International Airlines Group Q3 2024 Results

Friday, 8th November 2024

Luis Gallego

CEO

Good morning, everyone, and welcome to the IAG Third Quarter Results. Today, I have with me Nicholas Cadbury, our CFO, as well as members of the IAG Management Committee.

First of all, I would like to extend my deepest sympathies to the families affected by the impact of the catastrophic rainfall and flooding in Spain. Our Spanish airlines are supporting the relief efforts, and our thoughts are with those impacted during this difficult time.

In summary, this has been a very successful quarter financially, as we continue to execute our strategy. We have increased revenue by 7.9%. Our operating profit has increased by 15.4%, which is an increase of €268 million to just over €2 billion. And we have increased operating margin by 1.4 percentage points to 21.6%. This means that for the nine months to 30th September, our operating profit is €3.3 billion and the operating margin is 13.8%.

This emphasised the strong margins already been achieved individually by our airlines as well as at Group level, and we are on track to deliver on our world class margins target.

Demand for travel remains strong, particularly in our core markets of North America, Latin America and intra-Europe, which has supported a passenger unit revenue increase of 1.2%. We continue to invest for our customers, and in particular, to improve our operational resilience.

We are making progress. Iberia's on-time performance remains very high, and BA has improved meaningfully compared to last year. Our increasing profitability is delivering the significant free cash flow generation that we have previously signalled, and our balance sheet is increasingly strong.

So I am very pleased to say that this means that we are now announcing a share buyback of €350 million. This reflects our commitment to delivering sustainable shareholder returns on top of the interim dividend that we announced at the half year results, with opportunity for further returns in future. This is a measure of our confidence in our strategy and business model as well as in the execution of our transformation programme.

And looking forward, we expect our strong financial performance to continue for the rest of the year.

I will now pass you over to Nicholas.

Nicholas Cadbury

CFO

Thank you, Luis, and good morning, everyone. I'm pleased to share with you our financial results for the third quarter. This slide demonstrates how we have once again delivered a very strong financial performance, increasing our operating profit by €268 million compared to last year to just over €2 billion.

This performance was delivered on the back of strong passenger revenue growth and good revenue growth in Cargo and Loyalty. On the right, you can see that the transformation of British Airways was the largest contributor to this growth.

This slide demonstrates that we have achieved a robust performance across all of our key performance indicators during the third quarter. Our ASKs increased by 5.7%, which is slightly below our initial guidance of 7% due to a high level of disruption than anticipated. Our passenger unit revenue grew by 1.2% against a very strong comparator last year, mainly driven with our load factor reaching nearly 90%, up 1 percentage point.

Looking at our cost, non-fuel cost increased by 2.2%, with the impact of previous rate settlements and supplier cost inflation, partially offset by our transformation initiatives, but on guidance. Our fuel unit costs improved 4.2%, benefiting from the drop in the commodity price and also the introduction of our new, more efficient aircraft.

These together resulted in our total CASK increasing by only 0.3%. Together with our strong revenue performance, these delivered world class margins of 21.6%, an increase of 1.4 percentage points.

This performance led to a further strengthening of our balance sheet, and the net debt-to-EBITDA leverage ratio improved to 1 times down 0.7 times from year-end. This really illustrates the resilience of our Group and the efficiency of our strategy in a competitive and challenging market.

Now let's look at our performance of our operating companies in more detail. The third quarter presented a number of challenges for Aer Lingus with industrial action during the summer period, particularly in July, and continued competitive pressure from the US carriers. Consequently, Aer Lingus' operating profit declined by €57 million to €140 million.

An agreement was reached with the pilots at the end of July. And as the quarter progressed, we saw a recovery in demand, enabling Aer Lingus to still deliver a very good operating margin of 18.6%.

British Airways saw the most significant year-on-year improvement among our airlines, with an increase in operating profit of £251 million, and its operating margin increasing by over 5 percentage points to 20.7%. This robust performance was driven by good unit revenue and capacity growth, especially in the North America and European markets and a reduction in non-fuel unit costs.

Iberia continues to build on its record performance from last year, with an operating profit of €454 million and a margin of 21.5%, driven by the strong performance in its core European and Latin American markets, with overall capacity growth of over 12%.

Vueling's network strategy continues to deliver positive results, with the company's operating profit reaching €252 million, and the margin, the highest amongst our airlines, reaching 27%, an impressive improvement of 0.8 percentage points.

Finally, our Loyalty business has performed very well this summer with a continued – with an operating profit of £125 million and a 10% increase year-on-year.

The third quarter saw a strong revenue performance against a strong prior year, reflecting the strength of our core markets and market positions and our customer proposition. We were particularly pleased with the performance across the North Atlantic, the Group's largest market. Our unit revenue improved 3.5% on top of a 4% increase in capacity.

British Airways performed particularly well with its premium cabins and in both its US and UK points of sale, where Aer Lingus saw a negative impact from the pilot strike and US competition, but improved as we went through the quarter.

Europe was again one of the best performing markets. Unit revenue was up 1.4% and capacity up 5%. All our airlines demonstrated strong performance, leveraging our leading position in our key European hubs, as well as the attractive proposition of our low cost airlines.

Latin America and the Caribbean was again a standout performance, with capacity up 11%. And despite the significant increase, unit revenue only decreased by 2.8%. In Africa, the Middle East and South Asia, we limited our capacity growth to only 1% due to the geopolitical issues.

The Asia Pacific market saw the largest capacity increase by 18% as we restored some of the pre-COVID routes but still represents our smallest market, accounting for only 4% of our ASKs. China is still seeing soft demand, and there continues to be a cost advantage for local Chinese carriers.

In both AMESA and Asia Pacific, we continue to adjust our schedule to reduce our exposure to the weaker performing routes and allows us to focus on the stronger Atlantic markets and build more operational resilience.

This slide shows our results for nine months to September down to net profit levels. We have delivered €3.3 billion of operating profit after exceptional items, up €300 million year-on-year, and €2.3 billion of profit after tax. I'd also just point out the reduction in our net finance costs, which declined by €204 million in the first nine months of the year, due to the lower gross debt.

Turning to our balance sheet performance. Our financial position continues to strengthen with a reduction in both net debt and leverage. Our net debt decreased by €3 billion versus December 2023 to just over €6 billion due to the strong cash flow from profits. And our leverage, as I've said earlier, improved to 1 times, well below our target of below 1.8 through the cycle.

Our total liquidity increased by €1.7 billion to 13 – just over €13 billion, again due to increase in our cash. This delivery and confidence in our business model and strategy led to the €147 million interim dividend announced in August that we paid in September.

Our CAPEX plans for the year have declined slightly to €3.1 billion due to the phasing of some investments. But despite this, we continue to expect to take delivery of 20 aircraft in the year, with four expected to come in the fourth quarter.

We anticipate that our net debt leverage will have a modest increase by the end of the year, in line with the typical seasonal unwind of forward bookings.

And finally, for me, the strengthened financial position has allowed us to invest in our business with confidence and fulfil our commitments to shareholder returns. We had already committed to a sustainable dividend. And as Luis mentioned earlier, we will start returning a further €350 million to our shareholders through a share buyback that will run through to the year-end results presentation.

As we continue to execute on our strategy, delivering stronger margins and stronger free cash flow, you can see from our capital allocation framework that we will have the opportunity to return more to shareholders in the future.

I'll now hand you back to Luis.

Luis Gallego

CEO, International Airlines Group

Thank you, Nicholas. I will now spend a couple of minutes highlighting some of the initiatives that we are implementing around the Group.

In terms of our network strategy, we continue to focus on our core markets and hubs. Aer Lingus has returned to flying to Minneapolis and will use its 321 extra-long range to go to Nashville and Indianapolis.

Iberia will fly their new XLR to Boston and Washington as well as continue to add frequencies to Latin America.

British Airways continues to add a range of additional frequencies for the US. And Vueling is increasing its presence at its Barcelona hub and in the Spanish market.

Each airline is also investing in its customer propositions and brands. Aer Lingus, BA and Iberia are all refreshing their onboard offering as well as their airport lounges. Vueling is increasingly developing the digital tools its customers can use to manage their journeys. We are also very focused on delivering better on-time performance in the context of an operating environment, where disruption factors are largely outside our control and which are affecting all airlines.

In particular, BA has now taken a step to add resilience to its winter schedule as well as for next summer, addressing not only the poor performance of its Rolls-Royce Trent engines but also the significant effect of air traffic restrictions at Heathrow and across Europe over the summer.

A stronger, resilient operations for all of our airlines will deliver a better customer experience and more efficient growth over the longer term. This is also where our investment in digital technology plays a major part, for example, as our airlines introduce self-service capability for customers to manage their own journeys.

Finally, our Loyalty business is doing well. Aer Lingus is our third airline to offer Avios-only flight. They launched Avios Wallet as we bring our separate airlines more closely into the Loyalty ecosystem. And Royal Caribbean Cruises were added as a third-party partner.

Moving on to our outlook. I continue to feel very positive about the business. Our planned capacity growth for the final quarter is around 5%, which means that for the full year, it will be around 6%. This mainly reflects the impact of the schedule adjustment that I have just mentioned.

We, therefore, expect non-fuel unit cost to be up around 2% on a full year basis. Our expected total fuel cost for the year is now around €7.7 billion as the price of oil has come down through the year. And we expect this strong financial performance to continue for the rest of the year.

So in summary, the execution of our strategy is delivering good results, but there is more to come. We expect a strong sustainable long-term demand for travel, particularly in our core markets. We're making good progress towards our world class margins and return targets as we execute our transformation programme. And we are generating significant free cash flow as a result.

With an increasingly strong balance sheet and disciplined investment, we can now focus on rewarding our shareholders, first, with the reinstalment of the dividend in August and now the announcement of the share buyback with opportunity for more in future.

And on that note, I will open the call to questions.

Q&A

Operator: Thank you. As a reminder, to ask a question, please press star one-one on your telephone and wait for your name to be announced. To withdraw your question, please press star one and one again. To ensure everyone has the opportunity to ask a question today, please limit yourselves to just two questions. Please also ensure that you're close to your microphone and not on loudspeaker. This will help with ensuring that your audio is clear and your question is understood. Thank you. Please stand by while we compile the Q&A roster. We will now take the first question from the line of Alex Irving from Bernstein. Please go ahead.

Alex Irving (Bernstein): Hi. Good morning. Two from me, please. First is on aircraft and engine reliability. What sort of cancellation rates do you currently experience, notably the 787s with the Trent 1000 and also the A380 sub fleets? And what action is being taken to alleviate this?

Second is on IT. You're a few months on from the announcement of adopting Nevio at British Airways. How are your expectations evolving for what this can do for unit revenues? And what you've seen so far? Could you achieve a similar uplift at Iberia or Aer Lingus? Thank you.

Luis Gallego: Okay. Good morning. So the first question, we are having the Trent issues like everybody is having. So you know that we have reduced the programme because we don't have enough engines. We are improving the technical dispatch reliability of, for example, A380s. That is helping. We have a programme in place to improve that.

So in general, we are happy with the performance of the other fleet, but it's true that we have an issue with the 787, but we are trying to solve. Maybe, Sean, you can expand on that.

Sean Doyle: Yeah. I think we saw the 787 issue begin to scale in terms of impact as we got towards the end of the summer. We took an intervention in mid-September to take lines of flying out for the winter. I think that's worked, and our completion factor has improved materially since we have made that intervention.

On the A380 as well, we've seen a big improvement in CDR. And again, the completion factor is a lot better in the second half of the year than it was in the first. And we're working closely with Airbus on improvement pax that we're rolling out across the fleet. So in essence, we're still working through the 787 impact for next summer. But our focus will be on making sure that the operation is resilient and building on the progress we've made in the last six weeks.

Nicholas Cadbury: Nevio, do you want to speak, Sean?

Sean Doyle: Yes. Nevio at the minute, in beta testing across a number of routes, and we're very encouraged by the trends we're seeing in terms of our new booking platform. The next few months, we will see more releases. But we're very excited by both the customer experience and the revenue opportunity that presents. But that said, it is covering maybe about 20% of our dotcom bookings at the minute. So it's early stages.

Alex Irving: Thanks for the colour.

Operator: Thank you. Sorry, is the question finished? We will now take the next question from the line of Stephen Furlong from Davy. Please go ahead.

Stephen Furlong (Davy): Morning, gentlemen. Okay, two questions. I mean they're all about more capital allocation. So maybe on the buyback, can you just talk to me where you came up with the €350 million number? Maybe it's kind of a rolling. I know it's smaller than what was there pre-COVID in terms of buybacks. Then again, you may be thinking about things like inorganic stuff like TAP and stuff, so maybe just talk about that.

And the second thing is on the CAPEX. I know it was – it's going to be €3.1 billion this year. And obviously, there's kind of supply chain delivery issues across the industry. In your CMD, you talked about an annual average of €4.5 billion in CAPEX to 2024 to '26. So can you just update us your thought process on CAPEX? Thank you.

Nicholas Cadbury: Yeah. So just in terms of the capital allocation. We laid out at the Capital Markets Day in a clear framework, we want to improve the balance sheet, which we think we're in a very good position. Secondly, we invest in our fleet, which we're doing. We'd like to be doing it quicker than we are, but there's not a lot we can do about it.

The third thing was then to get back to paying a dividend, which we started in August. And the last thing was then to distribute any additional cash, which we started through the share buyback programme. So I think if you look at kind of consensus, I don't think there were – many people were expecting to do a share buyback in this quarter. So hopefully, we're kind of accelerating ahead of our – ahead of people's kind of expectations overall.

I think when you just think about the quantum, in particular, kind of a few things that kind of cross our mind when we think about it. First of all, it's just the liquidity in our stock overall. And we're talking about buying this back over the – before our year end. So kind of end of February, so this is over a three-month period. So €350 million is kind of a reasonable percentage of our free stock overall. So that was why it was partly set at that level overall.

And secondly, if you look at the kind of dividend, assuming that keeps rolling on and where we are, that is around about a kind of 5.5% to 6% yield, which puts us well in the kind of top half of the kind of FTSE overall. So we thought that was a good – hopefully good reward given where we are with our performance as well.

When it comes to year-end, of course, we'll review again to see where you are – where we are. But you can see we're generating significant cash flow, and our balance sheet is in a good position.

Yeah. Sorry, just in terms of the capital overall. Yeah, we said at the half year, we bought that kind of €4.5 billion down. We removed – remember, the €4.5 billion also includes ETSs, which is about €200 million to €300 million per year as well. So we took that out as well. So that's not in our capital numbers.

I mean we've given – we kind of gave guidance for kind of the next few years of around about €4 billion. We're not giving guidance for 2025. I'm sure I'll get lots of questions on it, but we're not giving guidance '25 at this moment. So our guidance is still the same. But what you can see is you can see the programmes – the delivery programmes of – delivery and particularly some of the refurbishments are slipping slightly to the right, just to the supply chain issues that we've got.

Operator: Thank you. We will now take the next question from the line of Jaime Rowbotham from Deutsche Bank. Please go ahead.

Jaime Rowbotham (Deutsche Bank): Morning, Luis, and Nicholas. Congrats on the strong set of numbers. So two from me. First, can you talk about how you see the competitive capacity outlook for 2025, please? From the scheduling data I see, it looks like some of your long-haul competitors are actually retrenching a bit, which can only be a good thing, I would have thought. So any comments there?

And then secondly, Nicholas, any particular cost headwinds you think we should be aware of heading into 2025? Or can we think about a similar state of play when it comes to the non-fuel unit costs? Thank you very much.

Luis Gallego: Good morning. Talking about capacity, the overall capacity in the Europe North Atlantic has reduced slightly in the Q3 and Q4. And in particular, the London North Atlantic capacity appears to be lagging behind the Europe North Atlantic market. So that's what we see for the next quarter. It's true that we see some traffic that is moving from the north of Europe to the south of Europe. Then we see an opportunity for Madrid. And I think now with the arrival of the 321 extra-long range, it's going to be an opportunity for us.

If we look at the Europe laggard market, it's a market that is going to be totally recover and over 2019 from the last quarter of 2024. Madrid again has experienced an outstanding demand growth. So we see a strong premium leisure demand there, and Iberia is taking that opportunity. Maybe you –

Nicholas Cadbury: Yeah. Just on the cost kind of headwinds overall. I mean we'll see where fuel gets to. But on the non-fuel CASK overall, it's a similar sort of direction overall. We're not going to give specific guidance for 2025, but you're seeing – you're kind of seeing the employment inflation and inflation in our kind of supplier base is probably in the same sort of direction as well. And of course, we're continuing to invest in our business.

So I think consensus, non-fuel CASK is probably about 2 – just a little bit over 2% next year, up. And that's reasonable in terms of similar direction to year.

Jaime Rowbotham: Thank you very much.

Operator: Thank you. We will now take the next question from the line of Savi Syth from Raymond James. Please go ahead. Savi Syth from Raymond James, is your line on mute?

Savi Syth (Raymond James): Yes. Thank you. Sorry. Good morning, everyone. I was just wondering, for my first question, if you could talk a little bit about what you're seeing on the corporate demand side. It seems like there's a bit of an acceleration here in the US. And I'm wondering if you're seeing it in Europe as well.

And then just for my second question, I was wondering if you could quantify the impact of the Aer Lingus issues during the quarter and just your take on the Dublin Airport issues and how that might impact your view on the 2025 plan for Aer Lingus.

Luis Gallego: Okay. Good morning. So the first question, business travel continues to recover. It's true at a different rates in our different airlines and regions. In the case of BA, volumes when we see business agencies, travel management companies, around 65%, the level that we have in 2019 with revenues around 80%. This is different when we look at – in our algorithm that we look at the people that they travel for business reasons that the volumes are over 70% and the revenues around 90%.

Iberia, they have reduced slightly the volume that they have previously, but it's true that the third quarter is not the most important when you look at corporate travel. So they were around 83% in volume and around 105% in revenues in comparison with 2019 levels.

And in Aer Lingus, the volumes were close to 95% and revenue around 90%. North America is working very well when we see the recovery of business demand and also Europe. So I think we are positive with the recovery, but it's going to take more time to arrive to 85% of volume that we said previously.

Nicholas Cadbury: Just Aer Lingus. So just in terms of Aer Lingus, we – I mean, it was in the press just after the strike that the disruption cost us around about €55 million overall. And since the strike, we've seen a kind of recovery in demand, and glad we've reached a good settlement with the pilots at the moment.

Lynne Embleton: Shall I comment on the passenger cap? And also just a comment on the summer. There were two factors in the performance. The industrial action, where, as Nicholas said, €55 million of direct impact, and then some impact on the forward booking over that industrial action period. But we also had such a glut of capacity – competitive capacity came into Dublin, 20% growth in one go. That just takes a little bit of time for the supply/demand to settle into, and we felt the effects of that this summer.

On to the passenger cap. So we had – the High Court earlier in the week put a stay on the imposition of the passenger cap for next summer. And we're very – we think that's the right decision. In our view, the passenger cap conflicts with the European slot regs and historic slot rights. So we were very pleased that that stay was granted.

Importantly, it means we don't have to reduce our network by 5% next year, which was what we were facing until Monday. Now it's very late in the planning process. There's still uncertainty around long term growth at Dublin. But we're really pleased that that reduction has been lifted.

And we're now, albeit, late in the planning process, just looking to see if there's any small tweaks we can make to the network for next year around the margins to improve the schedule.

Savi Syth: Lynne, is there any risk that it's been stayed but that it might be reversed, or is it pretty clear now that the caps aren't going to be in place for the summer?

Lynne Embleton: So we have another legal step at the beginning of December. I think now we are solid in the planning process. I don't think – I'm not expecting any new news for how we approach summer '25. I think most of the debate now is on the time horizon beyond that.

Savi Syth: Appreciate it. Thank you.

Operator: Thank you. We will now take the next question from the line of Ruairi Cullinane from RBC Capital Markets. Please go ahead.

Ruairi Cullinane (RBC Capital Markets): Yes, good morning. Perhaps just a question on the US Presidential Election. Have you seen any impact on transatlantic demand in Q4? And what do you see as the sort of long-term risks? Or perhaps could you –

Nicholas Cadbury: So you're breaking up, Ruairi. I don't know if you can speak up a bit.

Ruairi Cullinane: Is that better?

Nicholas Cadbury: Yes. We got the first question about Trump.

Ruairi Cullinane: Yeah. Just any impacts in Q4 and any sort of risks beyond – yeah, quite an open-ended question, but I'd be interested to hear your thoughts. Thank you.

Luis Gallego: I think it's too soon to see any impact. It's true that it's possible that we'll have oil price down that can help. It's possible that we are going to have a stronger dollar, that is something that can have an impact also. We are going to see the impact in the demand. But we still don't know, but maybe we are – it can be positive for travel by US consumer and even businesses. And also, we need to see if this has an impact in the Ukraine situation and the restoration of the Russian airspace. So that are the things that we are considering, but it's too soon to say anything.

Operator: Thank you. We will now take the next question from the line of Harry Gowers from JP Morgan. Please go ahead.

Harry Gowers (JP Morgan): Good morning, everyone. I've got a couple of questions, if I can. The first one is on disruption. I mean, clearly, it's still quite a difficult operating environment for all the airlines in Europe. So I was wondering if you would be able to – if you could quantify the overall disruption impact for the Group in Q3, maybe at the EBIT level, given there's probably some impact on revenue and on the cost line as well?

The second one. Some of your peers have spoken about the pricing or bookings outlook, getting sequentially better actually year-over-year into winter, clearly after a more difficult summer on yields than you've had. So maybe if you could give any comments just how you see the level of demand into winter or anything you can call out on Q4 in terms of bookings or pricing.

And then the last one, should we think about 1 times net debt to EBITDA as maybe the floor that you'll try and stay at and then stay at that level consistently and return any excess cash to shareholders beyond that in terms of a buyback? Thanks a lot.

Nicholas Cadbury: So just in terms of disruption costs, Harry, we're not going to give specific line by line on our cost overall. It was slightly better than last year. Overall, the disruption cost is still higher than we'd like it to be. So hopefully, it's a benefit over the longer term, but we're not going to give much more in terms of that as well.

Just in terms of the kind of floor for our net debt. We're not going to, right now, talk about where we are in terms of the kind of that framework. I think we're going to – we're pleased that we've started with the dividend. We're pleased that we've got on with the share buyback overall. And we've always said externally, we want to keep our leverage below 1.8. We always want some good headroom in that because we're in a volatile sector.

But we take a kind of view looking forward what we think our trading is going to be, what the economy is going to be and also what kind of capital requirements. And kind of we also keep an eye on what kind of M&A are in the future. So it's a multifaceted view about how we look at this as well.

Luis Gallego: About the future, we said before that we expect the capacity to grow in 2024 by 6%. We have adjusted the capacity as we said before. The same position that we have for the last quarter and for the first quarter is in line with what we have in our forecast.

North Atlantic continues very strong. Europe also strong. Asia Pacific is the area where we see more weakness. Also, we commented before about the recovery in corporate traffic. So we expect that is going to continue. Leisure traffic also is performing well in the different regions where we operate. So we don't see any weakness.

Harry Gowers: Great. Thanks, guys.

Nicholas Cadbury: Thanks, Harry.

Operator: Thank you. We will now take the question from the line of Conor Dwyer from Morgan Stanley. Please go ahead.

Conor Dwyer (Morgan Stanley): Perfect. Thanks very much. First question is on BA. So the unit cost development in the quarter was quite good, down 3.9%. Just wondering what the driver of that was?

And then the second question is really BA as well but more kind of medium term, €250 million up year-over-year for EBIT. That's a sizable chunk of recovering some of the pre-COVID level of profitability. Just wondering from Sean, what is the next step in the recovery of profitability there? Is it revenue opportunities? Is it further improvement in unit cost efficiency? A little bit of both? Any steer on that would be super helpful. Thank you.

Nicholas Cadbury: Just number two, Sean will answer that. Just in terms of the cost, yes, there was good performance of costs in the quarter. I think if – you get always ups and downs through the quarter. So I think we kind of – if you look at the kind of year-to-date position for British Airways, non-fuel CASK is about 1% better overall. So I think if you're going to look over the year, that's kind of more – a better kind of steer for where we are over – good performance overall, particularly in supplier costs.

Sean Doyle: Yeah. I think just to build on that, I think there's a couple of things at play. I think we did have an improvement on disruption costs, albeit, as we said earlier, there's still more work to do there to reduce that, which will be a focus for next year.

If I look generally at other things which are happening in the business, I think we're beginning to build out the long-haul programme and recover the situation – the position we had pre-2019. And I think that is a lever for better productivity, better utilisation and improved profitability as well. So I think as we begin to take delivery of more long-haul planes in the medium term, that's the lever for, I think, optimisation and profit opportunity.

I think if we look as well then at the other transformation initiatives that we have ongoing, I think making sure that we maintain a competitive cost base is always going to be a huge focus. We have a lot of activity going on there but also making sure that we optimise, I think, the new platforms we're investing in.

So you heard about the new kind of Nevio digital platform. But I think we hope to see significant benefits next year as we roll that out, both in terms of customer experience and being able to offer more dynamic pricing and consumer packages to our customer base. We're also investing a lot in technology to improve our operational agility. So we have a lot of initiatives going on there. And we're investing a lot in improving our data structure so that we can begin to optimise artificial intelligence.

So I think there is optimisation opportunity across the current business. And I think there's also profit growth opportunities as we begin to rebuild the long-haul network in the years ahead.

Conor Dwyer: Perfect. Thanks very much, guys.

Nicholas Cadbury: Thanks, Conor.

Operator: Thank you. We will now take the next question from the line of Andrew Lobbenberg from Barclays. Please go ahead.

Andrew Lobbenberg (Barclays): Good morning, guys. Congratulations, good results. Sean was just speaking about the importance of long-haul aircraft growth. How are you thinking about that given the challenges with the new 78 deliveries with the great uncertainty around the 777-9? So yes, I mean, are you thinking of contingency plans to get more long-haul – or long-haul aircraft from elsewhere to continue that push for BA?

And then the second question might come back to Air Europa. And whilst obviously, you were competing when the deal was not completed, now you're probably going your own way. So how is the competitive environment? How is their planning – their capacity plans, how are they impacting the Latin American market? And how do you think about your sort of leftover holding in that business?

Luis Gallego: Okay. So talking about the fleet, this year we expected 20 new aircraft. We are going to receive 19. We have built our schedule also with some buffer, understanding the difficulties that the manufacturers they have. We have received the first extra-long range on 30th October, and we expect to have the other two that we are going to receive this year for Aer Lingus before the end of the year.

It's true that the 777X programme is going to be delayed. And now we expect to have the first delivery for us by 2027. That's a delay in the programme of around five years. And as you said, we are reducing the capacity because of the problems with the Trent engines.

But for the time being, the capacity that we have in plan in our programme, we can deliver, that we are looking also at all the possibilities to have some aircraft from the market and some with leases. And maybe Sean, you can expand on that.

Sean Doyle: Yeah. I think one thing to note, we took aircraft this year into service mainly in the form of 787. So we'll have the full year effect of flying them next year, albeit, offset by the impact of the Rolls-Royce Trent engines, but we would see growth year-on-year next year. And I think then we have more deliveries, which are scheduled in '26, which are 787-10s, which we're again just working through exactly when they will arrive.

But I think we have been relatively conservative in our delivery assumptions in our plans. But as Luis said, we're keeping an eye on the situation closely. And if there are interim lift solutions available in the market, we're evaluating those as well.

Nicholas Cadbury: We're extending the 777.

Sean Doyle: We have some green time as well on our existing fleet that we can utilise in the '26 to '28 window.

Luis Gallego: Okay. And on Air Europa, we were competing with Air Europa before and we continue competing. So nothing has changed. We have 20% of the company. And you know that the origin of that is we wanted to buy the company. But it's a financial investment, and it's a good investment for us. And what we are considering now is what to do with that investment.

But for the time being, we don't have any reason to sell because we consider that it's going to have more value in the future.

Operator: Thank you. We will now take the next question from the line of Patrick Creuset from Goldman Sachs. Please go ahead.

Patrick Creuset (Goldman Sachs): Hi, Luis, Nicholas and team. First of all, congrats on the strong print. And then first question is just on your outlook. I mean you're saying that you expect a strong trading environment to continue into year end. What's the right reference point for a strong fourth quarter? Would it be 4Q '19, 4Q '18 kind of pre-COVID yearend, considering that you've been running well ahead of pre-COVID profitability recently? So that's the first.

Nicholas Cadbury: Yeah. I think it's probably more towards Q4 '19 than Q4 last year probably.

Patrick Creuset: Okay. And then second question, just coming back to your buyback. I think you've – if I recall correctly, you've previously said anything below 1.5 leverage was basically excess. If we now apply that rough numbers, I mean, that implies something like €3 billion sort of excess cash with probably a lot more cash flow coming in over the next year. How should we think about the buyback timing and scale of possible future tranches of buyback over the next year?

Nicholas Cadbury: Yeah, you're right, Patrick. I mean we're very pleased with our cash generation, and this gives us lots of really good options. As we said earlier, we'd like to – we wish we could spend more on capital and do it faster at the moment, but that's not the case. So we need to make sure that although we're not spending the capital now, it is stacking up on the right hand side of the bar chart. So we do need to make sure that we've got some good headroom for that when that does come overall.

And you're right, we wanted to keep some headroom to the 1.8. We talked about kind of less than 1.5 is a good place to start reviewing those kind of returns. But we'll give you more detail on that when we review it again at year-end overall. But I think what you can see is actually just with our cash generation, the balance sheet, you can see we've got lots of room for options once this buyback finishes.

Patrick Creuset: Thank you.

Operator: Thank you. We will now take the next question from the line of Gerald Khoo from Panmure Liberum. Please go ahead.

Gerald Khoo (Panmure Liberum): Morning, everyone. Two from me. Firstly, going back to the issue of the British Airways' long-haul fleet. I was just wondering whether you could quantify how far short you are versus pre-pandemic levels. And when do you expect to see a full recovery on that front? I know, obviously, dependent on OEM deliveries.

And secondly, I was wondering whether you could give some sort of indication of capacity growth plans for next year, if not an actual number. Maybe is it going to be sort of higher or lower than what you're currently planning for this year, please?

Nicholas Cadbury: I'll start with the last question. And then – so just in terms of capacity growth, we're not giving specific guidance next year. I think the way I'll probably think about it, when we did the Capital Markets Day, we said we'd be looking at kind of 4-5% growth over the three years, and that includes this current year when we're growing at 6%.

So that kind of – people interpreted that as 3-4% over the next couple of years and given the disruption and the kind of resilience we need to build into the model, it's probably towards the bottom end of that range overall.

Luis Gallego: Yeah. And about the first question, all airlines, except British Airways, finished 2023 about 100% of their 2019 capacity. But we expect BA to end 2024 at 95% of 2019 levels. And the main reason, as you know, is that during the COVID, we retired all the 747-400 32 aircraft. So they're going to end the year with around nine aircraft less than they had in 2019. So that's the main reason they are not recovering the full capacity.

Nicholas Cadbury: It's part of the going forward margin story there, the profit recovery there. We're going to go on to get the capacity back. And then more importantly, it takes a little bit longer, we'll get the premium seats back as well.

Sean Doyle: Yeah. I think as well what we will see is in short haul, for instance, we'll be putting bigger gauge aircraft in, which is a very efficient way of actually growing ASKs, and we'll see that effect next year and the year after. And then, of course, we begin to recover the long-haul position in the medium term.

Speaker: And at the same time, what you see is that on the back of the strength of the Latin America market with Iberia, which is growing, where, in fact, at least this year, you saw we were growing 15% over. We are already as a whole versus last year, we are now at 17% of the capacity ahead of 2019.

Operator: Thank you. We will now take the question from Jarrod Castle from UBS. Please go ahead.

Jarrod Castle (UBS): Good morning, everyone, and congrats on 3Q. I'd be interested now to get some updated thoughts on how you see the UK budget and the impact on your business, both in terms of the more affluent getting taxed and also, obviously, aviation taxes. And linked to aviation taxes, it seems like a number of European countries see this as an easy win. And I guess there's also potential in Spain. So just your feeling on how that's playing out.

And then just the Loyalty margin, it fell a little bit in 3Q. So just a bit of colour there. Is that some investment, or what's going on there?

Nicholas Cadbury: Just to answer that last one first, again. Just in terms of – just in Q3, you've got – the Loyalty business now has holidays in it, and Q3 is obviously a peak time for the holiday business, in fact, and that's a slightly lower margin. So that's going to lead to the margin overall. And the holiday business had a good Q3 as well.

So again, the mix – maybe mix effect overall. And overall, just into Loyalty, we have kind of said over the last couple of years is we are investing more to get more engagement with our customers for the longer term as well. So we did say there has been a little bit of margin decline in the actual Loyalty business.

Just in terms of the UK budget, the direct hit, it was mainly within national insurance overall, which is probably somewhere between 25 million and 30 million overall direct hit overall. Do you want to talk about APD?

Sean Doyle: Yeah. I think we have seen rises in APD again. So I think long-haul economy will go up by 12, short-haul economy by 2. I think we just got to be careful that we already pay a huge amount of tax in APD. I think Britain is the most taxed country in terms of APD. And we got to make sure that by a certain extent, we don't end up in a position which impacts competitiveness. So we'll make that message clearly to government.

I think I'm positive there is consultations ongoing on aerospace reform, which will be very important for resilience. And also, we welcome the extension of the fuel funding to help us on the path to Advanced Fuels Fund, which will help us in the path to kind of building more SAF in the country. And we're also looking forward to closing out the consultation on the revenue certainty mechanic for SAF production in the UK.

So I think some things – we're encouraged by other things. We just got to watch in terms of competitiveness.

Nicholas Cadbury: Yes. We also welcome the – they continued the kind of capital allowances on the tax as well, which is given the amount capital we're spending over the next few years, is a big benefit to us from a cash flow.

Jarrod Castle: And anything about aviation taxes across Europe?

Nicholas Cadbury: Aviation tax, what – you could be a bit more specific on that?

Jarrod Castle: Well, I mean, you obviously saw an increase in the UK. I mean is it – it sounds like maybe you could see something in Spain just in terms of how you're thinking about network as these things come in.

Nicholas Cadbury: Well, I guess we're thinking about kind of how the kind of cost of sustainability and the kind of taxes on sustainability as well. But I think that's one of the reasons where we think we're in a good position relative to some of our other European competitors overall, particularly with our focusing on our long-haul across the South and North Atlantic overall.

Jarrod Castle: Okay. Thanks a lot.

Operator: Thank you. We will now take the next question from the line of Jaina Mistry from Jefferies. Please go ahead.

Jaina Mistry (Jefferies): Hi. It's Jaina Mistry from Jefferies. Two questions, if I may. First one, could you give any colour on the impact of the SAF blending requirements on your fuel costs for next year?

Nicholas Cadbury: Can you just repeat that again? Sorry, it just broke up.

Jaina Mistry: Yes. Could you give any colour on the impact of the SAF blending requirements on your fuel costs for next year? Any insight on what the pricing differential is versus jet fuel and any offset from carbon credits there?

And then secondly, can you just give a bit more colour on what you've seen in pricing trends by airline in Q3? Thank you.

Nicholas Cadbury: You broke up again. I broke up again on that last question.

Jaina Mistry: That last question was on pricing trends by airline in Q3. Any colour there?

Nicholas Cadbury: Just quickly just in terms of – we're not going to give any guidance for next year at this moment, Jaina, just overall. So you can see that the credits on SAF to start reducing right the way through to 2026. It will become an increasing cost for us. But I think our kind of strategy in terms of investing in SAF production, I think, is going to really give us an advantage overall and our mix of flying as well across the Atlantic.

In terms of pricing trends, overall, I think kind of one thing I'd just pull out overall is if you look at our kind of yield, actually, our yield is relatively flat overall. What we're doing is actually we're filling the planes better, the high yield. Our load factor was up 1% overall at record levels. And actually, I think what the pleasing thing is we've seen actually the premium cabins load factors are almost the same as the economy sectors, which kind of just shows the strength of our customer base.

Operator: Thank you. We will now take the next question from the line of Johannes Braun from Stifel. Please go ahead.

Johannes Braun (Stifel): Yes. Good morning. Thanks for taking my question. First one would be on the supply/demand dynamics in specific markets. Obviously, very strong performance on the transatlantic and BA. But Vueling had flat unit revenues on flat capacities as far as I can see. So that looks a little bit more muted in terms of supply/demand dynamics. Any specific reason for this? Is it more the obviously competitive Italian market? Or is it more the Spanish home market?

And then secondly, I see cargo yields are down 11% in Q3, which seems to be a little bit in contrast to the airfreight industry in general. I think Air France and Lufthansa, they have both reported 5% cargo yield increase at the back of the Red Sea situation, etc. So just wondering why you are reporting a lower cargo yield here? Thank you.

Luis Gallego: Okay. So I think about Vueling, I think, Carolina, you can expand on this. But I think that they have a very good performance in the quarter if you compare with competitors. And I think they did well in the three main regions where they operate, so Peninsula, Balearic and Canary Islands. They did a very good job.

It's true that they have some headwinds in some international market. And maybe Carolina, you can expand on that.

Carolina Martinoli: Yeah. We had some headwinds. We had – we had disruptions, but overall, the flat result for RASK is not a bad thing. We had a marginal increase on load factor, an improvement in ancillary sales and a very strong domestic, and as Luis was saying, some challenges in other markets. But I would say a very good result and a strong disruption over the summer that has impacted both the planned capacity and also had an impact on revenues.

Nicholas Cadbury: Thanks, Carolina. Just in terms of cargo, actually, we saw our CTK – so cargo tonnes were up about 16% for the three months overall. And our cargo revenue per CTK was actually flat overall. So I think you may be looking at the kind of nine months rather than three months. Three months was strong and is strong but unfortunately due to the kind of Red Sea and the kind of Middle East issues. So we're seeing kind of yields to kind of strengthen overall in the last quarter.

Johannes Braun: Okay. Thank you.

Operator: Thank you. I would now like to turn the conference back to Luis Gallego for closing remarks.

Luis Gallego: Okay. So thank you very much, everybody. It's good to be here today and to announce very good results for the quarter. We continue working to improve the performance of the Group, and we'll see you for the full year results. Thank you very much.

[END OF TRANSCRIPT]