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ALK - Q3 2019 Alaska Air Group Inc Earnings Call

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OVERVIEW:

Co. reported 3Q19 GAAP net income of $322m, adjusted net income of $326m and adjusted EPS of $2.63.

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PRESENTATION

Operator

Good afternoon, 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's Third Quarter Earnings Release Conference Call. Today's call is being recorded and will be accessible for future playback at alaskaair.com. (Operator Instructions) I would now like to turn the call over to Alaska Air Group's Director, Investor Relations, Emily Halverson.

Emily Halverson

Thanks, Thea. Good afternoon, and thank you for joining us for our third quarter 2019 earnings call. I've started to get to know many of you, but for those who I haven't yet met, I have been with Alaska for 4 years in the accounting world, and I'm looking forward to working with each of you in my new role. In today's prepared remarks, you'll hear updates from our leaders Brad Tilden, Andrew Harrison, Brandon Pedersen and Ben Minicucci.

Several other members of our management team are also on hand to answer your questions during the Q&A portion of the call.

This afternoon, Alaska Air Group reported third quarter GAAP net income of $322 million. Excluding merger-related costs and mark-to-market fuel hedging adjustments, Air Group reported adjusted net income of $326 million and adjusted earnings per share of $2.63, ahead of first call consensus.

These results compare to adjusted net income of $237 million and adjusted earnings per share of $1.91 in the third quarter of 2018. Our third quarter adjusted pretax margin expanded 360 basis points to 17.6%.

As a reminder, our comments today will include forward-looking statements on our expected future performance, which may differ materially from 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've provided a reconciliation between the most directly comparable GAAP and non-GAAP measures in our earnings release filed today. And now I'll turn the call over to Brad for his opening remarks.

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

Thanks very much, Emily, and good afternoon, everybody. Before I get into this quarter's results, I want to take just a moment to acknowledge the recent incident at one of our code share partners in the State of Alaska, PenAir. One of their SAAB 2000 aircraft overran the runway in Dutch Harbor 1 week ago today, and this tragically resulted in 1 passenger fatality and 1 guest being in critical condition for 1 day. Our thoughts and prayers go out to the guests who were onboard, to their families and loved ones and to our partners at PenAir. This is a somber reminder to me and to the rest of our leadership team of the grave responsibility that we shoulder and of the continued need for us to underscore the importance of safety with our people and our partners at every opportunity, and to back up this understanding with our actions every day.

Now moving to our third quarter results, I want to congratulate the fantastic folks at Alaska, Horizon and McGee for delivering the industry's best customer service and operational performance, which together drove our strong results.

Our revenue was up 8% for the quarter on 3.4% more capacity. And Horizon had a terrific quarter, as they grew capacity by 24%, while reducing non-fuel costs by 1.5 points. As they absorbed all 30 of their new E175 aircraft that have been delivered over the past 3 years.

The team at Horizon led by Gary Beck has increased productivity for the 5th quarter in a row and has met our goal for guest satisfaction in all but 1 month this year. Additionally, our commercial team has been working very hard, and they've produced industry-leading unit revenue growth of 4.5% on solid demand, as evidenced by our highest quarterly load factor in the last 5 years.

It is fantastic work like this that expanded our pretax margin by 360 basis points to 17.6%, our best result in 2 years. If we look at our results on an absolute basis, our adjusted net income for the last 12 months was $709 million, and that's up nearly 30% from the prior 12 months. We converted that net income to $1.6 billion of operating cash flow. And with our effort in the last couple of years to adjust capital spending, our free cash flow was very strong at $695 million. In other words, we're converting 98% of our net income to free cash flow.

Our company is producing good earnings and converting those earnings into solid free cash flow. We view free cash flow conversions as one of the critical measures of how we drive value for our shareholders. While it won't be the case in the next couple of years, in the last 2 years, we've been using our free cash flow to pay down acquisition debt and also to return cash to shareholders through our dividend and share repurchases.

On debt reduction, by year-end, we will have repaid $1.5 billion or 75% of the $2 billion we borrowed to buy Virgin America. And at 42%, we are quickly approaching our long-term, adjusted debt-to-cap goal of 40%. Strengthening our fortress balance sheet positions us to be flexible and opportunistic and to make the best strategic and capital allocation decisions in the future.

We carried a record number of guests this past summer. Our team's full focus has returned to running a great airline and it is showing. I'd like to share 2 recent achievements: first, our people were once again recognized as the best U.S. Airline by Condé Nast Traveler in its annual Reader's Choice Awards. This is the second year in a row that we won this award, and we're continuing an 11-year run that Virgin America had before us. We can't thank our employees enough for their skill and dedication in serving our guests; and second, 3 important labor deals, which represent over 6,000 of our people were ratified this quarter. We're proud to get these deals done for our folks, and Ben will tell you more about them in just a moment.

If you've done the math on our recent guidance, you've likely estimated that our 2019 margins will be somewhere around 11% to 12%, up from just below 9% last year. We're encouraged by our progress, but we do not believe we're at the destination. On the subject of ROIC, we expect to end 2019 in the range of 12% to 13%, which is up significantly from 9.4% last year. As we look beyond 2019, we're developing plans that will put us into our stated pretax margin range of 13% to 15% over the business cycle.

Andrew and Brandon will now share more detail about the quarter, and then Ben will round it out with some discussion on our 5-year strategic plan. The plan addresses our product and loyalty strategy, our revenue initiatives, our cost structure, our network structure, a vision for our fleet and more. We're challenging ourselves to create specific blueprints so that we can deliver in critical areas and thereby, honor our commitments to all of the people who are depending on us. We're excited about the plan, and we look forward to sharing components of it with you in the quarters ahead. And with that, I'll turn this over to Andrew.

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

Thanks, Brad, and good afternoon, everyone. My comments this afternoon will focus on third quarter revenue performance, progress on guest-facing initiatives and revenue guidance for the fourth quarter. Our 4.5% improvement in unit revenues is 260 basis points better than the industry and highlights the effectiveness of our revenue initiatives and the work we are doing to harness merger synergies. Our third quarter result was our best absolute RASM in the past 3 years, and as Brad mentioned, our load factor was the highest we've seen in 5 years. Demand was healthy across our network during the quarter. This was demonstrated by a 1 point improvement in load factor and 3.5 percentage point improvement in yield.

Hawaii, which has been experiencing elevated industry capacity and soft-pricing performed well. Notwithstanding the fact that industry capacity and our own capacity were both up nearly 7%, we still produced a modest unit revenue increase.

We've continued the strong momentum that we started in Q2 in our transcon markets out of California and New York. Earlier this year, these regions were under a lot of yield pressure. Teams across the organization came together to diagnose the problems, develop a plan and execute the plan. Through cross fleeting, the addition of satellite Wi-Fi, dialing in the schedule and fare structure and a committed focus to improving the guest experience, we achieved meaningful RASM and margin improvements. Our value proposition hinges on offering low fares, while providing award-winning service, generous rewards and premium product, and our people are delivering on this.

Our revenue improvement is a direct result of our initiatives and synergies. At Investor Day, we shared a roadmap with you that laid out our intention to deliver $330 million in incremental 2019 revenues. Unlike in the first and second quarter, our initiatives delivered their full annual run rate this quarter. Three quarters into the year, we are confident that we'll deliver on the $330 million. I'm going to share more on go-forward initiatives and strategies in a moment.

We also continue to see double-digit percentage growth in our loyalty revenues, which, as a reminder, comprise award redemptions and credit card commissions. A large driver of this result was the 8% increase in redemption revenue on our metal, evidence of our generous availability for award travel.

We continue to see growth in both Mileage Plan members and credit cardholders and are particularly encouraged to see that nearly 1/3 of our year-to-date growth in credit cardholders are guests living in California. Nearly half of all of our guests are members of our loyalty program, which has consistently been recognized as the best in the industry.

Another bright spot was the improvement in the sales of our premium cabin products. First Class revenue was up 16% on 10.5% more seats, Premium Class revenue was up 13% on 12% more seats. Our network has shifted over the years to where nearly 50% of our capacity is at trip length of 5 hours or longer. This drives strong demand for our premium products, and we are very pleased with these results. As we build out our Airbus interiors to add more premium seating, we expect premium revenue growth will continue to outpace system-wide revenue increases.

Besides premium seating, we've made significant investments over the past few years in our product, while building out our hubs and focus cities on the West Coast.

These improvements include satellite Wi-Fi, new interiors on Airbus aircraft and investment in our lounges. This quarter, we expanded our lounge capacity nearly 60% when we opened our 15,000 square foot lounge in Sea-Tac's North terminal. Guest satisfaction scores at the new lounge are 15 points higher than the system average and day pass sales have doubled. We've also seen record-breaking trends in lounge membership growth. In the first month after opening, new member enrollments were quadrupled our program average.

We're applying our learning from the North Satellite lounge to our new San Francisco lounge set to open in early 2020. Now as you know, our lounge members are mostly elite and high-frequency travelers, so these facilities are very important to us.

Before I move to guidance, I'd like to highlight that we made network adjustments that we announced during the third quarter, which are aimed at creating more desirable connections for our guests between our hubs and focus cities in California and our focus cities in the Northwest. These include flights from California to Spokane, Redmond, Missoula, Boise and Anchorage. As we grow capacity at a lower rate than we have historically, our focus is on careful reallocation of capacity given the seasonality in our network as well as growing market share in our strategically important markets on the West Coast. Initial signs are encouraging, as we are already seeing positive results in demand and margin generation from these types of changes.

Looking to Q4, our capacity will grow modestly at approximately 4%. Our Q4 RASM guidance range is up 1% to 4% on much harder comps from Q4 of 2018. This guidance reflects our optimism in our revenue initiatives as well as the continuation of demand and pricing trends we are currently seeing.

Many of you ask regularly about how we are doing on revenue synergies, which we laid out at our Investor Day in November of 2018. As we shared with you at that time, our total expected merger synergies were $300 million, $240 million of which are revenue synergies. We realized $65 million of these through 2018, and as mentioned earlier, we're on pace to realize the full $130 million that we expected this year. All of our cost synergies have effectively been realized to date, leaving $105 million of revenue synergies that we still need to achieve. Approximately $60 million of this is slated for 2020 and $45 million in 2021. So we'd like to sort of tie off these historical synergies and commitments and establish for the record that our remaining commitments heading into 2020 is for $60 million in revenue synergies and the annualization of our 2019 revenue initiatives, which will be approximately $65 million.

So in total, that's $125 million in 2020 or about 1.5 points of RASM. We will be adding our 2020 revenue initiatives to this commitment and we'll share with the -- share these with you on our call in January. Continued delivery of revenue growth is my team's top priority, and we're optimistic about what we can bring in 2020. And with that, I'll turn the call over to Brandon.

Brandon S. Pedersen - *Alaska Air Group, Inc. - CFO, Executive VP of Finance & Treasurer*

Thanks, Andrew, and good afternoon, everybody. We're pleased to report a 38% improvement in both adjusted net income and earnings per share as well as a third consecutive quarter of margin improvement. As others have highlighted, our 17.6% pretax margin reflects a 360 basis point expansion year-over-year and was a direct result of the initiatives we laid out at Investor Day last year.

With our Q3 results and our Q4 guidance issued today, we're on pace to have a full year pretax margin of between 11% and 12%, which would be up 200 to 300 basis points from last year and meaningful progress on our path to 13% to 15% margins.

Since Andrew touched on the revenues, I'll focus on the cost performance for Q3 and the outlook for the remainder of the year. Our unit costs increased 3.4% on a similar increase in capacity, and the result was about 150 basis points better than our initial guidance in July. It bears mentioning that the quarter included $24 million in signing bonuses associated with the ratification of new deals with Alaska's AMFA and IAM represented employees. Without the signing bonus, our CASM would have been up less than 2%. We saw excellent cost performance for most of our operating divisions, although some costs did shift out to Q4 and even a little bit into Q1 of next year; pilot cross training is an example.

We've talked many times about our duel-pronged strategy to manage costs, those being high productivity and low overhead. Productivity was strong during the quarter. Aggregate Air Group productivity, which we measure using guests per FTE, came in better-than-planned and improved nearly 2 points from prior year. Year-to-date productivity for our airports team and our guest contact team deserves special mention as both have exceeded productivity targets for both planned and prior year -- and over prior year. On the overhead side, there's another good story here too. Overhead is tracking nearly 3% or $16 million under prior year for the first 9 months of 2019.

Looking ahead to the fourth quarter, we expect CASMex to be up slightly on just less than 4% increase in capacity. This would be the best quarterly unit cost performance since the fourth quarter of 2016. We're benefiting from higher growth, offset by some of the timing shifts we've been talking about over the last couple of quarters and higher wage rates following ratification of the new contracts. The modest increase in Q4 costs will bring the full year result to 2.2% CASMex growth on a 2% -- excuse me, 2.1% capacity growth. Normally, we would celebrate unit cost declines, not increases. But given the step change increase in labor costs we've had this year and the very low growth relative to our recent history, we're pleased with the result and it demonstrates what we can achieve with a back-to-basics approach to cost execution with a sharp focus on productivity and operating our business with a low overhead mindset.

As you've heard, our teams are working diligently on our 2020 plan, including our cost plan. We recognize that low costs widen the competitive moat we have versus higher cost legacy carriers and are critical for us to eventually return to the higher-growth levels that we've historically enjoyed. While we don't plan to share guidance with you today, I can share some higher-level context for the cost challenges and opportunities we face in 2020.

First notable headwinds include: first, a higher number of scheduled engine and airframe events in 2020; second, we'll begin to see the cost impact of Airbus lease returns. Although, we only have 1 return scheduled for 2020, we have 9 returns scheduled for 2021, and we begin accruing for these leases return costs 12 months in advance; and third, increased airport costs. Offsetting those headwinds, however, we see the following opportunities: first, higher ASM growth over which to spread our fixed costs. We'll grow between 3% to 4% next year, with that growth nearly all coming from lower unit cost mainline growth as Horizon has now taken all of their E175 deliveries; second, further productivity gains; third, continued simplification of our overhead structure, including changes that will allow us to be more agile and more quick with our decision-making; and fourth, annualization of many of the benefits of our supplier cost-reduction initiatives, which generated more than $35 million in savings in 2019. Our planning mindset is one of aggressive cost management and progress toward our 13% to 15% pretax margin goal, and I look forward to sharing more detail with you on our year-end call in January.

Turning to the balance sheet. We ended the quarter with $1.6 billion in cash and marketable securities. Total cash flow from operations for the first 9 months of the year was nearly $1.5 billion, excluding merger-related costs and the pension contribution, while net CapEx was $525 million. This resulted in approximately $950 million of free cash flow, which marked a nearly $460 million improvement upon last year's results. At full year consensus, free cash flow yield is almost 11%. Free cash flow conversion over the first 9 months of the year was exceptional, but we're benefiting from a very low cash taxes combined with a low CapEx year.

Our number one capital allocation priority for the year has been deleveraging our balance sheet. As Brad said, we closed the quarter with a debt-to-cap ratio of 42% and a trailing 12-month net-debt-to-EBITDAR ratio of 1. By year-end, debt-to-cap will be at 41%, and as you've already heard, we'll have paid off 75% of the merger-related debt. Our treasury team has done a phenomenal job this year, not only working to redeleverage the balance sheet but has also taken advantage of the historically low interest rates to refinance and/or restructure our debt-to-low fixed rates. At the end of the third quarter, our weighted average interest rate is at 3.2%, with over 75% of our portfolio now fixed at historically low interest rates.

Rounding out our fortress balance sheet, our 104 unencumbered mainline and E175 aircraft and $400 million of undrawn lines of credit. Our strong performance this year has also allowed us to make some positive changes to our capital allocation plan for the year: first, we elected to make a voluntary pension contribution of $65 million to our defined benefit pension plans, which are about 80% funded in the aggregate; and second, we increased our planned full year share repurchase from $50 million to $75 million given our strong cash flow.

During the quarter, we bought back $28 million of our shares, including $10 million over a 2-day period at a volume weighted average price of around $58 per share. With the dividend, which we have increased 6x since we initiated it in 2013, we expect to return $248 million to our shareholders this year or more than 25% of our free cash flow.

Coming back to our 5-year plan, our fortress balance sheet positions us to substantially increase returns to our owners and/or place an aircraft order that would fund growth and allow us to retire smaller less efficient aircraft, which should improve -- which would improve both our ability to generate additional revenue and lower unit costs. As we finish up our long-term fleet study, we're also developing an order strategy that allows us to best leverage our market position and structure delivery timing that preserves our ability to generate free cash flow. And now I'll turn the call over to Ben.

Benito Minicucci - *Alaska Air Group, Inc. - President & COO of Alaska Airlines Inc and CEO of Virgin America Inc*

Thanks, Brandon, and good afternoon, everyone. As the financial results highlight, it has been a productive summer here at Alaska. With a bulk of the work of the integration largely behind us, we are focused on realizing synergies and initiatives and improving our cost profile. A large part of that is providing visibility into our future labor cost. As Brad mentioned, there were 3 new labor deals ratified during the quarter, one with our aircraft technicians, another with customer service agents and reservation agents and clerical workers and the third with our ramp, cargo and stores agents. We're thrilled to have these labor agreements in place to recognize who we believe to be the best employees in the industry, while also securing long-term contracts that provide line of sight for the company over the next several years. In the case of our aircraft technicians, we have now begun cross training on both fleet types, which we expect to be completed by the first quarter of 2020, further enhancing productivity and operational reliability.

In addition to our industry-leading financial results, our front-line teams are delivering outstanding operational reliability and award-winning service to our guests. As you know, we track these metrics religiously internally. But just as importantly, it is validated by external sources too. To add to the recent recognition by Condé Nast as the best U.S. airline, Alaska was also just recognized as "America's Best Customer Service" in airlines by Newsweek, "Best Airline Rewards Program" by U.S. News & World Report, the top-rated airline in the Dow Jones Sustainability Index and ranked by Forbes magazine as one of the Top 100 Best Companies to work for in the world. These awards are significant, not only because we love to see our people recognized but because they highlight that staying focused on our core competitive advantages resonates with guests and really does make a difference to the bottom line, even while executing a complex merger.

We are creating a future that continues to build on these core principles which drive preference for our product and operational reliability. They include: low fares and low costs, best-in-class customer service, the industry's most generous mileage plan, a fuel-efficient fleet, a well-loved brand and a fortress balance sheet.

As we've navigated the integration over the past 3 years, we've admittedly put certain longer-term strategic planning efforts on pause. We believe it was the right thing to do to ensure we completed the integration on an aggressive time line that exceeded expectations and allowed for a singular focus on returning to the well-oiled machine that Alaska is known to be. This past summer, our senior leadership team has been focused on building out our 5-year strategic plan that addresses where we want to take our network, our fleet, brand, loyalty program and financial performance. While we aren't yet ready to share the specifics, I'm pleased with how the plan is taking shape. There's still work to do as we refine the strategy that has helped to shape our past success, while we develop new strategies to build an even stronger Alaska for the future, centered around sustainable growth, our people and a strong business model.

We have a lot of work left to do, but the improvements we've seen this year and the momentum we are building with our network, our product, our people and our financial results, give us a ton of confidence in the future success of our company. And with that, we'll open up the line for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And the first question will come from Catherine O'Brien with Goldman Sachs.

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

Maybe one for Andrew first. So you called out the $125 million in Alaska-specific revenue initiatives you've got next year. Does that include any future initiatives? I'm pretty sure it says annualization of this year and then continuation of some of the merger revenue synergies. I think you guys have a new RMA assistant coming online next year, should that drive any initial -- any incremental benefit or is that already contemplated in the number?

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

Yes, that's right, Catie. What I said was the carryover synergies and initiatives from 2019, is going to be about 1.5 points of unit revenue. In January, on our call, we will share with you the incremental revenues we expect from our initiatives for 2020. So we'll do that in 3 months' time.

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

Good. And then maybe 2 quick ones on costs. So great cost performance again in the third quarter. Guessing that we should assume that since you maintained the full year cost outlook, was that mostly timing or something else going on there? And then maybe just on the lease returns section here, are there any maintenance reserves that you're going to put those against on the cash side?

Brandon S. Pedersen - *Alaska Air Group, Inc. - CFO, Executive VP of Finance & Treasurer*

Catie, it's Brandon, maybe I'll take those. On the cost, yes, thanks. We were really pleased with our third quarter cost performance as well. You're right, we maintained the full year cost flow or the cost number at the same level. So we did see some of those costs that we've been talking about shifting out of Q2 in Q3 into Q4. That explains the vast majority of it. ASM's are down slightly. Yes, that's basically it. On the -- what was the second question?

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

Maintenance reserves.

Brandon S. Pedersen - *Alaska Air Group, Inc. - CFO, Executive VP of Finance & Treasurer*

Oh, maintenance reserves, yes. That's a really complicated area. Of course, there will be offsets associated with how we treat the maintenance reserves as we settle all these lease returns obligations up. But that's factored into -- we'll factor that into the guidance.

Operator

The next question is from Duane Pfennigwerth with Evercore.

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

Can you just remind us maybe what the gating factors are on getting more aggressive on the buyback? If it's to completely repay all of the debt you borrowed or to hit that leverage target, which you seem quite close to now?

Brandon S. Pedersen - *Alaska Air Group, Inc. - CFO, Executive VP of Finance & Treasurer*

Duane, it's Brandon. I tried to cover it a little bit in the prepared remarks. We are awfully close to our leverage target, we're at -- going to end the year at 41%. Our goal was 40%. That wasn't an exact goal. I think we're going to cross into the sub-40% territory early to sort of mid-ish next year. I don't think we've necessarily decided if we're going to "pay off all of the Virgin America debt" although we simply could. The point really that we're trying to convey is that our balance sheet is rock solid and it gives us some optionality, whether it's increased returns to shareholders and/or position us to do something with the fleet that doesn't impact the balance sheet too negatively.

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

And then sorry, I think you covered it as well but it's been a long day already admittedly so I apologize. Just on the headwinds and tailwinds for costs and where those net out? I don't know if you're in a position to give guidance yet on '20 CASM.

Brandon S. Pedersen - *Alaska Air Group, Inc. - CFO, Executive VP of Finance & Treasurer*

Yes. Me again. No, we're not. I mean we're going through the planning process now and what I can say is that we've got a lot of cost momentum going into 2020, but our people are working their budgets really hard right now.

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

Duane, I might jump onto the sort of capital allocation question. I think everybody knows here, we -- strategically we felt like the industry is changing, we needed to get bigger, we bought Virgin America, borrowed $2 billion. In the last 2.5 years have paid $1.5 billion of that off. The one thing we know is that in 2020 and 2021, we won't -- we might pay down a little bit more debt, but I think mentally, we're sort of crossing a threshold here that we're done dealing with the Virgin America debt, and we're going to be looking forward, looking at new capital allocation opportunities for the company.

Operator

The next question is from Savi Syth with Raymond James.

Savanthi Nipunika Syth - *Raymond James & Associates, Inc., Research Division - Airlines Analyst*

Andrew, you talked a little bit about some of the network changes that you've made kind of focusing on some of the shorter-haul business markets, but I was looking and it seems like it is shorter haul and you're kind of moving away from the transcon. Could you talk about what you're seeing on the transcon and why transcon might be funding some of the shorter-haul growth?

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

Yes, Savi, I'm not quite sure on the transcon. We've actually increased out flying, especially out of Pacific Northwest with the seasonality. Really, if you look at the network moves, you're seeing that a number of what I'd call mid-continent flights out of California that quite frankly, are very seasonally poor in the fourth quarter and certainly, the first quarter. And so what we've been doing with aircraft is it instead of doing that, we've been flying those aircraft up into our core Pacific Northwest and connecting directly with some of our larger focus cities. And then we've also increased our capacity out of the Pacific Northwest during the winter quarters to take advantage of the seasonality there. Overall, as I've mentioned in the notes, our transcon network from California has significantly improved, and it's doing good things. And so we continue to commit to that. But those are most of the changes. There are just really some of these short hauls going up the Pacific Northwest instead of mid-continent.

Savanthi Nipunika Syth - *Raymond James & Associates, Inc., Research Division - Airlines Analyst*

Got it. I misunderstood that. And then you just -- you mentioned Hawaii was -- did well in the third quarter. I know there were some easy comps. Just as you kind of look forward, any thoughts there since that was kind of one of the bigger areas? And just -- a follow on to that, last time we talked about Alaska as well and is that -- I think that was supposed to be just like a summer -- a seasonal pressure, but I just want to clarify that, that was still the case.

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

Right. Yes. On the Hawaii, you're right, there was some bad weather and volcanoes and all sorts of other things that were happening last year. But I think what we're seeing is still very solid demand, great load factors. And as I've mentioned in my prepared remarks, we -- our airplanes are really configured well, especially for Hawaii. With that Premium Class cabin, the First Class cabin, which has great demand on a Hawaii flights and just the service we provide. We're really made for these longer-haul flight. And so we feel really good about that. Of course, with Hawaii, if there's more capacity comes in, that puts yields on the pressure, but we feel very well prepared for that. On the Alaska story, you're right. In the summer, we have a lot of people who like to fly to Alaska. Some folks are flying wide bodies, longer distances. But we cater to very much demand on the West Coast and we do a good job connecting it. So I don't see that to be a huge issue as we move into 2020.

Operator

The next question is from Jamie Baker with JPMorgan.

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

Starting on a housekeeping item. The fuel efficiency that's implied by the fourth quarter guide shows more deterioration year-on-year than what we've seen earlier in the year, also the sequential decline is a bit more than customary. I've recognized there's probably some wiggle room in there around completion factor. But is that just the modest shift to shorter stage lengths? Because that's been going on for a while. So I'm just -- I'm surprised that it's more pronounced in the fourth quarter.

Brandon S. Pedersen - *Alaska Air Group, Inc. - CFO, Executive VP of Finance & Treasurer*

Jamie, it's Brandon. Are you looking at ASMs per gallon or what's your metric that you're looking at?

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

Yes, sir. At ASMs per gallon.

Brandon S. Pedersen - *Alaska Air Group, Inc. - CFO, Executive VP of Finance & Treasurer*

Yes. The only thing I can -- I don't have that at my fingertips. But the only thing I'm guessing is that on a year-over-year basis, it reflects the increase in regional flying as a percentage, given the fact that Horizon took so many E175s late last year and then into this year. And I'm guessing that's probably the contributing factor.

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

Okay. Cool. And second, and this sort of follows on Duane's line of questioning. You talked about some of the headwinds and tailwinds, puts and takes on actual CASM for next year. I had forgotten about lease return accruals, for example, so thank you for that. But I'm wondering if you could expand that narrative from costs to pretax margin. Synergies are obviously going to be a tailwind, you've talked about that, but how are you thinking about the other dynamics as it relates to pretax margin next year? Fuel the industry impact of the MAX coming back, more Southwest service to Hawaii. What are the 3 or 4 items in the tailwind and the headwind buckets?

Shane R. Tackett - *Alaska Air Group, Inc. - Executive VP of Planning & Strategy of Alaska Airlines, Inc.*

Jamie, it's Shane, good afternoon. That is an excellent question. I don't think I'm going to sort of delve into anything that gets close to guidance. But as we -- I'll just remind you that we laid out a roadmap to get to 13% to 15% 18 months ago at Investor Day. I think as Andrew noted, we've got a bunch of commitment to you all that we need to deliver on, on the revenue side to sort of complete what we had talked about their, and we intend to do that next year. And we intend to add to that amount ultimately. And that's what Andrew alluded to in the script in terms of new initiatives that we'd like to talk to you guys about in the first quarter. On the cost side, I think at Investor Day, Brandon mentioned or I did, we always face 4% to 5% sort of just core cost pressure internally within company. We're growing 3% to 4%. So we're trying to find ways to continue to manage ourselves to a number that's more in line with our historical norm of flattish on the cost side. But our goal would be to see margins ultimately continue to expand. But we haven't done all that planning yet. And to your point, the industry dynamic is changing, so we obviously will be talking to you all more in the coming months about next year.

Operator

The next question is from Helane Becker with Cowen.

Helane R. Becker - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

So here's my one question. You were supposed to have some MAX this year. I think you're thinking all 10 of them are going to come next year. And I know they're not in the schedule, et cetera. But are you -- given those issues, are you thinking about the Airbus aircraft on a more serious basis? I mean obviously, you're not because you're doing lease returns. But are you thinking about more Airbus aircraft and less Boeing aircraft, or are you still kind of focused on those 73s?

Brandon S. Pedersen - *Alaska Air Group, Inc. - CFO, Executive VP of Finance & Treasurer*

Helane, it's Brandon. I want to reintroduce to you and introduce to the rest of the folks on the call, Nat Pieper. Nat's our Senior Vice President of Fleet, Finance and Alliances. That sounds like a perfect opportunity for him to share his views on that.

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

It's a mouthful title. Sure, Helane. Just a quick reminder, we, of course, have Airbus aircraft as well. 319s, 320s and A321neos. It's all really part of the fleet initiative that we've been working for some time. It's a core component of our 3- to 5-year strategy and a 13% to 15% margin targets. We're looking at near-term opportunities to retire inefficient aircraft as well as longer term looking for the best aircraft for our future network. We're confident in the margin accretion possibilities, there's going to be upgauge involved, new aircraft obviously feature a step-function improvement in airframe and engine technology. So we're working closely, talking to manufacturers and really hoping to bring something out here in the next handful of months. We're going to order, in a financially prudent way, obviously, and manage our CapEx and cash flow. And end up with an airplane that we know our guests and our Alaska teammates are going to really want to fly.

Helane R. Becker - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Okay. I just had one follow-up question. I don't remember who talked about airport costs, but I've heard other of your peer group complain about airport cost too. When they -- and actually, Spirit this morning, they commented that airport costs should be a pass-through. So wouldn't you -- as you think about those airport costs, would you think about raising fares in those markets so that you recover some of that cost?

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

I might jump in, Helane. The first thing, I just -- one of the fun things about these jobs is you get to see your own people move up and sort of move around. You see new people come into the organization. Nat is a tremendous addition to the team. I've known Nat for, I don't know how long, Nat, 15 or 20 years now, and it's just delightful to have you here. I think you're making an excellent point on airport costs. Other airlines may have different perspectives but the truth is, not only airports but a whole lot of our infrastructure needs a lot of investment and Sea-Tac airport, as an example, our home, it needs a lot of investment. And we have to -- we want them to invest efficiently. We want them to build the right projects, but we've got to be their partner on that. We've got -- the investment need to be made. And I think there are investments that any of us would make if it was our home or our car or whatever. So yes. And of course, we do want to find a way to recover those investments through modest increases in fares that help us, sort of, keep the whole value proposition together. But I don't think Sea-Tac is that unique. I sort of think airports all across the country need investment and that's sort of the season we're entering. We've been in it to some extent, but I think the next 10, 15 years, we're going to be seeing this in a lot of airports.

Operator

The next question is from Hunter Keay with Wolfe Research.

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

So you talked a lot about the 8% growth in redemption. Shane, can you talk to me about your current assumptions on breakage, which I think are around 17%, that seems high. How do you feel about that number right now in sort of the modern loyalty era? And all else equal, forget the P&L for a second, would you rather see that 17% breakage go down or go up?

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

Well, this is Chris.

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

Chris, I already know your answer. I -- yes.

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

So the -- and I'll let Shane answer it too. But the 17%, yes, we do actually look at that on a semiannual basis really, to say is that still falling in line with our expectations. And the reality is we would change it if it were materially different from that. In terms of whether we would want that higher or lower, I can tell you my answer from an accounting standpoint but it's not probably the answer from a business standpoint so I'll let Shane, if he wants to take that, Shane or Andrew.

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

I'll just take that. I think -- Hunter I get the accounting side and all the rest of it. But I think at the end of the day, we want breakage to go down. If breakage goes down that means people are using our program. And we saw a lot of volume come through this quarter. So we want to grow it and make it stronger and healthier. So that's just my take on it because I think if breakage goes down strength and loyalty go up.

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

Right. So if that were to change, you'd prefer to actually force that down, whether it's a change to policy of miles or how people use them, giving them more opportunities to use them, things like that. And in that case, you would probably have to lower your breakage assumption. But obviously, for a net long-term benefit, is that fair?

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

Yes.

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

Okay. Fine. And then Brandon, can you elaborate on this aircraft order strategy? What's going on with that? What do you mean by that? Is that like smoothing of CapEx? Is that fleet types? Like, what are you talking about?

Brandon S. Pedersen - *Alaska Air Group, Inc. - CFO, Executive VP of Finance & Treasurer*

It's all of the above. It's just doing it in a way that make sense, both for the needs of the fleet long term, not just today and in a way that preserves our ability to generate free cash flow and do this in a way that allows us to do other things from a capital allocation standpoint too.

Operator

The next question will come from Michael Linenberg with Deutsche Bank.

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

I guess 2 here, and I guess for Andrew. What's going on with the American relationship? It does look like maybe there's a potential, I don't know, if there's a phase out as we look into 2020 or maybe the code share goes away. Can you just -- can you update us on that?

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

Yes, sure, Mike. The reality is that after the acquisition of Virgin America, that's when the fundamentals of our relationship with American actually changed. The Department of Justice said we couldn't do certain things around code and everything else. And just given the size and overlap at the time, there was a lot of adjustments made a couple of years ago. And most of that -- all of that economics is throughout system today. So really what you saw is, we still have a partnership with American. It's still a good partner. We have -- we're working together on our mutual interests. We still have a large program with them. We're still connecting guests through their Chicago hub and they're connecting folks here. But we've really shrunk it and the footprint is smaller. I think at the highest level, which is I think a testament to Alaska Airlines. A couple of years ago, 15% of all of our traffic was code and interline, basically, dependent. Today, it's only 7%. And I think that's just a testament to the -- our ability to have grown the cover of most of the destinations where folks go and then of course, use partners where we can mutually benefit and work together.

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

Okay. And I just -- I want to make sure that you said that you're still going to continue to connect through Chicago. Is that interline or is codeshare? Because like, if I look at schedules today, I still see the Alaska code on, say, Denver LA or Austin LA where it's the American metal. Does that code go away? Is that going away this spring? Or is that -- am I...

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

Yes. Going forward, when it all winds down, essentially from the Pacific Northwest, you can connect through to Chicago to about 20 destinations. And then on American, you can connect through our hubs to about 20 destinations. So the code share will really basically be very, very small.

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

Okay. Okay. Great. And then just one other question. When I think about competitive capacity in your markets as we look into not just this quarter and also March quarter 2020 because there has been -- you alluded to this on the the call earlier, there has been a lot of network adjustment, and in many cases, to fund, as you mentioned, the growth into the Pacific Northwest from say LA and San Fran, in some cases, you pulled down a whole bunch of capacity in some markets where they was a decent amount of competition. So I'm curious about what that number looks like if you have that at your fingertips for both the December quarter and March quarter 2020, what that competitive capacity looks like?

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

Yes. Competitive capacity in the fourth quarter is only up about 1.6%. The first quarter is higher than that, it's showing about 4% right now. But of course, I think the first quarter's scheduled is still in flux. And I'm not sure what's going to happen with schedules with the MAX and everything like that. But I think to your point, moving around some of this capacity has, in some ways, reduced some of the overlap. But net-net, we're still putting the -- roughly the same amount of seats in California at the end of the day, we're just pointing the airplanes to different places.

Operator

The next question is from Joseph DeNardi with Stifel.

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

Brad, 2 questions for you. I think for the last 2 years, you've been the only CEO in the industry whose incentive compensation is driven in part by the airlines growth in credit cards. Can you talk a little bit about what changed in terms of how you spend your time, how you managed the business before that was a metric versus after? And then what was the motivation of the Board in making that a metric for your comp?

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

Joe, good question. It was -- honestly, we went to the Board with that idea following our acquisition of Virgin America. We just realized that -- we just really believed in the whole idea of building, loyalty building preference, getting people into the club. And we've seen the power of that in the rest of our network. And as we bought Virgin America and moved into California, it was a -- I mean it was interesting you talk about me, and that's certainly true, but what we really wanted was that in the compensation base of 23,000 people and that's what happened. So I think it was 10% credit card loyalty and 10% mile -- 5% and 5%?

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

Yes.

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

Yes. Okay.

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

10% and 10%.

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

10% and 10%, that's what I think also. 10% credit card and then 10% of mileage plan. We just wanted the fantastic army of people at Alaska Air Group, really focused on growing -- customers' growing loyalty. And so that is -- is that it? That's what it was all about. I think the leadership team went to the Board and proposal it and the Board said absolutely, it sounds like something that will drive long-term value.

Brandon S. Pedersen - *Alaska Air Group, Inc. - CFO, Executive VP of Finance & Treasurer*

And yes, just as a -- it's Brandon. Just as a reminder, we have a game sharing plan that is consistent across all of our employees, not just the leadership but across the front line as well. So it really gets down to alignment.

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

Got it. That's helpful. And then Brad, I try to ask you this question every now and then, and I'll ask it again. Just given your experience to date with the Virgin transaction and turning that deal into value for shareholders, how successful do you think you've been? And kind of in the context of your balance sheet, nearing a point where you'd be in a position to do something? Does M&A look more or less appealing now than it did before the Virgin deal?

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

Yes. It's -- thanks for giving us the chance to talk about this. We at the time -- if you go back to when we considered this -- when we announced it, it was April of 2016. I think we felt like we had an amazing economic engine, a great brand. We're really proud of our culture and the way people take care of customers. We felt really positive about the long-term prospects for the industry. But we did feel like the industry conditions were such that we just needed more real estate, and we wanted to have strength beyond Alaska, Seattle and Portland. So that was the idea behind the Virgin merger. It -- as you guys know, you go through life, you learn stuff. When you do stuff, you learn stuff. And it was a lot of work. But I think everyone here is feeling optimistic. We're feeling good that we're getting through it. And I think we really feel that we have materially enhanced sort of the cash-producing sort of capability of this economic engine, we've enhanced the career of security for our people in doing that. As you mentioned, I'm extraordinarily proud that we borrowed $2 billion to do it. You guys know, our people did it with no investment banks, with no -- nothing like that, they just went to the banks and borrowed $2 billion on their own, and we're going to pay 3/4 of it off in 3 months' time. So we're really proud of the team. As we look at doing more. I just think -- my own view of the world is it's a combination of organic growth and M&A. We've done amazing with organic growth. I'll just tell you, different people around this table may feel differently, but as I look at the next few years, I sort of see the biggest opportunity us growing organically, pushing -- taking what we are proud of, what we feel like we do well and pushing it organically into markets where we're already strong.

Operator

The next question is from Brandon Oglenski with Barclays.

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

So Brandon, I want to come back to the puts and takes on the cost discussion because I actually did hear the headwinds but maybe could you elaborate again on where you see the tailwinds on cost looking into 2020? And again, I'm not looking to get guidance from you.

Brandon S. Pedersen - *Alaska Air Group, Inc. - CFO, Executive VP of Finance & Treasurer*

No, that's okay. On the tailwind side, there's actually a number of those as well. First of all, we're going to be able to grow a little more next year than we've grown this year, that will help. We're going to continue to work productivity. You might remember that we focused on 2 different things for cost control productivity and overhead productivity is a huge lever going into next year. We have continued simplification of our overhead structure, that's the other prong. And then our team just did a great job on a lot of different initiatives that supply, our cost-reduction campaign was one of them. And I think all of those initiatives that we worked hard to get this year's cost down will continue to bear fruit as we go into next year as well.

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

And like -- it seems like the Airbus restyling, how far along are you in the fleet there?

Brandon S. Pedersen - *Alaska Air Group, Inc. - CFO, Executive VP of Finance & Treasurer*

Yes. In terms of the number of airplanes that we've reconfigured...

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

Well have...

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

44 by the end of the year.

Benito Minicucci - *Alaska Air Group, Inc. - President & COO of Alaska Airlines Inc and CEO of Virgin America Inc*

Yes. 40 -- so 60% of the fleet will be reconfigured by the end of the year, Brandon. This is Ben. So we'll have -- we have roughly 73 airplanes, we'll 42 to 44 done by the end of the year.

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

Okay. So if anything, we would see the benefits from that even more so in 2020. Is that correct?

Benito Minicucci - *Alaska Air Group, Inc. - President & COO of Alaska Airlines Inc and CEO of Virgin America Inc*

Correct.

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

Okay. And then I mean, maybe this is just way too premature but you guys obviously are delivering pretty decent results this year. I mean does that make you go back to the drawing board on long-term growth? Because I think, Brand, in the past you said, if we can get into that targeted margin range then we would think about expanding the network at a faster pace. Is that still the framework?

Brandon S. Pedersen - *Alaska Air Group, Inc. - CFO, Executive VP of Finance & Treasurer*

Brandon, it's Brandon. No, we're very comfortable with 4% to 6% growth. We used to talk about 4% to 8%. 8% is pretty big on a company our size. Now so 4% to 6% is a pretty good clip. And if we can grow 4% to 6% per year for over 4, 5, 6, 7, 8, 9, 10 years, that's a lot of growth, and we want to make sure that we can do it in a prudent way, that keeps our balance sheet intact, where we can achieve our margin goals, and all of these fit together. But we're really optimistic about our ability to grow 4% to 6%. And we feel like that's the right growth rate for the time being.

Operator

The final question is from Dan McKenzie with Buckingham Research.

Daniel J. McKenzie - *The Buckingham Research Group Incorporated - Research Analyst*

Just following up on that last question, it's really sort of housecleaning. The 60% of the A320s that were -- are reconfigured with the new seats, what percent of the flying does that equate to?

Brandon S. Pedersen - *Alaska Air Group, Inc. - CFO, Executive VP of Finance & Treasurer*

Well, we have 53 A320s. And...

Benito Minicucci - *Alaska Air Group, Inc. - President & COO of Alaska Airlines Inc and CEO of Virgin America Inc*

On a fleet of...

Brandon S. Pedersen - *Alaska Air Group, Inc. - CFO, Executive VP of Finance & Treasurer*

On a fleet of 235 mainline airplanes. So.

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

And a lot of the -- just -- a lot of the benefit from those actually comes on the revenue side, just to be frank. We're taking the First Class cabin from 8 to 12. And we're going to have -- adding premium seats. And I think it's anywhere from 1 to 3 extra seats per aircraft. So it's actually more of a revenue boost I think than a cost one.

Benito Minicucci - *Alaska Air Group, Inc. - President & COO of Alaska Airlines Inc and CEO of Virgin America Inc*

And Dan the big thing is we're moving the airplanes primarily north to south. We're doing a lot of east-west flying. Most of the airplanes, as of January, will be north-south flying, which will be more helpful putting the Boeings and the A321s transcon.

Daniel J. McKenzie - *The Buckingham Research Group Incorporated - Research Analyst*

Yes. Understood. Okay. Going back to the prepared remarks about realizing the $330 million in incremental revenues that were targeted. What inning are we in with respect to Saver Fares? And I guess how are you benchmarking to the industry at this point? And I guess I'm just thinking the industry as a whole seems to be finding more upside in this particular bucket. I'm just wondering what you guys can share.

Shane R. Tackett - *Alaska Air Group, Inc. - Executive VP of Planning & Strategy of Alaska Airlines, Inc.*

Dan, it's Shane. I -- it's -- we got these out really in full force in Q1 of this year. They've performed well. They've performed above what we had committed to and talked about. And I don't think we've shared updated, sort of, take rate numbers or economics, but they've performed quite well. Our guess, just based on what we hear other people talk about is we're on par if not maybe a little better on the buyout of Saver. And that's really what we want. We want -- as few people want to be on that actual ticket. We like the fact that people buy out more than we had originally sort of estimated. In terms of the inning-- I think we've got a full quarter next year to annualize. It was only, sort of, partially in Q1 of this year. And then we've not really done anything to try to optimize it anymore. So there's the potential that after we have used it for a year, we just get smarter about how we're managing it. And it's sort of a tool in the toolkit. So there's probably more value to be had. We're not quantifying that today. I don't know if we will when we get here in January either. But it's still more upside from Saver for a little while.

Daniel J. McKenzie - *The Buckingham Research Group Incorporated - Research Analyst*

Understood. And then if I just could just squeeze one last one in. Intra California early this year I think was a headwind to revenue production or maybe it was partially last year that's changed. I think you highlighted in the prepared remarks, it's doing well. And I'm just wondering, is this in any that's gone from being a RASM drag to a RASM tailwind at this point? Or how are you thinking about this piece of the network puzzle?

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

Dan, I -- my prepared remarks were more around transcon. And we don't like to get into the details of specific regions. But what I will tell you is that this flying has also benefited from all the initiatives that we've shared with you and rolled out. And so we are seeing improved profitability across our network and including in intra California as a result of our changes.

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

Thanks, Dan. Thanks, everybody, for tuning in. We'll talk with you again at the -- our full year report out in January. Thank you.

Operator

Ladies and gentlemen, thank you for participating in today's conference call. This call will be available for future playback at alaskaair.com. You may now disconnect.
