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Full Year 2024 International Consolidated Airlines Group SA Earnings Call

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CORPORATE PARTICIPANTS

Luis Gallego Martin *International Consolidated Airlines Group SA - Chief Executive Officer, Executive Director*
Nicholas Cadbury *International Consolidated Airlines Group SA - Chief Financial Officer, Interim Chairman - IAG Cargo*
Sean Doyle *International Consolidated Airlines Group SA - Chairman and Chief Executive Officer of British Airways*
Adam Daniels *International Consolidated Airlines Group SA - Chairman and Chief Executive Officer of IAG Loyalty*

CONFERENCE CALL PARTICIPANTS

James Hollins *BNP Paribas Exane (UK) - Analyst*
Alex Irving *Bernstein Autonomous LLP - Analyst*
Harry Gowers *JPMorgan - Analyst*
Stephen Furlong *Davy Stockbrokers - Analyst*
Savi Syth *Raymond James & Associates, Inc. - Analyst*
Jaime Rowbotham *Deutsche Bank - Analyst*
Muneeba Kayani *BofA Global Research (UK) - Analyst*
Jarrod Castle *UBS Limited - Analyst*
Andrew Lobbenberg *Barclays - Analyst*
Conor Dwyer *Morgan Stanley - Analyst*
Guilherme Sampaio *CaixaBank BPI - Analyst*
Ruairi Cullinane *RBC Capital Markets (Canada) - Analyst*
Jaina Mistry *Jefferies - Analyst*
Johannes Braun *Stifel Nicolaus and Company, Incorporated - Analyst*
Alex Paterson *Peel Hunt - Analyst*
Dudley Shanley *Goodbody Stockbrokers - Analyst*

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to International Airlines Group full-year 2024 results. (Operator Instructions) I would like to remind all participants that this call is being recorded.

I will now hand over to Luis Gallego, Chief Executive Officer, to open the presentation. Please go ahead.

Luis Gallego Martin ***International Consolidated Airlines Group SA - Chief Executive Officer, Executive Director***

Good morning, everyone, and welcome to our full-year 2024 results. As usual, I am here with Nicholas Cadbury, our Chief Financial and Sustainability Officer, as well as other members of the IAG Management Committee. I am going to start today by reminding you of the key elements of our investment case.

Our fundamentals are very strong. We have a unique, strong core proposition. We have the best network in the world and the best hubs. Our brands in those hubs are incredibly strong, think Iberia in Madrid or Aer Lingus in Dublin. Our customer base is highly attractive, think BA in London. And we have propositions that bring together the markets, the brands, and the hubs, think Vueling in Barcelona.

We are also executing well. Our transformation program is delivering world-class margins through revenue, costs, and operations across the group. Transformation is also designed to make this a more resilient, sustainable business that can perform well through the cycle. And this is delivered by a talented team of over 74,000 employees around the world.

And if you put those two elements together, it means we are creating significant value for our shareholders. We are delivering sustainable earnings growth. We are delivering a strong free cash flow after investing in the business. And we are delivering significant cash returns to our shareholders.

Our strategy is simple. Firstly, we want to make the core of the business stronger. We are getting even stronger in those attractive markets and hubs that I have just mentioned by adding destinations and frequencies and improving our schedules. And we are strengthening our portfolio of attractive brands through improving the offering and operations at each of our airlines.

Secondly, we want to grow our asset-light, higher-margin businesses. IAG Loyalty continues to deliver very strong performance, expanding the ways it can create value, and it is now our third-largest operating company by profit. We can also expand by leveraging our partnerships so our customers can fly on the best network of flights globally.

Thirdly, we want to ensure this is a business that can continue to offer its customers, employees, and shareholders a long-term future financially, and for society, as aviation has a clear role to play in connecting people and businesses, as well as providing jobs and economic growth. These strategic imperatives are designed to deliver sustainable, resilient profitability, as well as accretive growth.

We set some targets out at our Capital Markets Day in 2023 for what we wanted to achieve: creating margins of between 12% and 15%, return on invested capital between 13% and 16%, and leverage of less than 1 point times through the cycle. So if you look at those targets, you can see that our strategy is now very much delivering, with a set of results that are the best in this company's history, EUR1 billion more than in 2018 on a pro forma basis. It is delivering for all of our stakeholders, but in particular for our shareholders.

We grew revenue by 9% whilst growing operating profits by 27%. And we have achieved a 13.8% margin, securing return on invested capital of 17.3%. This is exceptional performance for any business. I am determined that this is not the peak, but the start of a more sustained level of profit. Our disciplined capital allocation framework means that we generated almost EUR3.6 billion of free cash flow after investing EUR2.8 billion in the business.

Our balance sheet is strong, and Nicholas will tell you in a minute how we are going to maintain that strength. And we are rewarding our stakeholders with an ordinary dividend that we intend to be sustainable through the cycle. With a share buyback program of EUR350 million that we announced in November and with confidence in our ability to deliver sustainable, strong free cash flow, we are pleased to announce the return of up to EUR1 billion of excess capital to our shareholders in up to the next 12 months.

And I will now hand you over to Nicholas to take you through the numbers.

Nicholas Cadbury ***International Consolidated Airlines Group SA - Chief Financial Officer, Interim Chairman - IAG Cargo***

Thank you, Luis, and good morning, everyone. I'm pleased to be presenting our strong financial results for the year. This slide shows the key metric trend and demonstrates our delivery of a world-class performance through 2024.

The revenue increased to EUR32 billion, driven by our strong networks and brands, and we delivered an operating profit of EUR4.4 billion, up almost EUR1 billion. Our transformation program has secured a step-up in operating margins to an industry-leading 13.8%, which in turn helped us deliver significant free cash flow and adjusted earnings per share growth of just over 12%. We believe these metrics represent a best-in-class financial performance, not just in Europe.

Moving on to how our year-on-year operating profit growth was delivered. Increase was mainly delivered on the back of strong passenger revenue growth, reflecting the power of our hub, the improvements we are making in our networks, and the investments in our customer proposition.

On the right, you can see the impact of our transformation program around the group. British Airways delivered a post-pandemic profit catch-up that the other airlines had already achieved, and we secured further profit growth from our Spanish businesses. Likewise, IAG Loyalty continues to deliver high double-digit margins and asset-light earnings growth.

Now, let's look at the performance of our operating companies in more detail. I'm very pleased that almost all our businesses delivered world-class operating margins in their own right. Aer Lingus, despite the summer where it faced significant industrial action, as well as strong competition at its Dublin hub, still delivered a credible financial performance with operating profit of EUR205 million and an operating margin of nearly 9%.

British Airways' profits increased 50% in the year to over GBP2 billion, and our operating margin increased by over 4 percentage points to 14.2%. This is helped by strong demand in its core North Atlantic market, coupled with the benefit we're delivering from this transformation program.

Iberia built on the strong margin it achieved in 2023, delivering a 9% increase in profit. This was the first time in the history that it has generated over EUR1 billion in operating profit, and it continues to sustain a high operating margin of 13.6%.

Vueling's margins remain strong and best in class at over 12%, generating EUR400 million in profit. And IAG Loyalty continues to deliver double-digit profit growth and to achieve GBP420 million of profit. The Loyalty Group now includes the BA Holiday business, where we see tremendous growth potential in the future.

Moving on to our regional performance in more detail. Overall, we saw strong demand and unit revenue in all of our core markets during 2024. We ended the year strongly with quarter four seeing the largest quarterly unit revenue increase of 2024 with a 6% increase. On a full-year basis, unit revenue across the group increased by 3.1%, helping to drive the overall revenue growth by [9%].

North America is our largest and most profitable market, accounting for a third of our capacity, with unit revenue increasing by 6.2%. Quarter four was incredibly strong, with unit revenue increasing by 14%. Strong performance was widespread, however you measure it, with our main carrier, Transatlantic Airlines, seeing unit revenue increase by double-digit percentages.

Europe continues to be one of our best-performing market, with high single-digit revenue growth. Quarter four was again strong, with British Airways and Aer Lingus in particular. Aer Lingus extended the seasonality of some of its strongly performing social routes, and British Airways saw good growth in both business and air traffic.

North America and the Caribbean is our third biggest market, accounting for 20% of our capacity. Unit revenue fell by just over 2% during the year. But in the context of a 12% capacity growth, this shows the strong demand for our offering in the region. Iberia continues to drive most of the capacity increase in this region, and routes to Mexico were particularly strong for both Iberia and British Airways.

Africa, Middle East, and South Asia turned positive in Q4, as we started to cycle over the Middle East conflict. Asia Pacific is our smallest market and is the only market that hasn't recovered to pre-pandemic capacity, with capacity of 27%, as we started flying Madrid to Tokyo with Iberia and resumed flights to Bangkok with British Airways.

So overall, we saw strong demand, particularly across our core markets, and we are continuing to see, although still early in the year. We plan to grow capacity around 3% in 2025, again focusing on our core market.

Our margins are supported by our cost transformation program. Our total non-fuel unit cost increased by 2.6% in 2024, slightly higher than our previous guidance, driven by a larger-than-expected negative FX impact in quarter four. Our employee unit costs increased just over 7%, driven by pay deals, investments in resilience FX, and please say performance-related pay linked to our strong financial results.

Supplier unit costs reduced, as our transformation initiatives offset general inflation pressures and costs increasing, related to customer experience and IT investment. The unit cost increased, which represents new aircraft deliveries and investments in our operations fleet. In 2025, we expect similar trends on overall unit costs, together with additional foreign exchange translation.

This slide shows our financial results at the net profit level. Profit after tax, an exceptional item, was EUR2.6 billion. There are three things I just wanted to highlight here. Firstly, our net interest costs reduced by EUR200 million in 2024, mainly due to the lower gross debt resulting from the early repayment in the second half of 2023 of expensive government-supported debt.

Secondly, we've recognized an exceptional charge of EUR160 million relating to the employee restructuring in Iberia's grand handling subsidiary and an exceptional charge of EUR50 million to terminate the agreement to acquire the remaining 80% of pay rate. And lastly, our P&L tax charge normalized in 2024, with an effective rate of 23%. This compares to a rate of 13% in 2023, which was reduced by the recognition of prior year tax losses, notably in the group's management business.

Ultimately, we're a business that generates significant free cash flow in a robust trading environment that we are currently enjoying. During 2024, we generated just over EUR6.4 billion of net cash from operating activities, with an increase of almost EUR1.8 billion. This allowed us to invest EUR2.8 billion into the business.

By 2025, we expect to continue to generate significant free cash flow at a lower level than in 2024, due to two specific things. Firstly, whilst we are confident in our legal position, we're required to pay EUR557 million of VAT to HMRC, the years going back to 2018 ending the outcome of a legal appeal in respect of our Loyalty business that we disclosed last year. Secondly, we expect CapEx to step up to around EUR3.7 billion as we take delivery of more aircraft and continue to invest in our business as we execute our long-term strategy.

Turning now to our balance sheet performance. I'm pleased that our balance sheet continues to strengthen, with a reduction not only in net debt but also our gross and net leverage.

Our net debt reduced by over EUR1.7 billion compared to last year and is down almost EUR3 billion compared to December 2022. Our gross and net leverage reduced to 2.5 times and 1.1 times, respectively. This is well below our net leverage target of 1.8 times. We do want to further reduce our gross leverage to give us more resilience, a process we began last month with a buyback of EUR577 million of our 2027 and 2029 senior unsecured IAG bonds. We also intend to redeem over EUR500 million of our 2025 IAG bond next month and keep around two-thirds of the 26 expected aircraft deliveries this year unencumbered.

This slide shows our maturity of our non-aircraft debt. You can see the impact of the bond buybacks we've just done, and that once we redeem our 2025 bond for cash, we'll have almost no non-lease debt to repay until 2027.

As a reminder, ensuring the business is appropriately invested is a priority for us. This slide shows our updated CapEx guidance for the year and 2027. Starting with last year, CapEx came in a little lower than the EUR3.1 billion we previously expected. This was driven by the re-profiling of pre-delivery payments for future aircraft deliveries and supply chain constraints which delayed our onboard cabin refurbishment and property maintenance programs.

Looking forward, we expect to take on 26 new aircraft deliveries this year, 14 short-haul aircraft, two wide-body long-haul aircraft, and 10 321XLRs. As I mentioned earlier, we expect to spend about EUR3.7 billion on CapEx and around the same in 2026. As a reminder, this is our gross CapEx expenditure before sales and leaseback transactions.

And finally for me, I want to remind you about how we think about our capital allocation, which is core to creating value for ourselves. Our first priority is to maintain our balance sheet strength, targeting net leverage below 1.8 times through the cycle, which is a property for investment-grade data. Our second priority is to invest in the long-term strength of the business with a focus on rebuilding our fleet, improving our customer experience, and enhancing our digital capabilities and advancing the sustainability agenda.

And of course, we're committed to a sustainable shareholder returns: firstly through ordinary dividends, which has been set to a sustainable level throughout the cycle, which will total EUR435 million for 2024; and secondly, by returning excess cash to shareholders when our net leverage is below 1.2 times to 1.5 times, depending on commitments and the outlook. We started to do this with a EUR350 million buyback program last year. And as Luis mentioned earlier, pleased that given our past low profile and confidence in the outlook, we can confirm this commitment by an intention to return an additional EUR1 billion excess cash over the next 12 months.

On that positive note, I will now hand back to Luis.

Luis Gallego Martin ***International Consolidated Airlines Group SA - Chief Executive Officer, Executive Director***

Thank you, Nicholas.

We showed you a version of this slide last year, highlighting the main drivers of value creation over the next couple of years. We are delivering on those initiatives. British Airways is making good progress in this plan to deliver a 15% margin in 2027, with a very strong year in 2024. This has been delivered as it improves its customer proposition and operational efficiency.

Our Spanish businesses have grown their profits and maintained their profitability and are close to their EUR1.5 billion ambition. We will tell you more about this in the Insight Day that we are going to have in Madrid in June, which the IR team is going to confirm in due course. And IAG Loyalty goes from strength to strength, growing by just over 14% this year to deliver profits of GBP420 million, and we have an ambition to continue to grow this business at over 10% per annum.

So I will now spend a few minutes on each of our strategic imperatives. Our first priority is to grow our portfolio of global leadership positions. In the North Atlantic, we have a leading position. Alongside our joint business partners, we operate around 150 flights every day across the North Atlantic, and we have a 58% share from the US to London. We continue to invest in this core market.

BA is consolidating its network, although constrained by aircraft availability and delivery schedules. And we are excited by the opportunity to increase North Atlantic profitability at Iberia and Aer Lingus as we introduce the A321 extra-long-range aircraft, which gives us the ability to manage frequencies, seasonality, or the mix of wide-body versus narrow-body.

We are equally excited about the Latin America market. As you will have heard many people say, Madrid is the new Miami, with increasing investment in Spain from wealthy Latin Americans, while Spain itself is one of the best performing economies in Europe. Iberia is increasing its market share of the traffic in this market and benefiting from the strong demand.

Our third core market is intra-Europe, with a particular focus on Spain. Spain is the biggest domestic market in Europe, and the UK-to-Spain corridor is the biggest international market, and we have very strong positions in both. Half of our total traffic represents connecting flights, and the remainder is operated by our efficient, low-cost airlines, such as Vueling or Iberia Express, which are amongst the most profitable in Europe.

Any airline that runs a robust operation is a more efficient and profitable one. It was a core function of the improvement in profitability at British Airways this year, where they increased their on-time performance by 12 percentage points. This was a direct result of the investment in the teams at Heathrow, alongside investment in technology at our Global Operations Center and as some of you saw when you visited BA last year.

Aer Lingus also improved its OTP significantly by 7 percentage points. This was through the optimization of processes around scheduling, planning, and ground handling, as well as operational responsiveness. With Iberia and Vueling, we operate two of the most punctual airlines in the world, despite the ongoing challenges of European ATC.

Moving on to how we are investing in making our customers' journeys and experiences better. We are investing in new aircraft, such as the XLR, which have the latest products on board, and we are retrofitting all the aircraft with new seats and technology. We continue to train our people to deliver the levels of service that our customers demand. In particular, we are supporting them with the tools to do that; for example, through the Connected Crew System, that seeks potential issues before the passenger is even aware they exist. We are updating our lounges throughout the network at Aer Lingus, BA, and Iberia, in places like New York, Boston, and Singapore, with more to come. And technology is a fundamental driver of improving the journey, with investments in apps, websites, disruptions, self-service, and always on digital travel assistance.

As we have mentioned before, transformation is at the heart of everything we do to make our business more competitive, more resilient, and more efficient. We are doing it all the time, everywhere. Much of what I have already described is included in our transformation, such as investing in our operations, fleet, and our customers.

On this slide, we are highlighting some of the initiatives that will become part of our longer-term differentiators. One key area where all of our airlines are improving is in the way that they retail their offerings, leading to revenue benefits and cost savings. British Airways will lead us into the next generation of airline retail platforms, with new revenue management and commercial platforms, as well as app and website upgrades. And both Aer Lingus and Iberia are leveraging their new distribution capability to drive better content and distribution. Across all our airlines, we are using machine learning and AI to drive cost and efficiency; for example, Vueling's scheduling, maintenance, and automation of reporting.

Coming now to IAG Loyalty, this is the biggest driver of capital-light earnings growth in the group. This has almost doubled its profit since 2019 and grew by over 40% last year. They are focused on increasing loyalty to our own partner airlines, including new partnerships with Finnair and Loganair in the last 12 months, as well as creating value for non-airline partners like AMEX or recently Revolut or Royal

Caribbean.

Last year, we moved BA Holidays to Loyalty. Currently, only 5% of BA Club members book a BA Holiday, but these customers represent almost 80% of BA Holidays bookings, and only around 20% of those bookings use any avios. We forecast that a 10% increase in BA Club members booking a BA Holiday will double revenues. This is a huge opportunity for us and for our customers.

Our people are critical to our success. Last year, we recruited over 12,000 people across the group, showing the power of our brands. Specifically, we have pilot academies operating at Aer Lingus, BA, and Iberia, as we ensure that the next generation is being trained in these important roles. An equal opportunity is important to us across all jobs and jurisdictions, and we continue to target having 40% women in senior leadership roles. In terms of looking after our people, we are working towards longer-term, mutually beneficial agreements, which will depend on their roles and functions.

We continue to make good progress with our sustainability initiatives, where the main focus is to ensure that we are well placed to meet regulatory mandates. We continue to put in place firm contractual commitments for sustainable aviation fuel, which differentiate us from most other airlines. As a result, 1.9% of the fuel we used in 2024 was SAF, meaning we are very well placed for a 2% mandate in both the UK and EU in 2025. We have also beaten our 2025 target on carbon intensity with 78.1 grams of CO_2 per passenger kilometer versus our 80-gram target.

Bringing this all together, we are very focused on creating value for our shareholders. We have the right strategy and business model to drive sustainable earnings growth, supported by our transformation program. We are and will continue to generate significant free cash flows, and we are committed to returning cash to our shareholders, firstly and sustainably through an ordinary dividend, and then we will return excess cash to our shareholders.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) James Hollins, BNP Paribas.

James Hollins ***BNP Paribas Exane (UK) - Analyst***

Thanks very much. Two questions, please. I don't know if Sean is on. If he is, this will be for him. I was just wondering, on the Loyalty scheme changes, whether there's been any sort of sign of a custom and negative reaction, or a positive reaction, or whether all the negativity is really assigned to just the Loyalty points websites that are getting their knickers in a twist. And if Sean is on, maybe he can get a bit more of an update on the BA rollout of the new app and website, I think we're doing Q1, and indeed the revenue management system.

And then secondly, probably for you, Luis, I think I saw some comments on your business travel friends or outlook, and they look fairly bearish or cautious. Maybe you could just, in this forum, give us your views on business travel. Thanks very much.

Sean Doyle ***International Consolidated Airlines Group SA - Chairman and Chief Executive Officer of British Airways***

Yeah, Sean here. Let me start with Loyalty. Fair to say we haven't seen any change in travel patterns or behavior from our executive club since we rolled it out. I think it's tracking very much in line with the rest of World Olympics. And I think we've been communicating exactly how the program works. I think the more people are learning about the spend-based earn program and the additional ways in which they can earn tier, I think the more positively it's being received.

If we look at digital and technology, we are actually having about 65% of our routes now are booking through what we call the newbookingphone.com, and we're very encouraged by the user experience there. We also have a beta version of the app that we're testing with a closed user group at the minute. Again, the performance is very encouraging, and our expectation would be to roll the app out in a fully functional in Q2, but we're just finalizing today.

But again, very encouraged by the beta trials on the app in terms of the new [Ravman] system, that will come in in the middle of the year, so that's on track. But we haven't been testing, obviously, the technology yet because we're still working off our old LTS system. So yeah, the transformation of the digital experience is really getting traction.

Luis Gallego Martin ***International Consolidated Airlines Group SA - Chief Executive Officer, Executive Director***

In regards to business demand, it continues improving during 2024. At the group level, we reached 74% of the volume that we had in 2019, 86% of the revenues. So that's an improvement in volume of 3 points in comparison with 2023, and 6 points in revenue compared with 2023. I think that the performance is different in the different airlines. But we see that finance, including banking, accounting and consultancy, for example, they are coming back to fly earlier. And also, IT and tech, they are having a very good performance.

So as I said, if we look at the Q4, for example, BA volume was 66% and revenue 82%, Iberia volume 84% and revenue 108%, and Aer Lingus volume 105% and revenue 100%. So you can see the differences between the different airlines.

Nicholas Cadbury ***International Consolidated Airlines Group SA - Chief Financial Officer, Interim Chairman - IAG Cargo***

In the case of Iberia, primarily it was the lifetime flows to Europe that we're supporting this growth. In fact, they're not only in revenue, but also in volumes. We are really 6% ahead of 2019 and 25% ahead in revenue in 2019.

Operator

(Operator Instructions) Alex Irving, Bernstein.

Alex Irving ***Bernstein Autonomous LLP - Analyst***

Hi. Good morning, gentlemen. Two for me, please. First one's a bit of a follow-up. Navio, you've clearly had another couple of months of thinking and planning here. Can you please update us on your expectations for the RASK impact of this new retailing platform? And related to that, you mentioned BA leading the airlines into this new world. We therefore infer that Iberia and Aer Lingus may also see a revenue impact going forward.

Second question is on the engines and certainly managing through with the Trent 1000s. You've essentially been backfilling as best you can with some other planes. How much longer can you keep doing this until those planes also start with maintenance events? More broadly, are the Trent 1000s getting any better? Thank you.

Nicholas Cadbury ***International Consolidated Airlines Group SA - Chief Financial Officer, Interim Chairman - IAG Cargo***

Alex, it was quite hard to hear you. I think the question you asked was about the RASK and what the impact of some of the technology changes was. I think that's what it was. We're not being specific about it. We're not giving guidance on RASK today. We're not giving guidance about what the individual ones are. We're still very confident on the recovery, the build-up of the BA margin back to 15%.

Sean Doyle ***International Consolidated Airlines Group SA - Chairman and Chief Executive Officer of British Airways***

There are two phases. Obviously, one is to get the digital platform modernized, which is what we're working on imminently. The second, then, is to move to what we call shop order retailing, which is where the Navio builds on top of that platform comes. So that will be Phase 2. And as Nicholas said, it's been captured in our 15% commitment, but we're not necessarily driving that capability as we speak.

Luis Gallego Martin ***International Consolidated Airlines Group SA - Chief Executive Officer, Executive Director***

And about the Trent engines, we continue to work very closely with Rolls to improve the engine supply. As you know, we needed to adjust the capacity in British Airways. We are working in order to maximize the availability of the aircraft to have more predictability.

We know that we are going to have a durability enhancement package very soon that we hope is going to double the time on wind. We will have a second phase of this in 2026. That, I think, is going to be very positive for the business.

Alex Irving ***Bernstein Autonomous LLP - Analyst***

Thank you.

Operator

Harry Gowers, JPMorgan.

Harry Gowers ***JPMorgan - Analyst***

Good morning, everyone. I have a question. You just said on Phase 2, it's 14%. We did a margin in 2024. You said that that is about 15%. I just want to know, what do you think is the true potential for this business? The next two years, it is assumed that there will be no stock for events because it looks like 15% could be surpassed in the next few years at the current level.

The second question I'm trying to answer is, is there some beaming at the moment? Is there some US barriers? Are you concerned that there may be some capacity pressure into the market at this point, particularly in the UK and the US?

Nicholas Cadbury ***International Consolidated Airlines Group SA - Chief Financial Officer, Interim Chairman - IAG Cargo***

It sounded like you're on a motorbike. Just in terms of margins, we just delivered really good margins at 13.8%, nearly 2% year on year. This is in the top half of where our guidance is 12% to 15% range that we had just a year ago. We've given that guidance at 12% to 15%. We're not giving guidance for this specific year as well. And we're going to keep with that guidance at the moment.

I mean if you look at the individual businesses, I mean British Airways, we're confident again to the 15%. We put that for 2027. We've got a little bit of our sales. I think we've had a good year as well, but I think 2027 is still a good right path, given kind of what we're going to do this year.

Iberia has delivered 13.6%. Vueling, 12.3%. So they're already at good margins overall. And I think that could just under 9%, you should see recovery back towards the middle of the range. And Loyalty, we're going to drive double-digit margin, should be growing about 10% per year.

So we still see -- we've achieved good margins this year, there should be upside to that overall. But at least we see the same where we are with some earnings growth from there. But we're not going to give kind of additional guidance for what we've given already.

And then just on the transatlantic, you're right. We've seen very strong transatlantic growth. You saw kind of ASKs were fairly flat in Q4, but PRASK was up 14% overall. As we said we saw -- and we're seeing one of our airlines with growing PRASK over the quarter, British Airways, to the new airline level as well. So really, really good performance there.

I think you're likely to see kind of strong performance continuing into Q1 as well. And that's partly because we just had a soft -- if you look at '23 Q4 and Q1 2024, we had kind of slightly soft comparatives overall. I think we'd like to see strong comparators overall. I think that will kind of stop as you go through the year, but I think there'll see strong demand overall.

Operator

Stephen Furlong, Davy.

Stephen Furlong ***Davy Stockbrokers - Analyst***

Yes. Okay. I was going to ask about BA margins in France, but let me just circle back and ask something different. Okay. And the first thing, Ukraine, if something happens there positively, I mean, what do you think the market or you -- the network in the next 18 months will change in any way?

I'm thinking of home pivot towards Asia, although I fully understand it's not your core. And second question, maybe Luis could talk about inorganic opportunities or generally about consolidation in the market? I'm thinking about half of the general discussion on that.

Luis Gallego Martin ***International Consolidated Airlines Group SA - Chief Executive Officer, Executive Director***

So Ukraine, if there is a solution, I think we will have an impact in two areas. One is ATC, that because of the closure of the aerospace, ATC is more difficult. And last summer was the second worst ever summer in terms of ATC. I think this can help. And the second impact is the network that you said.

So we're not over Russia because of that. We are canceling some of the flights because it doesn't make sense to compete with people that they can do apply with two, three hours less.

So as soon as the -- and the space is open, we will reconsider to fly again. We need to do an analysis of safety because it's not only fly over Russia, it's in case you have a problem over Russia and you need to land there, for example, what are you going to do? So we will do an analysis of the situation. And then we will try to resume the operations. But taking into consideration the lack of aircraft that we have now in the market.

So we will be priority to the markets where we want to expand before.

And about the inorganic development, in particular, we are following the process with the Portuguese government. It looks like in March, maybe we are going to have the conditions of privatization. And when we will have that, we will take our decision. We always say that this is an interesting airline for the group that I think we can improve the performance of the airline, and the airline can help the group to have more presence in markets, for example, like Brazil, where we don't have a lot of capacity.

But we need to see the conditions and the freedom, we can have to manage, because in order to have the margins that we are having in this group between 12% and 15% is because we do the right things that we have to do in a any airline. So I think in maybe six weeks, we will have a more clear idea.

Operator

Savi Syth, Raymond James.

Savi Syth ***Raymond James & Associates, Inc. - Analyst***

Just for my first question, I was wondering if you could provide a little bit more detail on the 26 aircraft you're expecting this year, just kind of what kinds and generally when you're expecting those across the quarters? And the second question is just on the -- around the MRO process at Gatwick. What does that do to your capacity to do maintenance in-house and any kind of potential contribution to cost there?

Nicholas Cadbury ***International Consolidated Airlines Group SA - Chief Financial Officer, Interim Chairman - IAG Cargo***

Just in terms of the 26 aircraft, like we said, we got two wide-body aircraft coming in, one for Vueling, one for British Airways. We're thinking 10 XLRs to Aer Lingus and Iberia, and the rest of the delivery of narrow-bodies coming in. And they're coming in pretty at phase across the years. They'll always be planned as well.

Sean Doyle ***International Consolidated Airlines Group SA - Chairman and Chief Executive Officer of British Airways***

Yes. In relation to Gatwick, we have 26 short-haul planes at Gatwick and about 12 long-hauls. So I think the ability to do more on-site maintenance is very attractive. It will stop us burying flights between Heathrow and Gatwick, so there's an immediate cost saving there.

It also will give us the capacity to do more winter maintenance across our store fall program and improve summer utilization, and also do more base maintenance on our 777 fleet. And I think generally, what we found over the last few years is having more resilience on our MRO maintenance functions is a real strategic advantage. So we were very happy to be able to move people back.

Operator

Jaime Rowbotham, Deutsche Bank.

Jaime Rowbotham ***Deutsche Bank - Analyst***

Two for me. So where you've talked about unit costs in 2025, Nicholas, you say the inflation will be weighted to the first half. Could you talk a bit about the magnitude of that shift and what the main reasons are for it, please?

And then secondly, is there anything to sound different control contest that Ryanair working with removing the purchase of shares by non-EU and think that might allow for their reinclusion in certain global indices. Obviously, there aren't any restrictions at ID at the moment, but you are, I believe, still excluded because of foreign entity limitation rules from being included in some of those indices. Is there anything to say there, please?

Nicholas Cadbury ***International Consolidated Airlines Group SA - Chief Financial Officer, Interim Chairman - IAG Cargo***

Yes. Just last one, correct, that is still the problem. No new news on it as well. I'm not kind of aware of kind of any kind of indices that we're excluded from at the moment. In fact, if anything, just with a dividend and the share buyback, I would be -- we've probably gone into more indices than we have been or have been in the last five years anyway. We've started going into some indices overall, which is good news as well.

But just in terms of unit cost for 2025, the kind of guidance we've given is a similar sort of trend overall. So not by individual component, but overall for 2025. So I guess you kind of see 3.5% overall, but we have got some FX headwinds as well, sort of an additional to, but that's mainly translation. So you'll get the benefit also in the revenue as well as unit cost, per unit revenue as well.

So we think it would be weighted towards the half. We haven't kind of given kind of guidance on that. But that is really towards getting that resilience for the summer. We're assuming that a lot of the kind of external environment is fairly similar to where it was last, last, last year. But you should think -- but you'll see it quite heavily weighted towards Q1 and Q2.

Operator

Muneeba Kayani, Bank of America.

Muneeba Kayani ***BofA Global Research (UK) - Analyst***

So just on the cash flow then. If you take the EUR3.6 billion in '24 CapEx up by EUR1 billion and then the tax card, so well over EUR2 billion is how we should think about your pretax outlook for 2025? If you can just talk us through the moving parts there. And then you've talked about the demand environment, with BA Holidays, kind of what are you seeing in to -- probably have a more visibility there? What are the trends there through the year?

And what's the competitive environment for BA Holidays?

Nicholas Cadbury ***International Consolidated Airlines Group SA - Chief Financial Officer, Interim Chairman - IAG Cargo***

Yes. So free cash flow, we generated kind of EUR3.5 billion free cash flow after CapEx this year, the results as well. We call that -- two things that you expect to see about EUR1 billion extra of CapEx going through this year. EUR3.7 billion CapEx this year if all the aircraft is delivered on time overall. And then we just called out the kind of VAT with Loyalty, which we send another EUR500 million. So they're the two kind of moving parts overall.

Adam Daniels ***International Consolidated Airlines Group SA - Chairman and Chief Executive Officer of IAG Loyalty***

Yes, sure. It's Adam here. Just on the BA Holidays side, in terms of 2024, we had a strong '24 revenues, up 13%. Passenger is about the same. And strong both in the short haul business on the beat and also on the classical long-haul businesses, the Caribbean and Indian Ocean.

So if you look for 2025 and how we're looking to '25, again, bookings look strong. We're seeing a good performance on short-haul beach again, places like Greece, the Canaries are particularly strong. And we've booked about 60% of the whole of 2025. So strong so far, particularly in premium. Actually, probably the biggest strength we're seeing is in premium booking.

Operator

Jarrod Castle, UBS.

Jarrod Castle ***UBS Limited - Analyst***

I'd like to maybe just get your view on kind of what seems to be diversion by parliament in the press around Gatwick versus Heathrow runway extension. So just how you see that, and feasibility and time frame?

And then secondly, just in terms of the capacity growth that you've given, the 3% and 2% to 4%, I guess, over the medium term per annum, can you give any kind of indications in terms of split across the operating companies, how you see that and how you size capacity in general? Is there a limit, for instance, in fleet deliveries?

Luis Gallego Martin ***International Consolidated Airlines Group SA - Chief Executive Officer, Executive Director***

About Gatwick and Heathrow, I think we support the decision of both airport that we think within an affordable and sustainable way. So in case of Gatwick, we support that the northern runway can be in use and been included for the development of the airport. But in any case, Gatwick is not a up, and we need the remain in Heathrow.

So about Heathrow expansion, also we support the ambition of the government for growth, but cannot go on with the regulatory model that we have in place now. And that's the reason we are pushing to have a review of the situation that we have now. Because with the current conditions, we cannot afford the impairment that is needed to develop the new runway. But in both cases, I think if we do it again in an affordable and sustainable way, it will be good for UK and the development of the economy.

And about capacity, if we look at the increasing capacity for 2025 by airline, BA is around 2%, 2.5%. Aer Lingus, around 4%. Vueling, 4%, 4.5%. Aer Lingus, 7%, at level with a lower rate, 14%. And we look at the different regions, domestic, around 4%; Europe, 3%; North Atlantic, 3%; LatAm, 4.5%; Asia Pacific, 5%.

So long haul is around 70% of the growth and short haul 30%.

Nicholas Cadbury ***International Consolidated Airlines Group SA - Chief Financial Officer, Interim Chairman - IAG Cargo***

Jarrod, there's a page on 36 back of the presentation, which just shows you the allocation by airline. Again touching on capacity, we're going to -- 4%, that's not far off what we said at the Capital Market Day. We said in a couple of months, there was 4% to 5%, but that included 2024, which was the high level growth. So if you think about out as we just moved it from kind of 3% to 4%.

I think the key thing for us, overall, is that we're focused on total revenue, not fatty growth overall. And then the capacity is due to delays of aircraft, which is the whole world is seeing that. So we're not relying on that. Hence, it's been more focused on total revenue.

Operator

Andrew Lobbenberg, Barclays.

Andrew Lobbenberg ***Barclays - Analyst***

Can I ask what you expectations are on the 777X deliveries? I appreciate you're not the launch customer. And then the second question would be around line partner that's away from the JV, any prospects of building partnerships with something to play with in Latin America? And also, does the proposed acquisition of Virgin Australia win any opportunities for you, notwithstanding the potential conflict with just this one world membership?

Luis Gallego Martin ***International Consolidated Airlines Group SA - Chief Executive Officer, Executive Director***

The first one, we have said the first one in 2027, that we are not a lone customer, but Boeing is still adjusting in the program, but we expect to have the first one on them.

Now the partnerships. Yes, after abandoning the Europe operations, we are considering the different scenarios that we can have and the different partnerships. We have a strong partner in LatAm, for example, with LatAm, that we have a joint business in Peru and Ecuador, and we are looking at other ways to develop this partnership. There are also other opportunities with members and other opportunities in North America that we are considering in order to reinforce our network there. But we are working on it, and we will inform in due course?

Operator

Conor Dwyer, Morgan Stanley.

Conor Dwyer ***Morgan Stanley - Analyst***

First question is on slide 25, highlighted RCL in the deal, in terms of being able to earn Avios. I'm wondering, is that kind of a similar offering in terms of they can just offer their customers that? But also if there would ever be kind of potential for BA Holidays to do something with them and kind of improve that relationship?

Secondly was just around kind of demand in the back of the cabin. I remember late last year, a couple of operators are calling slightly weaker demand particularly in the Atlantic and that part of the carbon. Is that something you're still seeing? Or if you were seeing it? And what are the kind of trends you're overall seeing in premium versus economy?

Adam Daniels ***International Consolidated Airlines Group SA - Chairman and Chief Executive Officer of IAG Loyalty***

Yes. In terms of the Royal Caribbean, it's Adam here. Yes, that is a relationship that we've started this year in terms of being able to book on the Royal Caribbean site and get a port. We've seen a good take-up. And due to the average spend of a cruise, that means you get a lot of Avios if you book it.

In terms of looking at to BA Holidays and thinking about BA Holidays selling, that's something that we're thinking about. Considering we are a little of a replatforming with British Airways in terms of holidays and the technology, we certainly need to do that first before we look at that. But certainly extending the capability of BA Holidays in other segments is something that we're having a look at, and is part of what we think could be the growth plan moving forward.

Luis Gallego Martin ***International Consolidated Airlines Group SA - Chief Executive Officer, Executive Director***

And about the latter demand, in 2024, we saw an increase in volume in comparison with 2023 of 6.5%. And if we look at the revenue, 9%, so it's still very, very strong. Premium last year, it's been a continuous having a very performance across all of our airlines, and we don't see any change in the booking plan.

Nicholas Cadbury ***International Consolidated Airlines Group SA - Chief Financial Officer, Interim Chairman - IAG Cargo***

We saw like factoring in all classes.

Operator

Guilherme Sampaio, CaixaBank.

Guilherme Sampaio ***CaixaBank BPI - Analyst***

This is Guilherme. The first one, on the ongoing capital increase in Air Europa and the potential entry of new shareholders. How this could impact your decision to maintain the current stake in the company and the overall relationship with Air Europa and the Latin market position?

And the second, if you build on your expectations for effects, so you mentioned a 2% impact in terms of costs. What could be the consistent impact in terms of unique revenues?

Luis Gallego Martin ***International Consolidated Airlines Group SA - Chief Executive Officer, Executive Director***

Air Europa, we have handled the operation because of the revenues that Europe were taking, we decided to maintain 20% of the company because it's a financial investment and even we went to the capital increase as they did. In case they have a new partner, we will consider how -- what we are going to do with our financial investment. In any case, is a financial investment, we are not involved in anything related with the company and the management. So we need to take a financial decision that we will take what is needed.

Nicholas Cadbury ***International Consolidated Airlines Group SA - Chief Financial Officer, Interim Chairman - IAG Cargo***

Your second question is about FX. We pulled out that FX is influencing our mutual costs by about 2%. It is mainly translations. So it kind of turns into euros. You kind of get almost an equal impact on the revenue as well. So it will be useful.

Operator

Ruairi Cullinane, RBC Capital Markets.

Ruairi Cullinane ***RBC Capital Markets (Canada) - Analyst***

You touched on the supply cost of those particularly impressive decline in selling costs in Q4. So you -- and that help us think where that goes from here. Secondly, just BA Holidays, has that actually been up in bookings as a result of the Loyalty overhaul? I wasn't clear on that.

Nicholas Cadbury ***International Consolidated Airlines Group SA - Chief Financial Officer, Interim Chairman - IAG Cargo***

I didn't get the question on lower cost, please.

Ruairi Cullinane ***RBC Capital Markets (Canada) - Analyst***

Just selling costs.

Nicholas Cadbury ***International Consolidated Airlines Group SA - Chief Financial Officer, Interim Chairman - IAG Cargo***

Yes. Selling costs are coming down. The general trend across the businesses is they're coming down as well, kind of moving more towards direct sales overall.

Adam Daniels ***International Consolidated Airlines Group SA - Chairman and Chief Executive Officer of IAG Loyalty***

Just turning to the BA Holidays question it's early days, but we are seeing some evidence that Executive Club bookings are increasing on the back of the changes we made. And if we're looking at where those are there, particularly in short-haul beach in premium, and that's probably where you would expect it to be if you're thinking about getting -- trying to attain their state in that. So I think early days, but some signs that we are seeing some customers take on to get that opportunity.

Operator

Jaina Mistry, Jefferies.

Jaina Mistry ***Jefferies - Analyst***

It's Jaina Mistry. I wanted to double click on a margin with two questions. You've obviously hit 14% this year. The target is 15% in two years' time. I guess the question is, do you see upside to your target at this stage? Or do you see quite a slow slide path from 14% and 15%, and what's driving that? Where is the reinvestment coming the next two years?

And then the second question is a bit backward trekking. So your BA margins grew 4 percentage points last year. How much of this was a post-pandemic catch-up versus self-help opportunities that came to fruition?

Nicholas Cadbury ***International Consolidated Airlines Group SA - Chief Financial Officer, Interim Chairman - IAG Cargo***

The margins in BA have gone back to where they were originally. So there is a bit of a catch-up. But it is not just a catch-up. It is a transformation to the business that we have done. Most of the efficiency and the cost-based revenue in the business is all realized.

Adam Daniels ***International Consolidated Airlines Group SA - Chairman and Chief Executive Officer of IAG Loyalty***

Just in terms of the margins in BA, it was only in November, 2.5 months ago, that we put the target out at 15% overall. So I think you have got to think about it. We have got to go glide past that. We have got to get there for 2027 overall.

Sean Doyle ***International Consolidated Airlines Group SA - Chairman and Chief Executive Officer of British Airways***

No, I think the recent performance, I think, gives us confidence on hitting the target by '27. I think a couple of levers of value that we will mature over the next couple of years will be, one, probably having a bit more mix of long-hauls compared to short-hauls, because we're still a bit lower than we were in 2019. So I think the performance is strong in that context. And pivot the transformation initiatives that we have maturing as well, whether it's the digital experience, the investment in technology and the improvements in operational and customer metrics, I think there is more momentum on those levers, which is what also the margin commitment by 2027.

Jaina Mistry ***Jefferies - Analyst***

And just to go back to the second question, which is how much of it is post-pandemic catch-up versus transformation opportunities that come in. Would you be able to segment it and say whether half was a catch-up and half was self-help?

Nicholas Cadbury ***International Consolidated Airlines Group SA - Chief Financial Officer, Interim Chairman - IAG Cargo***

Not really. The world is quite different, isn't it? I think there's so many moving parts, but a lot of it is transformation actually.

Sean Doyle ***International Consolidated Airlines Group SA - Chairman and Chief Executive Officer of British Airways***

Yes. I think the business was 4% more than 2019, delivered higher profits in 2019. So that tells you the transformation is playing a significant role in the performance this year.

Operator

Johannes Braun, Stifel.

Johannes Braun ***Stifel Nicolaus and Company, Incorporated - Analyst***

Coming back on the 14% unit revenue performance on the transatlantic in Q4, I was wondering, can you give us the currency impact given the strong US dollar and also what the impact from higher load factor was just to get the underlying pricing performance? So I guess what I'm looking for is an ex-currency yield number.

And then secondly, free cash flow was EUR3.6 billion. So for the ordinary dividend, you need, I think, less than EUR500 million and you announced a EUR1 billion share buyback, so that still means more than EUR2 billion is left. And question would be, what will you do with all the cash left? Will that be held back for any potential M&A? Or how do you think about spending the cash?

Nicholas Cadbury ***International Consolidated Airlines Group SA - Chief Financial Officer, Interim Chairman - IAG Cargo***

I'm afraid to say that we're not going to break down our payroll in any more detail than we've given you. We're giving 14% plus now. So we don't go into currency distance by region overall. For example, load factor overall was up and North America is a strong part of it. So for instance, load factor was up overall. So just in terms of free cash flow, the -- we were EUR1.5 billion this year, we've given guidance in terms of the balance sheet.

So we're saying that we want to keep net leverage. We want to distribute excess cash flow. We've got 1.2 to 1.5 net leverage overall. The reason we've got that range there is because of what the outlook is looking like, which is positive at the moment, but it's also about where we are with commitment and potential M&A at the moment. So we're not going to go into what those are strictly.

We know that in terms of capital at the moment, we're not spending the amount of capital that we'd like to spend, but we know by the time we get to '27, '28, that we will see a bump in the capital spend as we get those catch up in deliveries coming forward. Thank you.

Operator

Alex Paterson, Peel Hunt.

Alex Paterson ***Peel Hunt - Analyst***

Can I just ask a couple of questions. One on BA Holidays. Did you say that was 60% sold? And is that for all of 2025 or just say this summer? If it is all of 2025, should we expect you to increase your number of at-holds?

And secondly, you recently signed an NDC agreement with TUI. How should we think about this in relation to BA Holidays? Is there a risk of cannibalization, or do you charge API fees and is the benefit from higher load factors potentially yield? And does that allow you to offset any cannibalization?

Nicholas Cadbury ***International Consolidated Airlines Group SA - Chief Financial Officer, Interim Chairman - IAG Cargo***

Alex, before we go into much detail, we're going to come back to BA kind of in a later time in the future because we've just moved it from British Airways into Loyalty, so we really need to make sure that we can get the most of British Airways. So they will probably come back in more detail at say -- come in more detail. I don't know if you want to give any color?

Adam Daniels ***International Consolidated Airlines Group SA - Chairman and Chief Executive Officer of IAG Loyalty***

Yes. I mean just in terms of the first question, the 60% is related to the whole of 2025. So that's where we are. And that's what you would expect if you look at the other players in the market, they are maybe slightly below that, but we are roughly 60%. And we're happy with that if we are on plan, and we're still seeing the growth that we saw last year.

So still a lot of upside and a lot of potential to come.

Alex Paterson ***Peel Hunt - Analyst***

And is there anything you can say about the TUI NDC agreement at this date? Or is that something we should wait for you tell more about in the few --

Nicholas Cadbury ***International Consolidated Airlines Group SA - Chief Financial Officer, Interim Chairman - IAG Cargo***

Yes, we don't -- thanks, Alex. Thank you.

Operator

Dudley Shanley, Goodbody.

Dudley Shanley ***Goodbody Stockbrokers - Analyst***

I wish you could help me. I just want to ask a question on how you think about North Atlantic capacity at an overall level? I'm thinking in particular about US carriers have been talking about record levels of service into Europe and how you see that playing out over the next year or so?

Luis Gallego Martin ***International Consolidated Airlines Group SA - Chief Executive Officer, Executive Director***

I think what we see now for capacity and the scale that are published, we see a decline in Europe, North Atlantic in the first quarter, around 4%, and in the second quarter, almost flat. So if we look at the different half that we have in London, it's totally different in the performance in that we've got in Heathrow. In that week, the Q1 capacity is going to be around minus 20% if we compare with previous year. And in the second quarter, similar, minus 24%. Heathrow first quarter is going to be around minus 3%.

In the second quarter, almost flat.

If we look at Madrid, capacity in the first quarter to North Atlantic is going to be below, around 4% the capacity we had last year. Q2 is going to be flat. In any case, capacity is going to be above the capacity that we have in 2019, that's important. And in Dublin, the first quarter capacity is going to be below 1.8% if we compare with the same quarter last year. Q2, we are going to have an increase in capacity.

And in summer, we expect increasing capacity of around 11% with United, Delta and Air Canada mainly adding capacity during the summer.

Operator

There are no further questions. I want to hand back to Luis Gallego for closing remarks.

Luis Gallego Martin ***International Consolidated Airlines Group SA - Chief Executive Officer, Executive Director***

Okay. Well, thank you very much, everybody, to be here today. We are doing strong results for 2024, I think the strategy that we have and the transformation we are having in the different businesses and in the group is working well. What we see for the future is the same trend. So we are looking forward to the next first quarter results presentation where I hope we will continue with the good news.

So thank you very much.

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