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The Sliver of Equity

American Airlines Group (NASDAQ: AAL)

Why a Record-Revenue Airline Trades at a Fraction of Its Own Enterprise Value

American reported the highest quarterly revenue in its history on July 23, 2026, and guided full-year adjusted earnings to a range that straddles zero. Both statements are true. This is why.

The full debt architecture and the 2028 wall, the AAdvantage collateral and its covenants, a lease- and pension-consistent enterprise value, and the question that decides the case: how much of the operating cash flow is actually earnings.

PRICED AT THE SEPTEMBER 1, 2026 CLOSE · $12.95 · $8.6B OF EQUITY ON A $37.7B ENTERPRISE

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The Baratelli Institute

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THE BARATELLI INSTITUTE · EDUCATIONAL CASE STUDY

The Sliver of Equity

American Airlines Group (NASDAQ: AAL) — why a record-revenue airline trades at a fraction of its own enterprise value, and what the cash flow statement is actually telling you

Prepared September 1, 2026. Prices struck at the September 1, 2026 close. Financial statements through the three and six months ended June 30, 2026 as filed on Form 10-Q, the fiscal year ended December 31, 2025 as filed on Form 10-K, and second-quarter results as furnished on Form 8-K on July 23, 2026.

The answer, before the arithmetic

American Airlines reported the highest quarterly revenue in its history on July 23, 2026 — $16.7 billion, up 16.3 percent year over year — and earned eleven cents a share on it. The same day it guided full-year adjusted earnings to a range of $-0.65 to $0.65 a share, a range that straddles zero. Both of those statements are true at once, and the reason they are both true is the whole case.

At the September 1, 2026 close of $12.95, American's equity is worth $8.6 billion. The enterprise it sits on top of — counting debt and finance leases, operating lease liabilities, and the net pension and postretirement obligation, less unrestricted cash and short-term investments — is worth $37.7 billion. The equity is 22.7 percent of it. Net obligations on that same basis are $29.1 billion, or 3.4 times the entire market value of the company. Stockholders' equity on the June 30, 2026 balance sheet is negative $4.0 billion.

What that structure does is convert an ordinary operating result into a violent equity outcome in both directions. American's second-quarter operating margin was 2.7 percent. United, running 95 percent of the revenue in the same quarter under the same fuel curve and the same demand environment, earned $805 million of net income against American's $71 million. The fuel shock did not create that gap. It exposed a margin that was already too thin to absorb one.

The liquidity picture is the part most readers get wrong, and it is the reason this case is written from the cash flow statement rather than the income statement. American generated $4.7 billion of operating cash flow in the first half of 2026 against a net loss of $311 million. That looks like a company whose earnings understate its cash generation. It is not. Roughly 72 percent of that operating cash flow is customer float — money collected for flights not yet flown and miles not yet redeemed — and float is seasonal. It builds into the summer and it unwinds in the back half. Full-year 2025 free cash flow, on the same definition, was negative $680 million.

The Institute's conclusion, reached by following the evidence rather than the premise: the discount is largely deserved, but not for the reason the headline suggests. The commercial franchise is working — record revenue, corporate share gains, premium demand. What is not working is the relationship between the capital structure and the margin available to service it. The equity is a levered option on a business that currently earns about a 1.7 percent trailing operating margin against a $29.1 billion net obligation and $17.5 billion of committed aircraft spending through 2030. That option is genuinely cheap. It is also genuinely an option, and this case sets out what has to happen for it to pay.

1. First, the premise deserves a check

The case was commissioned on the observation that the stock is trading near its 52-week low. That is true in the loose sense and misleading in the precise one, and the distinction matters because it determines whether the question is "why is this airline cheap" or "why are airlines cheap."

	Close, Sep 1 2026	52-week low	52-week high	Above low	Below high	Price / TTM sales
American (AAL)	$12.95	$10.09	$18.79	+28.3%	-31.1%	0.15x
Delta (DAL)	$76.38	$55.03	$95.68	+38.8%	-20.2%	0.73x
United (UAL)	$104.63	$84.64	$138.77	+23.6%	-24.6%	0.54x

Source: quoted market data at the close of September 1, 2026, 4:00 PM EDT. Trailing twelve-month revenue through the June 2026 quarter. Note the measurement date on every figure in this table is the same day; ranges are the trailing 52 weeks ended that day.

American is 28.3 percent above its 52-week low. United is 23.6 percent above its own. On that measure American is not the one closest to its floor — United is. What separates them is not proximity to a low but the multiple of revenue the market will pay: 0.15 times sales for American against 0.54 times for United and 0.73 times for Delta. American's revenue is 85 percent of Delta's and its market capitalization is 17 percent of Delta's. That gap — five-sixths of the revenue for one-sixth of the equity value — is the fact the rest of this case explains.

So the premise is restated before it is tested: American is not distinctively near a low. It is distinctively cheap against its own revenue, and the whole of that cheapness lives on the right-hand side of the balance sheet.

2. The record quarter that produced eleven cents

The second quarter of 2026 is the cleanest available test of the thesis, because it holds the operating environment constant across all three network carriers and lets the capital structure do the differentiating.

Three months ended June 30, 2026	2026	2025	Change
Total operating revenues	$16,735	$14,392	+16.3%
Passenger	$15,214		—
Cargo	$273		—
Other	$1,248		—
Aircraft fuel and related taxes	$4,881	$2,663	+83.3%
Average price per gallon	$4.05	$2.29	+77.1%
Salaries, wages and benefits	$4,639		—
Total operating expenses	$16,289	$13,257	+22.9%
Operating income	**$446**	**$1,135**	**-60.7%**
Operating margin	**2.7%**		**—**
Interest expense, net	$(409)		—
Net income (GAAP)	$71		—
Diluted earnings per share	**$0.11**		**—**
Adjusted earnings per share	$0.15		—

Source: American Airlines Group Inc., Form 8-K Exhibit 99.1 furnished July 23, 2026, for the three months ended June 30, 2026. Adjusted earnings per share excludes $28 million of after-tax net special items. Blank prior-year cells are line items the release does not present on a comparative basis in the summary table.

Read the top and the bottom of that table together. Revenue set a company record. Fuel expense rose $2,218 million on a 77.1 percent increase in price per gallon. Operating income fell 60.7 percent to $446 million, and net interest expense of $409 million consumed 92 percent of it. What survived to the equity was $71 million.

That last sentence is the capital structure speaking. On a $16.7 billion revenue quarter, the interest bill alone is nearly the whole of operating income. There is no operating improvement of ordinary size that changes that arithmetic; it takes either a much larger margin or a much smaller balance sheet.

The commercial side is genuinely working

It is important not to let the balance sheet conclusion contaminate the read on the business. The demand and revenue evidence in the quarter is strong and it is broad.

Q2 2026 unit revenue and commercial markers	Change vs. Q2 2025
Premium cabin	+13.4%
Main Cabin	+8.8%
Domestic	+10.6%
Atlantic	+8.9%
Pacific	+15.1%
Latin America	+6.6%
Managed corporate revenue	**+26%**
AAdvantage new member enrollments	+30%
Citi co-brand credit card spend	+8%
Total revenue per available seat mile (TRASM)	+10.3%
Cost per available seat mile excluding fuel (CASM-ex)	+2.9%

Source: American Airlines Group Inc., Form 8-K Exhibit 99.1 furnished July 23, 2026. Cabin and entity figures are passenger revenue per available seat mile. Managed corporate revenue growth of 26 percent was the fifth consecutive quarter of double-digit growth.

Premium cabin unit revenue outgrew Main Cabin by 4.6 points. Every geographic entity grew unit revenue. Managed corporate revenue rose 26 percent, the fifth consecutive quarter of double-digit growth, which is the single most meaningful number in the release because corporate share is the metric American lost during its 2023 distribution strategy and has been rebuilding since. Unit costs excluding fuel rose under three percent against 5.4 percent capacity growth. None of this is the profile of a company with a demand problem or a cost-control problem.

The problem is that a 2.7 percent operating margin, on this balance sheet, is not enough. Consider the same quarter at United.

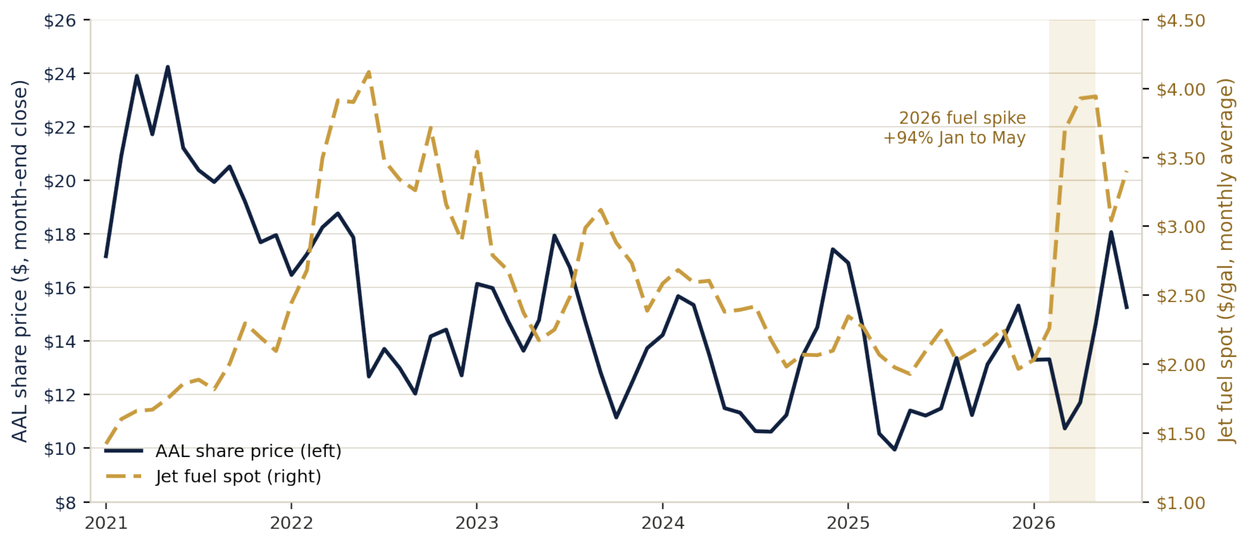
Q2 2026, the same quarter	American	United	Delta
Total revenue	$16,735	$17,700	n/d
Net income (GAAP)	**$71**	**$805**	**n/d**
Operating cash flow	—	$1,600	$1,700 (adj.)
Free cash flow in the quarter	—	—	$209
Ending liquidity	$11,300	$19,600	$7,700
Debt and finance leases	$28,927	$26,500	n/d
Net debt (company basis)	$21,157	n/d	$13,600 (adj.)
Market capitalization, Sep 1 2026	**$8,572**	**$33,960**	**$49,960**

Sources: American — Form 8-K Ex. 99.1, July 23, 2026, and Form 10-Q for the quarter ended June 30, 2026. United and Delta — respective second-quarter 2026 earnings releases. Delta reports adjusted net debt and adjusted operating cash flow; those are the company's own non-GAAP definitions and are not identical to American's presentation, which is why they are labelled rather than compared directly. “n/d” means not disclosed on a comparable basis in the cited release. Market capitalizations are struck at the September 1, 2026 close. $ in millions.

American ran 95 percent of United's revenue and produced 8.8 percent of United's net income. Both carriers grew revenue about 16 percent. Both absorbed the same fuel curve. The difference is almost entirely the cost of the liabilities each one carries into the quarter, and that is a structural fact rather than a cyclical one.

Does the stock track jet fuel?

Fuel is the second largest line in an airline's cost base and the one management controls least, so the intuition that American's share price should move inversely with the jet fuel curve is a reasonable prior. It is also testable. The chart below plots the Gulf Coast jet fuel spot price against American's month-end close over 67 months, and the statistics beneath it test the relationship rather than illustrate it.



Correlation of AAL to Gulf Coast jet fuel, 2021-01 to 2026-07	Correlation	Observations	t-statistic
Price levels	-0.239	67	-1.99
Monthly percentage changes	-0.098	66	-0.79
Best of seven leads and lags, minus three to plus three months	+0.176	66	—
Months when fuel moved more than 10 percent	-0.382	22	—
Months when fuel moved more than 15 percent	-0.494	9	—
2026 alone	-0.737	7	-2.44

Jet fuel is the U.S. Gulf Coast kerosene-type jet fuel spot price, EIA series EER_EPJK_PF4_RGC_DPG, retrieved September 2, 2026 from the Federal Reserve Bank of St. Louis mirror MJFUELUSGULF, series last updated August 5, 2026; August 2026 is not yet published and the series could not be independently cross-checked against EIA's own monthly page, which returned no data. The share price is the month-end close from Stooq, retrieved September 2, 2026 and verified against an independent September 1, 2026 print of $12.95 and against annual December closes for each year in the window. The two clocks are not identical: the fuel figure is a monthly average of daily spot prices, while the share price is a single month-end observation. Correlations on monthly percentage changes use the 66 overlapping change observations.

The relationship is not there in the ordinary case. Over the full window the monthly-change correlation is -0.10, a t-statistic of -0.79, and an R-squared of 0.010 — fuel explains about one percent of the variance in American's monthly return, which is indistinguishable from zero. Shifting the fuel series forward or backward by up to three months does not rescue it; the strongest of the seven lags reaches only 0.176. A reader who buys or sells this stock on the fuel tape in a normal month is trading noise.

What the data does support is narrower and more useful. The sign is correct throughout — fuel is a cost, and the coefficient never turns positive — and the relationship strengthens sharply as the fuel move gets larger. Restricted to months when fuel moved more than ten percent the correlation is -0.38, and above fifteen percent it is -0.49. In 2026 alone, when Gulf Coast jet fuel ran from $2.03 in January to $3.94 in May, a rise of 94 percent, the correlation is -0.74 and survives dropping any single month.

That is a tail relationship, not a trading rule, and the 2026 window carries an explicit caveat: seven observations is a small sample, and the same seven months contain the record June quarter and the July guidance reduction, either of which could be doing the work the fuel price appears to be doing. Read carefully, though, the result corroborates rather than contradicts the argument already made above. Fuel does not drive this equity in the ordinary course because the gap between American and its peers is not a fuel gap. It becomes visible only when the shock is violent enough to overwhelm a margin that had no room to absorb it — which is the point. The fuel spike did not create the problem. It made an existing one legible.

3. Where the enterprise value actually sits

Before any multiple can be quoted, the enterprise has to be measured on a basis that includes every claim ahead of the common. For an airline that means three things the headline “net debt” figure typically omits: operating lease liabilities, which finance aircraft the airline flies and does not own; the net pension and postretirement obligation, which is a funded claim on future cash; and restricted cash, which is not available to offset debt and is therefore excluded from the cash credit.

Enterprise value bridge, June 30, 2026 balance sheet at the September 1, 2026 close	$ millions
Shares outstanding at June 30, 2026 (millions)	661.9
Closing price, September 1, 2026	$12.95
Market capitalization	**$8,572**
Plus: current maturities of long-term debt and finance leases	3,094
Plus: long-term debt and finance leases, net of current maturities	25,833
Plus: operating lease liabilities, current and noncurrent	6,802
Plus: pension and postretirement benefits liability	1,160
Less: cash and cash equivalents	(1,028)
Less: short-term investments	(6,742)
Enterprise value	**$37,691**
Market capitalization as a percentage of enterprise value	**22.7%**
Net obligations (enterprise value less market capitalization)	**$29,119**
Net obligations as a multiple of market capitalization	**3.4x**

Sources: share count and balance sheet from American Airlines Group Inc., Form 10-Q for the quarter ended June 30, 2026; price at the September 1, 2026 close. Restricted cash and restricted short-term investments of $709 million are deliberately excluded from the cash offset because they are not available to retire debt. The pension line is the balance sheet carrying amount at June 30, 2026; the underlying actuarial funded status is measured at December 31, 2025 and is discussed separately in section 6.

Two things follow immediately. First, at 22.7 percent of enterprise value the common stock is a thin residual claim, which means every point of change in the value of the enterprise moves the equity roughly four and a half points. That cuts both ways and is the honest case for owning it as well as the honest case against.

Second, a valuation multiple quoted on market capitalization tells you almost nothing here. American trades at 0.15 times trailing revenue on its equity. On enterprise value it trades at 0.65 times the same revenue — a 4.4-fold difference. Anyone reasoning from the equity multiple alone is measuring the wrong thing.

A note on the stale anchor

The FY2025 Form 10-K cover page reports the aggregate market value of common stock held by non-affiliates at approximately $7.4 billion. That figure is measured at June 30, 2025 — fourteen months before this case was prepared — and sits roughly 14 percent below the market capitalization at the September 1, 2026 close. It is correctly filed, correctly cited, and completely unusable as a current equity anchor. It appears here only so the reader knows it was seen and set aside. Every market figure in this case runs on the September 1, 2026 clock and says so where it appears.

4. The full debt architecture

American's borrowings are not a single number; they are roughly two dozen instruments with different collateral, different covenants and very different maturities. The tranche detail below is the December 31, 2025 schedule from the Form 10-K, which is the most recent instrument-level disclosure. Balances have moved since — total debt and finance leases were $28,927 million at June 30, 2026 against $29,007 million at December 31, 2025 — but the architecture is unchanged and it is the architecture that matters.

Secured debt at December 31, 2025	Maturity	Rate	Dec 31 2025	Dec 31 2024
2013 Term Loan Facility	Feb 2028	6.00% var	970	980
2014 Term Loan Facility	Jan 2027	5.69% var	1,159	1,171
2023 Term Loan Facility	Jun 2029	6.26% var	1,078	1,089
10.75% senior secured IP notes	repaid	10.75%	0	781
10.75% LGA/DCA notes	repaid	10.75%	0	156
7.25% senior secured notes	Feb 2028	7.25%	750	750
8.50% senior secured notes	May 2029	8.50%	1,000	1,000
5.50% notes (2026 AAdvantage)	Apr 2026	5.50%	583	1,750
5.75% notes (2029 AAdvantage)	Apr 2029	5.75%	3,000	3,000
2021 AAdvantage Term Loan	Apr 2028	6.13% var	2,264	3,500
2025 AAdvantage Term Loan	May 2032	7.13% var	995	0
Enhanced equipment trust certificates	2026-2038	2.88-7.15%	6,912	—
Equipment loans and other notes	2026-2037	2.55-6.56%	4,719	—
Special facility revenue bonds	2026-2036	2.25-5.38%	789	—
Total secured			**$24,219**	

Source: American Airlines Group Inc., Form 10-K for the year ended December 31, 2025, Note 4. Principal outstanding, $ in millions. “var” denotes a floating rate; the rate shown is the effective rate at December 31, 2025. Enhanced equipment trust certificates carry a weighted average rate of 3.95 percent; equipment loans and other notes 5.57 percent. Em dashes indicate the prior-year balance is not separately presented.

Unsecured debt at December 31, 2025	Maturity	Rate	Dec 31 2025	Dec 31 2024
PSP1 promissory note	Apr 2030	5.92% var	1,757	1,757
PSP2 promissory note	Jan 2031	var	1,030	1,030
PSP3 promissory note	Apr 2031	var	959	959
6.50% convertible senior notes	repaid	6.50%	0	1,000
Senior short-term term loan	Jan 2026	6.11% var	629	—
Total unsecured			**$4,375**	
Total principal outstanding			**$28,594**	

Source: American Airlines Group Inc., Form 10-K for the year ended December 31, 2025, Note 4. The PSP notes are the CARES Act Payroll Support Program promissory notes. The 6.50 percent convertible senior notes were repaid during 2025 using proceeds of the 2025 AAdvantage Term Loan. Total principal reconciles to $24,639 million of long-term debt net of current maturities after deducting $314 million of unamortized discount, premium and issuance costs and $3,641 million of current maturities. $ in millions.

Three observations about the composition. Roughly 85 percent of the principal is secured, which means the collateral — aircraft, slots, gates, routes, and above all the AAdvantage program — has already been pledged. That constrains the options available in a stress scenario, because the assets a distressed airline would normally monetize are already encumbered. Second, the rates on the recently-issued secured paper run from 7.25 to 8.50 percent fixed and above 7 percent floating, against enhanced equipment trust certificates averaging 3.95 percent; refinancing older aircraft debt at current spreads raises the interest bill even when it lowers the principal. Third, the 10.75 percent notes retired during 2025 tell you what American was paying at the bottom of its credit cycle, and the corporate credit rating remains non-investment grade.

How far net debt has actually come down, and what did the work

The deleveraging is the part of the American story that management leads with, and it is real. It is also more interesting than the headline. Below is net debt by year on American's own published definition — debt and finance leases, plus operating lease liabilities, plus pension obligations, less unrestricted cash and short-term investments — held constant across every date so the years are comparable.

Total debt and net debt at end of period	Debt and finance leases	Operating lease liabilities	Pension	Total debt	Less cash and short-term investments	Net debt
Dec 31, 2019	24,315	9,129	5,461	38,905	3,826	35,079
Dec 31, 2020†	32,593	8,428	6,255	47,276	6,864	40,412
Dec 31, 2021†	38,060	8,092	4,219	50,371	12,431	37,940
Dec 31, 2022	35,663	8,024	2,153	45,840	8,965	36,875
Dec 31, 2023†	32,902	7,761	1,979	42,642	7,578	35,064
Dec 31, 2024	30,476	7,068	1,095	38,639	6,984	31,655
Dec 31, 2025	29,007	6,963	539	36,509	5,836	30,673
Jun 30, 2026	28,927	6,802	146	35,875	7,770	28,105

$ in millions. Definition, verbatim from American's reconciliation: "Total debt is defined as debt, finance and operating lease liabilities and pension obligations, and net debt is defined as total debt, net of unrestricted cash and short-term investments." Rows without a dagger are the company's own published figures, from the Q1 2023, Q1 2024, Q4 2024 and Q4 2025 earnings materials and the July 2026 GAAP to non-GAAP reconciliation. † denotes an Institute reconstruction on the identical definition, built from the filed balance sheet for that year plus the pension-only funded status from that year's Form 10-K pension note; American did not publish the table for 2020, 2021 or 2023. The reconstruction method was validated at December 31, 2022, where it reproduces the company's published 2,153 pension line and 36,875 net debt exactly. Note that the pension line is pension-only funded status and excludes the separately disclosed retiree medical obligation, which was 1,141 at December 31, 2025; the "Pension" column above is that pension-only figure.

Two dates matter and they are not the same date. Gross total debt peaked in 2021 — $50,371 million at that December 31, and higher still at mid-year, which is the "peak levels in mid-2021" management refers to. On the debt-and-lease measure, which can be computed at interim dates because it does not need the pension note, American carried $48,297 million at June 30, 2021 against $46,655 million three months later and $35,729 million today — a fall of $12,568 million. But *net* debt peaked a year and a half earlier, at $40,412 million on December 31, 2020, because the borrowing American did in 2021 arrived alongside the cash it raised. At June 30, 2021 the company was sitting on $17,950 million of cash and short-term investments. Gross debt and net debt were telling opposite stories in the same quarter.

From the net-debt peak to June 30, 2026, net debt fell $12,307 million, or 30.5 percent. Here is what did the work.

What moved net debt, Dec 31, 2020 to Jun 30, 2026	$ millions	Share of the fall
Pension obligations — funded status	(6,109)	49.6%
Debt and finance leases repaid	(3,666)	29.8%
Operating lease liabilities run off	(1,626)	13.2%
Cash and short-term investments built	(906)	7.4%
Total reduction in net debt	**(12,307)**	**100.0%**

$ in millions; a negative figure reduces net debt. Institute calculation from the table above. The pension line is a remeasurement of a funded status, not a payment: it fell from 6,255 to 146 principally because discount rates rose, and the plans were frozen effective November 1, 2012.

Roughly half the fall in net debt — 49.6 percent of it — is the pension line collapsing from $6,255 million to $146 million. That is not cash out the door. A frozen defined-benefit plan's funded status is the present value of a fixed stream of promises discounted at market rates, and when rates rise the number shrinks without anyone paying anything. It shrinks back if rates fall. Actual debt and finance-lease principal came down $3,666 million over the same five and a half years, which is real and which was funded, but it is not the number the headline implies. Section 6 takes the pension obligation apart properly.

The comparison that frames the equity case, though, is against 2019 rather than against the peak. American's net debt on its own definition is now $6,974 million *below* where it stood at the end of 2019, before any of this happened — $28,105 million against $35,079 million. Both of those endpoints are the company's own published figures, so there is nothing to argue about. What is worth arguing about is the composition. Against 2019, borrowings and finance leases are $4,612 million *higher*, not lower. The improvement comes from $5,315 million off the pension line, $2,327 million of operating leases run off, and $3,944 million more cash on the balance sheet. An airline that borrowed more than it had before Covid and shows less net debt than before Covid is telling you where to look.

The maturity ladder and the 2028 wall

Contractual maturities at December 31, 2025	$ millions	Share of total
2026	3,641	12.7%
2027	4,455	15.6%
2028	**7,324**	**25.6%**
2029	4,045	14.1%
2030	2,487	8.7%
2031 and thereafter	6,642	23.2%
Total	**$28,594**	**100.0%**

Source: American Airlines Group Inc., Form 10-K for the year ended December 31, 2025, Note 4. Amounts are contractual principal maturities as scheduled at that date and do not reflect refinancings completed during 2026, including the second-quarter transactions that the company states addressed its only meaningful 2027 maturity.

Calendar 2028 carries $7.3 billion — 26 percent of all scheduled principal, and more than the two adjacent years combined. Three instruments account for most of it: the 2013 Term Loan Facility maturing February 2028, the 7.25 percent senior secured notes that are interest-only until February 2028, and the 2021 AAdvantage Term Loan, whose March 2025 amendment cut quarterly amortization to roughly $6 million and pushed the balance into a balloon at the April 20, 2028 maturity.

That amendment is worth pausing on, because it is the clearest example in the filings of a pattern that runs through this balance sheet. Reducing near-term amortization to a quarter of a percent per quarter is genuinely useful — it frees roughly $220 million a year of cash relative to the prior schedule. It does not reduce the obligation. It relocates it to a single date, and it does so on the same asset that secures the rest of the loyalty financing. American has bought itself time repeatedly and has generally bought it well; the ladder shows where the bill for that time comes due.

Revolving capacity and the liquidity covenant

Revolving and other facilities at December 31, 2025	Capacity	Drawn
2013 Revolving Facility	519	—
2014 Revolving Facility	1,557	—
2023 Revolving Facility	924	—
Other facilities	397	—
Total available capacity	**$3,397**	**—**

Source: American Airlines Group Inc., Form 10-K for the year ended December 31, 2025. Revolving commitments were upsized from approximately $2.9 billion to $3.0 billion on April 21, 2025. "Other facilities" includes a $350 million revolving facility maturing March 2027 with a one-year extension option and $47 million of available cargo-receivables borrowing base capacity expiring December 2026. No borrowings were outstanding under any facility at December 31, 2025. $ in millions.

Undrawn revolvers are the healthiest fact on this page and they are also the reason a specific covenant deserves attention. A significant portion of American's debt agreements requires the company to maintain at least $2.0 billion of unrestricted cash and cash equivalents plus undrawn revolver capacity. With $3,397 million of undrawn capacity alone, that test is not close to binding today. But note its construction: it counts revolver availability, and revolver availability is itself subject to collateral coverage tests. In a scenario where aircraft appraisals fall, borrowing base capacity falls with them, and the liquidity covenant tightens at exactly the moment cash is scarce. That is the standard secured-credit doom loop and it is worth naming even in a period when it is nowhere near triggering.

The other covenant class is loan-to-value and collateral coverage, tested against annual or semiannual appraisals across the secured notes, term loans, revolvers and spare engine trusts. A breach does not accelerate; it obliges American to post additional collateral, permit cash to be withheld, pay the debt down, or accept a rate step-up. The AAdvantage Financing adds a peak debt service coverage ratio whose breach can force early repayment in whole or in part. American reported compliance with all of these at the most recent applicable measurement dates.

What the bond market pays for this debt

The equity is near a 52-week low. The credit is not. American's traded paper is quoted at or around par on every issue underwritten in the current rate environment, which is the single most useful outside read on this balance sheet available to a public investor — and it does not agree with the equity.

Quoted price on American paper	Coupon	Maturity	Price (% of par)	Yield to worst
7.250% senior secured notes	7.250%	Feb 15, 2028	100.93	5.18%
5.750% AAdvantage Loyalty IP notes	5.750%	Apr 20, 2029	99.54	—
8.500% senior secured notes	8.500%	May 15, 2029	not sourced	—
Equipment trust certificates, coupon under 4.5%	9 issues	2028–2034	94.35 avg	—
Equipment trust certificates, coupon 4.5% and over	6 issues	2034–2039	97.70 avg	—

Prices are aggregator quotes retrieved September 2, 2026 from a public bond table, expressed as a percent of par. Two-Clock caution: the source publishes an update time for the equity quote only and does not publish a quote date for each individual bond, so these prices carry an unknown measurement lag. The AAdvantage 5.750% of 2029 was independently cross-checked on the Frankfurt listing venue at 99.46 on the same date — 8 basis points from the aggregator quote, mutually corroborating — though Frankfurt turnover that day was zero on a single price fixing, making it an indicative listing quote rather than a trade print; the real market for this 144A/Reg S bond is US over-the-counter. The 8.500% senior secured notes due May 15, 2029 ($1,000 million principal, ISIN USU02413AJ82) are not quoted in either source and no price has been interpolated. The two EETC lines are unweighted averages of the individual quotes; the full issue-by-issue detail underlies them.

Two things follow. The first is that the market is not pricing distress in the debt. The 7.250% senior secured notes of 2028 change hands above par at a 5.18 percent yield to worst, and the $2.75 billion AAdvantage

Loyalty IP 5.750% of 2029 — the instrument secured on the asset section 5 argues is the company's best — sits within half a point of par, inside a 52-week band of 98.12 to 101.41. A market genuinely worried about recovery does not quote a 2029 secured claim at 99. The equity and the credit are looking at the same company and reaching different conclusions, which is exactly what a thin equity sliver beneath a large secured stack should produce: the debt is money-good and the residual is a call option.

The second is that the discounted paper is discounted for the wrong reason to be interesting. Nine enhanced equipment trust certificates carrying coupons below 4.5 percent average 94.35, with the 2.875% of 2034 down at 88.31. Six carrying 4.5 percent or better average 97.70 — including issues maturing in 2038 and 2039, longer-dated than any of the discounted ones. Across the fifteen, price correlates with coupon at +0.69 and with remaining tenor at only +0.12. That is a rate story, not a credit story: the low-coupon certificates were written when money was cheap and are marked down to today's yield curve, not marked down because anyone doubts the aircraft. It also quantifies the refinancing problem section 4 opened with — American retires 3 percent paper and replaces it with 7 to 8 percent paper, and the bond market has already repriced the old paper to reflect that.

5. AAdvantage: the collateral, the covenants, and the clock that just started

The single most consequential financing structure on this balance sheet is the 2021 AAdvantage Financing, and it deserves its own section because it is simultaneously American's most valuable asset and its most heavily encumbered one.

On March 24, 2021, American and AAdvantage Loyalty IP Ltd. — a Cayman special purpose vehicle — issued $3.5 billion of 5.50 percent senior secured notes due 2026 and $3.0 billion of 5.75 percent senior secured notes due 2029, alongside a $3.5 billion term loan facility. The collateral package is comprehensive: a first-priority security interest in the AAdvantage Agreements themselves and all payments under them, the intellectual property licenses, the deposit and reserve accounts, the equity of the Loyalty Issuer and the SPV guarantors, and American's rights to AAdvantage data and intellectual property.

Read that list again. The co-brand agreements, the payments under them, the data, and the brand are all pledged. Approximately $11.0 billion of financing sits against a program that carries $11.6 billion of deferred revenue on the June 30, 2026 balance sheet. Any transaction that would monetize AAdvantage — a spin, a stake sale, a joint venture — has to be negotiated through that structure first.

AAdvantage Financing — the sequence	Date	Effect
Original issuance	March 24, 2021	$3.5B 2026 notes, $3.0B 2029 notes, $3.5B term loan
2026 Notes amortization begins	July 2023	Quarterly installments of $292 million
Second Amendment	March 24, 2025	Replaced ~$2.3B of term loans; amortization cut to 0.25% per quarter (~$6 million) from July 2025; balloon at the April 20, 2028 maturity; SOFR + 2.25%
Third Amendment	May 28, 2025	Added $1.0B of incremental term loans due May 28, 2032 at SOFR + 3.25% with ~$3 million quarterly amortization; proceeds used in part to repay the convertible notes
2026 Notes mature	April 20, 2026	Final repayment; balance was $583 million at December 31, 2025
2029 Notes amortization begins	**July 20, 2026**	**Quarterly installments of $250 million — $1.0 billion per year of mandatory paydown running through April 2029**

Source: American Airlines Group Inc., Form 10-K for the year ended December 31, 2025, Note 4(c). Amortization on the 2029 Notes is subject to early-amortization events including failure to meet a minimum debt service coverage ratio. Mandatory prepayment triggers include indebtedness *issued by the SPV, pre-paid AAdvantage mileage sales exceeding $505 million, a change of control of AAG, and collateral sales above a threshold — each carrying an applicable premium.*

The last row is the one to carry forward. Amortization on the 2029 Notes began on July 20, 2026 — inside the quarter American had just reported — at $250 million a quarter. That is $1.0 billion a year of non-discretionary principal repayment, secured on the loyalty program, running through April 2029. It is not a maturity that can be refinanced away in a single transaction; it is a standing draw on cash that begins precisely as the seasonal float turns.

The mandatory prepayment triggers deserve a line as well, because one of them constrains a tactic airlines habitually reach for under stress. Pre-selling miles to a co-brand partner — the maneuver that funded several carriers through 2020 — is a mandatory prepayment event here above $505 million. American can still do it. It just cannot do it at scale and keep the proceeds.

6. The obligations that are not called debt

Two claims sit ahead of the common that a debt-only view omits, and for an airline both are large.

Operating leases

Lease position	2025	2024	2023
Operating lease cost	$1,704	$1,851	$2,016
Variable lease cost	$3,395	$3,075	$2,720
Finance lease amortization	$128	—	—
Finance lease interest	$48	—	—
Total net lease cost	**$5,275**	**—**	**—**
Operating lease right-of-use assets	$7,091		
Operating lease liabilities	**$6,963**		
Finance lease liabilities	$727		
Weighted average remaining term — operating	8.4 yrs		
Weighted average discount rate — operating	7.4%		

Source: American Airlines Group Inc., Form 10-K for the year ended December 31, 2025, lease footnote. Balance sheet amounts are measured at December 31, 2025. Lease cost includes $248 million relating to Republic Airways capacity purchase agreements; American holds a 20.8 percent equity interest in Republic Airways Holdings. Operating lease liabilities of $6,802 million at June 30, 2026 are used in the enterprise value bridge in section 3. $ in millions.

Total net lease cost of $5.3 billion in 2025 is the number to hold onto. Note its composition: variable lease cost of $3.4 billion is nearly twice the fixed operating lease cost, and variable lease cost is dominated by airport rents, landing fees and capacity purchase payments that scale with activity. That portion is a genuine operating expense rather than disguised financing, which is why this case capitalizes only the recorded operating lease liability of $6,802 million in the enterprise value rather than applying a multiple to total rent. The conservative treatment is deliberate: capitalizing variable lease cost would inflate enterprise value and make American look artificially expensive against peers whose disclosure splits differently.

Pension and postretirement

Retirement obligations, measured December 31, 2025	2025	2024
Pension benefit obligation	$13,331	$13,349
Fair value of plan assets	$12,792	$12,254
Pension funded status	**$(539)**	**$(1,095)**
Retiree medical and other postretirement obligation	$1,259	
Retiree medical and other postretirement assets	$118	
Postretirement funded status	**$(1,141)**	
Combined underfunding	**$(1,680)**	
Employer contributions during the year	$228	
Minimum required contributions for 2026	**$238**	

Source: American Airlines Group Inc., Form 10-K for the year ended December 31, 2025, retirement benefits footnote. The measurement date for all actuarial amounts is December 31, 2025; the balance sheet carrying amount used in the section 3 enterprise value bridge is $1,160 million at June 30, 2026. Plans are substantially frozen. The IAM National Pension Fund was certified in "endangered" status on March 29, 2019 notwithstanding a funded ratio above 80 percent. $ in millions.

The pension has improved materially and this is the one liability line trending the right way: the funded deficit narrowed from $1,095 million to $539 million during 2025, helped by an actual return on plan assets of $1,229 million. The plans are substantially frozen, so the obligation does not grow with service. Minimum required contributions for 2026 are $238 million — real, but not a threat to liquidity. Combined underfunding across pension and retiree medical of $1.7 billion is material to enterprise value and immaterial to the near-term cash question. Both statements should be carried forward.

7. What eleven point three billion dollars of liquidity actually is

The company ended the June 2026 quarter with $11.3 billion of total liquidity, and the chief financial officer said so on the call. That figure is accurate and it is also the most commonly over-read number in the release, so it is worth decomposing.

Liquidity at June 30, 2026	$ millions	Available to service debt?
Cash and cash equivalents	1,028	Yes
Short-term investments	6,742	Yes
Unrestricted cash and short-term investments	**$7,770**	**Yes**
Undrawn revolving and other facilities	3,397	Yes, subject to collateral tests
Total liquidity as presented	**$11,167**	
Memo: restricted cash and short-term investments	709	No
Memo: air traffic liability	(9,551)	Customer money, not the company's
Memo: loyalty program liability, current and noncurrent	(11,573)	Deferred revenue against future redemption

Sources: American Airlines Group Inc., Form 10-Q for the quarter ended June 30, 2026, for balance sheet amounts; Form 10-K for the year ended December 31, 2025, for revolver capacity, which is the most recent facility-level disclosure. The company stated total liquidity of $11.3 billion at June 30, 2026 on the July 23, 2026 earnings call; the reconciliation above is the Institute's and differs slightly because revolver capacity is carried at the December 31, 2025 disclosed amount. $ in millions.

The liquidity is real and it comfortably clears the $2.0 billion covenant floor. But look at the memo lines. Sitting against $7,770 million of unrestricted cash and investments is $9,551 million of air traffic liability — tickets sold for travel not yet provided — and $11,573 million of loyalty program liability. American's cash balance is smaller than the customer obligations it is holding against. That is normal for an airline and it is not a solvency observation. It is the reason the next section exists: when a business is funded by customer prepayments, the cash flow statement and the earnings statement can point in opposite directions for a year at a time, and only one of them is telling you about the business.

8. The float question — how much of the cash flow is earnings?

This is the analytical core of the case.

In the six months ended June 30, 2026, American generated $4,694 million of cash from operations, up from $3,419 million in the prior-year period, while reporting a net loss of $311 million. A reader who stops there concludes that the accounting loss is a depreciation artifact and the business is throwing off cash. Decompose it instead.

Six months ended June 30, 2026 — operating cash flow decomposed	$ millions	Share of OCF
Net loss	(311)	-6.6%
Depreciation and amortization	1,136	24.2%
Working capital and other, net	3,869	82.4%
Cash provided by operating activities	**$4,694**	**100.0%**
Of which: air traffic liability build	2,393	51.0%
Of which: loyalty program liability build	1,009	21.5%
Total customer float	**$3,402**	**72.5%**

Source: American Airlines Group Inc., Form 10-Q for the quarter ended June 30, 2026, condensed consolidated statements of cash flows and balance sheets. The air traffic liability build is the change from $7,158 million at December 31, 2025 to $9,551 million at June 30, 2026. The loyalty build is the corresponding change in the current and noncurrent loyalty program liability. "Working capital and other, net" is derived as operating cash flow less net loss less depreciation and amortization and therefore includes items beyond the two float components identified. $ in millions.

Roughly 72 percent of American's first-half operating cash flow is money customers have handed over for flights they have not taken and miles they have not redeemed. Air traffic liability grew from $7.2 billion at year-end to $9.6 billion at June 30 — a $2.4 billion build — because passengers buy summer travel in the spring. That is not profit. It is a liability that gets discharged by flying the airplanes, and it reverses in the second half every year.

The seasonality is not a hypothesis; it is visible in the full-year numbers. Across all of 2025 the air traffic liability built only $399 million and the loyalty liability $510 million — together roughly 29 percent of full-year operating cash flow, against 72 percent in the first half of 2026. The half-year figure is a seasonal peak, not a run rate.

Strip the float and what is left of the first half is roughly $1,292 million of operating cash flow, against $1,633 million of capital expenditure and aircraft purchase deposits already spent, and against depreciation of $1,136 million. On that basis the business roughly covered its own depreciation and did not cover its capital program. That is the honest read of the first half.

9. Free cash flow: the record, and what the second half requires

Free cash flow	2023	2024	2025	H1 2026
Cash provided by operating activities	3,803	3,983	3,099	4,694
Capital expenditures and aircraft purchase deposits	(2,596)	(2,683)	(3,779)	(1,633)
Free cash flow	**1,207**	**1,300**	**(680)**	**3,061**
Memo: sale-leaseback and property proceeds			344	60
Memo: proceeds from long-term debt issuance			3,773	4,518
Memo: payments on long-term debt and finance leases			(5,504)	(4,651)

Sources: American Airlines Group Inc., Form 10-K for the year ended December 31, 2025, and Form 10-Q for the quarter ended June 30, 2026. Free cash flow is defined here as cash provided by operating activities less capital expenditures and aircraft purchase deposits, before sale-leaseback proceeds. The 2023 and 2024 comparatives use the same definition. $ in millions.

Full-year 2025 free cash flow on this definition was negative $680 million: $3,099 million of operating cash flow against $3,779 million of capital spending. That was in a year in which American earned $111 million of net income and posted $1.5 billion of operating income — a better year than 2026 is guided to be.

Now the second half of 2026. The chief financial officer told investors on July 23 that at the midpoint of the current guidance American expects to produce positive free cash flow for the year and to finish with lower net debt than it started. Take that claim seriously and test it.

Testing the full-year free cash flow claim	$ millions	Note
First-half operating cash flow	4,694	Reported
Less: first-half customer float	(3,402)	72% of first-half OCF
First-half operating cash flow ex-float	**1,292**	**Institute derivation**
First-half capital expenditure	(1,633)	Reported
Full-year capital expenditure guidance	(4,000)	~$4 billion, stated on the call
Implied second-half capital expenditure	**(2,367)**	**Guidance less first-half actual**
Guided full-year adjusted EPS range	$-0.65 to $0.65	Midpoint is $0.00
Guided third-quarter adjusted EPS range	$-0.70 to $-0.10	A loss at every point in the range

Sources: reported amounts from American Airlines Group Inc., Form 10-Q for the quarter ended June 30, 2026; guidance from Form 8-K Exhibit 99.1 furnished July 23, 2026, with the fuel assumption built on the forward curve as of July 21, 2026; capital expenditure guidance and delivery count from the same-day earnings call. The July 23, 2026 release is the only primary-source guidance the Institute has identified for 2026; reports of a subsequent August revision could not be traced to a company filing or release and are not relied upon here. $ in millions.

The arithmetic of the claim holds together, and it is worth being precise about why, because the conclusion is neither that the CFO is wrong nor that the free cash flow is good news. Positive full-year free cash flow at a zero-earnings midpoint is arithmetically available because depreciation of roughly $2.3 billion exceeds the cash cost of a $4.0 billion capital program only modestly, and because the year-over-year float position does not have to unwind to zero — it only has to unwind to a level consistent with a growing airline. A carrier adding capacity carries more forward bookings at each year-end than the last. Growth funds itself, on the way up.

But the composition matters more than the sign. Free cash flow produced at zero net income is depreciation and float. It is not earnings, it does not compound, and it does not reduce the obligation in any durable way. Net debt on a debt-only basis did fall in the first half — from $23,171 million at December 31, 2025 to $21,157 million at June 30, 2026, a $2,014 million improvement. Note what funded it: the cash balance rose by $1,934 million while debt was roughly flat, and the cash rose on the float. The deleveraging is real on the measurement date and it is seasonally financed.

Against that sits $17.5 billion of planned aircraft and engine expenditure across calendar 2026 through 2030, based on commitments as of December 31, 2025. Averaged, that is roughly $3.5 billion a year of committed capital against a business whose best recent operating cash flow year produced $4.0 billion. The fleet program is not optional in the way discretionary capex is; deliveries are contracted, and the financing for them is what keeps total debt from falling.

10. The tax asset that does not appear in enterprise value

Enterprise value counts the debt and nets off the cash. It does not count the tax attributes, and in American's case that omission is large enough to matter to the equity. At December 31, 2025 the company held approximately $11.9 billion of gross federal net operating losses and a further $6.0 billion of other federal carryforwards — $17.9 billion in total against future federal taxable income — of which $16.3 billion carries forward indefinitely and only $1.6 billion begins to expire, in 2033. On top of that sit roughly $5.0 billion of state net operating losses expiring between 2025 and 2045.

Tax attributes at December 31, 2025	$ millions	Per share	Percent of market cap
Gross federal net operating losses	11,900		
Other federal carryforwards	6,000		
Total federal carryforwards	**17,900**		
of which indefinite-lived	16,300		
of which expiring from 2033	1,600		
State net operating losses	5,000		
Deferred tax asset recorded on carryforwards	**4,095**	**$6.19**	**47.8%**
Total deferred tax assets, gross	8,692		
Valuation allowance	(22)		
Net deferred tax asset after deferred tax liabilities	**2,359**	**$3.56**	**27.5%**

Source: American Airlines Group Inc., Form 10-K for the year ended December 31, 2025, Note 6 and Management's Discussion and Analysis. All amounts measured at December 31, 2025 — a nine-month-old measurement date in a September 2026 document; first-half 2026 taxable income will have consumed part of the carryforward and the balance is not disclosed at the interim date. Per-share and percent-of-market-cap columns use 661.9 million shares outstanding at June 30, 2026 and the $12.95 close of September 1, 2026, a market capitalization of $8,572 million.

Read the valuation allowance line, because it is the whole argument in one number. A company that did not expect to use its losses would carry a valuation allowance against them. American carries $22 million against $8,692 million of gross deferred tax assets — essentially none. Management states that it has "determined that positive factors outweigh negative factors in the determination of the realizability of our deferred tax assets," and the auditor treated the realizability of those carryforwards as a critical audit matter, which means it was examined rather than assumed. The company believes it will earn its way through them, and its auditor tested that belief.

What this is worth, and what it is not

The practical consequence is that American's book tax provision is not a cash cost. The 10-K says so directly: the $79 million provision recorded in 2025 at an effective rate of 41.2 percent was "substantially non-cash," and the same language covers the $308 million recorded in 2024 at 26.7 percent. An investor modelling American on after-tax earnings is applying a tax rate to cash flow that mostly is not being paid. On a free cash flow basis the shield is already in the numbers; on an earnings basis it is not, and that gap is worth understanding before comparing American's price-to-earnings multiple to anyone else's.

The carryforward deferred tax asset of $4,095 million is 48 percent of a market capitalization of $8,572 million, or $6.19 a share against a $12.95 stock. The net deferred tax asset after netting the deferred tax liabilities — principally accelerated depreciation on the fleet — is $2,359 million, or $3.56 a share. Those are the two honest bookends, and the difference between them is real: the deferred tax liabilities reverse too, and a going-concern airline that keeps buying aircraft keeps regenerating them.

Four qualifications, none of them small. First, a loss carryforward is worth nothing without taxable income to absorb it, and American's 2025 pre-tax income was roughly $192 million. At that rate the carryforward is not a near-term asset; it is an option on the earnings recovery the equity case already depends on, which means it is correlated with the thesis rather than diversifying it. Second, the attributes are worth less than face: $17.9 billion of carryforwards shields tax at the statutory rate, not dollar for dollar, which is why the recorded asset is $4,095 million rather than $17,900 million. Third, the balance is falling: the same line read $4,292 million a year earlier, so the company is consuming roughly $197 million of it a year at current profitability. Fourth, and most important for anyone thinking about the shareholder register, the attributes are exposed to section 382.

Section 382 of the Internal Revenue Code limits the annual use of net operating losses after an "ownership change" — broadly, a shift of more than fifty percentage points among five-percent shareholders over a rolling three-year window. American treats this as a live risk and says so in its own risk factors: an ownership change "may severely limit or effectively eliminate our ability to utilize our NOL carryforwards and other tax attributes." The company's certificate of incorporation carries transfer restrictions designed to prevent one. For a $8,572 million equity carrying a $4,095 million carryforward asset, that is not boilerplate. It means a large accumulation by a new holder — an activist, a strategic, a distressed buyer — can destroy a meaningful fraction of the value it is trying to capture, and it is one reason the equity is harder to concentrate than its size suggests. The Institute's Foundations brief on net operating losses works this mechanism through in detail.

11. Valuation on a consistent basis

With the enterprise measured properly, the comparison to Delta and United can be made honestly. Two cautions first. Delta and United disclose balance sheet items on their own definitions — Delta reports adjusted net debt, United reports total debt including finance leases and other financial liabilities — and neither is identical to the lease- and pension-inclusive construction used for American in section 3. Where the bases differ, the table says so rather than forcing a false precision.

Comparative valuation at the September 1, 2026 close	American	Delta	United
Share price	$12.95	$76.38	$104.63
Market capitalization ($M)	8,572	49,960	33,960
Trailing twelve-month revenue ($M)	58,340	68,290	62,900
Trailing twelve-month net income ($M)	(326)	3,950	3,500
Trailing twelve-month earnings per share	$-0.49	$6.03	$10.69
Price to trailing sales	**0.15x**	**0.73x**	**0.54x**
Forward price to earnings	**11.44x**	**9.31x**	**8.12x**
Consensus price target	$18.50	$105.19	$161.28
Implied upside to target	43%	38%	54%
Consensus rating	Buy	Strong Buy	Strong Buy

Source: quoted market data and consensus estimates at the September 1, 2026 close. Trailing twelve-month figures run through the June 2026 quarter. Consensus targets and ratings are third-party aggregations carrying their own measurement dates, are not the Institute's estimates, and are shown for context rather than as a valuation input.

American's forward multiple of 11.4 times is the highest of the three, not the lowest — which is the correct result and the one most likely to surprise. A company earning close to zero has a large forward multiple on a small forward number; that is arithmetic, not a valuation signal. The equity multiple that looks cheap is price to sales, and price to sales is precisely the metric that ignores the capital structure. Both observations point the same way: on the equity alone, American is not measurably cheap. On the enterprise, it is levered.

The enterprise view is where the real comparison lives

Delta ended the June 2026 quarter with $13.6 billion of adjusted net debt against a market capitalization of $50.0 billion — net obligations of roughly 0.27 times the equity value. American carries $29.1 billion of net obligations against $8.6 billion of equity value — 3.4 times. Delta's weighted average interest rate is 4.9 percent with 78 percent fixed; American is issuing secured paper at 7.25 to 8.50 percent. Roughly twice the net obligation, roughly one-sixth the equity value, at a materially higher cost of debt. That is the entire valuation discount, and it is not a mispricing.

What the multiple actually implies

Trailing twelve-month operating income through June 30, 2026 is $1,008 million — full-year 2025's $1,467 million, plus the first half of 2026's $405 million, less the first half of 2025's $864 million. Against an enterprise value of $37,691 million, that is 37.4 times trailing operating income. Add back depreciation of roughly $1.9 billion and the multiple falls to roughly 13.0 times a rough EBITDA — before any lease-cost adjustment, and on a trailing number depressed by the fuel shock.

That is not an expensive multiple in absolute terms, and it is the strongest quantitative argument available for the long case: at a normalized operating income anywhere near the $3.0 billion American earned in 2023, the same enterprise value would be about 12 times operating income, and the equity — being a thin residual — would not have to move a little. It would have to move a lot. The arithmetic of a 23-percent equity sliver is symmetric.

The condition attached to that argument is the whole of the risk. It requires the enterprise value to rise while the debt does not, which requires operating income to recover while the fleet program is funded from cash rather than from new borrowing. Every year in the recent record shows the opposite pattern: capital expenditure exceeded operating cash flow in 2025, debt issuance of $3.8 billion offset repayments of $5.5 billion, and total debt and finance leases ended 2025 at $29.0 billion — roughly where it stands today.

12. The AAdvantage argument, and what it is worth

The most-cited bull case for American is that the market is not paying for AAdvantage. The argument runs: loyalty programs at the large network carriers have been valued in the tens of billions; American's is arguably the largest by membership; therefore the $8.6 billion equity is pricing the airline attached to a very valuable program at less than nothing.

The Institute takes that argument seriously and will not print it as a finding, because the numbers underneath it will not carry the weight. Here is what can and cannot be said.

What is filed and dateable: the loyalty program liability is $11,573 million at June 30, 2026 — $4,353 million current and $7,220 million noncurrent. That is a liability, not an asset: it is deferred revenue measuring miles sold and not yet redeemed. Approximately $11.0 billion of debt is secured on the program. Citi co-brand card spend grew 8 percent and new member enrollments grew 30 percent in the June 2026 quarter. Those are the facts.

What is not filed: any valuation of AAdvantage as a standalone business. Third-party estimates circulating in August 2026 put competitor programs at up to $30 billion, drawing on the pricing of the Air Canada Aeroplan transaction. Those are secondary-source peer estimates carrying their own measurement dates, they are not marks on AAdvantage, and American has not disclosed a program-level profit figure that would let a reader independently value it.

More importantly, the encumbrance changes the character of the asset. A loyalty program whose agreements, payment streams, data, intellectual property and issuing entity are all pledged as first-priority collateral for $11.0 billion of debt — with mandatory prepayment triggered by a change of control, by collateral sales above a threshold, and by pre-paid mileage sales above $505 million — is not an asset that can be separately monetized on a shareholder's timetable. Whatever AAdvantage is worth, the first $11.0 billion of it is spoken for, and the structure was deliberately built so that it could not be extracted without the lenders' participation.

The honest formulation is narrower than the bull case and still favorable: AAdvantage is a genuinely valuable, genuinely growing asset that American has already borrowed against heavily and cannot readily sell. It supports the credit. It does not, on the current structure, support a sum-of-the-parts argument for the equity.

13. The verdict

The case was commissioned to follow the evidence wherever it led, including to the conclusion that the discount is deserved. It largely is — with two qualifications that matter.

The premise required correction. American is 28 percent above its 52-week low, not at it, and United is closer to its own floor. What distinguishes American is not proximity to a low but the price the market puts on its revenue: 0.15 times sales against 0.73 times for Delta. That distinction moves the question from timing to structure, which is where it belongs.

The business is not the problem. Record quarterly revenue, a fifth consecutive quarter of double-digit managed corporate revenue growth, premium unit revenue up 13.4 percent, every geographic entity positive, and unit costs excluding fuel contained under three percent against 5.4 percent capacity growth. A reader looking for evidence that American cannot sell a seat or control a cost will not find it in this quarter.

The capital structure is the problem, and it is not a cyclical one. Net obligations of $29.1 billion sit against $8.6 billion of equity. Interest expense of $409 million consumed 92 percent of operating income in the best revenue quarter in company history. Calendar 2028 carries $7.3 billion of scheduled principal, the 2029 AAdvantage Notes began drawing $1.0 billion a year of mandatory amortization on July 20, 2026, and $17.5 billion of aircraft commitments run through 2030. Stockholders' equity is negative $4.0 billion.

And the cash flow is float. This is the finding the Institute would most want a reader to carry away, because it is the one most easily missed: $4.7 billion of first-half operating cash flow against a net loss is not evidence of hidden earnings power. Approximately 72 percent of it is customer money for flights not yet flown and miles not yet redeemed. It reverses seasonally. Full-year 2025 free cash flow was negative $680 million in a year materially better than 2026 is guided to be, and the guided full-year adjusted earnings range straddles zero.

So: is the equity cheap? On enterprise value against trailing operating income the answer is arguably yes — roughly 13.0 times a rough trailing EBITDA depressed by a fuel shock, on an airline with a working commercial franchise. And because the equity is only 23 percent of the enterprise, a recovery in operating income to anything resembling 2023 levels would move the equity by a multiple of the move in the enterprise.

That is a real option and it should be described as one rather than dressed as a valuation. What it requires is not a better quarter but a sustained period in which operating income recovers while the debt does not grow — which means funding the fleet program from cash. The record does not yet show that happening: capital expenditure exceeded operating cash flow in 2025, and total debt and finance leases have been roughly flat at $29.0 to $28.9 billion across the period. Until the fleet is self-funded, deleveraging is seasonal rather than structural, and the discount is the market pricing that distinction correctly.

The Institute's position, stated plainly: the discount to Delta and United is deserved on the evidence available at the September 1, 2026 close. The equity is nonetheless a genuinely asymmetric instrument, and a reader who buys it should understand precisely what they are buying — not a cheap airline, but a 23-percent residual claim on a $37.7 billion enterprise, whose value turns on whether the fleet program can be funded without adding debt. That is a defensible thing to own. It is not a value investment, and calling it one obscures the only question that decides it.

Sources and measurement dates

Every quantitative claim in this case is traceable to one of the documents below, and every figure runs on the measurement date shown rather than on the publication date of this case. Where a filed figure has been superseded by a more recent measurement, both clocks are shown.

Figure or set	Source document	Measurement date
Price, market capitalization, 52-week range, trailing multiples and consensus targets for AAL, DAL and UAL	Quoted market data	September 1, 2026 close
Shares outstanding; balance sheet; six-month cash flow statement	Form 10-Q	June 30, 2026
Q2 revenue, expenses, operating income, EPS, unit revenue and cost, capacity, fleet, headcount	Form 8-K Ex. 99.1	Furnished July 23, 2026 for the quarter ended June 30, 2026
Q3 and full-year 2026 guidance	Form 8-K Ex. 99.1	July 23, 2026; fuel on the July 21, 2026 forward curve
Tranche-level debt schedule, maturity ladder, revolver capacity, covenants	Form 10-K Note 4	December 31, 2025
AAdvantage Financing terms, amendments, collateral, amortization, prepayment triggers	Form 10-K Note 4(c)	December 31, 2025, with amendments dated through May 28, 2025
Lease cost, right-of-use assets, lease liabilities, terms and discount rates	Form 10-K	December 31, 2025
Pension and postretirement obligations, plan assets, funded status, 2026 required contributions	Form 10-K	December 31, 2025 actuarial measurement date
Aircraft purchase commitments of approximately $17.5 billion for 2026–2030	Form 10-K risk factors	Commitments as of December 31, 2025
Full-year 2023–2025 income statement and cash flow statement	Form 10-K	December 31, 2025 and comparative years

All Form 10-K, Form 10-Q and Form 8-K references are filings of American Airlines Group Inc. with the Securities and Exchange Commission.

Company statements, peer releases, secondary sources and Institute derivations

Figure or set	Source	Measurement date
Liquidity of $11.3 billion; 2026 capex of approximately $4 billion; 48 deliveries; balance sheet targets	Q2 2026 earnings call transcript	July 23, 2026
Delta adjusted net debt, liquidity, cash flow, free cash flow, interest rate	Delta Q2 2026 release	June 30, 2026
United debt and finance leases, liquidity, revenue, net income, cash flow	United Q2 2026 release	June 30, 2026
Non-affiliate market value of approximately $7.4 billion — SHOWN AND NOT USED	**Form 10-K cover page**	**June 30, 2025 — fourteen months stale; superseded by the September 1, 2026 close**
Peer loyalty program valuations of up to $30 billion — context only, not a mark on AAdvantage	Secondary press reporting	August 2026
Enterprise value, net obligations, float decomposition, free cash flow, trailing operating income	**Institute derivation**	**September 1, 2026 price clock on the June 30, 2026 balance sheet**

Reports circulating in August 2026 of a further revision to American's 2026 guidance could not be traced to any company filing, press release or furnished exhibit; the July 23, 2026 Form 8-K remains the only primary-source guidance identified as of the publication date of this case, and no August revision is asserted anywhere in this document.

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