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ALK.N - Q3 2020 Alaska Air Group Inc Earnings Call

EVENT DATE/TIME: OCTOBER 22, 2020 / 3:30PM GMT

## OVERVIEW:

Co. reported 3Q20 GAAP net loss of \$431m and adjusted net loss, excluding special items and mark-to-market adjustments, of \$399m.

## CORPORATE PARTICIPANTS

**Andrew R. Harrison** *Alaska Airlines, Inc. - Chief Revenue Officer, Chief Commercial Officer & Executive VP*

**Benito Minicucci** *Alaska Air Group, Inc. - President of Alaska Airlines Inc. & Director*

**Bradley D. Tilden** *Alaska Air Group, Inc. - Chairman, CEO & President*

**Christopher Michael Berry** *Alaska Air Group, Inc. - VP of Finance & Controller*

**Emily Halverson** *Alaska Air Group, Inc. - IR*

**Nathaniel Pieper** *Alaska Airlines, Inc. - SVP of Fleet, Finance and Alliances*

**Shane R. Tackett** *Alaska Air Group, Inc. - CFO & EVP of finance*

## CONFERENCE CALL PARTICIPANTS

**Andrew George Didora** *BofA Merrill Lynch, Research Division - Director*

**Brandon Robert Oglenski** *Barclays Bank PLC, Research Division - VP & Senior Equity Analyst*

**Catherine Maureen O'Brien** *Goldman Sachs Group, Inc., Research Division - Equity Analyst*

**Duane Thomas Pfennigwerth** *Evercore ISI Institutional Equities, Research Division - Senior MD*

**Helane Renee Becker-Roukas** *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

**Hunter Kent Keay** *Wolfe Research, LLC - MD and Senior Analyst of Passenger Airlines, Aerospace & Defense*

**Jamie Nathaniel Baker** *JPMorgan Chase & Co, Research Division - U.S. Airline and Aircraft Leasing Equity Analyst*

**Joseph William DeNardi** *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Airline Analyst*

**Michael John Linenberg** *Deutsche Bank AG, Research Division - MD and Senior Company Research Analyst*

**Myles Alexander Walton** *UBS Investment Bank, Research Division - MD & Senior Analyst*

**Savanthi Nipunika Syth** *Raymond James Ltd., Research Division - Research Analyst*

## PRESENTATION

### Operator

Good morning. My name is Thea, and I will be your conference operator today. At this time, I would like to welcome everyone to the Alaska Air Group third quarter earnings release conference call. Today's call is being recorded and will be accessible for future playback at [alaskaair.com](http://alaskaair.com). (Operator Instructions)

Thank you. At this time, I would like to turn the call over to Alaska Air Group's Director, Investor Relations, Emily Halverson. Please go ahead.

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**Emily Halverson** - *Alaska Air Group, Inc. - IR*

Thank you, Thea. Good morning, and thank you for joining us for our third quarter 2020 earnings call. On today's call, you'll hear updates from Brad, Ben and Shane. Several other members of our management team are also on the line to answer your questions during the Q&A portion of the call.

The global health and economic crises continue to significantly impact our business and outlook. This morning, Alaska Air Group reported a third quarter GAAP net loss of \$431 million. Excluding special items and mark-to-market adjustments, Air Group reported an adjusted net loss of \$399 million. Special items this quarter include \$322 million associated with employee separations, \$121 million of asset impairment charges that were

triggered as a result of certain owned aircraft being permanently parked and a \$398 million benefit related to the CARES Act payroll support program wage offset. Our average daily cash burn for the quarter was approximately \$4 million.

As a reminder, our comments today will include forward-looking statements regarding future performance, which may differ materially from our actual results. Information on risk factors that could affect our business can be found in our SEC filings.

On today's call, we will refer to certain non-GAAP financial measures, such as adjusted earnings and unit costs, excluding fuel. And as usual, we have provided a reconciliation between the most directly comparable GAAP and non-GAAP measures in today's earnings release.

And now I'll turn the call over to Brad for his opening remarks.

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**Bradley D. Tilden** - Alaska Air Group, Inc. - Chairman, CEO & President

Thanks, Emily, and good morning, everyone. It's been 8 months since the initial moments of this crisis when all airlines, including Alaska, saw bookings fall off sharply. Air travel virtually ground to a halt, and as they always do, the people of Alaska and Horizon rose to meet the challenge. We identified 8 critical work streams covering areas of our business that needed to change rapidly. We built plans for each of these areas, and we got to work executing the plans.

The work streams included: the safety of our people and our guests; the sizing of our fleet, network and workforce; cost and overhead reduction as well as liquidity management; guest and employee communications; a whole host of commercial activities; and working with the government and other airlines on the CARES Act. These efforts were coordinated by our project management team under the direction of Sandy Stelling, and the individual work streams were executed by people throughout the company.

I'd like to share some data points with you that demonstrate the remarkable progress our people have achieved to date. First and most importantly, our team sprinted into action to ensure the safety of our employees and our guests. We made over 100 changes to our operations as part of our next level care program, including enhancements to aircraft cleaning, social distancing, mandatory masks, open middle seats and guest service with reduced contact. Our data shows that our employees as well as customers who have flown have very high confidence in our safety.

Second, our network team called flying from 1,300 daily flights prior to the pandemic to just 350 nearly overnight. We're back to 760 flights today and will soon be at 840.

Third, we've historically carried about 130,000 people per day. In April, that number dropped to 5,000. Our commercial team took decisive action to block middle seats, drop change fees, extend the lead status and communicate with guests in new and innovative ways, all in an effort to build confidence with folks who have not yet come back. Their efforts are working as we've seen a month-by-month steady uptick in the number of passengers we're carrying and as future bookings are trending at even higher levels.

Fourth, parking aircraft and putting them into storage is more complex than most people would guess. The Alaska and Horizon maintenance teams parked 177 of our 329 aircraft and have now safely brought 110 of these back into service.

Fifth, getting our employee resource levels right has been an all consuming effort for company leaders, union leaders and our employees. Volunteers stepped forward to support our fight for survival, and nearly 7,000 employees took short-term leaves of absence, and we've now had over 4,000 employees volunteer for long-term leaves, incentive lines and early retirements.

Sixth, our finance team has led our work to rightsize our operation and reduce spending, and we've reduced our cash burn from approximately \$13 million per day to \$4 million per day. These heroic efforts, along with the money received from the U.S. treasury, mean that our debt levels, net of cash are unchanged from prior to the crisis. This is an incredible achievement and one that we believe few of our peers will replicate.

Seventh, our financial, legal and treasury teams tapped into nearly \$4 billion in new liquidity, well in excess of our \$2.5 billion goal.

And finally, we continue to fight to maintain jobs for our people, and we've been extremely proud to work with labor leaders and other airlines in the effort to secure further payroll support from the government. Our government affairs team has been highly engaged, and they continue to be, as we speak. Shane and Ben will provide more detail on several of these areas in a moment.

In today's environment, the sequential trends from month to month tell the clearest story of progress, but I do want to share a bit about our quarterly results. In the third quarter, Air Group's capacity was down 55%, and as Emily said, our adjusted net loss was \$399 million. Our total revenues were down 71% for the quarter, which is sobering, but it's up 11 points from last quarter, and we believe it will be amongst the best results in the industry.

As I mentioned, over 4,000 employees volunteered for programs that were designed to reduce our need to furlough as we rightsize. Starting October 1, these individuals began their early retirements, extended leaves and incentive lines. I want to recognize and thank each of them for their contributions and for their dedication to Alaska. Many of these people have been with Alaska for decades, and they are the folks who truly built Alaska. They did nothing to cause this crisis, and yet they've made a substantial personal sacrifice to contribute to our future and to save a job for someone else.

I'm very proud of our finance team, who's doing a terrific job managing liquidity. Today, we have \$3.7 billion in cash on hand and another \$1.8 billion in standby liquidity for a total liquidity of \$5.5 billion. Having this in place has allowed us to get through the initial phases of our response and shift our focus from survival to recalibrating and restructuring for long-term prosperity. A former leader here used to remind us that running a business is like designing and building a house. No one knows what kind of weather we'll have, but we can build a house to withstand the worst storms and also to take maximum advantage of the good weather when it comes.

We believe we've done this at Alaska. No airline would choose the crisis we're experiencing today, but with our strong balance sheet, our low cost and low reliance on high fares and our great service and highly loyal customers, we believe we're better positioned than any other airline to survive this storm and to capitalize on the good weather when it comes. I want to again thank our people for everything they're doing.

And with that, I'll pass this over to Ben.

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**Benito Minicucci** - Alaska Air Group, Inc. - President of Alaska Airlines Inc. & Director

Thanks, Brad. To start off, I, too, would like to add my appreciation for the employees to whom we have said goodbye to this month. I've spent a large portion of my career leading our operations team. So I know the passion and dedication of our front-line workers. We will miss them, and we truly want to thank them for their incredible careers that helped shape the values of our company. And I look forward to the day when we're able to ask all those who are on furlough to return.

Typically, our third quarter call shares guidance for the fourth quarter and lays out plans for the following year. While volatility has come down relative to Q2, there is little additional clarity about the nature and speed of the demand recovery. Despite that, we will continue to communicate candidly about what we already know, including the planning assumptions that are shaping our thinking about the next year.

A major driver of demand recovery will be whether our customers believe that flying is safe. Our operational experience in the last 8 months has shown that the transmission rate of COVID-19 and the air travel environment is lower than in the general population. It's been said that it's worth repeating that hospital-grade HEPA filters in our airplanes remove 99.9% of airborne particulates, and fresh air is recirculated through the cabin every 3 minutes.

The results of recent scientific studies bolsters our confidence that air travel is safe for the large portion of the population, especially with the additional layers of safety we have implemented. Studies published this month determined that cabin design and airflow systems create the equivalent of over 6 feet of social distance between passengers, even on a full flight when masks are worn.

One study showed that given airflow and filtration systems, only 0.003% of air borne contaminants can reach any one person. Another study showed that it would take 54 hours of sitting next to a mask-wearing COVID-positive passenger to catch the virus. They also concluded that the risk of contracting COVID-19 during air travel is extremely low compared to typical daily activities.

We are very encouraged by what our own experience and the scientific work suggest that it is safe to fly. We continue to work with our guests every day to educate them about the health precautions that are in place and that those who are not considered high-risk can be confident to return to air travel.

Last week, Hawaii lifted quarantine requirements for visitors with a negative COVID test. We have seen recent strength in bookings for the islands. I personally flew there to meet with local officials and experienced the program for myself. It was fantastic to be back in the island. Our flight was full, except for open middle seats, and guests have done their pre-arrival COVID test to ensure they are negative. Although the arrival and screening process still has hiccups that need to be resolved, meetings with government and state officials gave me confidence that Hawaii traffic will steadily return over the coming months.

Despite the evidence that flying is safe, we must acknowledge that many customers are not flying because they are not comfortable doing so. To boost guest confidence in the near term, we will continue to block middle seats through January 6. However, we are currently mapping a framework that will set the stage for the unblocking of seats as conditions support doing so. We expect to bring back middle seat occupancy in early 2021, beginning with shorter-haul flights and geographies like Hawaii where required testing is already reinforcing traveler confidence.

Our decision to move forward will be responsive and calibrated to changing conditions, things like rising COVID cases or more restrictive state postures that could change our plans. Similar to how we've added back capacity, seeing higher loads and incrementally brought back more onboard service, we recognize we have to be thoughtful and deliberate in creating confidence for our guests throughout this transition. Typical load factors with middle seats blocked should be in the 45% to 55% range, which is equivalent to 65% to 80% when adjusting for available seats only. Blocked middle seats will continue, of course, to act as a headwind towards our goal of achieving cash breakeven results.

Turning to our planning scenarios for the coming months. Our assumption is unchanged from the last quarter and expect to be about 80% of 2019 capacity by the summer of 2021, with full pre-COVID recovery to be well into 2022. As we demonstrated in Q3, our mindset is to stay nimble and to modify these plans as circumstances evolve. While we plan to fly 50% of prior year Q3 capacity, the pace of recovery was slower than expected. So we adjusted our flying down to 55%.

Given what we are seeing in demand today, we are preparing for our operation to be -- for our first quarter capacity to be approximately 40% below prior year levels with October down 45%. It remains the case that 70,000 to 80,000 passengers per day or about 60% of normal levels is the threshold at which we can achieve cash burn 0. We believe the factors -- we believe the following factors are relevant for continued near-term improvements as we move into 2021.

The scientific studies released will help both public confidence and understanding on the safety of air travel. As expected, there is strong correlation between the reopening of destinations and demand. Hawaii and other warm destinations are strengthening as guests look for work from anywhere locations and vacation destinations. More recently, we've seen that marketing and promotional efforts can be effective in today's environment.

In August, we launched our first Buy the Row promotion, which offered buy 1 get 1 pricing, allowing guests to secure a full row to themselves with middle seats blocked. This promotion was well received and demonstrated to us that marketing to aspirational travelers, reinforcing our safety messaging and offering the right price does have a stimulant effect in today's environment. And lastly, the upcoming holiday travel season coupled with the permanent removal of change fees appears to be driving more advanced bookings.

Business travel remains under more pressure than leisure, but we're talking with our corporate partners about our future with Oneworld and other ways to support the return of business travel. Today, we are honored to join Microsoft and SkyNRG to introduce our partnership focused on making business travel greener with sustainable aviation fuels. We have Microsoft's leadership, and we're grateful to partner with them to bring travel back in a way that cares of both individual guests and the environment.

As we progress forward, we know there is significant work still to be done to ensure we have a thriving post-COVID network and a business model that can drive us to and then beyond our pre-COVID size. I want to echo Brad's thanks to the individuals and teams at Alaska and Horizon, who are working so hard to control what can be controlled in this moment. For the reasons I've shared today, I'm optimistic that we'll see our way through this crisis and emerge stronger for it.

And with that, I'll pass it to Shane.

**Shane R. Tackett** - Alaska Air Group, Inc. - CFO & EVP of finance

Thanks, Ben, and good morning to everyone on the call today. In my comments this morning, I'll provide brief updates on our liquidity, cash burn performance and cost restructuring efforts.

Last quarter, I shared details with you about the \$3 billion of liquidity that we have added to our balance sheet since March, including the \$1.2 billion EETC we completed in early July. We have since secured an additional \$1.9 billion in allocation under the CARES Act loan program. The terms of this program were ultimately attractive to us. The loan comes at a reasonable cost with maximum flexibility, which we viewed as a priority.

We don't want to add long-term embedded debt in interest costs if we can avoid it, especially if we ultimately find we do not need it to finance losses. All of us at Alaska want to thank Secretary Mnuchin and his team at Treasury for their efforts to develop and move this loan program forward in a very short period of time.

The CARES Act loan program allows for incremental draws through March of 2021 after a required initial draw of 10% of our allocation. Our \$3.7 billion of cash balance today includes \$135 million from an initial draw. We plan to make final decisions on how much to draw some time after the new year. If we added the entire remaining CARES Act loan allocation available to us to the \$3.7 billion we have on hand, our total effective liquidity is \$5.5 billion, which at current burn rate is approximately 4 years of liquidity. While we have some remaining assets we could borrow against, as we sit today, we don't foresee any additional liquidity efforts being required right now.

The next decision in front of us is whether to pay down or refinance our credit facility and 364-day term loans due in March and April of next year. I'll reemphasize the data point Brad highlighted, which is that we actually closed the third quarter with adjusted net debt of approximately \$1.7 billion, which impressively is flat with the year-end 2019. In very round dollars, we did burn \$1 billion since the onset of COVID. However, we paid down \$250 million of debt, and the PSP grant provided \$750 million to fund most of our payroll over this period.

This underscores the importance of the PSP grant program, which was instrumental in protecting jobs and helping us to bridge the extreme financial deterioration we saw in the first 6 months of this pandemic. That deterioration continues, of course, today, and only continued PSP support can reliably help avoid balance sheet destruction for the industry, balance sheets that will be needed to fuel future industry recovery and growth, which would, we believe, support and accelerate the broader economic recovery in growths needed in our country.

Turning to cash burn. On a company size adjusted basis, our \$4 million of cash burn per day compares well to others in the industry. As a reminder, our burn figure has, thus far, included cash revenues and most cash outlays, including debt service and CapEx. However, now that we have fantastic liquidity and we've reduced and stabilized our spending, we will increasingly focus on cash flow from operations trends as our primary cash metric. Total cash remains important, but as we incur more onetime outlays, such as severance and lump sum payments to employees and potential large debt payoffs, our mindset is that watching total liquidity, net debt and operating cash flows is more appropriate than an all-in number that will be lumpier, and therefore, potentially less meaningful.

Very early in the pandemic, we articulated a goal to reach cash burn breakeven by year's end. While I'm happy with our progress on cash burn reduction and believe we may have the best results on this metric in the industry, we do not expect to hit our target by December for 3 primary reasons.

First, we are bringing capacity back into Seattle somewhat faster than originally planned. Second, as mentioned previously, blocking middle seats caps the effective load factor we can achieve to a level slightly under what's required for cash breakeven. And third, while trending consistently positive, the return of demand has been slower than our original guess back in April, which admittedly, we developed with very little to go on at the time. Given what we know today, I do expect our cash burn to continue to improve during Q4.

For the next several months, we expect our monthly cash outflows to be about \$450 million to \$475 million per month, given the amount of capacity we are planning to deploy and required debt payments. Month-to-month, there will be some timing effects, but that is a decent range for the next quarter or 2.

I do anticipate that as we've done to date, our cash burn progress towards breakeven will be ahead of the industry. At this point, it will require further recovery of demand and likely the removal of middle seat blocks in order to achieve.

Turning back to costs. In July, we initiated early-out programs and extended leave options for all of our front-line teams. We had over 700 employees take advantage of permanent early-outs and over 3,300 individuals take extended leaves or voluntary furloughs. This allowed us to reduce the number of involuntary -- sorry, voluntary furloughs. This allowed us to reduce the number of involuntary furloughs necessary in October to around 400 in addition to the 350 management positions that were permanently eliminated.

As a result of these programs, we recorded a onetime special item in the third quarter of \$320 million. Temporary payroll savings from these decisions are expected to be \$375 million in total, and permanent annual savings from the early-out programs and our management reduction in force will be \$132 million annually. The temporary cost savings begin to taper down in April of 2021 and sunset in late 2022.

Our leave programs allow us to recall employees to support the operation should we need to which would bring costs back more quickly as those employees return to full pay and benefits, although I will say our goal is to bring back our flying and our people as soon as demand allows us to.

Beyond the actions we've taken to reduce payroll costs, we are also making progress on the structural cost reductions we discussed on the last call. I shared previously that we were targeting initially at least \$250 million of permanent structural cost savings to help return us to pre-COVID CASMex levels, even if we were to remain a 20% smaller company.

Several initiatives are underway to help meet this goal, but the largest of which include: first, the aforementioned permanent payroll savings of \$130 million annually. Second, our efforts to improve the ownership costs and cost efficiency of our fleet. Over the next 3 years, we will see the expiration of 42 of our 61 Airbus leases, which represents an opportunity to either extend those leases at far lower rates to what we pay today or possibly replace them with larger, more efficient aircraft.

Third, given payroll is 35% of our cost structure, we intend to return to our pre-Virgin acquisition productivity levels, which were the highest we've ever achieved. This will require bold leadership and also commitment of our people as we work to restore this historical competitive advantage. Fourth, we've completed the elimination of at least \$35 million of non-wage overhead spend. Fifth, we've identified \$50 million in supplier renegotiations, of which we've achieved over \$25 million to date from hotels, health care providers, software licensing and changes to airport vendors and rates. And there are several other initiatives, including real estate cost savings and moving E175s into markets in the state of Alaska, where demand cannot support continued mainline flying.

I believe that these initiatives are the right first steps to begin restoring our cost structure. If there is one thing we have learned and are committed to as a leadership team, it is that low-cost discipline is simply a requirement of this industry, if you want to be able to survive in the downturn and thrive in the ups. So 90 days ago, we were hoping for a better quarter brought on by the ebbing of this health crisis and a return to carrying our guests around the country. That didn't fully happen, but each month has improved since March, and despite how intently focused we are on weathering this downturn, we are ultimately optimistic. Our guests want to travel. We have superb liquidity. As Brad outlined, we have unmatched competitive advantages, and we have an amazing group of 22,000 people dedicated to making this company successful.

And with that, let's go to your questions.

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) The first question will come from Helane Becker with Cowen.

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**Helane Renee Becker-Roukas** - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

So I just have one question. When you talked about bringing capacity back faster than you intended, but you're still not able to reach positive or breakeven cash flow or cash burn. Why would you bring that capacity back sooner? Wouldn't it make sense to not bring that capacity back just yet and wait on that?

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**Shane R. Tackett** - *Alaska Air Group, Inc. - CFO & EVP of finance*

Yes. Maybe I'll start, Helane, and then I'm sure Andrew will want to chime in. I think one of the variables in that is the fact that we blocked middle seats and decided to continue to do so through the end of the year. And I think what we're seeing in some of the more peak periods is, there is a potential. With the middle seats blocked, we would be spilling demand, which we really are in a position to want to do. And so it made sense for us to build out more of our pre-COVID Seattle network much quicker, a little bit quicker than we had originally planned to do. But Andrew could add, too, as well.

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**Andrew R. Harrison** - *Alaska Airlines, Inc. - Chief Revenue Officer, Chief Commercial Officer & Executive VP*

Yes. Helane, I think -- and again, the keyword there from Shane was sort of planned at the beginning. And -- but we're quite confident in what's happening in the fourth quarter. And our percentage of flying in leisure markets in the fourth quarter is significantly more than it was last year, and we're seeing a lot of good flying leisure destinations or some destinations. And of course, with Hawaii opening up -- we were actually down 88% in Hawaii capacity in the third quarter. We're going to be down only half that in the fourth, given the opening and the testing going on. So we feel pretty good about the type and nature of our flying in the fourth quarter to continue to grow this and generate new revenues.

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**Helane Renee Becker-Roukas** - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Okay. And then for my follow-up, Andrew, while I have you, can you talk about credit card spending and sign-ups? And what you're seeing there in this environment?

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**Andrew R. Harrison** - *Alaska Airlines, Inc. - Chief Revenue Officer, Chief Commercial Officer & Executive VP*

Yes. I think I just went back the last 10 weeks for both bookings and actually new credit card accounts, actually, and our new credit card accounts have been increasing every week on average by 5%. And as far as our overall credit card spend goes, it's been stable. I don't think we normally disclose what percentage that is down, but I will say that it's significantly better than passengers and bookings right now. But given the economy and everything like that, my personal view is that our credit card is performing quite well.

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### Operator

The next question will come from Andrew Didora with BOA.

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**Andrew George Didora** - BofA Merrill Lynch, Research Division - Director

My first question is for either Ben or Andrew. I know with the leisure-driven demand, and Ben, your comments, you mentioned that, that promotional activity is stimulating some travel for you. Can you maybe comment a little bit on the types of competitive actions that you're seeing out there in the market, particularly on pricing, given that leisure is so sensitive to this item?

**Andrew R. Harrison** - Alaska Airlines, Inc. - Chief Revenue Officer, Chief Commercial Officer & Executive VP

Yes. You see the normal pricing activities. We have just in the normal marketplace, competitors doing things with fares. I think overall, the business fares are way more stable. But I think mostly, right now, for us, at least, is focusing on bringing the people back. And my -- just on all the people I talk to is, once someone has flown, their confidence in flying again is materially stronger. So we believe that getting passengers to fly is really, really important. I think overall, our average fare was down about 17% in the third quarter. But again, I'm not personally seeing anything out of the usual as it relates to pricing actions.

**Benito Minicucci** - Alaska Air Group, Inc. - President of Alaska Airlines Inc. & Director

And Andrew, it's Ben. And I think like I said in the script, I think we're seeing the ability to stimulate traffic with lower fares. And we have this great thing with Russell Wilson, which I didn't mention that every time Russell Wilson throws a touchdown or 2 or 3, you get a 10% discount for every touchdown he throws, and we're seeing good reaction to that. So thanks for your question.

**Andrew George Didora** - BofA Merrill Lynch, Research Division - Director

Great. Sure. And then just my second one, just for Shane. But now some great color on some of the structural cost savings, maybe any initial thoughts on how you're thinking about the unit costs once you get through the crisis, maybe perhaps relative to 2019 levels? That's it for me.

**Shane R. Tackett** - Alaska Air Group, Inc. - CFO & EVP of finance

Yes. Thanks, Andrew. And I'll follow on with Ben. I'm a big supporter of running the ball this year with the Seahawks. Russell has got 19 touchdowns, which is a lot of discount, but we're happy that customers are getting good discounts right now. Yes, and right now, everybody is interested in that.

We are anxious to sort of come out with something in terms of a target with a date attached to it, but we're not going to do that today on this call. I think we need a little more time to really understand where we think the sort of capacity is going to go over the next 12 to 18 months, and then really lock in some of these savings initiatives. So I think I totaled about \$190 million that we're very confident. We've got line of sight and capturing, and we've got significantly more than that, that we're working on, on cost restructuring. We'll continue to come to you all with more clarity and more specificity as the earnings calls go by over the next couple of quarters.

Right now, we are really, really focused on getting within a handful of percentage points of our pre-COVID CASMex some time next year. But we're not at a point where we can totally forecast and give you a date on that yet.

**Operator**

The next question will come from Savi Syth with Raymond James.

**Savanthi Nipunika Syth** - *Raymond James Ltd., Research Division - Research Analyst*

Regarding your comment about the \$450 million to \$470 million a month cash outflows, could you give us an idea of kind of what that was in the third quarter? And if it includes kind of the cost reductions that you've outlined?

And also just along with that, what do you expect in terms of debt and severance in like fourth quarter and 2021? Just so we could have an appreciation for the other types of cash outflows.

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**Shane R. Tackett** - *Alaska Air Group, Inc. - CFO & EVP of finance*

Yes. Savi, so in Q3, it was less than that. We had a little bit less capacity deployed. I believe our total operating expenses were 1.1x or something like that. So I think with that, it was probably \$400 million, \$415 million or something like that. So it's up a bit with the incremental capacity. What was the second part of the question?

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**Savanthi Nipunika Syth** - *Raymond James Ltd., Research Division - Research Analyst*

So I didn't realize that, that includes the debt. I was just wondering what are the -- if there is any severance cash components or other cash outlays that's not part of that core component that we should be mindful of?

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**Shane R. Tackett** - *Alaska Air Group, Inc. - CFO & EVP of finance*

Yes. So we have about \$30 million in a onetime sort of severance lump sum that hit October. There's -- we don't expect any more than that at this point. So that will be in our Q4 results, and it's part of that number. In terms of the Q4 sort of \$450 million to \$475 million of it includes cost restructure items, recall that on our Q2 call, we had said, our goal was to hit exit rate savings of \$250 million. So the \$190 million I just gave you on an exit rate basis would be in that number, and any more we can do between now and the end of the year could improve that a little bit.

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**Savanthi Nipunika Syth** - *Raymond James Ltd., Research Division - Research Analyst*

Got it. That's helpful. And maybe another -- just a follow-up on the cash breakeven comment that you made. About 60% of passengers for -- is that kind of at flattish yields? And kind of what kind of ATL burn are you assuming in there?

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**Shane R. Tackett** - *Alaska Air Group, Inc. - CFO & EVP of finance*

Yes. I'll let Chris give some color on ATL because we prepared for this question. And he's got a lot of color on it. But yields, we are assuming lower yields. Maybe I won't share what the specific planning assumption is, but we are assuming pricing is depressed for a bit.

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**Christopher Michael Berry** - *Alaska Air Group, Inc. - VP of Finance & Controller*

Yes. And Savi, on ATL, I mean, most folks, I think, on the call know air traffic liability. It's really that cash we collect in advance of sending someone on a trip, right? So over time, that mix has changed dramatically. So if you look at where we were pre-COVID, about 95% of our total \$1.2 billion of ATL was related to tickets with a definitive departure date and 5% were related to credits like refunds and things like that.

Well, that's -- that mix has changed a lot. And we're about 50-50 now. So about \$600 million of our \$1.1 billion air traffic liability is related to these refunds that we've provided customers over the past few months. So that's a lot more difficult to forecast when that's going to be used versus the true ticket ATL. And so we're looking at that right now.

Andrew and his team are doing some promotions to entice people to use those credits maybe a little bit differently. But to give you some color, in Q3, about 15% to 20% of all new bookings were by using these credits versus cash. And typically, that's about a 2% of total bookings as using these credits. So we are seeing a cash headwind because of that, but we're doing a lot of things on the promotional side to make sure that customers have a choice whether to use those credits or use something else or convert those to miles by just giving our customers more options as we look at that, so that we can avoid sort of a run on the bank and that credit.

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**Benito Minicucci** - Alaska Air Group, Inc. - President of Alaska Airlines Inc. & Director

Chris, at this -- you were saying that it's roughly \$50 million of revenue in a month that's not...

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**Christopher Michael Berry** - Alaska Air Group, Inc. - VP of Finance & Controller

Bookings a month. That's not in cash flow. That's right. That's right.

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**Benito Minicucci** - Alaska Air Group, Inc. - President of Alaska Airlines Inc. & Director

Pulling away from credits, right.

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**Christopher Michael Berry** - Alaska Air Group, Inc. - VP of Finance & Controller

Does that help, Savi?

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**Operator**

The next question will come from Jamie Baker with JPMorgan.

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**Jamie Nathaniel Baker** - JPMorgan Chase & Co, Research Division - U.S. Airline and Aircraft Leasing Equity Analyst

Follow-up on Savi's question, and I recognize that ATL is part of the equation. But could you simply express cash breakeven on a revenue basis. That's how Southwest and others are doing it.

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**Benito Minicucci** - Alaska Air Group, Inc. - President of Alaska Airlines Inc. & Director

Sorry, I want to make sure I understand the question, Jamie.

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**Jamie Nathaniel Baker** - JPMorgan Chase & Co, Research Division - U.S. Airline and Aircraft Leasing Equity Analyst

Well, you were discussing cash breakeven on a passenger on a volume basis, but with lower yields. I'm just wondering, just put some goalposts around the actual revenue figure expressed as a percentage of 2019, that gets you in the ballpark of 0 cash burn?

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**Benito Minicucci** - Alaska Air Group, Inc. - President of Alaska Airlines Inc. & Director

Yes. It's close to 60%, 62%. And that's going to be about...

**Jamie Nathaniel Baker** - *JPMorgan Chase & Co, Research Division - U.S. Airline and Aircraft Leasing Equity Analyst*

And it's not negative 60% to 62%. That's 60% to 62% of 2019, correct?

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**Benito Minicucci** - *Alaska Air Group, Inc. - President of Alaska Airlines Inc. & Director*

Yes. Correct.

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**Jamie Nathaniel Baker** - *JPMorgan Chase & Co, Research Division - U.S. Airline and Aircraft Leasing Equity Analyst*

Okay. Perfect. Perfect. And then second question, can you give us some more color on demand trends to Hawaii? In particular, how quickly did they react to the recent headlines?

And also, what level of revenue are you running in the fourth quarter as a percentage of last year? American made the comment today that some of their short-haul international beach markets are sort of minus 30%. I'd recognized that your capacity is going to be down about 50% to and from the islands. But how should we think about the revenue component there?

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**Andrew R. Harrison** - *Alaska Airlines, Inc. - Chief Revenue Officer, Chief Commercial Officer & Executive VP*

Jamie, it's Andrew...

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**Jamie Nathaniel Baker** - *JPMorgan Chase & Co, Research Division - U.S. Airline and Aircraft Leasing Equity Analyst*

Because it seems like everything is pretty favorable at the moment.

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**Andrew R. Harrison** - *Alaska Airlines, Inc. - Chief Revenue Officer, Chief Commercial Officer & Executive VP*

Yes. I think what I can tell you what I'd have seen personally is that once Hawaii announced this program and the opening up, we started to see bookings, obviously, increase materially, and we continue to see every day higher bookings than the day before in Hawaii.

I would just say, though, that we're sort of going to be having about 19 flights a day starting in November going into December, and we used to have like 30, 33. So there's a long way to go, but I think, for us, as you know, it used to be double-digit percentages of our capacity and revenues Hawaii was, and it dropped down to like 2%. And so that, at least for us, as our revenue recovery goes, is a good story.

As it relates to bookings, in general, I think what's encouraging a little bit is that the close-in bookings are what they've always been and getting a little bit better, but what we are seeing is people willing and more comfortable to book further out. And that trend has been increasing week to week to week. So all that being said, we are headed in the right direction on those fronts, although it's slow going.

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**Jamie Nathaniel Baker** - *JPMorgan Chase & Co, Research Division - U.S. Airline and Aircraft Leasing Equity Analyst*

Would that imply a positive Hawaiian RASM in the first quarter then, possibly?

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**Andrew R. Harrison** - *Alaska Airlines, Inc. - Chief Revenue Officer, Chief Commercial Officer & Executive VP*

That's a great question, which we will not be answering, but thank you.

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**Operator**

The next question will come from Joseph DeNardi with Stifel.

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**Joseph William DeNardi** - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Airline Analyst*

Shane or Brad, when you think about your capital structure post-COVID, how much more conservatively do you think it needs to be as a result of kind of what's transpiring? Does this -- all this not change that? You just kind of hope it doesn't happen again? Or do you think you need to run the business with some sort of significant net cash position? Any thoughts there?

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**Bradley D. Tilden** - *Alaska Air Group, Inc. - Chairman, CEO & President*

Yes. It's a great question, Joe. I think we are -- we really feel supported. Our long-term strategy of keeping a conservative balance sheet, we've actually kept a pretty sizable cash position, the whole sort of financial profile on the P&L side, our low cost, low reliance on payers, we sort of feel like a time like this validates that strategy.

As we look forward, like would that change, would we want a higher percentage of cash to revenues or lower adjusted debt to cap? I think that's something we sort of watch and look to, right? I'll tell you, as we said in the script, I personally am really, really heartened by the fact that we are sitting here at September 30 and have not taken on net debt as a result of this crisis. It's sort of an amazing statistic, and the government gets credit for that. I mean the \$725 million of comp definitely, definitely helped us, but that helped us most in April and May when it was bad. We're doing much better sort of on our own now.

So I personally -- it's -- you guys -- you make us smarter with your questions, and it's something we should think about. But if -- myself, I think what we're seeing today sort of validated Alaska's profile going into this thing. I think it was a pretty good cash position, a pretty good balance sheet, excellent sort of setup for the marketplace in terms of low fares and low costs. And I'm not thinking, at the moment, we'd have a lot of changes coming out of this crisis. Shane, what's -- what do you think?

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**Shane R. Tackett** - *Alaska Air Group, Inc. - CFO & EVP of finance*

I actually totally agree with Brad. I think we might carry a little more cash for a little while until we get really confident in the recovery. But once we do, I think we had a really nice position going into this, that -- and it's worked out well for us over the next -- last 6 or 8 months.

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**Joseph William DeNardi** - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Airline Analyst*

Okay. That's helpful. And then, Andrew, can you talk about when you or when BofA thinks spend on the co-brand card will get back to where it was in 2019? And can you remind us the -- I guess, the status of the contract between you and Bank of America?

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**Andrew R. Harrison** - *Alaska Airlines, Inc. - Chief Revenue Officer, Chief Commercial Officer & Executive VP*

Yes. We have a number of years left on the contract. And we don't really disclose the exact dates, but there is a few years left on that. As we've shared historically about \$1.1 billion cash generated by the program, what I -- as I shared in my earlier remarks, the economy is obviously going to have an impact, and you can do your own modeling on credit card impacts of negative GDP. But I think the best thing I would share with you today is that our program has continued to grow. We've been flattish spend on our cardholders for the last 4 weeks, but again, it's at a level that is okay. It's not really bad.

**Shane R. Tackett** - Alaska Air Group, Inc. - CFO & EVP of finance

No. Like Andrew, correct me if I'm wrong, but I would -- like if you look at the spending and the economy of these cards, the vast majority of the spending is not on airline tickets. So it's some things other than airline tickets, and I would expect that our card is completely doing as any other credit card out there, probably better. It's -- people are spending less money on trips and going to shows and going to movies, and so credit card spending is down. But I would think that our card spending is right in line with the credit activity in the economy at large.

**Andrew R. Harrison** - Alaska Airlines, Inc. - Chief Revenue Officer, Chief Commercial Officer & Executive VP

yes. I will say, we know from speaking to the bank and others that our card is performing very well versus other cards. That's a true statement.

**Joseph William DeNardi** - Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Airline Analyst

Are you on a trend to get back there some time next year? Or is that way too soon?

**Andrew R. Harrison** - Alaska Airlines, Inc. - Chief Revenue Officer, Chief Commercial Officer & Executive VP

I don't plan on commenting on that. I think I would just roll all these comments into the whole cash flow discussion that we've been having.

**Benito Minicucci** - Alaska Air Group, Inc. - President of Alaska Airlines Inc. & Director

And the economy of -- it's sort of like how is the economy doing and what's the form of -- credit card form of payment in relation to economic activity, it's -- I'm not sure we have unique insight on this one.

**Operator**

The next question is from Hunter Keay with Wolfe Research.

**Hunter Kent Keay** - Wolfe Research, LLC - MD and Senior Analyst of Passenger Airlines, Aerospace & Defense

The PSP extension, if it's passed in the next few weeks, would you contemplate bringing these folks back onto the payroll, but just telling them to stay home until demand recovers to the point where they are needed? Or would you just bring them back and put them to work and just burn the cash like PSP is designed to be burned?

**Shane R. Tackett** - Alaska Air Group, Inc. - CFO & EVP of finance

Yes. Hunter, this is Shane. Yes, I think we -- our mindset is we want the right level of staffing for the amount of volume we've got today, and I think there are some provisions in the program that we have to, and of course, would follow. So some of that is at the choice of the employee, but what we had done previously is really offered leaves, and we had enhanced some of those leaves. I don't know if we would go back to enhance leave structures, but our -- we want to get back to having the right headcount for the volume that we've got. And so that's our focus. We've got targets for every division, I mentioned in the script. We'd like to get back to pre-Virgin productivity levels over time. And that's really where our mindset is right now.

The tough thing, I don't -- we don't -- there are different types of leave programs just based on the complexity of each of the professions that we have here. We don't generally have a mindset that is one where we want to pay a lot of money to people to not be working. It's a really unique sort of approach that's kind of had to happen just given everything that's going on right now, but that's not where our basic mindset would be. So we

would try to get people to continue to take leaves, if they could do that, and just have the right number of FTEs on staff that we need to run the operation.

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**Hunter Kent Keay** - *Wolfe Research, LLC - MD and Senior Analyst of Passenger Airlines, Aerospace & Defense*

Okay. But -- and as a follow-up, I mean, are you sure that you'd have enough folks? I mean you'd have minimum service requirements, presumably restored as part of PSP. You probably have to -- you said in the 8-K, you'd probably recall these 400 people relatively quickly. Are you going to have to pull some of the 4,000 back from voluntary leaves as well?

And to that, like if PSP comes, the nature of the question is, are you going to have to rehire the -- bring back the 400 folks, and then bring back another 500 folks from early leave. And then what sort of other costs would you incur in addition to just, obviously, labor costs to use PSP? What other friction costs arise?

I mean pulling planes out of storage and incurring more landing fees and things like that. What sort of incremental costs? How do we know that getting PSP is actually a good thing for the cash balance 6 months later?

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**Shane R. Tackett** - *Alaska Air Group, Inc. - CFO & EVP of finance*

Yes, really good question. I don't connect the two in terms of the recall relative to PSP. During the first PSP program, we had thousands of people on leaves during that -- on unpaid leaves during that period of months as well. So I really think our staffing is going to be a function, as I said, of the capacity we're planning to fly.

I think the downside case would be, if there was another sort of really negative trend on demand or something in forward months, where we currently have more aircraft than we would find that we needed at the time, that's something that we're cognizant could happen. It's not what we think is likely to happen right now. And so there is not a lot of incremental friction costs due to PSP. If we want to bring planes out, it's going to be because we've decided we want to operate that capacity. We're well within our current requirements for service right now with the current fleet we have. So we don't need incremental airplanes to do that nor do we need incremental people right now to meet those minimum conditions.

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**Operator**

The next question will come from Duane Pfennigwerth with Evercore ISI.

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**Duane Thomas Pfennigwerth** - *Evercore ISI Institutional Equities, Research Division - Senior MD*

Just with regard to fleet, appreciate the lease returns that you've outlined here. What is the primary factor you're trying to solve for? Is it operating cost or is it capital? And should we be positioning Alaska as like a very, very disciplined capital story at this point? Or are you just sort of biding your time to put in a big order on the MAX?

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**Shane R. Tackett** - *Alaska Air Group, Inc. - CFO & EVP of finance*

Duane, it's Shane. Thanks for the question. We're going to make this decision. There is a lot of factors that are going to go into it, but we're going to make it based on an NPV and a return perspective. We think we can do it in a way ultimately, that also helps the P&L, and that is totally responsible in terms of how we manage capital. There is -- and we've talked about this very openly. There is a case to be made that we can replace lease content with new lease content. So we -- and I know you all look at that as it is a commitment over a long term, but it's less immediate cash out the door.

So I think there is a lot of flexibility here on how we do this. Strangely enough, I think we're just -- we're sort of myself and Nat and the Treasury and fleet teams are very anxious to be able to go and get out of some of these pretty onerous leases that we have on the A320s and get into a

better aircraft or much better leases for us. So it's a couple of 3 years still to fully see its way through, but we're going to be very cognizant of how much cash we're using. We're going to be very cognizant of debt to cap, those sorts of metrics. We're not giving up on any of those sort of historical ideals that we've had, but...

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**Benito Minicucci** - Alaska Air Group, Inc. - President of Alaska Airlines Inc. & Director

It's both. It's return on invested capital. The return story has got to be there. The ROIC story has got to be there.

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**Shane R. Tackett** - Alaska Air Group, Inc. - CFO & EVP of finance

Yes.

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**Duane Thomas Pfennigwerth** - Evercore ISI Institutional Equities, Research Division - Senior MD

It's definitely an opportunity, and I appreciate that. I guess for now, how should investors be thinking about the annual CapEx over the last -- over the next few years?

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**Shane R. Tackett** - Alaska Air Group, Inc. - CFO & EVP of finance

Yes. No, no, that's another great question. I'll put that in sort of with Andrews in terms of forward look on unit costs as well. We're -- we know we -- that folks want to know kind of what our appetite for capital is over the next little bit. We're not in a position to give you a strong forecast today, and it's just because it's still in flux. It's -- we haven't made decisions yet. So as soon as we do make decisions, we'll be very transparent about those. We're just not at that point yet.

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**Duane Thomas Pfennigwerth** - Evercore ISI Institutional Equities, Research Division - Senior MD

I guess you have made comments, though, about deposits that you have out there and no more cash would go out the door until those deposits are absorbed. Is that still the case? Or has that changed?

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**Andrew R. Harrison** - Alaska Airlines, Inc. - Chief Revenue Officer, Chief Commercial Officer & Executive VP

No, that's totally consistent with our thinking today. We intend to draw those down before we use fresh capital.

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**Operator**

The next question will come from Catherine O'Brien with Goldman Sachs.

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**Catherine Maureen O'Brien** - Goldman Sachs Group, Inc., Research Division - Equity Analyst

Actually, a quick follow-up to Duane's question. So on the fleet decision, what's the gating factor? Do we need for the MAX to be flying again for you guys to make the decision? Is it just lessors have their handfulls and so you don't have a great line of sight on what the new lease costs will be? What's the gating factor for you guys to kind of pull the trigger on this?



**Nathaniel Pieper** - Alaska Airlines, Inc. - SVP of Fleet, Finance and Alliances

Katie, it's Nat Pieper. Thanks for the question. I think as we've been clear and consistent all along, we love all of our airplanes, but the A319s and the A320s are uneconomic relative to others. It's a logical time as we're resizing our fleet, getting into best match demand to really figure out how do we get the best economic aircraft on the field. And with the A320s, you can either shrink that suite, we can extend leases or we can replace them with something better.

We're talking to both Boeing and Airbus. We're talking to leasing companies. No surprise, Shane and I have a lot of friends these days on the phone. And I think what we're looking for is the right set of opportunistic chances to come into play. Of course, the MAX needs to be recertified for that to be a viable candidate airplane, and everything we're hearing from Boeing is positive on that front. So it certainly factors into our thinking as does the supply-demand imbalance for aircraft in the market.

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**Catherine Maureen O'Brien** - Goldman Sachs Group, Inc., Research Division - Equity Analyst

Got it. And then maybe just a follow-up on demand. One of your competitors noted that the correlation between bookings and COVID cases seems to be breaking down. I guess, first, are you seeing the same thing? And then if so, is that driven by -- purely by parts of the country that aren't subject to travel quarantines? Or are you seeing more momentum on demand from innovation like your pilot tests here in terms of getting people tested before flying to Hawaii? Any color there would be helpful.

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**Andrew R. Harrison** - Alaska Airlines, Inc. - Chief Revenue Officer, Chief Commercial Officer & Executive VP

Yes. Thanks, Katie. The way we think about it is really, we're in the wave 3. There was wave 1 at the beginning, wave 2 hitting the summer and wave 3 right now. And we're very much seeing everything that our competitors are seeing as it relates to that. I think a couple of things. I think, number one, and you hit on it, is that it's really occurring more in the middle of the country or outside of the core network. So the coasts are in a decent shape, all things being equal. So we're not seeing the impact there. And I also think that there is just as we talk more and all the more layers of safety, more people fly, and when they fly, they're okay to fly again. And I just think there's a little bit of positive momentum and that our -- again, we are just seeing our guests grow every single week for the last 10 weeks, and we have not seen that momentum slow.

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**Bradley D. Tilden** - Alaska Air Group, Inc. - Chairman, CEO & President

Yes. Katie, I'm sure this is available in public sources, industry sources as well. But bookings in the last 3 months have definitely been increasing at a higher rate than employment. And so I think, there is a greater disconnect between what coronavirus cases and so forth. I think as Andrew said earlier, people that have flown are having a good experience, are willing to come back. These data sources that are out there, the Department of Defense study, the IATA study, they are -- it is safe to fly. We totally believe that it's safe to fly, and I think our customers are increasingly having more confidence flying. So I think it all bodes well for the future.

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**Operator**

The next question is from Mike Linenberg with Deutsche Bank.

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**Michael John Linenberg** - Deutsche Bank AG, Research Division - MD and Senior Company Research Analyst

Just a couple of quick ones here. Actually, really a 2-part question just with respect to your decision to block middle seats into January. Ben, you spent a little bit of time talking about the science and suggested just based on what you said that maybe there was less of a need to do it. And then, Shane, you even talked about spilling traffic. So I'm curious, the decision to extend it, is that also driven by competitive reasons?

And then sort of a follow-up on that, by blocking that middle seat, maybe this is more to Andrew, just your ability to yield manage up. My sense is that with loads where they were across the industry, many carriers have really struggled to push shares up. And it's true, your yields are better, but I'm just curious anecdotally or even if you can give us something more tangible about your ability to hold out inventory for a longer period to get that higher fare?

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**Benito Minicucci** - Alaska Air Group, Inc. - President of Alaska Airlines Inc. & Director

Yes, Mike, thank you. It's a great question. So the way we look at it is, we know it's safe to fly. I think after 8 months of being in this thing, our operational experience and these latest scientific studies have just proven what our experience has shown is that it's safe to fly. The issue is that we know that -- and I'm sure if you talk to your family and friends and you talk to other folks that to fly as a whole probably is not in the same place where they're believing that it's safe to fly.

So our view is that we've got the next couple of months where we can educate even our own employees, educate customers that it is safe to fly as we slowly ease into the end of the year. And so that's how we were thinking about it. I mean it's -- honestly, it's safe to fly right now, but we've got some work to do, just getting the information out there. And as we get into the new year, like we said, we're going to calibrate how we're going to open up the middle seats. And I think we have a good plan, really early into the new year, again, given that things don't change radically from where we are today towards the first and second quarter.

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**Michael John Linenberg** - Deutsche Bank AG, Research Division - MD and Senior Company Research Analyst

Ben, would you consider -- if Christmas bookings are strong, would you consider on some flights removing that pre-January, first week of January?

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**Benito Minicucci** - Alaska Air Group, Inc. - President of Alaska Airlines Inc. & Director

What I would say with everything, Mike, is we want to be nimble. We want to look at all the information. We want to look at what's going on in there. Right now, we've made a decision that we're going to block through the end of the year, and that's been our thinking. But again, we'll gather all the information, and we'll make the right decisions every step of the way with our customers and with our employees in mind.

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**Michael John Linenberg** - Deutsche Bank AG, Research Division - MD and Senior Company Research Analyst

Okay. And then just the, Andrew, piece on ability to yield up?

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**Andrew R. Harrison** - Alaska Airlines, Inc. - Chief Revenue Officer, Chief Commercial Officer & Executive VP

Yes. I think -- so a couple of things. As we've said, we're going to be blocking through January 6. That's what we tell our guests, and they should have confidence when they book that we'll be blocking those seats. But to Ben's point, we're going to be revisiting that going forward.

RM will do what they will do and yield up on peak flights, but at the end of the day, there is a fixed basis cost of flying in aircraft. And obviously, the economics of the business are, we much prefer to have low fares and put more people on the same departure than to add more departures. So I think as we go into the new year and we continue to watch this environment, this will be an important part of our economics and how we bring cash flows in. And so more to come on that.

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**Operator**

The next question is from Brandon Oglenski with Barclays.

**Brandon Robert Oglenski** - Barclays Bank PLC, Research Division - VP & Senior Equity Analyst

Shane, I just want to come back to those structural cost opportunities. And I think getting back to 2019 CASMex, just to clarify, is that structured around being roughly 20% smaller? And I think there was a follow-up as well, being revenue breakeven around 60% to 62% of where you were in 2019, is that also assuming roughly 20% smaller airline?

**Shane R. Tackett** - Alaska Air Group, Inc. - CFO & EVP of finance

Yes, Brandon. So the way we've tried to articulate this is, even if we're smaller by 20%, we want to reach those unit cost goals. I'm not saying we're going to be smaller by 20%. Our assumption for next summer is, we are -- we want to get back to our pre-COVID levels and then grow from there. And we think we've got a business model that can do that. But we're going to be smart about it, and we've got to see the returns in order to get there.

To the degree that we're able to approach our pre-COVID size, it will be incrementally easier to get to our pre-COVID CASMex with the structural cost reductions that were identifying and executing. And so there could be some upside over time as we reapproach sort of our pre-COVID size. The 60% to 62% is simply the percent of revenue we need to get back to relative to 2019 at any size in order to get the cash breakeven.

**Brandon Robert Oglenski** - Barclays Bank PLC, Research Division - VP & Senior Equity Analyst

Well, appreciate that. And I think you clarified as well that you're targeting \$250 million in savings, and you're confident on the \$190 million. Could you go over those last few buckets of savings because it went really fast, if you mind.

**Shane R. Tackett** - Alaska Air Group, Inc. - CFO & EVP of finance

Yes, sorry, the ones that I said in the script that had sort of actual dollars attached for wages, really from the early-outs and the management reduction in force, non-wage overhead categories of at least \$35 million. Supplier rates, we have \$50 million, \$25 million of which we've already secured in that hotels, some of our software licensing, health care, some other areas. And then fleet is a big one, and that might be a little longer in terms of the timing. Productivity and some real estate savings as well are a couple of the other categories I mentioned.

**Operator**

The final question will come from Myles Walton with UBS.

**Myles Alexander Walton** - UBS Investment Bank, Research Division - MD & Senior Analyst

Just one clarification, one question. On the clarification, so the mainline fuel efficiency up 12%, it's been trending in that direction. I'm just curious, from a fleet perspective, can you just clarify on the sustainability of that level of efficiency?

And secondly, on the regional, as a percent of the network as you reconstitute here, should we think about it going back to 10% of the network versus the 20% you've been running? Or is there any difference in change as you reconstitute the network how are you thinking about the regional composition as well?

**Shane R. Tackett** - Alaska Air Group, Inc. - CFO & EVP of finance

Myles, maybe I'll take both of those just to be super efficient. On the fuel efficiency thing, there's 3 drivers: one is, we're relatively flying more fuel-efficient aircraft, so the ones that we have parked tend to be some of our least fuel efficient aircraft; two, there is just no -- well, they're starting

to come back, but there weren't taxi really lines for a long period of time, so we're not burning fuel sort of waiting for planes to get on to the runway and take -- and then light loads is the third contributor. And so I don't -- as flights come back, as people come back and our full fleet comes back and more of our full fleet comes back, you'll see that not perform as well.

And then I think long term, in terms of what the network shakeout is, it's a bit up in the air, I think our focus right now is getting our mainline operation back to pre-COVID levels, which would put us back to the 90-10 split that we had prior. We've got a couple of regional aircraft on order several years from now, and we don't really -- we're not actively working on something right now different than that.

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**Andrew R. Harrison** - Alaska Airlines, Inc. - Chief Revenue Officer, Chief Commercial Officer & Executive VP

But the regional flying will be pretty much back to pre-COVID level in the November, December. And so that percentage change is going to be moving around as we bring more mainline back.

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**Bradley D. Tilden** - Alaska Air Group, Inc. - Chairman, CEO & President

I think that concludes the time that we've got today. We appreciate everybody's interest in us, and we look forward to talking with you all in 90 days' time. Thank you.

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**Operator**

Thank you for participating in today's conference call. This call will be available for future playback at [alaskaair.com](http://alaskaair.com). You may now disconnect.

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