more premium seats than any other carrier.

Our next pillar is grow the global network. American offers the most comprehensive North American network in the industry. Our paramount focus is maximizing the performance of our hubs through targeted rational growth and optimization of our existing network.

In April, we made significant changes to the bank structure at our largest hub, Dallas-Fort Worth. The rebank schedule is driving real improvements. Misconnects across the system are down nearly 25% year-over-year. Satisfaction scores are up, and DFW unit revenue outperformed our system average by approximately four points.

We also bolstered our position in high-demand international markets in the quarter. We launched new routes this spring, including Budapest and Prague from Philadelphia and Athens from DFW. We also reinforced our industry-leading Latin American network, as American became the first U.S., carrier to resume service to Venezuela, with flights to both Caracas and Maracaibo. Our hearts go out to the people of Venezuela following the recent earthquakes, and we remain committed to supporting recovery efforts.

Our third pillar is drive premium revenue. Premium unit revenue increased more than 13% year-over-year, driven by strong leisure and corporate demand across all entities. Main cabin demand was solid. Unit revenue increased nearly 9% and accelerated during the quarter.

We also saw a five-point increase in upsell rates from basic economy to main cabin for tickets sold in the second quarter, following enhancements to our product attributes. These results demonstrate the effectiveness of our initiatives in driving higher value customer choices and stronger revenue performance.

Corporate demand remained strong in the second quarter. Americans managed corporate revenue was up 26% over the prior year, marking our fifth consecutive quarter of double-digit growth. Revenue performance with small and medium businesses and TMCs also surged in the quarter.

Our final strategic pillar is lead and loyalty. The industry-leading AAdvantage program provides the best redemption value for its members. AAdvantage program enrollments increased more than 30% year-over-year during the second quarter, surpassing the record growth we achieved in the first quarter. Our biggest enrollment growth occurred in New York City, Chicago, and Los Angeles, and we saw substantial international growth as well.

Our exclusive city co-branded credit card partnership is also essential to our loyalty offering. In the second quarter, card performance remained encouraging with spend across our portfolio growing 8% year-over-year.

To close, we remain wholly focused on building a stronger airline for our customers and for our team members. We are on the right track with our four-pillar commercial strategy. The progress we are seeing across customer experience, network, premium revenue, and loyalty gives us confidence that the investments we are making today are enhancing our business and positioning us for long-term value creation.

I'll now hand it off to Devon to walk through our financial performance and outlook.

Devon May {BIO 17603829 <GO>}

Thank you, Nat, and thanks to the entire American team for delivering another quarter of record revenue in this volatile fuel environment. In the second quarter, fuel expense increased by over $2.2 billion, or 83% year-over-year. Despite that unprecedented headwind, American was able to recover nearly half of the increase with the strong revenue performance in the quarter.

Since the beginning of July, expected third quarter fuel expense has increased by more than $700 million for the quarter and nearly $1.6 billion for the remainder of the year. Even in the last week, our fuel forecast has increased $230 million in the third quarter and nearly $550 million for the remainder of the year.

Based on the forward curve, as of July 21, we expect an average fuel price of approximately $3.75 per gallon in the third quarter, resulting in a $1.7 billion year-over-year increase in fuel expense in the quarter. Our third quarter capacity is now expected to be up 3% to 5% year-over-year, approximately two points lower at the midpoint than our original plan due to the elevated fuel prices.

We will continue to evaluate capacity levels based on both fuel prices and demand trends. We expect third quarter CASM ex to increase 2.5% to 4.5%. CASM ex in the quarter is slightly elevated due to the capacity reductions we have made in response to fuel volatility. We continue to benefit from our multi-year effort to drive efficiencies throughout our business. Investments in technology, procurement, and process improvements are driving higher productivity and significant savings that have allowed us to consistently outperform our peers on CASM ex results.

As Nat discussed, demand and pricing trends remain strong across the network and support our expectation for third quarter revenue growth of 16% to 19% year-over-year.

Unit revenue is expected to be stronger year-over-year in Q3 and Q4 than what we achieved in Q2. We expect fuel prices to remain volatile and have slightly widened our guidance ranges accordingly.

For the third quarter, we are guiding to an adjusted loss per diluted share of $0.70 to $0.10, and we are adjusting our full-year guidance to between a loss of $0.65 to a profit of $0.65 per diluted share. Just three weeks ago, we were expecting to guide to full-year pre-tax earnings approaching $1.5 billion, approximately 4x our 2025 pre-tax income. The current fuel curve has dampened our near-term expectations, but longer-term, we fully expect that our revenue performance and continued cost execution will result in material margin expansion when fuel prices normalize.

Turning briefly to fleet and capital expenditures, we expect to take 48 new aircraft this year, and we continue to expect approximately $4 billion of capital expenditures. Our fleet retrofit programs remain on schedule and support our strategy to expand premium seating and improve the customer experience.

During the quarter, we completed several financings that bolstered liquidity and also addressed our only meaningful maturity in 2027. We ended the quarter with $11.3 billion of liquidity. At the midpoint of our current 2026 guide, we expect to produce positive free cash flow for the year and to finish the year with lower net debt than at the start of the year. We remain committed to reducing debt, lowering interest expense, and achieving our leverage objectives.

Now I will turn it back over to Robert for closing remarks.

Robert Isom {BIO 6783069 <GO>}

Thanks, Devon. The four pillars of our commercial strategy represent more than individual initiatives. They're the foundational capabilities that we're building to better capture revenue across the business. The investments American is making are paying off in a meaningful way. We're seeing measurable revenue improvements, and the progress we've made isn't driven by any one initiative, but rather by all the work that's taking place across the entire airline.

While there's much more work to do, we're seeing tangible signs of progress, and we remain confident in our ability to close the revenue gap over time while maintaining cost discipline. Because of this, we believe American remains the carrier with the most upside. We're incredibly excited about the future for our customers, team members, and shareholders.

Operator, please open the line for questions.

Questions And Answers

Operator

(Question And Answer)

Thank you. (Operator Instructions). Please stand by while we compile the Q&A roster. Our first question comes from the line of Duane Pfennigwerth of Evercore ISI. Please go ahead, Duane.

Q - Duane Pfennigwerth {BIO 7329167 <GO>}

Hey. Hey, thank you. Good morning. Obviously, this fuel curve is not how anyone would have drawn up the year. Acknowledging that and the underlying volatility, the number one question we hear from investors is why isn't the low-margin producer cutting capacity? Why isn't there a greater sense of urgency?

And so maybe you could just illuminate: is it input cost volatility? Is it fleet commitments? And how is that like shaping your intermediate-term views? Not next quarter, but your intermediate term views. Thank you.

A - Robert Isom {BIO 6783069 <GO>}

Hey, thanks, Duane. Hey, there's been a tremendous amount of volatility in the fuel curve. Just three weeks ago, we would have been projecting a forecast that were considerably different. As Devon said in his comments, we would have expected the third quarter that would have been almost $700 million better in a full year of almost $1.5 billion better.

So as we take a look, both short-term and long-term, we're matching our network, our capacity to the demand environment that's out there and doing what's right for American. So, we made an adjustment to the third quarter, and we did that just a few months ago. We're taking a diligent look at the fourth quarter right now, and we'll continue to focus on that, and we'll do the same as we look at the end of the fourth quarter. American has always been smart and quick about reacting, and we're going to do the same and follow the same as we go forward.

Q - Duane Pfennigwerth {BIO 7329167 <GO>}

Appreciate that. And then, just with respect to CapEx over the next couple of years, '27, '28, given the deliveries and the retrofit programs, can you just remind us of the shape of that? Thanks for taking the questions.

A - Devon May {BIO 17603829 <GO>}

Hey Duane. Yes, so for this year, as we talked about, we'll be right around $4 billion, maybe a little bit less than $4 billion in total CapEx. It'll bump up a little bit next year, but not a whole lot. What's been happening is we've had, for the last couple of years, delivery sliding out. They're starting to stack up a little bit in the back half of the decade here.

I think as we get into '28 and '29, there's some smoothing that needs to happen still with our delivery, so I won't comment on that. But for next year, it's probably going to be somewhere around that $4.5 billion range.

Operator

Thank you. Our next question comes from the line of Andrew Didora of Bank of America. Please go ahead, Andrew.

Q - Andrew Didora {BIO 4404303 <GO>}

Hi. Good morning, everyone. First question for Devon. Just sort of a medium-term kind of chasm question here. Just, I guess, for in 2027, what labor groups did open up for negotiations? And then if you were to continue at sort of this low to mid-single-digit capacity growth pace that you're seeing this year, I guess what is a reasonable level of CASM growth, not factoring in new labor deals?

A - Devon May {BIO 17603829 <GO>}

Yep. We do have the pilot agreement that becomes amendable in August of 2027. Our pilots do get a increase in January of 2027. So that'll be kind of part of our base forecast for our cost next year. What we've been saying pretty consistently is that we have a fleet plan that allows us to grow up to mid-single digits.

Now, how we actually grow is going to be dependent on the fuel environment, the demand environment that we're seeing out there. But the fleet plan would allow us to grow mid-single digits. And if we grew at that rate, you should expect CASM ex to grow at around low single digits. If we pull the growth rate down a little bit, CASM will come up a bit. But that's just something that would happen naturally as we adjust capacity levels.

Overall, though, managing your cost is something that we are great at. We have been working on these long-term efficiency initiatives that have allowed us to be best-in-class producer of costs on our capacity production, and we expect to continue to do that.

Q - Andrew Didora {BIO 4404303 <GO>}

Got it. Thanks, Devon. And just maybe, Nat, on transatlantic here, I think we were maybe a little bit aggressive across everybody on transatlantic kind of RASM growth in 2Q. As one, I guess, what are you seeing in that market show, based on the booking curve? Should this continue to improve? And any color that you have on other regions as we go through the peak summer will be helpful. Thank you.

A - Nat Pieper {BIO 17122440 <GO>}

Sure, Andrew. Thanks for the question. In the Atlantic, so much of that for us is about London and about Heathrow. And our unit revenue in London was up 20% in the quarter. We're allocating our most premium aircraft to that market, most premium market in the world, and it's a smaller airplane, but we're really seeing benefits on that front.

And then across the Atlantic more broadly through the second quarter and into the third, we're seeing good results in the entity. Our new routes are hitting our projections and our targets. We've upgaged a bunch of capacity there. It's kind of one of the irrefutable rules, at least in the business when I started. You put every white-body airplane you have across the Atlantic in the summer, and that certainly is holding true here. So, consistent with our competitors, good performance in that entity.

Quickly bouncing to the other ones. Latin America was a highlight for us in Q2. Revenue performance pretty good from a Mexico perspective. Central America was strong as well. And we continue to add to our industry-leading Latin America franchise out of Miami. Venezuela service, we restarted and really pleased about that.

And then, lastly, on the Pacific, great results there. Unit revenue 15%, and that's all about Japan. That market continues to be terrific. Our joint business partner, JAL, clearly working together very nicely with them and seeing great results. And then we've upgaged a number of our Asia routes out of DFW, and again, in this market, it's the right thing to do, more premium seats and capture that demand.

Operator

Thank you. Our next question comes from the line of John Godyn of Citigroup. Your line is open, John.

Q - John Godyn {BIO 23532392 <GO>}

Hey, guys. Thanks for taking my question. I wanted to just spend a second on premium and the strategy there. Obviously, a lot of competition for premium passengers, but you had a couple of data points that 26% increase in managed corporate stands out, where you're seeing some success there. Maybe you could just kind of elaborate on what's going on with your premium strategy over the next few quarters and as far out as you think you have anything kind of exciting.

A - Nat Pieper {BIO 17122440 <GO>}

John, it's all exciting. But yes, I think on the premium side, we are a premium global airline, and our premium traffic continues to outpace the rest of the business. Our premium revenue in the quarter was up 19%, non-premium was 15%, and our unit revenue on premium up 13%, five points ahead of main cabin. So it's nearly half of our ticketed revenue on roughly 30% of our seats.

And the thing we're really excited about it is nearly 60% of our revenue comes from households making $150,000 or more. And so that's demand that's more likely to hold up through economic uncertainty. We're making investments in premium in terms of taking new deliveries with richer configurations. We've got a number of retrofit programs on our existing fleet to continue to put more premium product in place and really capture that demand.

Second part of your question transcending into managed corporate, as we said in the script, up 26%. And what corporate yields are terrific; we're seeing a lot of premium leisure yield as well, and that's something, again, that just makes us feel good about this sector and this segment continuing to thrive.

Q - John Godyn {BIO 23532392 <GO>}

That was fantastic. And lead into loyalty, is kind of one of the pillars. Just kind of a follow-up on my prior question, but maybe just elaborate there. Thank you.

A - Robert Isom {BIO 6783069 <GO>}

Sure. On the loyalty side, our program continues to be really successful. The AAdvantage program first biggest and best, and our enrollments are up 32% in the quarter year-over-year. And the thing that I'm most excited about is we're seeing our biggest growth in jump ball markets, New York City, Chicago, Los Angeles, and we're also seeing international traction.

Our enrollments doubled in London, for example. So that's indicator of a thriving program and one that we're really excited to continue to build and deepen our relationships with our best customers.

Operator

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

Q - David Vernon {BIO 16688886 <GO>}

Hey, good morning, guys. And thanks for taking the question. I want to come back to the topic of capacity in a slightly different way. So Nat, you've been in the seat now for, I guess, almost approaching a year, close to a year, and we are sitting on, and we're hearing the story that the problem is improving: you're making the investments in the premiums and the lack in the clubs and the loyalty programs.

But isn't there anything that you can see as you're looking at the network that if you were to shape the network differently, maybe not grow it, maybe trim it in some areas -- that would lead to some better financial outcomes?

Because a lot of investors are still really struggling with this idea that these changes are being made, the premium revenue is being earned, but we're still seeing such a huge gap in financial performance. And I'm just wondering if the size of the network is something that you've kind of taken a structured review of and what your thoughts are there.

A - Nat Pieper {BIO 17122440 <GO>}

David, for the record, it's been nine months, although we need something like dog years in the airline industry, I think. It's been really fun, though, looking at it -- from a network perspective and figuring out the arenas in which we can compete effectively and deliver outsized performance in the arenas where you're not going to be so strong. You can't fight in every battle.

And I think our first priority, and we've been consistent with this, is really going to recapture market share in our hubs. Pre-pandemic, American had three, four, five, six, seven percentage points of more local share in Phoenix, in Philadelphia, in Miami. And so our primary focus from a network perspective is to go recapture that. And logically, it makes sense. Those are our best customers, folks that are deepest elite penetration. They've likely got the credit card. You're going to generate outsize yield there.

And so really focus, but discipline on hub performance and really optimizing, because we can use the facilities that we have there as well. But we've been doing some tweaking, as you would expect. DFW 13 Bank, we've talked about that one in April. We've shifted some of our LaGuardia strategy more to focus on local customers and seeing good results there with local share.

And then I'd say on the international side, again, through my lens of, I guess, still newness, I mentioned Latin America on the previous question. And I think that is an asset that American has that is unique and that we need to continue to invest there and be smart about it. London, I talked about in terms of premium traffic. It fits the investments that we're making, and we've got a terrific joint business partner in British Airways there.

And then lastly, I'd say the other thing I'm looking at is can we get more value out of our joint businesses internationally. Ways that we can expand our global presence, we're going to grow internationally as we've talked about, but there's also ways to improve your financial performance and deepen your presence, and that's really doing things effectively with your partners.

The last thing I would say is that Americans are going to be rational. We know that from a capacity perspective, direct correlation to revenue performance, we understand all of that, and really it's being selective and competing in the markets in which we think we can win.

Q - David Vernon {BIO 16688886 <GO>}

Okay. I guess I'm not hearing a lot of, you've seen scenarios that they're in maybe some of the smaller regional markets or something like that where maybe it doesn't make sense to deploy the capital. I guess I'm just wondering, if you looked at it on a truly replacement cost basis, right, does it make sense to be as big as you are, or could you maybe trim the network, create some capital to further accelerate some of the balance sheet repair?

A - Nat Pieper {BIO 17122440 <GO>}

No, it'd be a good question, and I think, again, we've got, and we've got nine, 10 hubs, right? We've got hubs that really have local market presence. We've got hubs that really connecting flows and then some that are hybrids. Charlotte is a market that we have optimized and done some trimming there and reallocated capacity from that perspective. We've got hubs up and down the Northeast, as you know, and so there's some allocation and re-optimization going on there.

So it isn't just a throw everything against the wall and let's see how it sticks together. We're being very targeted with what we're doing, and we're selectively cutting as well.

Operator

Thank you. Our next question comes from the line of Jamie Baker of J.P. Morgan Securities. Your question, please, Jamie.

Q - Jamie Baker {BIO 3406456 <GO>}

Good morning, everybody. So Robert, we've discussed in the past a few times the American thesis that disparate labour costs lie at the root of your margin deficit to Delta and United. But we've recently seen some pretty significant harmonization on flight attendants and mechanics at the competition, but I'm not seeing the sort of relative margin improvement at American that perhaps you were anticipating.

So I'm reluctant to beat the dead horse, but is it still the American perspective that the competition is sort of living on borrowed labor cost time, for lack of a better term, or has there been any evolution in how you're thinking about this, particularly with several working groups becoming amendable next year?

A - Robert Isom {BIO 6783069 <GO>}

Hey, Jamie, thanks. Hey, and let's just be clear. We have a number of things that we're working on to address the margin gap, and as you know, we've been putting considerable attention to improving our balance sheet, and that will reduce interest expense over time.

I'm really pleased that that's in a better position than it's been since 2016. You mentioned, from a cost perspective, labor cost is compensation benefits is just part of that. I'm really pleased, and you can see it in our performance: industry-leading unit cost performance. And you know what? That's with market-based wages, top-of-the-industry wages that are already baked in across the board. We have labor cost certainty.

Yes, other airlines will remain nameless. While they may have negotiated contracts, they haven't put them in place. And if those contracts were in place or if they had been adjusted, you would see -- I think, meaningful closure in this past quarter.

That said, our focus, okay, we know we're going to be great at cost management. We know that we're going to continue to improve our balance sheet. Our focus is from a commercial perspective and generating more revenue. And that commercial focus is on our four pillars. And it's all about customer experience, which you've seen the investments that we're making. And that's included in our cost forecast.

In terms of our network, we have to have a network that is competitive where our customers want to fly. The constraints that we dealt with. We're not being, certainly we're being mindful of the industry and capacity as a whole, but we've got to be competitive in places that have been historically part of our network.

Premium revenue, you see the impact from that perspective, both from a corporate perspective and overall premium. And, look, the city deal is now just kicking in. So the upside for American is still there. Yes, labor costs are one component, but the real upside for American is from revenue production. And you know what? Others are going to have cost inflation issues. I feel really comfortable about where we're headed.

Q - Jamie Baker {BIO 3406456 <GO>}

Okay, that's helpful, and that's actually a good segue into the second question, probably for Nat. I've been thinking about premium capacity in how individual aircraft, basically why bodies are configured, and obviously, there are a lot of gyrations in that regard at American at the moment. But from a high level, it looks to me like you're largely targeting fairly similar wide-body LOPAs as those of Delta and United.

I guess my first question is whether you agree with that conclusion? And if you do, I'm curious how you arrived at those LOPAs considering not all industry hubs are created equal. Obviously, you're bowled up on premium; everybody is, but your share of some of the strongest local international markets is a little bit lighter than competitors. So I guess the question is whether it's possible you might be adding too much premium capacity. Any thoughts?

A - Nat Pieper {BIO 17122440 <GO>}

Jamie, we always expect fun questions from you, and that one clearly qualifies. I think you and I could probably debate this for the next 45 minutes, and we'll spare anybody listening for us doing that, but I think the name of the game in this is optimally matching aircraft size and characteristics to the markets that they fly.

And a lesson that I learned a long time ago when combining the Northwest and Delta fleets and matching planes to routes, and it's still true today, but you've obviously got to balance that with operational complexity. We can't have a different config on every one of our 1600 airplanes. And so your premise, if I understand it correctly, is that hubs with less local demand call for less rich configs.

And at American, we've got three sets of hubs. We've got hubs that large local demand, we've got hubs that are connecting monsters, like DFW and Charlotte, and we've got hybrids, Philadelphia, Phoenix, and Miami. And if you look at today's market, strong demand for premium products exists everywhere, whether that's in local markets, whether it's connecting flow.

And one of the things I think about with that is the preponderance of credit cards, the dispersion of loyal customers outside of hubs, because of credit card penetration, that validates more premium traffic, creates premium demand, and those folks are going to fly through all of our hubs, whether they're local or whether they're connecting.

So there's always going to be markets like London, New York, the most premium market in the world, ultra-premium config. And that's what we've done, as you can see with our 787-Bs, because it's matching the best product we have to the highest yielding market. But whether it's United, whether it's Delta, whether it's American, the game is going to be matching optimally aircraft config to market. And I feel really comfortable with where we are in the consideration set. We're a premier global airline. We've got premium demand, and there's no reason we shouldn't have as rich, if not richer, configs than our competitors.

Operator

Thank you. Our next question comes from the line of Ravi Shanker of Morgan Stanley. Please go ahead, Ravi.

Q - Ravi Shanker {BIO 16532114 <GO>}

Great. Thanks. Good morning, everyone. Robert, you ended your prepared remarks by saying that you are excited for 2027 and beyond. Not sure if you're planning to have Investor Day or something later this year, but can you just like fill us in on kind of what specifically excites you about 2027 and beyond?

A - Robert Isom {BIO 6783069 <GO>}

Absolutely, Ravi. So, look, as we said a little bit earlier, if we'd reported earnings just a few weeks ago, our forecast for the remainder of the year would have been potentially to produce results that were 4x better than last year; we're just getting started as a baseline.

I know that our cost performance is something that we're incredibly proud of, and it will and that will be maintained. I know that our balance sheet is going to continue to improve. We anticipate producing free cash flow even in this year, where fuel costs are up for us are anticipated to be up by over $6 billion; it's just incredible the amount of progress we've made.

But these four pillars everyone is designed to drive revenue performance. You're starting to see the signs of it. It's not a linear progression; we've had a number of good quarters of pickup versus OA. And as we take a look at into the third quarter, we anticipate better TRASM performance, and as we move out into the fourth quarter, we see similarly strong TRASM performance.

That's what I see continuing on out into 2027. That's what gets me excited. And if you take a look at where American and how we're valued today, when fuel prices normalize, American's going to be the best investment out there.

Q - Ravi Shanker {BIO 16532114 <GO>}

I understood. That's helpful. Maybe as a follow-up, how do you think about passing through jet fuel pricing now and let's say the second round of increases? Does jet fuel need to top the prior high watermark of, I think it was like $5.25 or something? Or will intermediate inflation like we're seeing right now also draw another round of price increases from you guys?

A - Robert Isom {BIO 6783069 <GO>}

Well, Ravi, I'll just start with this. First off, in terms of generating revenue, we've got to give our customers something that they value. And consistent with our four pillars, from a customer experience perspective and a network that they appreciate, and really driving our premium product, we're intent on doing that. That said, we have to make sure that our capacity is sized for the demand that's out there.

And so when we talk about offsetting fuel price increases, it's a combination of giving our customers something that they really value, driving revenue performance overall, but then also being mindful of the capacity that's in the marketplace and what we can achieve.

And so as we move on, I'm confident that we'll get that balance right and be able to return to profitability really at any fuel pricing. I've mentioned earlier today that I've been in the business a long time. And I remember back in 2013, 2014, when oil prices for an extended period of time were over $100 a barrel, when crew prices were over $100 a barrel.

The industry and the airlines that I was part of, we found ways to be profitable. And that's the same type of attitude that we take into this; American is well-poised to operate in an environment of volatility. We're set up for this, and I look forward to being able to tackle the problem as we go forward.

Operator

Thank you. Our next question comes from the line of Savanthi Syth of Raymond James. Savanthi, your line is open.

Q - Savanthi Syth {BIO 17476219 <GO>}

Thank you. Good morning, everyone. Just maybe in simplistic terms, I was curious, if you look at the next 12 months to 18 months, just how much faster will your kind of premium seat grow versus main cabin? And just any general thoughts on if the opportunities for greater international growth are domestic, or if that should kind of continue to be balanced over the kind of the medium-term time horizon?

A - Nat Pieper {BIO 17122440 <GO>}

Savi, thanks for the question. So this year, our premium seat growth is 5%, and our non-premium seats are growing 3%, just to give you a perspective, and we expect that to accelerate as we move forward. We've got two domestic retrofit programs going right now in the A320s and the A319s. Those are just starting to roll out and getting great feedback from our customers with that. So increasing the number of first-class seats domestically as well as premium leisure.

And then on the international side, 777 modifications going as well. So you're going to see greater premium seat preponderance from America moving forward. And again, following the revenue trend that's strong as well as that's the arena in which we compete. All of the pieces of the strategy fit together, whether it's having premium product, corporate sales, having the network where people want to fly, customer experience, all of the four pillars. And this is a core part of getting our product out there that customers want to buy. So that, in essence, is both covering the domestic and the international.

Q - Savanthi Syth {BIO 17476219 <GO>}

Yes, got it. So just as a really helpful color, just on the domestic versus international is, any thoughts on kind of what opportunity is one area of factor growth in any of the entities or just continuing to kind of grow similar to what you've seen recently?

A - Robert Isom {BIO 6783069 <GO>}

Savi, one of the things that we pride ourselves on is being a premium global airline, but it's rooted in our hubs and what we do in this vast footprint in North America. That's how we take advantage of international opportunities. So as we take a look forward, I would anticipate that there's a balance just as we've always had. We're going to match our international traffic up along with our relationship with our joint business partners to what our domestic hubs can support.

Operator

Thank you. Our next question comes from the line of Michael Goldie of BMO Capital Markets. Please go ahead, Michael.

Q - Michael Goldie {BIO 21641517 <GO>}

Good morning. Can you further expand on the international strategy and how you're thinking longer-term about adding more of your own equipment versus working with partners, as well as entering new markets versus adding depth, and then the timeline for maturation of new routes?

A - Robert Isom {BIO 6783069 <GO>}

I'll start, Michael. Thanks. And Nat, you can fill in. Again, I'll go back. Look, we're a premium global airline. We're proud of what we do. It all stems from this footprint that we have in North America and our hubs that are really in the position where economic growth and population growth is headed.

As we take a look at internationally, our hubs are absolutely poised to serve the business markets in the world. And so our joint business partners, they just so happen to be at London Heathrow and in Tokyo and in Sydney. And for us, we want to take advantage of those opportunities first and then be really smart about how we grow the operation, utilizing a fleet that I think is incredibly adaptable.

So whether it's the A321XLRs, which can provide a lot of utility to secondary cities in Europe or in South America, out in JFK and Charlotte and DFW, or what Nat spoke of earlier, these 7879Ps, flagship suites, the reconfigurations of 777-300s, we will be -- the 777-200s and ultimately the 787-8s will be reconfigured as well. All of those enable us to fly to not only the biggest business markets, but secondary cities as well, and match incredibly well to the catchment basins that our hub provides.

A - Nat Pieper {BIO 17122440 <GO>}

You hit most of it. I think the only thing I would add is, if you think about the facilities, Michael, that we've got coming online, with DFW and the terminal expansions here, and what that's going to give us an opportunity to just increase domestic traffic to feed international routes.

And then the other one I'm excited about is Los Angeles. That facility, obviously, under construction, be ready to go in 2028, but Americans' history in Los Angeles is incredibly proud. And once we've got that facility in place, we'll have more gates than any other U.S. Airline, and we're really excited to grow that.

Q - Michael Goldie {BIO 21641517 <GO>}

Thank you. And then quickly, if you can, how much of today's revenue now comes from outside the main cabin? And if you can't provide an exact figure, can you give us a framework of how that mix has shifted from 2019 to today or over the longer arc? Thank you.

A - Nat Pieper {BIO 17122440 <GO>}

Sure, absolutely. About half of our revenue today, ticketed revenue today, is premium on about 30% of our seats. So it's something that's grown over time, and we'll continue to see that grow as we expand it. And that's not only a business class, but obviously Main Cabin Extra and our premium economy as well. So it's healthy, and that's why we're investing because we think that's continuing to feed American strategy to be the premier global airline based in the U.S.

Operator

Thank you. Our next question comes from the line of Michael Linenberg of Deutsche Bank. Your question, please, Michael.

Q - Michael Linenberg {BIO 1504009 <GO>}

Yes, hey. Good morning, everyone. Nat, two questions for you: obviously, Dallas had a very strong performance. You called out the unit revenue outperformance, 4 points versus the system. You also mentioned D.C. and L.A., has being standouts, and so as we sort of think through your other hubs, which were the laggards? It would suggest that Dallas was nicely profitable, but conversely, several hubs underperformed and lost money. I don't know if you could give a ranking. Which hubs are the works in progress that were pulling down the numbers?

A - Nat Pieper {BIO 17122440 <GO>}

Michael, I'd start with something my father had said to me. We love all of our hubs, just some more than others. But I think, look, we start with it as every hub we have has a strategic purpose for what we're trying to do. Previous quarters, obviously, very well publicized on what's been going on in Chicago. Chicago is strategically important to America and will continue to perform there.

I think what we have is, as I said earlier to one of the questions, we've got a really good mix of hubs with strong local demand. We've got sub-hubs that are terrifically set up for connecting traffic, and then ones that have a nice balance. And the key here for American is trying to really coordinate all of that and optimize it. And that's been one of the things that I've really enjoyed in my tenure so far and excited about how we can enhance that going forward.

Q - Michael Linenberg {BIO 1504009 <GO>}

Okay. And then just second again to you, Nat, on commercial, the co-spend or the co-brand spend up 8%, fairly consistent what we've seen over the last few quarters. I mean, that's a good number. But it does lag your peers, which have been in the double-digit territory. And I'm just, I'm curious, is that an engagement issue? Is it a demographic issue? Maybe it's a basing issue, but it has lagged. And I realize that you've sort of reinvigorated the card under the city deal. Anything that you can comment on it? Thanks.

A - Nat Pieper {BIO 17122440 <GO>}

Listen, I think the calculus behind the city deal was to get American to really catch and be in the ballpark with where our peers are, and it's a 10-year agreement we're in the first part of it obviously and learning how to work together and we're really excited about it. The math still maintains where we were; we just need to make sure we've got that joint business aligned, so that we've got the same incentives and we're working in the same direction. But I'm still excited about it. It's early stage.

Operator

Thank you. Our next question comes from the line of Catherine OBrien of Goldman Sachs. Your question, please, Catherine.

Q - Catherine OBrien {BIO 16917927 <GO>}

Hey. Good morning. Maybe one for Devon to start off. You noted you raised some incremental capital in the quarter, and this year's key maturity is now taken care of. Has the fuel volatility this year changed the calculus on how much liquidity you want to have on hand, over the short term? And then longer term, how does it impact? I think you've got like a medium-term goal of getting to around three turns of leverage. Any thoughts there?

A - Devon May {BIO 17603829 <GO>}

Yes, we were in the market in the second quarter for some incremental financings. It wasn't a huge amount, but we did want to bolster liquidity here in the near term. So, we did a little over $1 billion, around $3 billion of incremental financings in Q2. We'll continue to watch fuel volatility and decide if we want to go into the capital markets to raise anything else. But we haven't changed the target.

And then longer term around liquidity, or sorry, around the balance sheet, it's still the same goals that we've had for several years here. We want to get inside $35 billion of total debt. We want to have net debt well inside of $3 billion. And we'd like to get to a BB credit rating. To get there, we have to have net debt to EBITDA on the side of three turns.

To do that, we need some margin expansion. And like Robert's been talking about and Nat's been talking about, we think we're focused on all the right things commercially to drive that margin expansion. It might be pushed out to the right a little bit, but we think we are going to achieve these balance sheet goals here over time.

Q - Catherine OBrien {BIO 16917927 <GO>}

Okay. Great. And then we're keeping you busy on this call, Nat, but one for you. You talked about some merchandising changes that have boosted basic economy upsell. Could you just give us a little more color on what that entailed? And over the next 12 months or so, are there other merchandising efforts you're considering? And if yes, how meaningful could those be from a revenue uplift perspective? Just thought that was interesting on the 5-point increase upsell. Thanks.

A - Nat Pieper {BIO 17122440 <GO>}

Katie, we offer a pretty broad range today of tailored products. From all ends of the travel spectrum, folks looking for more value-oriented trips to truly premium experiences, and as you would expect, we're always evaluating our product offering, our merchandising strategy, really to help drive higher value customer choices, and you're doing it because you want to improve the revenue performance.

You mentioned, as we called out, we've seen really good success with our basic economy upsell and excited at the traction we've seen there and a number of other initiatives we've got in play. We've also got an instant upgrade program that has generated some nice results too.

So, we see a lot more potential here in all classes of service. We see that spanning not only in main cabin, but also potentially into premium as well. We're just continuing to study it. We know we've got a really good premium product. We're focused on improving that. There's strong demand for it. And so we're always evaluating ways to merchandise it and sell to customers to meet their preferences.

Operator

Thank you. Ladies and gentlemen, at this time, we will be taking media questions. Again, we will be taking media questions at this time. (Operator Instructions) Our first question from the media comes from Allison Slider of Wall Street Journal. Your question, please, Allison.

Q - Alison Sider

Hi. Thanks so much. Yes, curious kind of what you're seeing now that Southwest is doing feed assignments and extra legroom, and they said that's really attracting a lot of corporate customers. If you're kind of seeing them be a stronger competitor for those customers, or if you're seeing kind of any of your typical customers look towards Southwest.

A - Nat Pieper {BIO 17122440 <GO>}

What I see, Allie, is our corporate performance is really strong. As we mentioned, managed up 26%. Our small and medium business product, AAdvantage business, is up 42%. Our TMC business is up 19%. Great partnerships with Amex, GBT, and BCD. So, we're obviously focused on share. We track so many metrics, but in terms of our corporate performance and American, in essence, we're taking share. We're not losing it.

Q - Alison Sider

Got it. Okay. Thank you.

Operator

Thank you. Our next question comes from the line of Leslie Josephs of CNBC. Your question, please, Leslie.

Q - Leslie Josephs

Hi. Good morning, everyone. Could you tell us what percentage of your fuel is coming from the Gulf and what percentage is coming from other locations that might be more expensive? And what did you do in the quarter? What are you doing now and going forward that might be a little bit creative in terms of your fuel supply?

Is there anything that you can do and any details on that front, whether it's with your fleet, with capacity, with your route network, and your actual supply chain? Thanks.

A - Devon May {BIO 17603829 <GO>}

Hey, Leslie. We're around 65% supplied from the Gulf. There's some movement that we can do here and there to try to minimize price. I'd just say we have a fantastic fuel procurement team that does everything possible to ensure that we're getting the lowest price possible.

In terms of, like, just volume of burn, I think our operations team does an outstanding job ensuring that we're carrying the right amount of fuel, managing fuel burn as effectively as possible, things like single-engine taxi. Longer term, you're right, the bigger levers are just how much capacity you want to produce in this environment.

As we have talked about throughout the call, that's something that we've historically been really sharp on. We've made adjustments here in the third quarter, and we'll continue to make adjustments as we head into Q4.

Q - Leslie Josephs

And, do you know where the most expensive fuel is in your network, either domestically or internationally?

A - Devon May {BIO 17603829 <GO>}

It's probably on the West Coast and certain international destinations. We can probably get you a little bit more detail offline if you want.

Q - Leslie Josephs

All right. I appreciate it. Thanks.

Operator

Thank you. I would now like to turn the conference back to Robert Isom for closing remarks. Sir?

A - Robert Isom {BIO 6783069 <GO>}

Thanks, Lateef. As we look ahead, we're encouraged by the progress we're making and the momentum we're seeing across the business. We still have a lot of work to do. But we're focused on executing on our plan, taking care of our customers, and delivering results.

The future for American is bright. We've got a great team, clear strategy, and significant opportunities ahead of us. And our focus remains on execution and creating a long-term value for our customers, team, and shareholders. So, thanks again for joining us, and we'll get back to work.

Operator

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