

Wall Street Seeks APA's Perspective

On May 7, Raymond James airlines analyst Savanthi Syth visited APA headquarters after a meeting with AAL senior management. She was accompanied by investors as she sat down with FO Silva, CA Tajer, and Economic & Financial Analysis Chair FO Scott Slater. The following are excerpts from her subsequent note to investors:

On APA:

- “Pilots appear generally complimentary on operational execution and progress in implementing the current contract.”
- “However, there seems to be a desire for greater engagement and some frustration on the lag in profit share relative to legacy peers due to the lower earnings and higher number of FTEs (full-time equivalent employees) the profit share is spread across.”

On AAL:

- **“Demand Commentary:** ... demand among the most price- sensitive travelers appears to have slightly improved from a very low base. Conversely, on corporate, American noted trends are perhaps not as strong as observed three weeks ago. Consistent with prior comments, the trend in premium and international demand remains strong.”
- **“Margin gap dynamics:** Management believes EBITDAR is the cleanest way to compare financials vs. network peers given the capital structure differences. The current gap is ~2ppts vs. legacy peers and much of that is related to RASM (unit revenue). The drivers of the gap are network (American's greater domestic exposure given the recent strength in long-haul international), sales & distribution strategy missteps (being corrected), credit card economics (recently negotiated improvements effective in 2026+), and relative labor costs (all of American's major labor groups have ratified contracts at market vs. a notable shortfall at United).”
- **“Closing the product gap:** American admitted they had a product gap vs. legacy peers and are working to address it. Importantly, American feels there is significant opportunity after having been slower to recognize the move to compete for baseline customers. Some of American's levers include a revamped lounge product, free in-flight Wi-Fi, and taking more premium-heavy aircraft deliveries. Importantly, aside from the lounges, these levers are not necessarily capital-intensive undertakings.
- **“JetBlue fallout:** American downplayed the NEA (Northeast Alliance) as a good story about improving its competitive position but not one that was financially significant (we find this a bit hard to believe given the level of effort that went into implementing and defending it). In turn, the new partnership that was being discussed with JetBlue following the court-ordered termination of the NEA offered an even lower financial opportunity. These talks appear to have broken down as the bidding got too high. Based on our meetings in Dallas, we left with greater conviction that United is the likely partner for JetBlue.”
- **“Network strategy:** As it pertains to differing networks, each airline has its strengths and weaknesses. American has the best domestic connecting network, though falls short on the east and west coasts where Delta and United have a larger presence. American's focus is to continue growing market position in its hubs.”

On AAL's hubs:

- **CLT:** “Growth at CLT will be capped in the medium term by airport capacity constraints.”
- **DFW:** “DFW will soon be the largest single carrier hub in the world as American is set to gain additional gates in terminals A & C as well as in the new terminal being built.”
- **DCA:** “DCA remains constrained and is currently challenged by government issues, but should eventually return to profitability.”
- **JFK:** “JFK is another constrained airport, and American is happy with how it is utilizing the assets.”
- **LAX:** “While having a smaller footprint at LAX, the team is excited about the position and ability to partner with Alaska and oneworld once construction is completed.”

- **LGA:** “LGA is similarly constrained. As it looks to better utilize these assets, American is happy with the summer schedule. While LGA remains a loss-making hub, it has improved significantly.”
- **MIA:** “MIA is the gateway to LatAm, and American is happy with its position.”
- **ORD:** “American is looking to restore its historical position at ORD, which is used for connecting northern cities.”
- **PHL:** “American has quietly restored its position at PHL, which will reach pre-pandemic levels by year-end and provides connectivity to Europe.”
- **PHX:** “U.S. Airways had 330 departures out of PHX at the time of the merger compared to just 250-260 daily departures at American today. American thinks it can grow this back to more than 300/day.”