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AAL.OQ - Q3 2024 American Airlines Group Inc Earnings Call

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## OVERVIEW:

Company Summary

## CORPORATE PARTICIPANTS

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

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

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

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

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

## CONFERENCE CALL PARTICIPANTS

**Andrew Didora** *Bank of America - Analyst*

**Scott Group** *Wolf research - Analyst*

**Michael Linenberg** *Deutsche Bank - Analyst*

**Jamie Baker** *JP Morgan Securities - Analyst*

**Savi Syth** *Raymond James - Analyst*

**Conor Cunningham** *Melius Research - Analyst*

**Duane Pfennigwerth** *Evercore ISI - Analyst*

**Steven Trent** *Citigroup Inc. - Analyst*

**Tom Fitzgerald** *TD Cowen - Analyst*

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**Leslie Josephs**

## PRESENTATION

### Operator

Thank you for standing by and welcome to American Airlines Group's third quarter, 2024 earnings conference call. At this time. All participants are in a listen-only mode. (Operator Instructions).

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

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

Thank you Latif. Good morning and welcome to the American Airlines Group third quarter, 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 third quarter. 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.

Now, 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 which 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.

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

Thanks Scott, Good morning, everyone. Before we begin, I want to acknowledge the devastation caused by the recent hurricanes in the eastern United States. Hurricanes, Helene and Milton have had a significant impact on so many. And I'm proud of the way the American Airlines team has stepped up to help.

We had 1,000 seats into and out of the impacted areas and cap fares for customers traveling to get out of the path of the hurricanes. Additionally, our cargo team has moved more than eight tons of critical supplies to impacted regions.

And our team and advantage members have donated more than \$5 million to the American Red Cross to help out those impacted by Helene, Milton and other significant weather events this year. Our thoughts are with the communities is affected by these disasters and we'll continue to support recovery efforts. Now to the results today, American reported a third quarter adjusted pre-tax profit of \$271 million.

This earnings result is higher than our guidance issued in July with third quarter adjusted earnings per diluted share of \$0.30. I'm especially proud of this result. Given the operational challenges the team faced in the quarter, most notably, the impact of hurricanes, Debbie and Helene and the crowd strike outage.

The estimated net impact of these disruptions reduced our third quarter earnings by approximately \$90 million or \$0.12 per diluted share. Our remarks this morning will focus on our revenue performance, operational reliability and cost execution in the third quarter.

Notably, we hit or exceeded our prior guidance on every financial metric in the quarter while also running a reliable operation. We're intently focused on delivering on our commitments in this quarter. We did just that on to our third quarter revenue performance. TRASM was down 2% in the quarter 1.5 points better than the midpoint of our prior guidance.

This improvement in the quarter was primarily driven by the steps we've taken to adjust domestic and short haul international capacity which helped improve the balance of supply and demand. Domestic PRASM was down 3.1% year over year with performance improving through the quarter as industry capacity growth decelerated from July.

Importantly, flown yields in September were positive year over year and we were able to narrow the competitive load factor. GAAP we saw in the third quarter of last year. Long haul international continued to perform well in the third quarter with positive year over year unit revenue growth driven by strength in the Atlantic and South America.

While short haul, Latin RASM was negative for the quarter. The region drove the largest sequential improvement from the second quarter to third quarter. Driven by the improving industry supply backdrop demand for American's product remains strong as evidenced by the continued strength of our business premium and loyalty revenue performance. Managed business revenue was up 6% year over year, and we continue to see yield strength in the segment.

Premium revenue increased by approximately 8% year over year on 3% more capacity, paid load factor in our premium cabins remains historically high and was up more than four points year over year with strength in both domestic and international. Royalty revenues were up approximately 5% year over year, with advantage members responsible for 72% of a premium cabin revenue. Spending on our co-branded credit cards was up approximately 7% year over year in the third quarter, highlighting the value of American's loyalty program today and moving forward. In July, we committed to report on progress in regaining our share of revenue lost as a result of our prior sales and distribution strategy.

We know success ultimately will be measured by improved revenue and earnings in the near term. We're tracking our progress by measuring our agency and corporate booking performance, tracking the growth of our new advantage Business program and listening to the feedback from our agency partners and corporate customers.

Our third quarter, indirect flown revenue share improved modestly compared with our performance in the second quarter. However, the booking trajectory through the quarter is encouraging American's corporate and agency flown revenue share bottomed at 11% below our historical share.

Since then, our share of indirect bookings has started to recover, and we estimate we are currently at 7% below historical levels, and we expect to see continued improvement in the months ahead.

In the third quarter. We continued negotiations for new incentive based agreements with the largest TMCs and agencies. We now have new competitive agreements in place with more than half of those and are in advanced negotiations with the rest.

We rebuilt our agency support capability and based on the team's NPS scores, they're providing world class service. These agreements combined with the support enhancements are major steps towards restoring our share in these important distribution channels.

In September, we announced the relaunch of our corporate experience program to address feedback from our corporate customers. The program provides meaningful benefits including priority boarding, access to preferred seats and priority re accommodations during disruptions. Additionally, we have amended agreements with many of our top corporate customers.

Adoption of advantage business, our program tailored for small and medium sized businesses continued to build during the quarter.

Our actions to expand the benefits which include bookings through agencies, enhanced program support and a more simplified enrolment process are clearly working. We expect to accelerate the growth of the program going forward. Concurrently, we've been engaged with our corporate and agency partners to ensure we're addressing the issues that matter most to our customers. We've heard universally that their worlds are better with three airlines rather than two because of the network and travel rewards program that America delivers. Based on this feedback, we're confident we're taking the right actions.

We know full restoration of our revenue will take some time. But with the progress we're seeing and the actions underway, we aim to fully restore our revenue from indirect channels as we exit 2025. We will continue our relentless focus on reestablishing relationships with our business customers, reembracing the agency channel and making it easier to do business with America.

Now, turning to our operation, the American Airlines team delivered strong operational results in the third quarter including outperforming our network peers over the peak summer travel period. These results were accomplished despite extended periods of difficult weather and several key hubs and continued supply chain challenges. Despite these obstacles, American led the US network carriers in completion factor in the third quarter.

This is a testament to our team's ability to plan and deliver a safe, reliable and consistent product for our customers. Earlier, I mentioned the financial impact of the crash strike outage and hurricanes, Debbie and Helene. The cost of those disruptions could have been far greater if not for our team's quick recovery, which was a result of our focus and investment in the resiliency of our operation. As we close the quarter in September and have transitioned into the fall.

We're seeing some of the best operational performance of the year and as promised at our Investor day, American is delivering strong operational results and moving forward, we expect to produce the same operational reliability even more efficiently.

Now, I'll turn it over to Devon to share more about our third quarter financial results and the fourth quarter outlook.

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

Thank you, Robert, excluding net special items, we reported a third quarter, net income of \$205 million or adjusted earnings per diluted share of \$0.30.

We produced record of third quarter revenue of \$13.6 billion. Up 1.2% year over year, our unit revenue was down 2% year over year on 3.2% more capacity. Our adjusted EBITDA margin was 11.1% and we produced an adjusted operating margin of 4.7%.

Our unit costs excluding net special items and fuel was up 2.8% year over year. This is at the higher end of our guidance range due in part to expenses associated with the crowd strike disruption and two major hurricanes moving to our fleet for 2024. We now expect to take delivery of 17 new aircraft, seven of which are planned to be delivered between now and the end of the year. Our 2024 aircraft CapEx which also includes used aircraft purchases, spare engines and net [PDPS] is expected to be approximately \$1.7 billion and our total CapEx is expected to be approximately \$2.6 billion. A reduction of \$300 million from our July guidance.

Looking ahead to 2025 based on our current expectations for new deliveries, we anticipate our aircraft CapEx will be less than \$3 billion below the low end of our prior guidance range. We continue to expect moderate levels of CapEx through the end of the decade. With aircraft CapEx plan to average between \$3 billion to \$3.5 billion per year from 2026 to 2030.

We ended the third quarter with the \$11.8 billion of total available liquidity. We produced approximately \$170 million of free cash flow in the third quarter and now produced \$2.4 billion of free cash flow through the first three quarters of the year. We are on track to reduce our total debt by at least \$13 billion from peak levels by the end of this year. And we remain committed to our goal of \$15 billion of total debt reduction from peak levels by year end 2025.

Now turn to the outlook for the fourth quarter.

As we noted in July, we moved quickly to adjust our capacity growth in the back half of the year to better align with demand with our schedule for the balance of the year. Now finalized, we expect to grow capacity by approximately 1% to 3% in the fourth quarter and we expect our full year capacity will be up approximately 5% to 6% in line with our prior guidance.

We expect fourth quarter TRASM to be down 1% to 3% and full year TRASM to be down 3% to 4% versus 2023.

We continue to focus on driving efficiency and productivity through our re-engineering, the business initiatives, we are on track to deliver \$400 million in cost savings this year with \$300 million achieved through the third quarter. Additionally, we continue to expect to achieve more than \$300 million in working capital improvement this year fourth quarter, CSMx is expected to be up approximately 4% to 6% year over year. The higher sequential year over year unit cost growth is primarily driven by lower capacity growth and the impact of our new agreement with the APFA. We expect our full year CSMx to be up approximately 2% to 3% consistent with the guidance we provided in January as we continue to effectively manage expenses.

Our current forecast for the fourth quarter has been a fuel price of between \$2.20 and \$2.40 per gallon. Based on our current demand assumptions and fuel price forecast, we expect to produce an adjusted operating margin of between 4.5% and 6.5% for the fourth quarter or earnings of approximately \$0.25 to \$0.50 per diluted share.

With this fourth quarter guidance, we expect to deliver a full year adjusted operating margin of between 4.5% and 5.5% and adjusted earnings per diluted share of \$1.35 to \$1.60. We now expect to generate between \$1 billion and \$1.5 billion of free cash flow in 2024. This includes the impact of a one-time bonus for a flight attendant of approximately \$500 million.

As we prepare for 2025, we are focused on producing capacity that is in line with our expectation of demand growth. While capacity planning for the year ahead is ongoing, we currently expect our 2025 capacity to grow low single digits year over year. This growth will be focused on bringing back capacity in markets that are still not restored to historical levels.

As we demonstrated with the capacity adjustments we put in place in the back half of this year, we will remain flexible and will adjust capacity in response to the demand environment and the competitive environment. We are operating in.

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

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

Thanks Devon.

We remain focused on operating a reliable airline, executing on our initiatives and delivering results. We continue to produce historically strong operational reliability. We remain on track to achieve our balance sheet goals.

We're re-engineering the business to ensure we continue to manage costs with the best in the industry while delivering a better experience for our customers and team with the changes we're making in our commercial organization. We're setting the foundation for success. As we regain our share of corporate and agency revenue, we will continue to make progress on those efforts. Listening to customer feedback and tracking our performance to ensure the changes we're making are producing the expected returns, winning back the full share of revenue that we've lost will take some time.

But we're committed to reaching that objective as we exit 2025 and get back on track with the long term targets we outlined at our investor day and that's growing our margins, generating [sustainable] free cash flow and continuing to strengthen our balance sheet through debt reduction to accomplish this. We need the entire American Airlines team working together and pulling in the same direction with the ratification of the new contract with the APFA and our tentative agreement with the TWIM Association which covers our mechanics and fleet service team members.

We've reached new agreements covering more team members in a shorter period of time than ever before. Not only do these agreements, ensure we're taking care of our team, but they also provide a level of certainty in our planning that will help us efficiently achieve the goals we've set for American. We're focused on delivering on our commitments and we believe achieving our long-term targets will unlock significant value.

And with that operator, please open the line for analyst questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions)

Andrew, Didora of Bank of America.

**Andrew Didora** - Bank of America - Analyst

Hi, good morning, everyone. First question for Robert. I guess when I look at your total revenue growth, it's been sort of flattish and for the last six quarters here, obviously, trailing GDP. But also, I mean, other global carriers, can you, do you think you can get back to GDP type style top line growth and what do you need to see to get there from here?

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

Oh, thanks Andrew. I appreciate that. And, and the answer to that is for sure. So, I'll start with this, that we did some damage to ourselves with their sales and distribution strategy. You've heard us talk a lot about that. I'm really pleased with what I see in terms of the recovery of that.

We grew our, our corporate managed business in the third quarter by 6%. We can do better than that. And I know that that's something that we can achieve as we take a look at the efforts that we've put in place to win back that share. Whether that's restoring full content, negotiating new deals and enhancing existing deals with our agency partners and also our corporate partners.

That's all under work and it's taking root and it's showing in terms of our four bookings. As you, -- as I mentioned earlier today, we bottomed out at, corporate agency, indirect, share to, compared to historical averages of about 11% down. And as we exit, September, we know that we've recovered back to about 7% down.

So I can see that progress continuing on top of that, I'll speak to the strength of our network and our partnerships and competing just from a product perspective. And then finally, I know that we'll make some progress in being more competitive in terms of our co-brand relationship and what that can bring to our business as well. So, I've got a lot of confidence and pleased with the progress that I see so far.

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**Andrew Didora** - Bank of America - Analyst

Got it. And, and on that [cobri] standpoint, perspective, I guess there was a press article last month that spoke about you potentially consolidating your card program with just city. Where do negotiations stand with regards to new economics there? And I think at Investor Day, we're talking about maybe timeline by year end 2024 in terms of, potential timeline of getting a deal across the finish line. Does that still seem reasonable? Thank you.

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

Good. Thanks for the question on that. I'm going to hand that over Steve.

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

Hey, thanks, Andrew. We, we have two really exceptional friends and partners in City and Barclays. And I want to give a shout out. I mean, we've worked together to create a really terrific program that I think has a sensational future. We, I think in terms of talking about our progress, I'm actually going to give a salute to the Dodgers and more importantly to Steve Trent, who actually framed this question in July in terms of a baseball game, and I'd say that I characterized our progress as the bottom of the seventh inning at this point.

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**Operator**

Thank you.

Our next question comes from the line of Scott Group of Wolf research. Please go ahead, Scott.

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**Scott Group** - *Wolf research - Analyst*

Hey, thanks, good morning, guys. So, RASM was down 2% in the third quarter. I presumably improved throughout the quarter. The fourth quarter, guide down 1% to 3%, I guess, doesn't really imply any incremental improvement and any color on why and then maybe any regional color.

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

So Scott, I'll start, first off as we take a look at the fourth quarter. I do see a strong demand overall but it's a quarter in which a strong October and I think a strong December, it has some noise in it in terms of expected softness and demand around the election around and around Halloween. But as we take a look at how bookings have progressed, I see that October, very strong December, very strong and as we look at the 2025 same holds true for what we have on the books for, for January, as -- as well. We've got some capacity growth in the quarter. But it's, it's modest and it's been reduced considerably. And we're going to work hard to make sure we deliver on the forecast that we've produced.

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**Scott Group** - *Wolf research - Analyst*

Okay. And then just secondly, you, you made a comment about low single digit capacity growth for '25. What do you think that any early thoughts on what that should mean for CASM and then the, you sound confident about the corporate recovery by the end of '25. What's the revenue opportunity from that?

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

Hey, Scott, it's Devon. Yeah, we're not going to give [Calvin] guidance for 2025 right now. But as you'd expect the largest headwind, we face in 2025 are the increases in salaries and benefits resulting from the CBAs that we have reached over the past 18 months. We expect our competitors are going to have very similar chasm pressure. But for us, it's nice to have the certainty in planning. Also magnifies the importance of all of our efforts to run a lean operation and invest in the right technology to run a more efficient and effective business. But that's the main area beyond salaries and benefits. There'll be some other cost pressures, things like regional growing at a faster rate than main line. But I feel we've been the best in the business in managing our expenses over the past several years. And it will be a focus of ours in 2025 as well.

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

It's got in terms of, of revenue, last quarter, I said that we think that in terms of higher yielding corporate agency related revenue, we're missing out about a \$1 billion and \$1.5 billion of revenue over a course of the year. Now, we've replaced some of that with, with lower yielding traffic, but our intent is to win the vast majority of that back over the course of 2025. And based on the efforts that, we're taking right now, I feel confident we'll be able to do that the cycle in which contracts are established for agencies and Corporates. It's done, on an annual basis and sometimes it even takes sometimes those, those contracts actually run over the course of a couple of years. But what we're seeing right now is a lot of reception. People want us back. I've talked to not only buyers and purchasing team member from our Corporates and TMCs, but also the CEOs the world's better for them with another competitor in the mix. And so, there's a lot of positive reaction to us getting more competitive, offering the services and amenities that are competitive.

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**Operator**

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

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**Michael Linenberg** - Deutsche Bank - Analyst

Hey. Good morning, everyone. Robert, I want to touch back on, on the distribution chart where you show that sequential improvement. I get, maybe every point is about \$140 million on an annual basis. Where are we with the \$1.5 billion whole? Is that still the hit this year? Despite the fact that, we are starting to see improvement right now and the fact that we are seeing this type of improvement, It doesn't seem like you're really, incorporating much of it in the fourth quarter, given the fact, [the flat] RASM -- excuse me, the down 1% to 3% RASM guide similar to what you did in the September quarter.

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

Well, thanks for the question. I'll just start with this. We've taken a very deliberate approach as we've sat down with our agency partners and corporate buyers. We've seen tremendous progress is that said evidence by for bookings but not a lot of that has showed up in the third quarter. We expect to see more as we progress into the fourth quarter and then acceleration as we move into 2025. Again, we gotta give a chance for the contracts to actually be in place changes to be made. And then ultimately, I'm looking for restoration on an accelerated basis as we move to 2025.

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**Michael Linenberg** - Deutsche Bank - Analyst

Okay, great. And then just a capacity question. I do see that your supply is down a bit in some of your international markets like transatlantic and presumably that's being driven by airplanes that are going through a reconfiguration. Can you just talk about that reconfiguration program and maybe how many wide bodies it will take out? if your fleet as you, as you expand your premium offering? Thanks for taking my questions.

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

No, thanks for that. And in terms of aircraft reconfigurations, 777-300, the 20 777-300s that we have, they're due to start their reconfigurations next year. And we'll be talking more about that as we get into our 2025 planning cycle. But there's, there's not any of that as we take a look into fourth quarter. More what you're seeing is us just aligning the capacity to where we can best utilize the aircraft and quite frankly serve our customers and generate the most revenue. So, one of the things you you've seen is that the capacity has been I think, brought more into balance in, in London Heathrow. And that bodes well force. We're certainly seeing that in stronger London Heathrow yields Trans-Atlantic as we move into the fourth quarter, overall, appears to be, a fairly, a very solid and so it's more an aircraft deployment issue as we get into 2025, we'll be able to say more about the impact of reconfigurations on our wide body fleet.

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**Operator**

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

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**Jamie Baker** - JP Morgan Securities - Analyst

Hey, good morning, everybody. So, if we look at the third quarter, non-GAAP earnings were, pretty similar to those of, of last year's, third quarter. But on fuel, that was \$0.40 a gallon lower. If we look at the guide for the fourth quarter, at the midpoint of EPS, you're obviously up year on year, but on fuel, that's \$0.70 lower.

The point is if we normalize for fuel your core in the fourth quarter, year on year looks like it's doing worse than in the third quarter. What do you think? Explains that?

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

Hey, James it, Devon. I think as we've always talked about, there's a relationship between fuel and revenue. So, we have adjusted capacity. The industry has adjusted capacity to the current supply environment. Obviously, fuel is \$0.70 higher. We would be producing slightly less capacity than we are today. I think the industry would probably be adjusting at the same time. So, none of this can be looked at in isolation. You, you're right that, earnings in the fourth quarter, relatively flat just up slightly at the midpoint, we expect to do better than that. And as we head into 2025, we're looking forward to margin expansion.

**Jamie Baker** - JP Morgan Securities - Analyst

And second, when we, and thanks Devon, when we think about management priorities, Robert has said that he's spending a lot of time, helping repair corporate relationships and progress is being made and operations are markedly improved, the balance sheet continues to improve. There's a loyalty kicker coming, these are all good things. My question relates to the network. I'm curious what you think your greatest network deficiencies are and more importantly, does the, does management have the appetite or is it a priority to address those deficiencies? Thanks in advance.

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

Thanks Jamie and look, our highest priorities right now are making sure that we make best use of the assets that we have and notably regaining our corporate agency share, getting our co brand credit card, negotiated and then competing with on, on product and service, but in regard to the network, I look, I, we said at an Investor day and I'll underscore it again. We have, we have a fantastic network, it can take customers anywhere they want to get in the world.

We have the best set of partnerships in the biggest business and travel destinations around the world. We've been aggressive in the past in terms of making sure that we shore up any, any deficiencies. Most notably, we have a relationship with the last airlines out on the west coast. We tried to strengthen our position on the east coast with the NEA.

And as we take a look at going forward, we're very focused on making sure our network appeals to, customers, from a leisure basis, international and certainly from a business perspective. And as you take a look at what we're doing, in New York and Los Angeles, I note that, in New York, between LaGuardia and JFK that we have, we will be flying as we move into next year, the largest schedule that we've had since the pandemic.

I'm really pleased with the product that we're putting in place, whether it's the lounges, the 321Ts and ultimately the XLRs that will be, flying transcon, the great relationship that we have with [BA] to set up, just the, the best, shuttle to London Heathrow. And the work that we're doing out on the West Coast again with, Alaska, our combined position, certainly puts us a great strength and even on our own in the L.A. Basin airports, we have considerable strength. So, it's about knitting all these things together and the utilizing to the greatest extent for the greatest benefit for our customers and making sure that we do our best to yield up wherever we can. We got a lot of work ahead of us, but that's all upside with the assets that we have today.

**Operator**

Thank you.

Our next question comes from the line of Savi Syth of Raymond James. Please go ahead. Savi.

**Savi Syth** - Raymond James - Analyst

Hey, good morning. I was wondering if you could just go to follow up on Scott's question earlier. Provide a little bit more color in the fourth quarter trend here and you called out noise, election. I think I'm; I was not sure if there was a Milton impact in there. I wonder if you could, just help us

understand the unit revenue guide that you provided and what the core trend might be both kind of in the domestic and the various international markets.

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

Yeah, Savi, what I'll say is we take a look at the fourth quarter, overall and I'd say again there, their strength in demand. We're not going to have any trouble filling up our plans. I do think that that's a result of the supply and demand balance being relatively more in shape. I think that that's going to progress as well. I think that, from a supply perspective, we continue to see an improvement but the fourth quarter as a whole, strong October, some weakness in early parts of November as a result of, of Halloween and the election not unexpected. And as in fourth quarter, we see a lot of strength, I'm sorry, and as we move to December, see a lot of strength around the holidays, see a lot of strength over Thanksgiving as well. So, people want to travel and we're very optimistic about how the bookings look for the fourth quarter.

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**Savi Syth** - Raymond James - Analyst

I appreciate that. And then just on the, I know it's very early days on the 2025 capacity growth and I appreciate the color there. Just curious, in connection to the unit cost, headwinds mentioned maybe a little bit more regional growth than mainline. I was curious if you can talk about how high level how you're thinking about kind of domestic growth versus maybe near international versus international.

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

Hey, so not a whole lot of color at this point on growth by entity for 2025 but obviously the regional growth will be entirely focused on domestic. It just doesn't drive a ton of ASMs. But as we bring back capacity is probably a percent of consolidated capacity or more that's coming out of regional that will largely be on the domestic side. The rest of the growth I think will be split relatively evenly, maybe a little more international than domestic. But we have a lot of plans develop a bit.

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

And savi just, a little more color on that, coming out of the pandemic, we really focused on restoring our sunbelt hubs to get them to the full capacity. You'll see us position more capacity than the northern tier hubs. Regionals are going to give us great flexibility and be able to make sure that we can take customers where they want to go when they want to go.

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**Operator**

Thank you. Our next question comes from the line of Conor Cunningham, a Melius Research. Your question, please, Conor.

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**Conor Cunningham** - Melius Research - Analyst

Hi everyone. Thank you. Maybe following up to Jamie's question. On the product side, you're talking to your Corporates now pretty in [depthly] and I imagine you're engaging with regular customers in general, but just have preferences changed at all in terms of on-board experience. Now, you have United talking about free Wi-Fi. You have Southwest rolling out their premium experience. Just curious on how you view you how American's product kind of stacks up to the industry at this point. Thank you.

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

Yeah, thanks Conor. I'll start with this. There's clearly a preference for more premium type services and one of the things you'll note in our results is, premium revenues have risen by 8% quarter over -- over the third quarter in 2023. I think that bodes well for us, because it's paid load factor and

its yield, but it bodes well for us because you'll see over the course of the next two years through 2026 that our premium seating is going to grow by about 20%. And that's as a result of the reconfiguration of 777-300. But as well as the introduction of the 787-9 with the flagship suites, XLRs and then also domestically reconfiguration of our 320s and our 319s.

So there's absolutely a preference. From that perspective, I think that that's going to continue, I think we're going to be on the right side of the ledger on that in terms of product you mentioned, customers want, control and inconvenience. We've invested an incredible amount in terms of technology, and we'll continue to do that to give customers the ability to control their itineraries and then also to be able to help them recover. When there is any type of disruptions as part of that, People want to be connected, whenever and wherever they fly American was the first to get our narrow body fleet, fully equipped with a satellite-based Wi-Fi.

We're going to be expanding that for our large regional jet portfolio as well. So, we'll be the first to have satellite-based Wi-Fi on the combined narrow body and regional of fleet. And I think that we're going to have to take a look at that, making sure that we serve customers' needs from that perspective as well. But you'll see us invest in our product. We'll have flagship suites in terms of new deliveries on the XLRs and the 787-9, those will have seatback video, those will also have international satellite Wi-Fi as well. And then, from a services perspective on the ground, same thing.

We were the first to really up the game in terms of lounge experience with the flagship dining. And I'm really proud of the facility that we have in New York with three lounge options that really set a standard. You'll see us next year, invest and roll out the new lounge experiences in Philadelphia and planning upgrades in other places throughout the system as well.

So as we take a look at in the future, I think that customers are looking to having a more premium experience, we're going to accommodate that they want more control. We're going to try to make sure that we'll engage them on that front. And overall, I think that the game plan for American is going to be very beneficial and unlocking a lot of value from a revenue perspective.

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**Conor Cunningham** - *Melius Research - Analyst*

Super detailed. Appreciate that, Robert. And then, you're talking about renegotiation, with Corporates and engaging with them again, is that in line with your expectations, the exit rate and then the, the word that caught me by surprise, I think was just you dropped the word competitive as you renegotiate the contract. Does that mean that the revenue recapture that you're seeing is coming in at a lower margin going forward? Thank you.

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

I'll start on this, and Steve can, can fill first off. I'll just restate that the reaction I've received from the countless CEO and professionals at the agencies and corporate buying groups has been thank goodness you're back. We want to engage; we want to engage in a way that is sustainable and profitable over the long run. So, I've been very, very pleased with reception, Steve, you want to give us some more detail?

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

Yeah, sure, maybe more generally about the, the third quarter. There's been a couple of questions that I characterize as kind of why is it taking so long? But I mean, we, when I think about the last 90 days, we had a handful of objectives, I think that were immediate and needed to be focused on. I mean, first, we had to stabilize the ship and refocus the team, we've had a very significant disruption, and I'm really pleased with the progress that we made on.

That second, we needed to rebuild our foundation and our infrastructure for being able to participate in the traditional sales and distribution channels. I mean, that had largely been dismantled and we need to build that in a way that it would be lasting and that, our partners would, trust the fact that we were back in the game. And I think we've made really significant progress on that.

Third, and I think most importantly, we needed to reestablish and start redeveloping our relationships. I mean, that meant listening and listening to a lot of people. And ultimately getting past, what a stage that was really anger and getting, reacquainting ourselves with these people and regaining their trust in a way that was really important that meant talking to people. It meant negotiating agreements on a kind of a counterparty by counterparty basis and it just meant engagement and as Robert has said a couple of times, I mean, that's been really positive.

We made a lot of progress on that and we've heard over and over and over again that the agencies, the TMCs our corporate customers that their world is better with three airlines competing instead of just two. Fourth, we wanted to shift some share. We talked about that, and we said that we would measure ourselves by share and we accomplished that as Robert has mentioned a couple of times.

Fifth, we wanted to outperform guidance. We hadn't done that in a long time, and we did that this time and I think everybody's really proud of that effort. And then finally, we wanted to -- we wanted that out performance to be meaningful and meaning that we want to do it in a way that we didn't lose additional ground to our principal competitors. And I think we accomplished that in the third quarter as well. I mean -- I, I'm not going to say that we're done or, or anything nearly that there's tons of work to be done, but I'd like to think that that's a solid start and I think it has the team and Robert and Devon and I really excited about what we can accomplish in the next 90 days in 2025.

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**Operator**

Thank you.

Our next question comes from the line of Duane Pfennigwerth of Evercore ISI. Please go ahead, Duane.

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**Duane Pfennigwerth - Evercore ISI - Analyst**

Hey, good morning. Thanks. Just a couple on the fleet delays. I'm just wondering how impactful These are to your 2025 planning if you, if you have any sense for what your 2025 growth might have looked like absent any fleet delays or is this more about delaying aircraft retirements and then relatedly in a follow up to, how are you thinking about utilization expansion next year? Which I think was a big theme entering this year.

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

Hey, Dwayne. Yeah, capacity for 2025 is being impacted by these delays. Like we're fortunate to have a fleet that can run it pretty strong utilization. You saw that this year where versus the start of the year, we probably took delivery of 15 or 20 less airplanes or something like that than what we expected. And we still met our capacity guidance for the year.

Next year, we'd probably be a little bit higher in terms of capacity if it weren't for our expected delays, that being said, we can push utilization a little bit. We, we still think we could if we wanted to and if the competitive or demand environment dictated that we could grow ahead of our low single digit guide. But it is impacting to some extent on the utilization side for next year, you'll mostly see it with regional aircraft or region where utilization will be up pretty materially as we have gotten back to full supportability throughout this year. Mainline utilization maybe up slightly, but it won't be as material as what we've seen on the regional side.

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**Duane Pfennigwerth - Evercore ISI - Analyst**

Thanks. Thanks. For that. And then, in terms of corporate share recovery, I don't know if you're willing to speak to this. But where do you think the old strategy hurt you the most geographically was the share loss really even across your network in places like DFW and Charlotte and Steve, maybe your Dodgers shout out, gives us a clue. I don't want to read too much into it. But, where do you think this pivot will help you most.

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

Clearly in the big cities that are the most competed? New York, LA, Chicago. We definitely were hurt disproportionately in places where we're less strong. And so, and that's what we're seeing as we see this start to come back. That's where it's starting to come back.

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**Operator**

Thank you.

Our next question comes from the line of Steven Trent of City.

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**Steven Trent** - Citigroup Inc. - Analyst

Yes, good morning, gentlemen. And thanks for taking my time. Taking the time for my questions and to the other Steve on the call. We're quite baseball focused here as well. So, appreciate that. Just a bit of a follow up when I think about maintenance. I know you guys have a relatively young fleet. But have you thought about maybe other strategies, engine module swaps or using drones or these kinds of things when you think about your aircraft maintenance strategy? Thank you.

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

So, I'll start, and just first with this, I think, as we move out into 2025 and beyond, I think that the industry is going to continue to have a shortfall of resources. American is very well protected and resourced in environment where the supply chain struggles, especially around maintenance related items. We have the largest group of mechanics all represented by the TWIM Association of any carrier.

We have the world's largest commercial maintenance overhaul base in Tulsa, Oklahoma and in all of that, I know right now from what I see that we're outperforming others in the industry, whether that be other airlines and also MROs I know that because of the kind of the turn times that we produce on our, our CFM56 engines. So, I think we, we're really well positioned in a world where there's constrained resources on top of that. And I'll let David Seymour, our Chief Operating Officer speak. I know as well that we're bringing to bear the best in, in terms of technology to not only maintenance but all aspects of the operation.

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

Yeah, Robert, thank you. The team is exploring all this and that's new technology that's out there. But we're looking at whether it's drones or using high definition, cameras to be able to pinpoint damage, assess damage and those types of things that we would do ordinarily in a heavy check environment. So that field is starting to grow. We're definitely exploring options in that to get more efficient with what we do.

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

And David, I just add this technology is going to be a key item for us as we look forward when we talk about aircraft utilization, we are identifying any type of improvement. Right now, in a way that I think we can recover better than any other airline, we're using that, that technology and the tools that that David mentioned in terms of our training. And one of the things that you'll see is that through deployment of, I basically ipads, throughout the system, whether that be for our pilots and flight attendants and ultimately for our mechanics out on the line, their jobs become so much easier. So, this is something that we're going to excel in. We're all really strong and it's going to be a differentiator for the company.

**Steven Trent** - Citigroup Inc. - Analyst

Very helpful. Thank you very much [Jens] and just a quick follow up as well. All the changes you're making with, with corporate and what have you contemplated making any adjustments or any other adjustments in your frequent flyer program? For example, some of your competitors have mileage programs where their points don't expire. Thank you.

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

Well, from a loyalty perspective, look, we're really proud of the Advantage program overall. We're constantly looking at ways to better engage our, our customers, not only from a loyalty perspective, but just also from a value perspective. And while there may be some carriers that are doing something different, I do know one thing that, you take a look at any type of assessment of the value of a mile on American Airlines versus anyone else. You'll see that we absolutely generate more value for our customers.

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**Operator**

Thank you. Our next question comes from the line of Tom Fitzgerald of TD Cowen.

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**Tom Fitzgerald** - TD Cowen - Analyst

Thank you so much for the time. Everyone. Thinking about the Wi-Fi and is that free Wi-Fi starts to become table stakes across the industry? Are you concerned at all about the revenue headwind that could present?

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

Well, Tom, thanks for the question. No, I'm not concerned because first off, you need to have a high-speed Wi-Fi to be able to offer it, at any level to give customers confidence that they'll be able to access and use it. We're going to be expanding coverage for our Wi-Fi, as I mentioned, our regional fleet, we have it along with our, our narrow body fleet and we're going to be really competitive.

We're going to make sure that our customers are taken care of, and what they want, especially our most loyal customers. We're going to make sure that they're protected and taken care of. We already, offer a number of opportunities for our customers to engage with us on a fee basis and also on a free basis with some partners. We'll keep an eye on that and make sure that we don't fall short even for a second. Thanks.

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**Tom Fitzgerald** - TD Cowen - Analyst

That's really helpful. Thanks. And then just quickly on the with the CapEx, some of that shifting to the right, would you look to accelerate any debt pay down? Thanks again for the time.

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

It's a good question, a fair question right now. We feel pretty good about the outlook with what we're doing on total debt reduction, we stay consistent with our goal of \$15 billion of total debt reduction. Right now. We have two maturities in 2025 that will have some options around whether we do a refinancing on those maturities or if we pay down and that will be dependent on where we're at with free cash flow and our liquidity outlook. But for now, we're feeling really good about the \$15 billion total debt reduction goal. And yeah, we, we may look to advance that or further reduce debt depending on what happens throughout 2025.

**Operator**

Thank you.

Our next question comes from the line of Daniel Mckenzie of Seaport Global.

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**Daniel Mckenzie - Seaport Global - Analyst**

Oh, hey, thanks, good morning, guys. Going back to technology being a key item and your comment on it, investments. I understand I can drive improved maintenance, but on revenue, is there a revenue opportunity from getting the right offer in front of the customer at the right time? And, and for those with a longer time frame, what does the upside look from look like from that potential Upsell?

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

So I'll start Steve, you can -- you can add on to this as well. I'll just start with this. Dan, first off, we've invested \$12 billion in terms of technology over the last decade and that kind of investment is going to continue as part of where we focus our efforts and whether it's in operations which, David covered to a certain extent or our operations control, which is definitely something that is an area of focus, attention is on our customers, making sure that we're as easy to do business as possible that they can afford themselves of everything that they want in terms of services and amenities and that they have the control for that.

So you'll continue to see a invest in things that make us easy to do business with. And as part of that, and tying back to our product strategy, we know customers want access to more premium products making that available to them in an easy fashion is going to be a focus. I'm not going to put a number on it right now, but it's a big effort. Steve.

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

Thanks Robert. Then I just add -- I'll as you might guess, spend most of my time focusing on some of the issues that we've been discussing over the last two earnings calls. But all of my free time is focused on excitement about what new technologies and artificial intelligence can do to help us Both deliver better products to customers, more tailored products to customers, engage better with our customers, and ultimately improve revenues. It's really an exciting part of the business and we're very focused on it. Thanks for the question.

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**Daniel Mckenzie - Seaport Global - Analyst**

Mm Yeah. And I could, if I could just follow up with (Lynn) more on AI driving improved efficiency because that's exactly what I was getting at bigger picture, what do you want the efficiency metrics to look like, say one or two years from now? And what kind of cost savings could that potentially imply?

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

So I'll start Devin can add into this. Look, we're intent on margin expansion. And one of the efforts that I asked Devin to take on, now, well, over a year ago, almost we're a year and a half into it was re-engineering. The company, from an efficiency perspective, the first effort down that path was really to make sure that we're getting the most out of the assets that we have today, the relationships that we have today. So, everything from, purchasing to freeing up working capital to, just doing things in a better fashion, a little bit better fashion than, than we do today. Those efforts have paid off. I think that in Devon's comments, he mentioned that we're on track for producing \$400 million in terms of savings in 2024 which will grow as we move into 2025 freeing up working capital as well.



We're not going to stop at this first effort in terms of re-engineering. The next effort will then be to put an AI lens to everything that we do. And on that front, I'm really pleased with the collaboration between Devon May, our Chief Financial Officer and Ganesh Jayaram, our head of Information & Technology and Digital. They're both on it and we look forward to talking more about our efforts as we get into 2025.

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

Yeah, I really don't have much to add, we're really proud of the progress. We have made so far to drive efficiencies in the business. I think it's a huge opportunity ahead. You're going to see it in metrics like we talked about at Investor Day. Things like this year, we're growing the airline 5.5% but we're growing our head count by a percent. I think you'll see the same types of outcomes as we invest more into Gen AI and other technologies that are going to allow us to better utilize our assets, better utilize our people and better serve our customers.

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**Operator**

(Operator Instructions)

Thank you. Our first question comes from the line of [Mary Schlangenstein of Bloomberg].

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**Mary Schlangenstein**

Thank you. Good morning. See as you guys work on your corporate rebuilding strategy and trying to win that business. Can you say at this point? what was the, the main point of where you went wrong? At what point did you realize that your strategy was the wrong strategy? And -- and how did it get to that point? If you could just kind of maybe break that down just a little bit?

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

So Mary, I'll, repeat what I said in, in the second quarter, look, our revenue performance fell off as we moved into the second quarter of this year, it became noticeable and it'd be something and something that we knew we had to address in terms of the efforts that we were trying to bring about, which is, technology change and really trying to spur the marketplace. We have to be conscious of the competitive environment, we have to be conscious of technology. And most importantly, we have to be conscious of what our customers want. At the end of the day, we absolutely can do a better job listening. Steve is engaged on that front. I'm pleased with the progress we're making in getting back and re-establishing our commitment to customers. And I know that the revenue rebound is going to follow from that effort.

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**Mary Schlangenstein**

So do you feel in retrospect, like there wasn't perhaps enough oversight to make sure. Before you lost business that you weren't taking. The wrong steps.

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

Mary, this is an opportunity for us and it's up sided American as we regain our share. That's something that I think that that is unique to American and we're intent on doing that and serving our customers, how they want to be served. And in that case, we have a lot of customers that really want to invest in technology and move forward. We have other customers that, really want to take a different approach. We're going to make sure that we're serving them all. We are in the business of taking care of customers, all customers and making sure that they have a place at American and feel like they're well taken care of.

**Operator**

Thank you. Our next question comes from the line of [Leslie Josephs of CNBC].

**Leslie Josephs**

Hi, good morning, everyone. I was wondering if you have an update on the cabin refurbishment for the 777 and 321. Those seem to be a bit behind schedule. When do you expect those to be complete or make some progress there? And then, secondly, do you have any idea if there's a kind of a lull in bookings around the election? And is it any different in its scale than, than previous elections? Thanks.

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

Thanks Leslie. I'll start with the last which is, look, we, we expect there to be some distraction around Halloween in the, in the election. We adjusted our capacity to account for that. So, it's not surprising. And as I said, the October and December certainly look very strong and the Thanksgiving holiday as well. So, we're pleased what we see overall. I just have to be cognizant that during election time. And, Halloween, there's usually a little bit of a tapering off of demand in terms of, any reconfigurations we're doing. We have 777-300s, we have 319s and 320s, that will all be going in into modification work. Those all vary in terms of timing. The 777-300s, are more likely towards the end of, as we get out of the summer of 2025 other programs will be started, and progress over time.

The biggest thing I can say on all those fronts though is that we are dependent on the supply chain. Right now, that supply chain especially in regard to seats is very tight. And so, message to, our suppliers, our partners are to work with us to make sure that we get those that equipment on dock as expected and we're really pushing to make sure that that's the case right now.

**Operator**

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

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

Well, thanks, thanks for that and thanks everybody for making time for us. I will, close with this. I'm pleased with the progress that we're making. It's great to get back on track, delivering on what we say we're going to do. That's been something that I wanted to make sure is the Hallmark of American and we're going to get back on track to doing that. And to that end, this is about making sure, we deliver on, on some of the things that we talked about in Investor Day and that is making sure that we have margin expansion, free cash flow production, strengthening of the balance sheet, the kind of things that we talked about today in terms of regaining share, competing vigorously, establishing a new co brand credit card relationship, all of those are upside for, for American. So, as we, we work through 2025 I know that these are all going to take root and I'm very optimistic about our future. Want to give a shout out to our team. It's never been harder to run an airline and industry leading reliability and circumstances that we have I think is just an incredible accomplishment. Thank you very much for your time.

**Operator**

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

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