# Analysts' Latest on 3Q24 Results

Soon after American Airlines management released third-quarter financial results, Wall Street analysts released their respective notes to investors. The analysts cover American's recovery of the annual $1.5 billion loss in corporate revenue, competitive network details, a new credit card deal currently being negotiated, as well as the competitive product landscape.

Raymond James, Savanthi Syth:

- "We believe investors are increasingly gravitating to idiosyncratic opportunities at American, including winning back corporate share and the pending credit card deal outlined in our catalyst calendar, as well as greater exposure than legacy peers to capacity rationalization in the domestic U.S. market."
- "As American executes well on operations and gains slow but steady progress on deleveraging, we expect the conversation to refocus on product and service offerings, particularly given investor perception of gaps vs. legacy peers. With the 4Q24 guide lacking somewhat relative to our prior expectations, we continue to see better risk-reward at other legacy peers and would look for further execution to get constructive."
- "Consistent with commentary from peers, Domestic entity performance improved throughout the quarter resulting in positive y/y flown yields in September."
- "Additionally, long-haul international y/y RASM was positive during the quarter driven by strength in the Atlantic and South America. While short-haul Latin y/y RASM continued to be pressured, American noted that it saw the biggest sequential improvement due to industry supply rationalization."

Melius, Conor Cunningham:

- **"The current backdrop for the US airlines is a supportive one.** But seemingly, American has not been able to translate the backdrop to an earnings power story. American is currently digging themselves out of a hole created by a change in distribution strategy that resulted in lost corporate revenues ($1.5 bn) and share."
- "Last quarter, American took steps to course correct, re-engaging with travel agents and corporate customers. Those adjustments should help to stabilize additional losses driven by some recapture (June bookings down 10% to Sept down 7%), but time and money are going to be required to recoup it all. As a result, American is playing from behind."
- "What might even be more interesting, is American has yet to re-define and differentiate from the industry. American's current strategy is centered around driving connecting share in the Southern portion of the US through regional lift. The idea being American can create more unique connection points for customers to travel to wherever they want."
- "The issue with the strategy is Delta and United continue to deepen their product moat through personalized inflight entertainment, free Wi-Fi and a growing international footprint. American's product competes effectively against the US domestic growth airlines, but for margins to really standout, the relative offering to Delta and United will need to improve. Realize this isn't a light switch fix for American as they are very

focused on fixing corporate relationships before moving to the next set of objectives, but a better-defined strategy has been the debate for investors."

- **"American has an OK path from here but some wins are needed.** From a high level, the industry is in a much better spot on supply. American is doing its part with expectation of low single digit growth in 2025 (we had thought +2-4%, so a touch lower). But really, American has an idiosyncratic opportunity to build back revenue and margins given the self-inflected actions in 2023. Again, the change in distribution strategy cost the company $1.5 bn in high margin revenue – that opportunity alone is interesting."
- "At the same time, American is also in the midst of a credit card renegotiation (bottom of the 7th inning they claim). Credit card economics have been in airlines' favor for some time, and seemingly every new agreement is more lucrative than the prior one. Our view on a revised credit card deal would drive an incremental $500 to $700 mm in economics for American (assuming they still lag Delta here). Couple an improved industry back drop in the US domestic market (~70% of pax rev), potential corporate revenue recoup and new credit card deal – not a bad catalyst path."

TD Cowen, Tom Fitzgerald:

- "We update our AAL estimates to reflect actual 3Q results, 4Q guidance, and fine tune 2025/26. Making progress in recapturing managed corp share. SMB biz program interesting. New credit card deal in 2025 should be additive to estimates. Long-term questions around network will remain as long as int'l long-haul continues to be golden goose."
- "We rate the shares of American Hold. We expect the airline's commercial challenges (overexposure to domestic and LatAm, challenges with corporate travel, underexposure to long-haul international) to weigh on margins. Driving significant changes in strategy will require years of elevated CAPEX investments and diminish the company's prospects for generating consistent free cash flow. Management will also need to balance CAPEX needs with increasing debt maturities later in the decade."

JP Morgan, Jamie Baker:

- "(AAL)Passenger revenue grew just under 1%, on 3% larger capacity, driving PRASM of down 2%, in-line with the Legacies that have already reported. Managed business revenue was up 6% YoY, with Premium up 8% on 3% greater capacity, again roughly consistent with DAL and UAL. Regionally, domestic PRASM was -3% on 4% greater capacity. LATAM PRASM was down just 4%, a sequential YoY improvement from down 11% last quarter. Atlantic remained strong, with PRASM up 2% – better than DAL and UAL."
- "True, we're disappointed that American isn't more aggressively solving for presumed losses in Chicago and New York (the basis of our second question on the call), but corporate share is on a healthy trajectory (and could drive close to 2 points of idiosyncratic RASM upside), a new loyalty deal seems in the future (another idiosyncratic RASM boost), operations are no longer a drag, and the franchise remains modestly skewed (relative to DAL & UAL) to a primary investor narrative: tightening domestic supply."

Bank of America, Andrew Didora:

- "Corporate share rebuild is a $1.5B opportunity in 2025 - AAL gave an update on the initiatives to regain corporate share, noting that indirect bookings are now -7% below historical levels, off the -11% trough. Management spoke to positive feedback from agencies and corporate customers, but continued to stress the recovery will take time. AAL has quantified the impact of share loss at around $1.5B with the opportunity to restore this by the end of 2025. This is 150bps of unit revenues, which we have captured within our +3% forecast for next year."
- "Credit card negotiations are now in the '7 inning' - At AAL's investor day in March 2024, the company outlined the potential for upwards of $1B of incremental free cash flow from new credit card economics. Negotiations are now in the '7 inning', and we would think a deal could be announced by end of 2024 or early 2025. In AAL's prior new deal in 2016, there was an $800M benefit spread over the next 3 years. Using a similar cadence would imply about $300M of incremental revenues at high incremental margin that could add another 50bps to unit revenues."

Jefferies, Sheila Kahyaoglu:

- "Full Recapture Exiting 2025. AAL has renewed more than half of competitive contracts w/ the TMCs and agencies, while the remainder are in advanced negotiations. Management expects to recapture the full $1.5BB in lost rich-mix revenues exiting 2025 based on feedback & convos w/ customers. The first several pts would seem the easiest by restoring content in indirect channels, while it remains to be seen whether the full amt is truly actionable or not."

Seaport, Dan McKenzie:

- "We're walking away from AAL's 3Q earnings release concluding that full year 2024 is shaping up a lot better than mgmt feared earlier this year, incl a full year EPS that at the midrange, improved 48% today. Mgmt is executing well."
- "Full year CASM Ex is up 0.5% pts (essentially unchanged) vs a Jan guide despite 2 hurricanes and a CrowdStrike outage; fuel overall is essentially unchanged; and RASM is ending up 2 pts worse on the loss of $1.5B of indirect revenue that mgmt. reports should return by YE2025."
- "If mgmt is correct on ~2% pts of RASM from indirect revenue returning, AAL could become a nice revenue recovery story as it implies +$1.5B to our 2026 revenue outlook, and consequently a steady revenue build in 325 (not currently in our model). Another potential revenue catalyst in 2025 includes updated credit card economics which could potentially add ~2% pts to our EBITDAR margin (or ~$1.25/share) over the next few years. Mgmt has not finalized negotiations so for now, we're modeling $250MM. From where we sit, revenue and profits are a function of what your competitors permit, and UAL, DAL and LUV are all tough competitors that can swing AAL's pricing; hence, our view that investors will first want to see execution before they buy into the revenue recovery (given the miss this year)."