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AAL.OQ - Q4 2023 American Airlines Group Inc Earnings Call

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**OVERVIEW:**

Company Summary

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**Robert D. Isom** *American Airlines Group Inc. - CEO, President & Director*

**Scott Long** *American Airlines Group Inc. - MD of IR*

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## PRESENTATION

**Operator**

Thank you for standing by, and welcome to American Airlines Group's Fourth Quarter and Full Year 2023 Earnings Conference Call.

(Operator Instructions)

After the speaker presentation, there will be a question-and-answer session.

(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. - MD of IR*

Thank you, Latif. Good morning, and welcome to the American Airlines Group Fourth Quarter and Full Year 2023 Earnings Conference Call.

On the call with prepared remarks, we have our CEO, Robert Isom; and our CFO, Devon May. A number of our other senior executives are also 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 of the fourth quarter and full year in addition to outlining our operating plans and outlook going forward.

After our prepared remarks, we'll open the call for analyst questions, followed by questions from the media. To get in as many questions as possible, please limit yourself to one question and one follow-up.

Before we begin today, we must state that today's call contains forward-looking statements, including statements concerning future revenues, costs, forecast of capacity and fleet plans. These statements represent our predictions and expectations of future events, but numerous risks and uncertainties could cause actual results to differ from those projected.

Information about some of these risks and uncertainties can be found in our earnings press release that was issued this morning as well as our Form 10-Q for the quarter ended September 30, 2023. In addition, we'll be discussing certain non-GAAP financial measures this morning, 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 D. Isom** - *American Airlines Group Inc. - CEO, President & Director*

Thanks, Scott, and good morning, everyone.

Today, American reported an adjusted pretax profit of $257 million for the fourth quarter and approximately $2.5 billion for the full year, driven by the strength of our network, continued demand for our product and fantastic execution by our team.

I want to thank the American Airlines team for their incredible work to care for our customers and deliver a 2023 that we're proud of. We're running at historically strong operation, driving incremental revenue through our commercial initiatives, managing our costs, producing record free cash flow and strengthening our balance sheet through debt reduction.

This year, we'll continue to prioritize reliability, profitability and accountability while building an even more efficient and resilient airline. We also remain focused on taking care of our team and continue to make progress on our labor agreements. Our commitment in negotiations has been consistent. Reach deals as quickly as possible and ensure our team is paid as well as their industry peers.

We finalized a new contract with the APA in the third quarter last year. A few weeks ago, we did the same for our customer service team represented by the CWA-IBT, giving team members increased pay and quality of life improvements. We continue to negotiate with the APFA, with the shared goal of reaching a deal that will pay our flight attendants at the top of the industry.

Now let's talk more about our financial results. We produced record full year revenues of approximately $53 billion, driven by strong demand for our product and record revenue from our travel rewards program. Demand remains strong and we have seen robust bookings to start the year as travel trends have begun to normalize across entities. We're also very encouraged by the trends we're seeing in business travel.

Domestic revenues from business travel ended the fourth quarter at approximately 90% of 2019 levels. We're excited about the continued rollout of the AAdvantage business program, and we continue to see strength among small- and medium-sized businesses. We see further potential revenue upside as we restore our hubs domestically, enabled in part by the recovery in regional supportability.

This year, we expect our system capacity growth to be balanced between domestic and international. More than ever, our revenue growth is fueled by a growing number of advantage customers who acquired our co-brand credit cards in record numbers in 2023. AAdvantage customers represent both our greatest source of value and greatest opportunity going forward. In 2023, 2/3 of our revenue came from AAdvantage customers. These customers also account for 70% of our upsell loyalty and partnership revenue.

Over the past year, we have made changes to our distribution strategy to give customers direct improved access to our best products and enable American to provide better customer service to the individual traveler. We're very encouraged by the results. Customers who shop directly with us have a more enjoyable experience and are 11 points more likely to recommend American than those shopping in traditional outlets. They are purchasing more valuable content and doing so at lower expense. In 2023, our revenue was 15% higher than 2019, while our selling expenses were 10% lower. Our fleet, network and travel rewards program will continue to drive significant value moving forward. Our limited near-term capital requirements will position us to continue to generate free cash flow.

Turning now to the operation. The American Airlines team continues to achieve industry-leading operational results. We produced our best ever performance in the fourth quarter and over the full year, including a record on-time departure rate and completion factor during the busy holiday season. American ranked first among the U.S. network carriers in Mainline and Regional completion factor in 2023 with our lowest number of cancellations for any year since the merger. All of this led to record likelihood to recommend scores in the fourth quarter and full year.

No network airline has operated more reliably than American over the past 1.5 years. We're running the best operation in our history, thanks to a focus on operational excellence and strong collaboration across the entire organization. We'll continue to build on that performance and deliver exceptional service for our customers. Now I'll turn it over to Devon to share more about our fourth quarter and full year financial results and outlook for the rest of the year.

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**Devon E. May** - *American Airlines Group Inc. - Executive VP & CFO*

Thank you, Robert, and thank you to the American Airlines team for continuing to produce outstanding results.

In the fourth quarter and for the full year, we delivered a fantastic operation for our customers. We took further action to strengthen our balance sheet and early this year, we finalized a new contract for our customer service team members.

In the fourth quarter, excluding net special items, we reported net income of $192 million or adjusted earnings per diluted share of $0.29 and earnings result above our guidance for the quarter driven by strong operational performance and better ex fuel unit cost performance. For the full year, we delivered on our stated objectives and produced results in line with the guidance we provided last January, including on capacity production, unit revenue, CASMx and earnings per share. Excluding net special items, we generated full year net income of $1.9 billion or adjusted earnings per diluted share of $2.65 and importantly, for the full year, we generated free cash flow of $1.8 billion.

In 2023, American produced record revenue of approximately $53 billion. We generated an adjusted EBITDA margin of 14.5% and an adjusted operating margin of 7.6%. In the fourth quarter, revenue was more than $13 billion. Our adjusted EBITDA margin was 12%, and we produced an adjusted operating margin of 5.1%.

Our strong operational performance in the fourth quarter resulted in capacity that was 5.8% higher year-over-year, slightly above the midpoint of our guidance range. Unit revenue for the quarter was in line with the midpoint of our previous guidance, down 6.4% year-over-year. Unit costs, excluding net special items and fuel, was up 4.2% year-over-year, nearly 1 point better than the low end of our prior guidance range. This outcome was driven in part by the strength of our operation, resulting in more capacity, lower overtime and premium pay and lower interrupted trip expense.

Turning now to our fleet. We have modest aircraft CapEx requirements this decade due to the fleet investments we made over the past decade. In 2023, we took delivery of 23 new mainline aircraft. This year, we expect to take delivery of 28 new mainline aircraft, including 20 737 MAX 8, 6 787-9s and 2 A321neo aircraft.

Our 2024 aircraft CapEx is expected to be approximately $2.3 billion and our 2024 non-aircraft CapEx is expected to be approximately $850 million. We continue to have discussions with manufacturers for additional aircraft to deliver later this decade and into the 2030s.

Due to the young age of our fleet, we have very modest aircraft replacement needs. As a result, we expect aircraft CapEx to average less than $3.5 billion per year from 2025 through 2030. A relatively low capital requirements, along with our free cash flow production has allowed for significant progress in strengthening the balance sheet. We have now reduced total debt by approximately $11.4 billion from peak levels in 2021. And by the end of this year, we expect to have reduced total debt by approximately $13 billion from peak levels in 2021 which is over 85% of the way towards our $15 billion total debt reduction goal.

Now on to the outlook for 2024. Our focus this year will be to continue to deliver industry-leading reliability and to reengineer our business to ensure we run the airline as efficiently as possible while enhancing the customer experience. This year, we'll finally be producing more capacity than we did in 2019. Consistent with our prior expectations, we plan to grow capacity mid-single digits year-over-year in 2024. This growth will be enabled by improved asset utilization and new aircraft deliveries. Based on current assumptions, we expect full year TRASM to be flat to down 3% year-over-year. For the full year, we expect CASMx to be up approximately 0.5% to 3.5% versus 2023. This unit cost guidance reflects approximately 2.5 points of year-over-year CASMx pressure due to collective bargain agreements ratified in 2023 and early 2024, an anticipated agreement with our flight attendants in 2024. Our ability to achieve this full year unit cost result is due to our focus on operating more efficiently and improving our asset utilization.

In 2024, we expect aircraft utilization to be up 2% to 4%, and we expect to deliver approximately $400 million in cost savings through the use of digital solutions, reengineering processes and transforming procurement. We have spent the last 18 months sizing the opportunity and developing plans to reengineer our business to be more productive while improving the customer and team member experience. We are excited about the early results, and we will spend more time discussing these opportunities in greater detail at our upcoming Investor Day.

This year, we expect to produce adjusted earnings per diluted share of between $2.25 and $3.25. Using the midpoint of that guidance, we are forecasting free cash flow production of over $2 billion. Looking at the first quarter, we expect TRASM to be down approximately 3.5% to 5.5% on 6.5% to 8.5% more capacity year-over-year. We expect first quarter CASMx to be up approximately 2% to 4% year-over-year. Recall that we did not have the cost impact of our new pilot agreement accrued in the first quarter of 2023. Our year-over-year CASMx performance improved throughout the year as we lap the pilot agreement increases.

Our current forecast for the first quarter assumes a fuel price of between $2.65 and $2.85 per gallon. Based on our current demand assumptions and fuel price forecast, we expect to produce an adjusted operating margin of between 0% and 2% in the first quarter and an adjusted loss per share of between $0.15 and $0.35. We are pleased with the progress the American Airlines team has made in 2023, and we remain focused on delivering results to unlock additional value in 2024 and beyond. Now back to Robert for closing remarks.

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**Robert D. Isom** - *American Airlines Group Inc. - CEO, President & Director*

Thanks, Devon. The American Airlines team continues to produce outstanding operational and financial results. When I moved into the CEO role 2 years ago, we made a commitment to be reliable and profitable, and we have delivered in a big way. We made it clear to all of you what we are going to do, and our team made it happen. Moving forward, we will continue to execute on our plans and control what we can control.

Our team has done tremendous work, but there's much more in front of us as we continue to leverage our fleet and our network and build on our operational momentum. We see significant opportunities to reengineer the business to build a more efficient airline. All of this will enable us to generate sustainable free cash flow. We look forward to sharing much more at our Investor Day on March 4. And now operator, please open the line for analyst questions.

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## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions)

Our first question comes from the line of Michael Linenberg of Deutsche Bank.

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**Michael John Linenberg** - *Deutsche Bank AG, Research Division - MD and Senior Company Research Analyst*

I guess sort of a 2-part question to involves Latin America to -- I guess, Vasu December quarter, it did look like that, that was the geography that underperformed and I know some have called out that, that's going to be a challenging geography in the March quarter as well. Obviously, it's a region that you're very strong in. I believe last quarter, Vasu, you did indicate that you were sort of going to add even more capacity into the region. There were markets that maybe were working there. Can you differentiate between near international beach markets and maybe Latin America long haul -- is there a distinction, one is outperforming the other? Any color on that? And then I have a quick follow-up related to the region as well.

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**Vasu S. Raja** - *American Airlines Group Inc. - Executive VP & Chief Commercial Officer*

Absolutely, Mike. No, it's a great question. There's actually 2 things to clarify. One is the difference between as we call it, short-haul and long-haul Latin America and also the difference between year-over-year RASM and actually marginal profitability. So -- and I'll do the second one first.

First, in December, we flew our larger schedule ever in Miami with so much of it going to Latin America and also that was profitable, we've seen the Miami hub. We've been able to drive a lot of efficiency over South America. And so while we do see some more challenging near-term revenue trends, the important thing is it's near term, both in short and in long.

As we look at Q1, the entirety of our short-haul business, domestic plus the short-haul Latin markets together basically anyway where we can fly a narrow-body turns positive by the end of Q1. So we do see the issues as really more near term and related with -- in the long-haul market, too, we see improving trends as we move through the course of the year.

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**Michael John Linenberg** - *Deutsche Bank AG, Research Division - MD and Senior Company Research Analyst*

Okay. Great. Then just my second on Latin America, your partner down in Brazil looks like they may potentially file for bankruptcy. When I think about your CapEx and investments for 2024, are you including in that some potential additional investment in GOL? Or is that a TBD? Or maybe that's not even on the table? How should we think about that in your relationship there?

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**Vasu S. Raja** - *American Airlines Group Inc. - Executive VP & Chief Commercial Officer*

Mike, there's probably a lot about this that we're not going to quite answer yet, but at least let me offer this. First, foremost and always, our partnership with GOL is a commercial partnership and we benefit them tremendously through our network, our AAdvantage program and our customer base. We're a massive source of value for them and whatever course of action they choose to take that will hold true. And the last thing I'll say is really for our customers that no matter what might happen in the region, we see no compromise to our network connectivity, the quality of service or whatever else might be the case. So we're prepared for all eventualities, but our partnerships are first and foremost, commercial partnerships.

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**Operator**

Our next question comes from the line of Scott Group of Wolfe Research.

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**Scott H. Group** - *Wolfe Research, LLC - MD & Senior Analyst*

Thanks. So Overall, we've seen some of the other airlines so far guide to positive RASM this year. How come you guys are so flat -- you guys are flat to down on RASM? Any thoughts that explains the difference between what you're guiding to and maybe what some of the others are saying.

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**Robert D. Isom** - *American Airlines Group Inc. - CEO, President & Director*

This is Robert. Look, we see obviously tremendous demand. But we build our plan based on what we think is going to happen. Now that said, if other carriers are actually seeing that kind of benefit, it's going to accrue to American as well. And so I have no doubt that if there are adjustments to our assumptions based on any reason, whether that be capacity or demand that, look, we're going to be the beneficiaries as well as for overall economic performance in the U.S.

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**Vasu S. Raja** - *American Airlines Group Inc. - Executive VP & Chief Commercial Officer*

Yes. And Scott, I'll only add. Our focus in this company is margin performance. And there's so much that can change as you get out into Q3 or Q4. But as we see it right now, as the year has started, we are in taking revenues at the same growth rate that our capacity is coming in. As I mentioned earlier, we will exit Q1 as we anticipated with positive year-over-year RASM in our domestic and short-haul business. And we expect a lot of the same strength in international RASMs to continue. But first and always, we're margin-focused.

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**Scott H. Group** - *Wolfe Research, LLC - MD & Senior Analyst*

So just so I'm understanding within your RASM guide for Q1, you're expecting domestic RASM to inflect positive by the end of the quarter. Is that right?

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**Vasu S. Raja** - *American Airlines Group Inc. - Executive VP & Chief Commercial Officer*

Correct.

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**Scott H. Group** - *Wolfe Research, LLC - MD & Senior Analyst*

Okay. And then just so your -- just want to clarify, the full year guide does include expectations for flight attendant deal?

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**Robert D. Isom** - *American Airlines Group Inc. - CEO, President & Director*

Yes, it does have a SIM flight attendant deal.

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**Operator**

Our next question comes from the line of Catherine O'Brien of Goldman Sachs.

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**Catherine Maureen O'Brien** - *Goldman Sachs Group, Inc., Research Division - Equity Analyst*

Maybe one for Devon first. Congrats on the progress towards your total debt goal. Seems like that's tracking ahead of schedule. What's the right debt reduction target we should be thinking about for 2024 with over $2 billion in free cash flow currently expected? I'm sure we'll hear more in March, but any high-level thoughts on where you want leverage to go in the short term? And what's the appropriate long-term level of net debt or EBITDA or whatever your preferred metric is.

**Devon E. May** - *American Airlines Group Inc. - Executive VP & CFO*

Thanks for the question, Catie. We are pretty focused on the next 24 months right now. So as we mentioned in the prepared remarks, we expect total debt reduction to be down $13 billion by the end of 2024. So about $1.5 billion improvement from where we were at at the end of 2023. We still have a target for $15 billion of total debt reduction by the end of 2025.

So we're really proud of the progress we have made over the last couple of years, also really proud of the progress we've made in smoothing out our debt towers going forward. At the start of 2023, we had over $9 billion of debt due in 2025. Through debt paydown and some refinancings, we have significantly smoothed that tower, and we feel really good about where we're at now. We still feel great about the $15 billion total debt reduction target and yes, as we get to the Investor Day in March, we'll talk a lot more about our longer-term goals for the balance sheet.

**Catherine Maureen O'Brien** - *Goldman Sachs Group, Inc., Research Division - Equity Analyst*

Got it. And then maybe if I could just dig in a little more with you, Vasu, on how you expect the different regions to perform underlying that 1Q unit revenue guide of down 3.5% to 5.5%. Understand what you already told us about short-haul domestic turning positive by the end of the quarter, but would love to just kind of run through Transatlantic, LATAM, Asia Pac, domestic with whatever details you can provide.

**Vasu S. Raja** - *American Airlines Group Inc. - Executive VP & Chief Commercial Officer*

Yes, sure, happy to. Looking for us, we anticipate that the domestic system will turn positive by the end of the quarter. And maybe I should start by saying this -- so much of our capacity is weighted to the short-haul market. In Q1, we will be over 75% our ASMs in domestic and short-haul Caribbean. So that very much influences things. But we end Q1 with RASM across those regions turning positive.

In long haul, we see a lot of effectively flat transatlantic performance year-over-year, Trans-Pacific and long-haul Latin flat to slightly down year-over-year. But all of those entities are seeing improving trends. And certainly, as we see more capacity changes coming into schedules for March and beyond, those numbers will yet move again, and we're probably more encouraged by what we see in short haul than -- and maybe any other region at this point.

**Operator**

Our next question comes from the line of Jamie Baker of JPMorgan Securities.

**Jamie Nathaniel Baker** - *JPMorgan Chase & Co, Research Division - U.S. Airline & Aircraft Leasing Equity Analyst*

A couple for Vasu. First, the dead horse question. I know you're not going to give a specific guide on geographic profitability. But as we think about the Northeast alliance unwind, considering demand seasonality, what quarter do you anticipate the maximum pain from the unwind being experienced? And perhaps that's behind us in your models. Just at what point are New York and Boston, the largest drag or the least contributing however you want to think about it?

**Vasu S. Raja** - *American Airlines Group Inc. - Executive VP & Chief Commercial Officer*

Well, Jamie, the worst is behind us. That happened in Q3. In fact, New York, and I'd refer you and others to prior commentary that I made on this either in the press or on these calls. The New York marketplace, the New York customer base has changed in the post-pandemic world. It now is a thing which our slot portfolio serves a whole lot better. Our New York performance is doing better.

And unlike what led to the partnerships we've had there, we see continued growth in origination share. New York is our largest market for enrolling new customers both in AAdvantage and in the credit card, and it had never been that prior to the NEA. So we're certainly open to -- we're open to any partnership that is better for our customers, period, full stop. But for where we are right now, the worst is certainly behind us.

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**Jamie Nathaniel Baker** - *JPMorgan Chase & Co, Research Division - U.S. Airline & Aircraft Leasing Equity Analyst*

Perfect. And then on corporate recovery, in the past, you and I -- I mean, we've all spoken about blended travel and the network and pricing changes that you've made to take advantage of that phenomenon. When we think about what you're seeing today in terms of corporate recovery though, is it robust enough that you need to make further adjustments? Or is it simply incremental yield without any cost or effort?

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**Vasu S. Raja** - *American Airlines Group Inc. - Executive VP & Chief Commercial Officer*

Jamie, it's a great question. And maybe one that speaks at large to our distribution strategy. And so let me speak at large to that first, and I'll hit that. First, all of our changes, whether it's with corporate travel management or travel agencies or what have you are this simple. We sell our product through the Internet. That's what our customers demand. That's how we can give them the best content at the lowest expenses to them and the best servicing. And we see that. We see that we're producing revenue more efficiently, more strategically, more to the liking of our customers. I'll echo what Robert said. We're up 15% in revenue, we're down 8% to 9% in selling expenses or likelihood to recommend scores are higher. But as we look at it, what has really been a change is 65% of our revenue comes from AAdvantage customers, but (technical difficulty) that more.

About 45% of our revenue is coming from AAdvantage customers who are buying premium content, a better seat, more of fundability, more flexibility for miles, and that's up 3 points year-over-year. So that's all to say that -- any which way we double-click on that, it's meaningful, right? We too exit Q4 with a 90% business recovery. Within that unmanaged business versus managed businesses almost a 3:1 ratio with unmanaged business 100% plus covered managed business down further. The impact on managed business is really flat traffic on higher yields.

So as we go forward, actually, we're going to lean further into this. What we have realized through this is, first and foremost, we need to make it easy for our customers to consume our content through the Internet. So we're going to offer more mileage for customers who shop through the Internet. We're going to roll out better servicing capabilities for Internet distribution. And we are going to start restricting the amount of selling and servicing that we do through non Internet-based channels.

And we invite all the travel managers and all of the travel agencies of the world to join us in this because this is great for customers, and it should be great for them too. All of our financial incentives targeted to that audience are really around helping them ship. So we've actually been very encouraged by what we've seen. I think clearly, our relative rousing performance is similar to what it was in the exit pandemic period. And now in the year ahead, we have the opportunity to optimize.

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**Operator**

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

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**David Scott Vernon** - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

On the topic of sort of premium and how the (inaudible) are affecting the business right now. Can you give us some sort of color around how the premium product sales or movements up and down the fare ladder happening growth in basic growth in premium? Just give us some sense of kind of where you are in that process of tapping into what is a more lucrative segment of revenue?

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**Vasu S. Raja** - *American Airlines Group Inc. - Executive VP & Chief Commercial Officer*

Thanks, David. This is Vasu and I'll pick it up right where I left it off. I think I can probably give you a fact point that makes it easier to understand just why we are so focused around selling -- creating more content for AAdvantage customers. So if you look at our system right now, about 7% of what we sell is base economy and indeed, that is up 20% year-over-year. But that's up 20% year-over-year because we changed its product.

Last year, we included it in commission dealings and corporate travel management programs. We just took it out last year. We reintroduced it here this year. It's actually not the critical thing. What's been more interesting to us is 10% of our revenue is coming from customers who actually shop basic but then buy something higher. And within that, that number is up 25% year-over-year, and almost all of its growth is coming through dot-com and app. And we see more and more ways where customers actually who are coming for a basic product want more than that and we can go and deliver that to them, which is why so many of our distribution strategies far from being risky we see as a great opportunity.

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**David Scott Vernon** - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

Okay. And then maybe just as a quick follow-up, as you think about some of the rationalization of the negative margin or lower margin capacity that's being contemplated out in the industry, how do we -- how should we be thinking about the impact of, let's say, an unbundled operator pulling in capacity on your fare ladder. Does that -- is that sort of uniform impact up and down the different fare classes? Or is it more concentrated in something like a basic product? Anything you could tell us for -- help us to understand how some of the capacity changes in the market might impact American would be really helpful.

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**Vasu S. Raja** - *American Airlines Group Inc. - Executive VP & Chief Commercial Officer*

Well, look, at large, and I think Robert mentioned it earlier. I mean, if there's -- it is all business supply-demand-driven businesses. And if there's less supply, that's going to have a clear impact on demand. But for us, with things like basic, back for all of our fare products, we do not make products that are so odious no one will buy it. The whole point of them is to actually have customers experience, travel and joint advantage. And for us, base economy is not about a competitive product. It's our entry-level product that gets customers in the door and signed up for AAdvantage.

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**Robert D. Isom** - *American Airlines Group Inc. - CEO, President & Director*

David, I just want to add one other thing here, which is this -- Is that we've built technology to enable us to react to whatever may come our way. So as Vasu said, look, our goal is to make sure that we can deliver a product to the customers the way they want to receive it. It also has to be done in a way that is incredibly nimble and can be changed. And in the past, you may have seen carriers even American unable to react very quickly.

That's not the case right now. So whatever happens in the marketplace. We've got the technology. We've got the product to be super competitive and whether it's us developing it on our own or having to compete will be ready.

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**Operator**

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

I'll go to our next question. Our next question comes from the line of Ravi Shanker of Morgan Stanley.

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**Unidentified Analyst**

This is Catherine on for Ravi. My question is really around the Investor Day in a few weeks, which I know is probably the first one you guys have hosted in about 7 years. And I was just curious what investors can expect to hear during the event, whether it's new financial long-term targets, revenue initiatives? Just any color around the event would be great.

**Robert D. Isom** - *American Airlines Group Inc. - CEO, President & Director*

Catherine, we're excited about the Investor Day. And look, we worked really hard to put the focus of the company on doing the funding -- fundamentals really well. You know that we've talked about returning the company to reliability, profitability, strengthening our balance sheet by paying down debt. We're in a really great spot now to talk about what's next. And on that horizon, we're going to be talking about the benefits of all the work that we've done on our fleet.

All -- everything we've done with our network and partnerships, Vasu has mentioned a number of times, even today, the potential within our loyalty program. We're going to talk about even doing better in terms of what we deliver to our customers. And ultimately, we want to talk a lot about how we can do that all a lot more efficiently.

One of the things you'll see is that Americans -- look, it's a changed airline. We have a focus on producing free cash flow and ultimately rewarding our shareholders. So I can't wait to tell you more about all of that.

**Unidentified Analyst**

Just as a quick follow-up. I know it's probably too early, but I was curious if you had seen any share shift in January just due to the issue with the MAX grounding with other carriers. I wasn't sure if you had seen anything in the data.

**Robert D. Isom** - *American Airlines Group Inc. - CEO, President & Director*

Now Vasu can add some color to that. Look, January isn't -- it's been a strong month for us, but it's never the busiest month of the year. And so we'll fly load factors in the 70s. It's probably similar for the rest of the industry. And while I'm sure that there's benefit. I know that there is, it's not material when you think about the number of seats that are open for all carriers and the overall size of the American Airlines business.

**Operator**

Thank you. Our next question comes from the line of Duane Pfennigwerth of Evercore ISI.

**Duane Thomas Pfennigwerth** - *Evercore ISI Institutional Equities, Research Division - Senior MD*

Maybe start with Vasu. Can you speak to advanced bookings beyond 1Q here. Just curious, when we had this real surge this time last year, maybe you could just comment on what the booking curve looks like if it's shorter if it's lengthening. And if you have any commentary on domestic versus international book yields as you look a little further out into peak periods?

**Vasu S. Raja** - *American Airlines Group Inc. - Executive VP & Chief Commercial Officer*

Yes. Thanks for the question. Look, the booking curve is largely flat last year. There is a moderate shift, let's call it, 2 points from outside of the inside 30-day range to the outside 30-day range. What I would say is it's -- right now, we're in taking revenues in line with capacity and entity by entity, market by market, sometimes it's yields, sometimes it's traffic. But as long as that's continuing, we're encouraged.

Right now within the summer really the most impactful thing that we see as long haul, and we're seeing a long-haul book up on a revenue basis the same rates as we saw last year, which was a particularly strong year. And we're just too early in the domestic and short-haul curve to really see that yet. But we're encouraged by what we see even as we start selling more of March and the post-Easter period.

**Duane Thomas Pfennigwerth** - *Evercore ISI Institutional Equities, Research Division - Senior MD*

You actually said more than I thought you would. Just a follow-up there. On the long haul, any commentary on book yields? Are we holding serve or are we going backwards a bit?

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**Vasu S. Raja** - *American Airlines Group Inc. - Executive VP & Chief Commercial Officer*

Yes. So far, we're holding serve and it's still a long way to go though.

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**Operator**

Our next question comes from the line of Andrew Didora of Bank of America. Andrew.

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**Andrew George Didora** - *BofA Securities, Research Division - Director*

So Robert, just on the operations. You've obviously made some great strides here post pandemic, certainly seems to really be helping your CASM. I don't want to steal any thunder from Investor Day, but just kind of want to get your bigger picture thoughts on like what is next operationally at America into '24 and '25? What's the plan? Or are you at a point now where it's sort of maintaining what you have built so far?

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**Robert D. Isom** - *American Airlines Group Inc. - CEO, President & Director*

Andrew, thanks. Well, look, we're really proud of the team and what they've accomplished. You think about American Airlines being the most reliable carrier in the country over the last 18 months, over the last year. So nobody can claim that they flew a more reliable schedule or canceled fewer flights, and we're really proud of that.

But I'll tell you, that's a baseline now that we can take going forward. And you're right about the best way to run an airline is the most reliable. All the rework costs are taken out of it. But we're not going to stop there. We can do what we did, and we can do it more efficiently. And I want to just hand the mic over to David Seymour to talk a little bit more about how he thinks we can bring things like technology to bear. David?

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**David G. Seymour** - *American Airlines Group Inc. - Executive VP & COO*

Yes. No, Robert, thank you. And again, super proud of what the team has done in 2023. It was a great year, but it really, as Robert said, it is the foundation of where we're headed into '24 and beyond. What I'd tell you is we have a much better understanding of the complexities of our operation, and then we're investing in technology to solve quickly and more efficiently and more optimally than we ever have before. So our relationship and our partnering with our IT team is just starting, and we had to see a lot of opportunity in the future to do what we do better, more efficiently than we ever have before.

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**Andrew George Didora** - *BofA Securities, Research Division - Director*

Got it. And then my follow-up question, Vasu, a lot of discussion on the call just with regards to your distribution strategy. I thought the 80% of bookings coming through these new channels was interesting. Where do you think this can go? 80% already seems pretty high. And what have been the growing pains thus far with the NDC rollout?

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**Vasu S. Raja** - *American Airlines Group Inc. - Executive VP & Chief Commercial Officer*

Yes. Thanks for the question. Look, I'll answer it in this way. We have been similarly enthusiastic and even a little surprised how quickly the transition has happened. It's not just that we're 80% coming through Internet-based technology. Within that 65-plus percent is coming just strictly through our owned channels, which is our greatest rate of growth. So first, I will say, strategically, we're going to distribute through the Internet. It's what our customers demand. That's how we give them the best fares and the lowest expenses and the best servicing.

So at some point, the number becomes 100. And the real issue in 2024 is we want to just continue to (inaudible) transition as many of our retailing partners to use the Internet with us. So ultimately, it becomes 100. We're really encouraged by what we've seen there.

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**Operator**

Thank you. Our next question comes from the line of Savi Syth of Raymond James.

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**Savanthi Nipunika Prelis-Syth** - *Raymond James & Associates, Inc., Research Division - Airlines Analyst*

Just to follow up on the commentary about balanced growth between domestic and international. I was curious if you can talk a little bit about like on the international side, if there's kind of a difference in growth trends between Atlantic and LatAm and Asia. And then on the domestic side, just if the regional mix, what kind of improvement in mix you're expecting this year?

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**Vasu S. Raja** - *American Airlines Group Inc. - Executive VP & Chief Commercial Officer*

Sure. And just as I understand, you're talking about the American Airlines capacity mix? It's not like the industry capacity mix or something.

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**Savanthi Nipunika Prelis-Syth** - *Raymond James & Associates, Inc., Research Division - Airlines Analyst*

That's right.

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**Vasu S. Raja** - *American Airlines Group Inc. - Executive VP & Chief Commercial Officer*

Correct. Okay. Well, look, at large, consistent with pretty much all that we talked about, we will, through the course of the year, be a roughly 75% , 25% short-haul, long-haul carrier. Increasingly, about 50% our growth will be split about 50-50 between short haul and long haul. Certainly, the thing that we are maybe most enthusiastic about is the continued improved utilization of our wholly owned regional jets.

In fact, so much of how domestic turns to positive RASM is directly correlated to us bringing regional jets back and -- as good as that starting to look in the weeks and months ahead, we know we still have 10% more utilization to do there.

So that's really where our opportunity is. And in long haul, I mean, you can kind of see the schedule that's out there right now. There's probably not a lot of difference when it actually goes to fly. But a big chunk of our footprint will be in Transatlantic in the summer, which tends to be the highest demand then followed by Latin America and last of all, Pacific.

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**Savanthi Nipunika Prelis-Syth** - *Raymond James & Associates, Inc., Research Division - Airlines Analyst*

That's helpful. And lastly, if I might, just kind of the conversion of the basic economy and discussion. On the premium revenue side, just wondering if you can talk about what you're seeing there? And if you're seeing any -- what you're seeing on the kind of the booked fresh class load factor, those kind of trends?

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**Vasu S. Raja** - *American Airlines Group Inc. - Executive VP & Chief Commercial Officer*

Yes. Look, 60% of our revenue comes from customers buying premium content, of which 45 points of that are AAdvantage customers and 15 points are non-AAdvantage customers. So I'd say at large, our real commercial opportunity is to make those people who are -- help those people who are 15% buying premium content join our program and give -- continue to give great content to the people who do.

And we see continued improvements in premium load factors pretty much every way there is. Premium revenues across our system are up 15%. Premium book load factors are at their highest levels approaching close to 80 in some periods that are there. And really, a lot of what we're endeavoring to do is reserve so much of our premium capacity for advance customers.

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**Operator**

Thank you. Our next question comes from the line of Conor Cunningham of Melius Research.

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**Conor T. Cunningham** - *Melius Research LLC - Research Analyst*

Hi, everyone. Can you hear me?

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**Robert D. Isom** - *American Airlines Group Inc. - CEO, President & Director*

We've got you, Conor. Go ahead.

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**Conor T. Cunningham** - *Melius Research LLC - Research Analyst*

Sorry about that. Just in terms of head count for 2024, we haven't heard a lot about that from you guys. From the industry standpoint, it's obviously slowing. But -- what do you need to add this year to kind of hit your 2024 trajectory in terms of capacity and maybe beyond that?

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**Devon E. May** - *American Airlines Group Inc. - Executive VP & CFO*

Yes. For this year, it certainly is a lot less higher than what we've done in the past. We are going to be bringing on about 1% more headcount. So what we'll call it somewhere around 1,000 or 2,000 more heads this year, but a big reduction from where we were last year. And it's just a sign of where we're at with efficiencies as well. We probably hired ahead a little bit in 2023. But -- this year, we're looking to grow the airline mid-single digits and head count is going to grow by about 1%.

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**Conor T. Cunningham** - *Melius Research LLC - Research Analyst*

Okay. Perfect. And we haven't actually heard a lot about maintenance headwinds from you guys. And that's been like a major theme from a lot of the other carriers. So just are you seeing any meaningful call out into 2024. And then -- what are you guys doing specifically to mitigate a lot of those headwinds? I realize it grew a lot last year, but does that kind of normalize going forward?

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**Devon E. May** - *American Airlines Group Inc. - Executive VP & CFO*

Yes. I'll start and just maybe talk about where the P&L has been and then turn it over to Robert or David. But -- we did have some headwinds in 2023. I want to say our maintenance expense in '23 versus 2022 was up something close to $0.5 billion. This year, it flattens out a bit. We do expect it to be up and it's one of the areas of the P&L where we'll have a little bit of variability just depending on how many in-house engine overhauls that we end up doing this year. But '23 was a big step up, '24 is less so, and there is a lot of great work being done on David's team to address it. So I'll hand it over to them.

**Robert D. Isom** - *American Airlines Group Inc. - CEO, President & Director*

Yes. So I'll just start. I think one of the things that I look at is that maintenance needs for the industry as a whole are going to increase, increase greatly. American is really well positioned, not only because of what we've done over the past decade by bringing in more new aircraft than anyone. But as well, remember that we have maintenance capabilities where we're not solely dependent on outside resources that are going to be incredibly constrained. So, one of the things that I know David can talk to us about is that we're going to make sure that we have even more capacity to do engine overhauls. We already have 12,000 mechanics more than anybody else and commercial aviation, and we're going to put them to good use. And I think that that's going to be even more of a strategic advantage for American as we take a look at a really constrained resource. David?

**David G. Seymour** - *American Airlines Group Inc. - Executive VP & COO*

Yes, Robert. Yes, there's a lot of effort that both Robert and Devon talked about, is that lot of focus here, and we have these normal ways that we run into with maintenance cycles that we have on heavy checks and engine checks that we got to do, but a lot of emphasis this past year and going into 2024 of getting a lot more efficient in how we manage that maintenance. As Robert talked about, we have really good control with longer-term resources to get that work done. So we're very confident that we're going to be able to get the efficiencies and reduce some of that cost here in the near future.

**Operator**

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

**Daniel J. McKenzie** - *Seaport Research Partners - Research Analyst*

My 2 questions are on technology as well here. So 65% of the bookings going to 100% on aa.com. What percent or portion of the revenue does this represent today? And what percent of the revenue was up 15% exactly?

**Vasu S. Raja** - *American Airlines Group Inc. - Executive VP & Chief Commercial Officer*

What I would say is -- let me first clarify. So 65% of our bookings are going through our digital channels. On a revenue basis, it's actually a little bit north of that. It's probably a little closer to $70 million as we're intake. And those are our revenue intakes that are coming in. Separately from that, when we go look back at 2023, 60% of our revenue came from customers buying premium content, which is a premium seat or greater flexibility around the premium seat. Of those 15% of our total customer base is a non-advantage about 45% is advantage.

**Daniel J. McKenzie** - *Seaport Research Partners - Research Analyst*

Yes. That's helpful. And then the second question is really a bigger longer-term question on potential cost savings, and it relates to the transition to the cloud. I'm wondering where American is at with respect to that transition -- and what kind of cost savings that could ultimately represent on an annual run rate? So is it tens of millions, hundreds of millions or maybe somewhere in between?

**Vasu S. Raja** - *American Airlines Group Inc. - Executive VP & Chief Commercial Officer*

Dan, let me start on this one as maybe Devon or others can pick up. But this is actually a great one, which we look forward to talking about more in our Investor Day. We are operating the entirety of the company with a tech-first mindset. This is one of many initiatives, but by no means the biggest as promising as it is, as you've laid out. So more to come soon.

**Robert D. Isom** - *American Airlines Group Inc. - CEO, President & Director*

And Vasu, I'll just add that, look, all that kind of work will be a facilitator to delivering product faster, more efficiently. And so that's the kind of mindset. So we're not -- I'd rather not talk about it just as a discrete item. We'll bring it all together as we get to March 4.

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**Operator**

(Operator Instructions)

Our first question comes from the line of Alison Sider of Wall Street Journal.

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**Alison Sider**

I was wondering what is your level of confidence in Boeing's current leadership?

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**Robert D. Isom** - *American Airlines Group Inc. - CEO, President & Director*

Ali. Look, a couple of quick things. First off, some of Boeing's current issues are all around the MAX 9 and 737-900s. American Airlines does not fly those aircraft. We're a huge Boeing customer, though, and we're dependent on them for just producing.

(technical difficulty)

We're going to hold them accountable. Boeing needs to get their act together the issues that they've been dealing with over the recent period of time, but also going back a number of years now, is unacceptable. And no matter who it is, all of Boeing needs to come together and to get back on the right track.

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**Alison Sider**

And the production limits at the FAA announced last night to the MAX, do you expect that to have any impact on deliveries for American? I mean do you think that, that makes sense for Boeing?

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**Robert D. Isom** - *American Airlines Group Inc. - CEO, President & Director*

So look, we will encourage Boeing to do everything that they can to get back on track and produce a quality product. Plain and simple. For us, we have a fleet right now of over 1,500 aircrafts. So we have 20 MAX 8s that are on the horizon for this next year. These aircraft are likely already in production and I don't anticipate to run in any issues.

But I'll say this as well, though, nobody has taken on more new aircraft than American Airlines, in recent history. And we take that acceptance process very, very seriously. We've done that for years. We have the teams of people in place to make sure that what comes on to American's property is ready to go, ready to fly. And as I said before, we encourage Boeing to get their act together, get back on the right track.

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**Operator**

Our next question comes from the line of Mary Schlangenstein of Bloomberg News.

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**Mary Schlangenstein**

Just to follow up on that. As you continue to talk to OEMs about a potential narrowbody order this year are the things that are occurring at Boeing right now? Is that having any impact at all as you think about placing that order?

And then also wondering if you think that the federal officials are taking the right steps and looking at Boeing, they've said they may expand to other production lines in the MAX. Do you see them taking the right steps? Or would you like to see them doing something different, maybe going even stronger on new requirements from Boeing?

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**Robert D. Isom** - *American Airlines Group Inc. - CEO, President & Director*

So Mary, thanks for the questions. Let me just start with this first. Administrator Whitaker. We have incredible confidence in. He is the right person for the job right now, and I'm very, very confident that he will hold all of us, but especially Boeing accountable for what they do. And to that end, I think that's the right approach.

Look, aviation in the United States, aviation throughout the world, it's the safest form of transportation. We have a commitment to keep it that way and Boeing has to be part of that equation. Now as we take a look at future needs for aircraft, again, American Airlines is -- we have 1,500 aircraft and a lot of the growth that we've been talking about is getting claims back up in the air that we could get more utilization out of. So we're fortunate from that perspective.

We're also fortunate to be the operator of the world's largest fleet of Airbus aircraft. So look, we need Boeing to be successful over the long run. They've got to get their act together. We need all OEMs to do their job. It's hard enough running an airline. We need quality product, and that's what we demand.

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**Mary Schlangenstein**

So can you comment on whether what's going on at Boeing will reflect your ultimate decision on a narrowbody order?

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**Robert D. Isom** - *American Airlines Group Inc. - CEO, President & Director*

We'll take -- look, we take the acquisition of new aircraft, bringing new aircraft on to American sleep very seriously, and we're going to make sure that whatever is purchased, whether it be from Airbus, Boeing, Embraer, you name it. That's something we take very seriously and we're going to make sure that, that product is incredibly reliable, safe right from the get-go right off the factory floor.

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**Operator**

Our next question comes from the line of Leslie Josephs of CNBC.

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**Leslie Josephs**

Are you increasing your oversight personally at Boeing? And do you see that as a permanent change just given that it's kind of been one issue after another? And then just another question, is Boeing providing any compensation, whether cash or other form of discounts or anything else because of the issue and the FAA blocking any further production that could impact deliveries?

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**Robert D. Isom** - *American Airlines Group Inc. - CEO, President & Director*

Leslie, look, as I've said before, American Airlines has taken more new aircraft than anyone in really the history of commercial aviation over the last 10 years. And on that front, we've had to deal with quality issues that we've had to make sure that we were protected against. And so from that perspective, we have a very robust aircraft acceptance process with people that are dedicated to that, and we're going to make sure that whatever we take from any manufacturer, and especially Boeing, that we have the right resources to ensure that they meet our specifications and are ready to go when they come into our fleet. Then I'll leave it at that.

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**Operator**

That does conclude the Q&A portion of our call. I would now like to turn the conference back to Robert Isom for closing remarks. Sir?

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**Robert D. Isom** - *American Airlines Group Inc. - CEO, President & Director*

Thanks, Latif. Look, 2023 was an exceptional year for us. It was another year of building back from the pandemic, and I'm really proud of what the team has done. They've established us as the industry leader in reliability. We've restored the airline of profitability. We produced record free cash flow last year. We've got a year -- another year of really making sure that we continue the progress.

It's a year that we're still recovering from the pandemic, and we're going to have to see how demand and capacity (inaudible). But as I've said even earlier today, we expect demand to be very strong. The spring and summer, I think, are going to be exceptional times for us in terms of demand for product.

As we look forward, I'm very interested in sitting down with folks and talking on March 4 at our Investor Day and talking about the future of American, building on that platform showing how we have changed and that we are -- we have a mindset of producing for our customers, taking care of our team and also making sure that we reward shareholders. More on that in the next month, and everybody take care and we'll talk soon.

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**Operator**

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

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