

# American Airlines Group Inc.

## J.P. Morgan Global High Yield & Leveraged Finance Conference

February 27, 2018

Tom Weir  
Vice President, Treasurer



# Cautionary Statement Regarding Forward-Looking Statements and Information



This document includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements may be identified by words such as “may,” “will,” “expect,” “intend,” “anticipate,” “believe,” “estimate,” “plan,” “project,” “could,” “should,” “would,” “continue,” “seek,” “target,” “guidance,” “outlook,” “if current trends continue,” “optimistic,” “forecast” and other similar words. Such statements include, but are not limited to, statements about future financial and operating results, the Company’s plans, objectives, estimates, expectations, and intentions, estimates and strategies for the future, and other statements that are not historical facts. These forward-looking statements are based on the Company’s current objectives, beliefs and expectations, and they are subject to significant risks and uncertainties that may cause actual results and financial position and timing of certain events to differ materially from the information in the forward-looking statements. These risks and uncertainties include, but are not limited to, those set forth in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017 (especially in Part I, Item 1A. Risk Factors, and Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations) and in the Company’s other filings with the Securities and Exchange Commission (“SEC”), and other risks and uncertainties listed from time to time in the Company’s other filings with the SEC. There may be other factors of which the Company is not currently aware that may affect matters discussed in the forward-looking statements and may also cause actual results to differ materially from those discussed. The Company does not assume any obligation to publicly update or supplement any forward-looking statement to reflect actual results, changes in assumptions or changes in other factors affecting these forward-looking statements other than as required by law. Any forward-looking statements speak only as of the date hereof or as of the dates indicated in the statements.

# Overview



- We are making significant investments in our team and product, and those investments are working
  - Fleet transformation
  - Continued operational improvement
  - Product enhancement
  - Revenue gap narrowing
- We are also aggressively pursuing revenue and cost opportunities outlined at investor day



# Highlights of 2017



## Profitability Highlights



- 5.0 percent consolidated revenue growth
- Pre-tax profit<sup>1</sup> of \$3.8 billion, pre-tax margin<sup>1</sup> of 9.1 percent
- Diluted earnings per share<sup>1</sup> of \$4.88

## Team member Highlights



- Accrued \$241 million for profit sharing
- Invested more than \$300 million in facilities and equipment
- Announced that work on the CFM56-5B engines would move in-house to our facility at Tulsa, Oklahoma

## Customer Highlights



- Rolled out Basic Economy to the lower 48 states, Mexico and the Caribbean
- Continued successful roll-out of international Premium Economy
- November saw airline performance records for the core operating metrics

## Long-Term Financial Strength



- Repurchased \$1.6 billion of AAL stock, or 33.9 million shares
- Paid \$198 million in quarterly dividends
- Completed several landmark financial transactions including a notable EETC subordinated debt tranche

# Long-term Vision



## Create a World Class Customer Experience

- Deliver value to all customers, especially premium customers
- Drive operational excellence
- Strengthen our network: Grow where we have a competitive advantage

## Ensure Long-Term Financial Strength

- Finish integration and capture the efficiencies created
- Manage our assets like owners



## Think Forward, Lead Forward

- Create a vibrant future; dream and deliver the right future products, partners and network
- Be nimble: Set a new standard for delivering value to market quickly

## Make Culture a Competitive Advantage

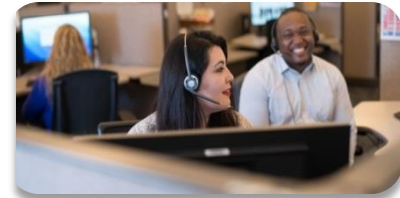
- Create an environment that cares for frontline team members
- Invest in our team: Provide the right tools, training and facilities
- Develop innovative, inspiring, and caring leaders

# Create a World Class Customer Experience



- 2017 represented best on-time departure and arrival performance since 2003; Best baggage handling since 1994
- Youngest fleet of the big four airlines
- Introduced Premium Economy – first U.S. airline to do so
- Introduced Flagship First Dining
- Introduced Basic Economy – now in the U.S., Mexico and the Caribbean
- First 737 MAX delivered
- Began installation of streaming-capable satellite internet
- Painted the last aircraft in the new livery

# Make Culture a Competitive Advantage



- Started the year being named ATW Airline of the Year and celebrated with 2 tickets for every team member
- Full year profit sharing accrual of \$241 million
- Improved pay/benefits – including mid-contract adjustment for Pilots and Flight Attendants
- Invested more than \$300 million in facilities and equipment for team members
- Delivered Elevate service training to 35,000 team members and expanded leadership training
- In-sourced CM56-5B engine work to Tulsa
- Paid \$1,000 to each team member to share the benefits of tax reform



# Ensure Long-Term Financial Strength



- Returned \$1.7 billion to shareholders through buybacks and dividends
- Completed several innovative and landmark financing transactions
- Year-over-year TRASM outperformed the industry in every quarter of 2017
- Announced another quarterly dividend for our shareholders



# Think Forward, Lead Forward



- Announced a \$200 million investment in China Southern Airlines



- Restructured and extended the trans-Atlantic Joint Business Agreement



- Adopted next-generation technology such as cloud hosting and machine learning to speed time to value

- Committed more than \$1.6 billion for improvements of LAX Terminals 4 and 5, allowing for more gate space and further strengthening our Pacific gateway

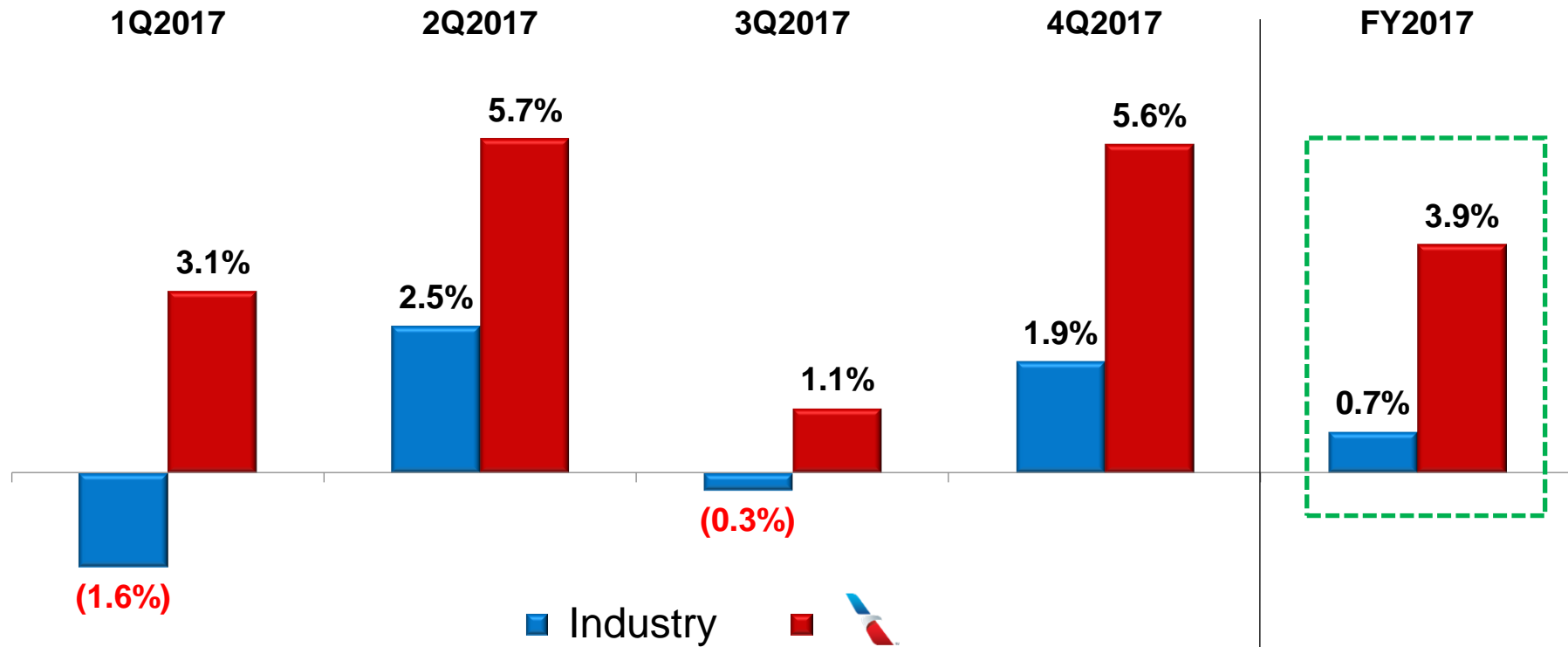


- Built a five-gate expansion at Chicago O'Hare Terminal 3, set to open in April

# Revenue Improvement



## YOY TRASM vs. Industry

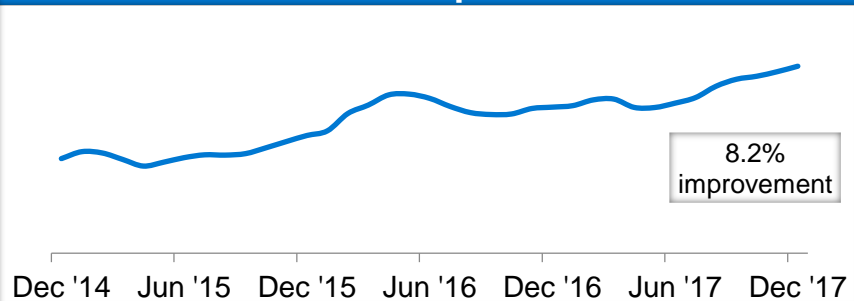


# Operational Improvement

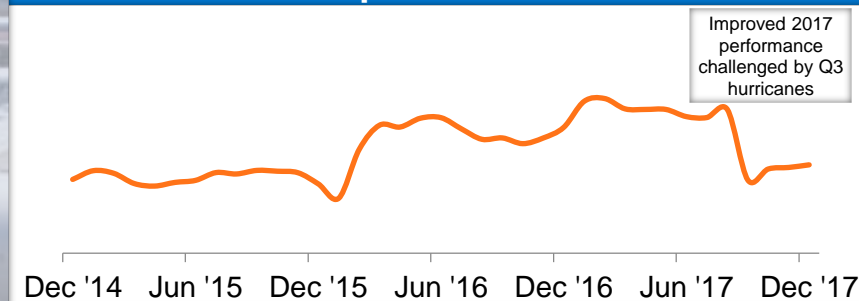


## Trailing twelve month averages

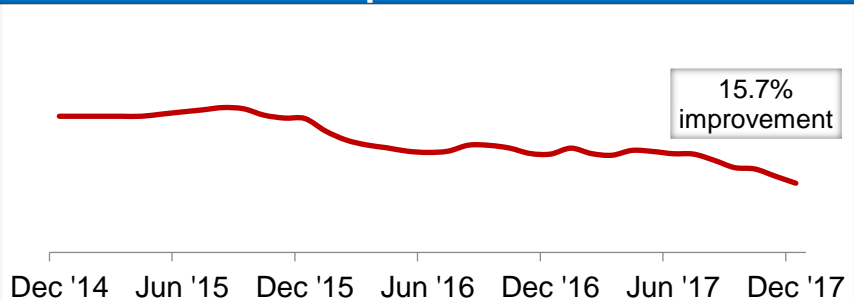
### On-time Departures



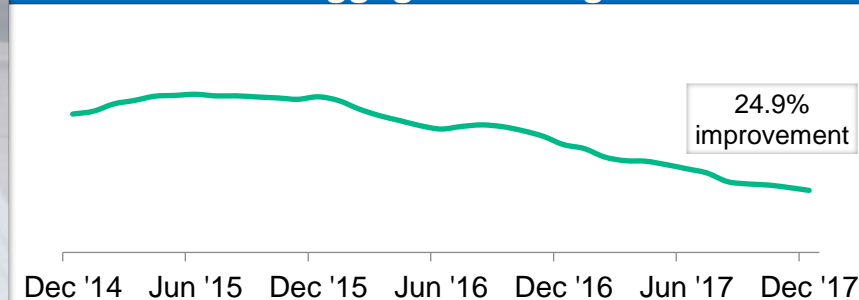
### Completion Factor



### Misconnects per 100 connections



### Baggage Handling

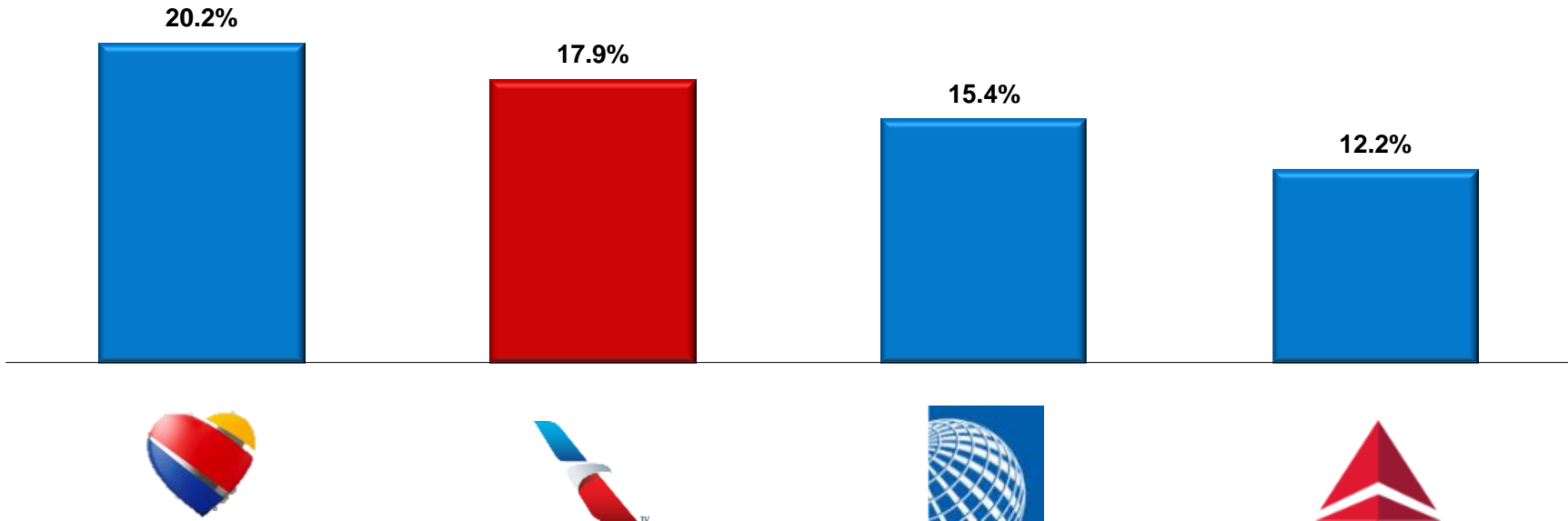


# Best Liquidity Amongst Network Airlines



- American continues to maintain the highest liquidity level of the network airlines

2017 Total Available Liquidity<sup>1</sup>  
As a Percentage of LTM Revenues

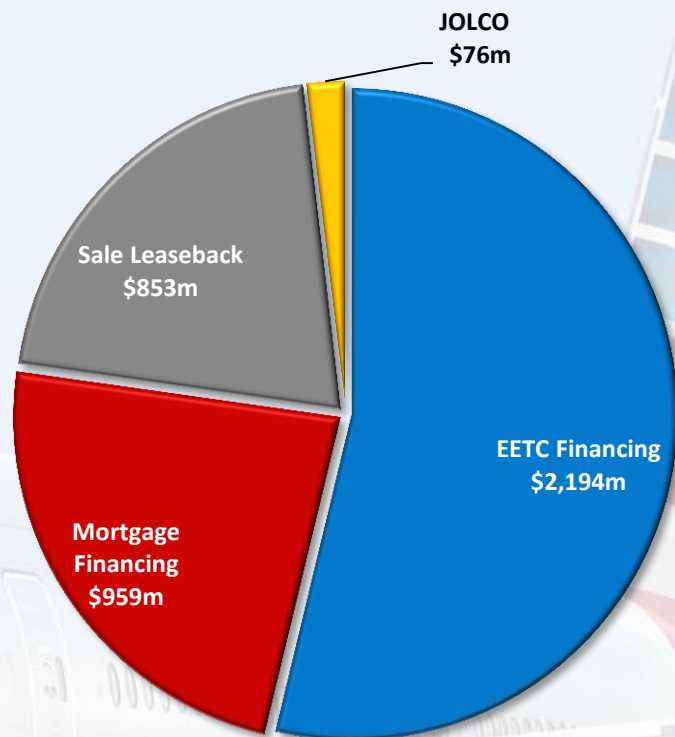


<sup>1/</sup> Total liquidity consists of unrestricted cash and short term investments, plus available undrawn revolving credit facilities

# 2017 Financing Transactions



## 2017 Aircraft Financing Transactions



- American continued to finance aircraft primarily through a combination of EETCs and Mortgages in 2017
  - The 2016-3 EETC B tranche set a new benchmark for subordinated aircraft debt
- The Company also financed aircraft with innovative JOLCO transactions and industry leading sale leaseback arrangements
- In addition, American repriced its entire \$5 billion term loan B portfolio generating NPV savings of approximately \$100 million

# Aircraft Deliveries



- By year-end 2017, we had inducted 496 new aircraft into the fleet since the merger, and retired 469 older aircraft, giving us the youngest fleet amongst the largest airlines



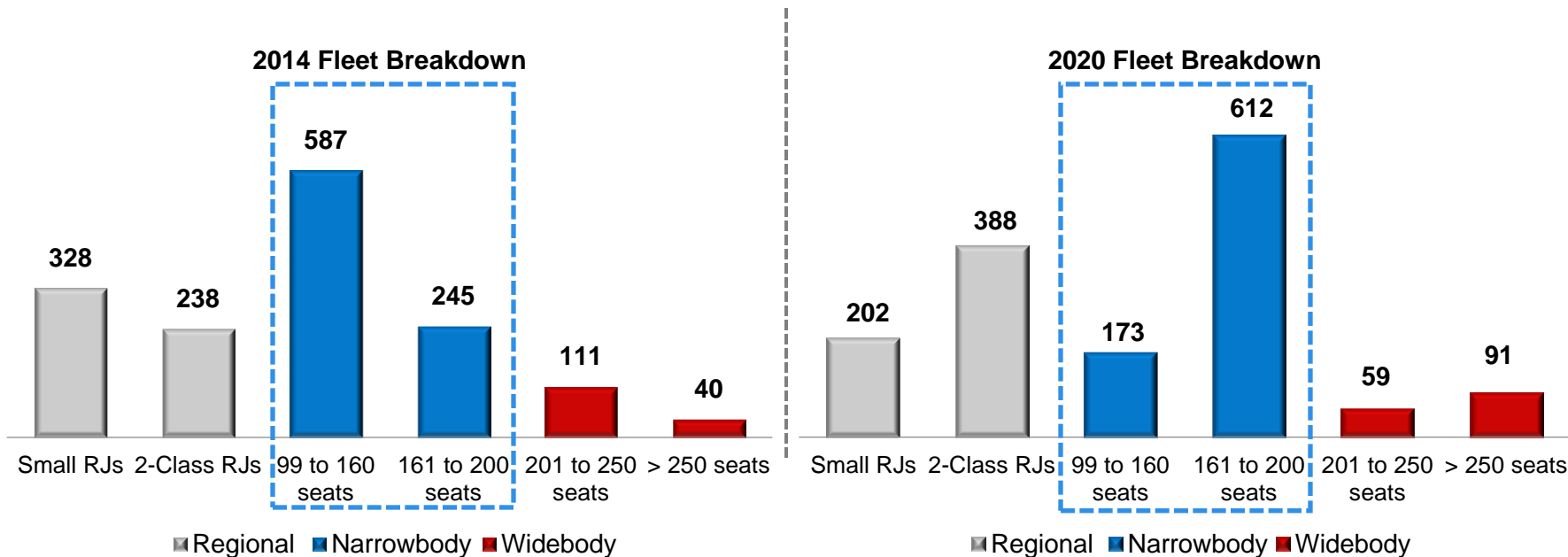
	2018	2019	2020	Beyond 2020
A320 Family / Neo	-	25	25	50
A330-200	-	-	-	-
A350-900	-	-	2	20
B737-800 / Max	16	20	20	40
B777-300ER	-	-	-	-
B787 Family	6	2	-	-
<b>Mainline Total</b>	<b>22</b>	<b>47</b>	<b>47</b>	<b>110</b>
CRJ-900	-	-	-	-
E175	5	5	-	-
<b>Regional Total</b>	<b>5</b>	<b>5</b>	<b>-</b>	<b>-</b>
<b>Airline Total</b>	<b>27</b>	<b>52</b>	<b>47</b>	<b>110</b>

Note: New aircraft deliveries by type.

# Fleet Transformation



- Over the next three years our seat harmonization project will complete our fleet transformation giving us a more efficient fleet, better suited to the needs of our network



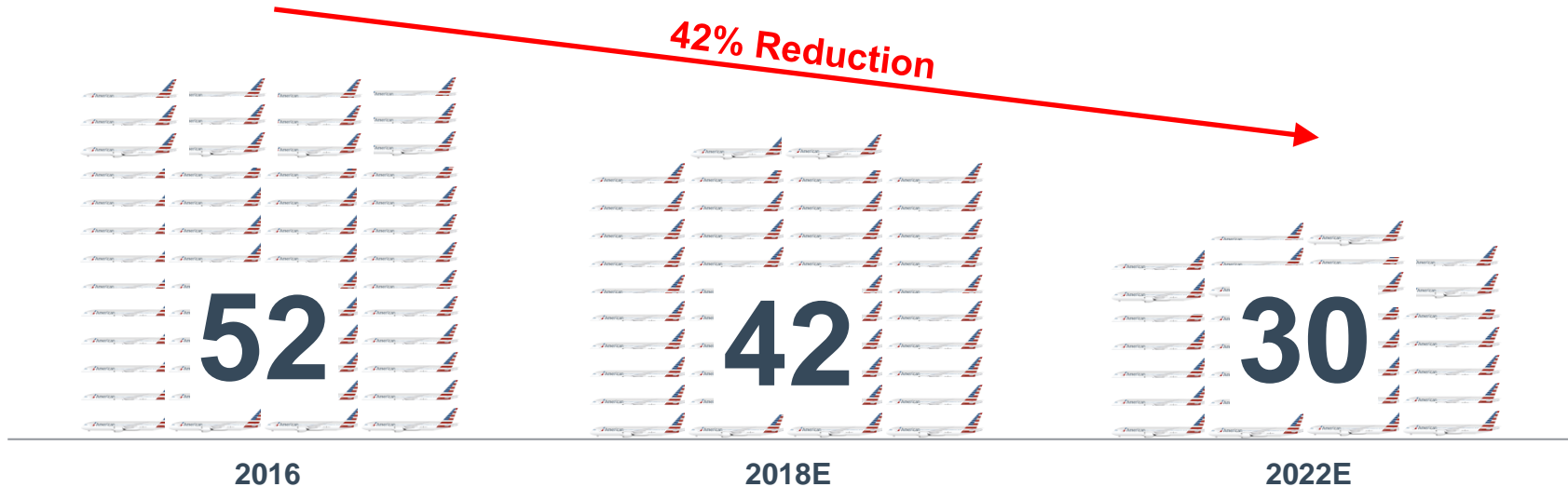


# Fleet Transformation – Reducing Sub-fleets



- We will reduce the number of aircraft sub-fleets. Improving the customer experience and reducing the complexity of our operation

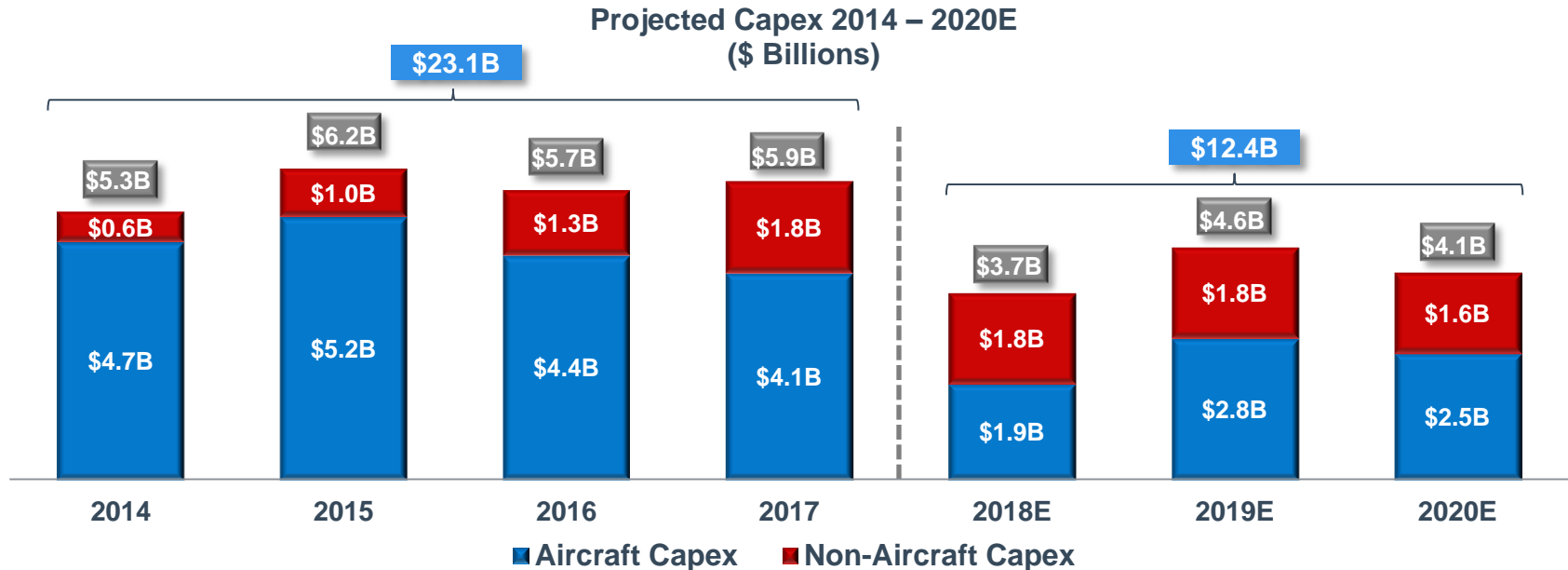
Number of Aircraft Sub-fleets 2016 – 2022E



# Unprecedented Product Investment



- Elevated capex driven by fleet renewal program
- Fewer aircraft deliveries in future years reduces cash outflows and increases financial flexibility



# Satellite WiFi



**Viasat**<sup>™</sup>

**Panasonic**

Gogo 2Ku

## Narrowbody

2Q2017



**Start**

2Q2018



**25%**

3Q2018



**50%**

4Q2018



**75%**

2Q2019



**Complete**

3Q2016



2Q2017



4Q2017



1Q2018



2Q2018



## Widebody

# Premium Economy Retrofits



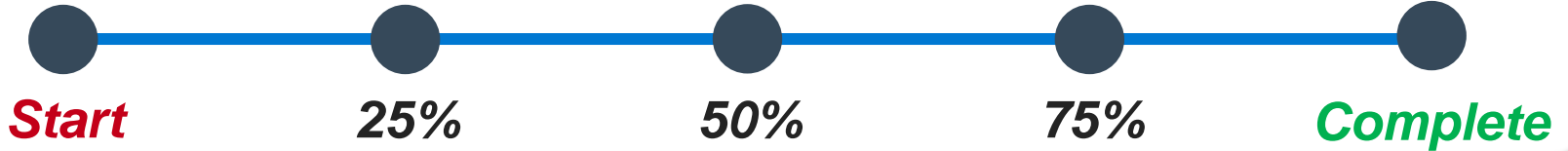
2Q2017

4Q2017

1Q2018

4Q2018

2Q2019



# Flagship Lounges and Admirals Clubs



*DFW Flagship Lounge*



*MIA Admirals Club*

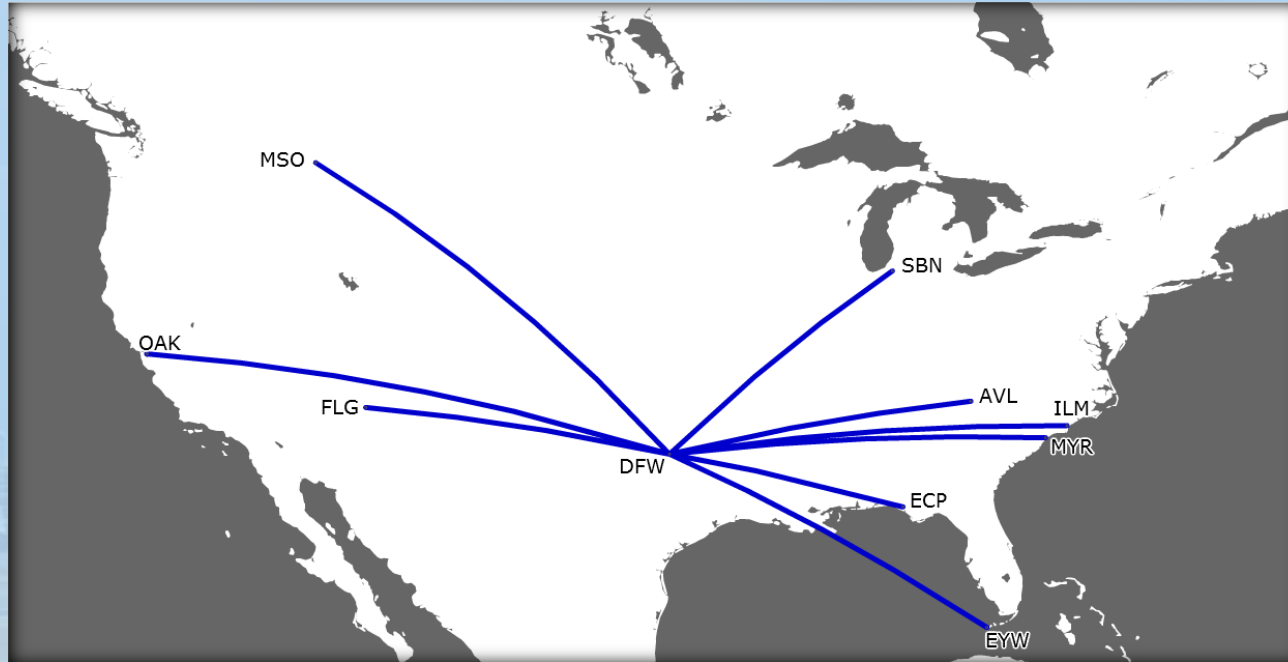


\*Conceptual design only



\*Conceptual design only

# Strengthening Our Hubs



 New Domestic Markets



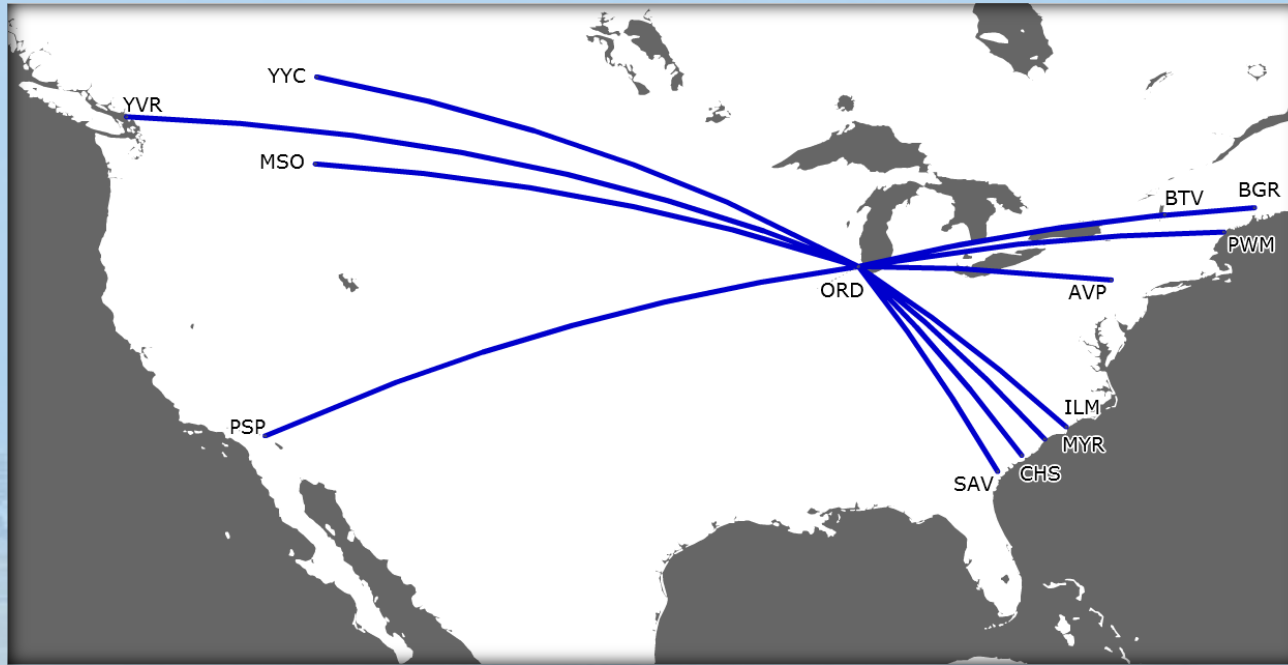
*DFW – Missoula, MT*



*DFW – Panama City, FL*



# Strengthening Our Hubs



 *New Domestic Markets*



*ORD – Portland, ME*



*ORD – Charleston, SC*



# Strengthening Our Hubs



 *New Domestic Markets*




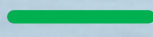
*CLT – South Bend, IN*



*CLT – Nantucket, MA*

# Strengthening Our Hubs



 New Domestic Markets  New International Markets



*PHL – Budapest*



*PHL – Prague*

# Looking Forward



- The investments we have made are paying off...
  - Industry leading revenue growth in 2017
  - Youngest fleet of the big four airlines
  - Transformed customer experience product
  - Successful roll out of Basic and Premium Economy, with more to come
- AAL best positioned within industry
  - We will continue our aggressive pursuit of revenue and cost initiatives
  - Revenue gap expected to continue to close due to product / operational improvements
  - Best assets: driven by significant capital investment



# GAAP to Non-GAAP Reconciliations



# GAAP to non-GAAP Reconciliations



<b>Reconciliation of Pre-Tax Income Excluding Special Items</b>	12 Months Ended December 31,	
	2017	2016
	(in millions)	
Pre-tax income as reported	\$ 3,084	\$ 4,299
Pre-tax special items:		
Special items, net	712	709
Regional operating special items, net	22	14
Nonoperating special items, net	<u>22</u>	<u>49</u>
Total pre-tax special items	756	772
Pre-tax income excluding special items	\$ 3,840	\$ 5,071
<b>Calculation of Pre-Tax Margin</b>		
Pre-tax income as reported	\$ 3,084	\$ 4,299
Total operating revenues as reported	\$ 42,207	\$ 40,180
Pre-tax margin	7.3%	10.7%
<b>Calculation of Pre-Tax Margin Excluding Special Items</b>		
Pre-tax income excluding special items	\$ 3,840	\$ 5,071
Total operating revenues as reported	\$ 42,207	\$ 40,180
Pre-tax margin excluding special items	9.1%	12.6%

# GAAP to non-GAAP Reconciliations



<b><u>Reconciliation of Net Income Excluding Special Items</u></b>	12 Months Ended December 31,	
	2017	2016
	(in millions)	
Net income as reported	\$ 1,919	\$ 2,676
Special items:		
Total pre-tax special items	756	772
Income tax special items	(7)	-
Net tax effect of special items	<u>(269)</u>	<u>(275)</u>
Net income excluding special items	\$ 2,399	\$ 3,173

<b><u>Reconciliation of Basic and Diluted Earnings Per Share Excluding Special Items</u></b>	12 Months Ended December 31,	
	2017	2016
	(in millions, except per share amounts)	
Net income excluding special items	\$ 2,399	\$ 3,173
Shares used for computation (in thousands):		
Basic	<u>489,164</u>	<u>552,308</u>
Diluted	<u>491,692</u>	<u>556,099</u>
Earnings per share excluding special items:		
Basic	<u>\$ 4.90</u>	<u>\$ 5.75</u>
Diluted	<u>\$ 4.88</u>	<u>\$ 5.71</u>