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OVERVIEW:

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Alaska Air Group 2024 First Quarter Earnings Call. (Operator Instructions) 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 Vice President of Finance, Planning and Investor Relations, Ryan St. John.

Ryan St. John

Thank you, operator, and good morning. Thank you for joining us for our first quarter 2024 earnings call. This morning, we issued our earnings release along with several accompanying slides detailing our results, which are available at investor.alaskaair.com. On today's call, you'll hear updates from Ben, Andrew and Shane. Several others of our management team are also on the line to answer your questions during the Q&A portion of the call.

This morning, Air Group reported a first quarter GAAP net loss of $132 million. Excluding special items and mark-to-market fuel hedge adjustments, Air Group reported an adjusted net loss of $116 million. As a reminder, our comments today will include forward-looking statements about future performance, which may differ materially from our actual results.

Information on risk factors that could affect our business can be found within our SEC filings. We will also 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. Over to you, Ben.

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

Thanks, Ryan, and good morning, everyone. As you are all aware, the most significant event this quarter was the accident involving Flight 1282 and the subsequent 4-week grounding of 1/3 of our fleet. Our focus has been on the safe return of our fleet, caring for our employees and guests and enhancing our oversight of the production of our new aircraft.

This event also had a substantial financial impact, totaling $162 million, which Boeing has fully compensated us for. To provide clarity on our core business performance, I will discuss our Q1 results, excluding the effects of Flight 1282 and the MAX grounding.

During the quarter, we also received a second request for information from the DOJ, regarding our proposed acquisition of Hawaiian Airlines. We are working to respond to these requests as quickly as possible. Given the substantial volume of information involved, we have granted the government an additional 60 days to review our responses, and we'll continue to work with them to advance the process as swiftly as possible.

We still believe strongly in the pro-consumer and pro-competitive merits of this deal and are excited by the opportunities this will unlock for Alaska, both domestically and internationally.

A year ago, I set a goal for my team to reduce losses in the first quarter, traditionally our weakest, with the aim of progressing towards breakeven over the next 3 years. I am proud to announce that excluding the grounding impact we have achieved this goal in 1 year. Our Q1 performance far exceeded our initial expectation of a 30% profit improvement coming into this year.

We not only reduced losses, but we turned a small profit, absent the MAX grounding on record revenue for the quarter. Several factors contributed to this positive performance, including disciplined and thoughtful capacity planning, a concerted effort to reconfigure and optimize our network, the return of West Coast business travel, particularly among technology companies and strong leisure demand throughout our markets.

While we strive to do even better going forward, the underlying improvement in our core business in Q1, despite the significant disruption felt across our business from the MAX grounding is a fantastic result for Air Group.

With this outperformance, we are revising our full year adjusted EPS from $3.25 to $5.25, which does not reflect any compensation. We remain encouraged by our Q2 outlook and beyond. We've continued to see robust demand through the spring break travel season and have visibility to double-digit adjusted pretax margins in the second quarter despite higher fuel prices.

Our commitment to changing the outcome in Q1 positions us at a better starting point, not only for the rest of this year, but also in years to come, as we look to grow profits and earnings over time from a stronger base. Now looking ahead, our focus remains on driving our strategic initiatives forward and managing the elements of our business within our control. We are excited to be back on track and running a solid operation with our full fleet in service.

As I stated earlier, we have received $162 million in cash compensation from Boeing, making us whole for the total Q1 profit impact related to the MAX grounding. Our long-standing partnership with Boeing is important to us and to our success. The financial agreement we've reached with them is a strong reflection of that relationship. We remain committed partners, but we will hold Boeing to the highest bar for quality out of the factory.

And to that end, we have enhanced our in-person oversight of our 737 production line and are regularly engaging with Boeing leadership on quality and schedule. Alaska needs Boeing, our industry Boeing, and our country needs Boeing to be a leader in airplane manufacturing.

Operationally, we've regained our reliability by returning our entire fleet to service on February 8th. The response from our guests has been incredibly positive with strong demand evident throughout February and beyond. Our teams have dedicated themselves around the clock to restore operational excellence, resulting in an improved completion rate of 99.5% from the second week of February through March, more in line with our historical standard of performance. A big shout out to our entire maintenance and engineering team for bringing back all our MAX 9's into service safely and reliably.

Safety is a foundational and uncompromising value for Air Group, and we expect nothing but the highest quality aircraft from Boeing. Regarding 2024 aircraft deliveries, as we've stated before, we expect Boeing will fall short of the 23 planned deliveries to us this year. Andrew will discuss Q2 capacity in more detail but our objective will be to deliver a schedule with a high level of service and reliability our guests expect and know from us. And Shane will discuss the impact to full year CapEx due to fewer deliveries.

As we kick off the second quarter, one of our busiest and most profitable periods, we are optimistic and determined to drive strong results in our business. Safety remains paramount, and we've successfully restored operational excellence.

Building on our Q1 profitability improvements, we're now focused on leveraging these strengths to expand profitability and generate free cash flow. With last year's strong unit cost performance as our foundation, we're enhancing productivity across the board and our careful management of capacity, combined with our focus on a premium guest experience, positions us well to deliver solid financial results over the next 3 quarters.

And lastly, I just want to acknowledge this amazing Alaska team from our exceptional frontline employees who deliver consistently strong operational results and guest service to our leadership team that holds itself accountable to being better each day. Together, we're driving success every step of the way.

And with that, I'll turn it over Andrew.

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

Thanks, Ben, and good morning, everyone. Today, my comments will speak to our first quarter results with a focus on unpacking our core performance and addressing second quarter trends and guidance.

We achieved record first quarter revenues totaling $2.2 billion, up 1.6% year-over-year. This is an incredible result, especially when you consider the $150 million in revenue that we lost due to the grounding. Our team did a masterful job rethinking the deployment of our Q1 network in order to combat the seasonal challenges we face and to best serve the demand in our geographies.

Capacity ended the quarter down 2.1% year-over-year, inclusive of an approximate 5.5 point impact from the grounding. This result was better than our initial expectation immediately following the accident due to higher utilization, a better-than-expected completion rate and no significant winter weather.

Absent the grounding, capacity would have been up approximately 3.5%, a level we feel was appropriate for the Q1 environment and our network reconfiguration. In addition to our focused network efforts, we were positively impacted by the rapid return of corporate travel revenues and general close-in strength, which drove a strong unit revenue result.

For the quarter, unit revenue was up 3.8% year-over-year. Excluding the impact of the grounding, unit revenue would have been up 5%, which is markedly higher than our original guidance of up 1% to 2%. This outperformance was driven by 3 factors.

First, 1.5 points of RASM outperformance came from better-than-expected results related to the reallocation of flying. These changes more successfully met the demand across our markets, as we capitalized on more leisure flying.

Second, 1.5 points of RASM improvement came from a material step-up in business travel beginning in January, especially from large technology companies. In Q1, managed business revenue grew 22%, approximately 50% driven from yield and 50% from volume. Tech companies saw the biggest improvement with revenues up over 50% year-over-year and professional services revenue an impressive 20%.

To put the speed of recovery into perspective, managed business revenues increased 10% in January, a stunning 30% in February and 24% in March. These results were achieved despite the grounding and book away we experienced. Today, managed corporate revenue has fully recovered the 2019 levels, while Tech is approximately 85% recovered.

As we've said for some time, we expected business travel to come back which we are clearly seeing today. While we did not bake this into our Q1 forecast, we do not anticipate any step back in corporate travel in Q2.

And third, half point of RASM improvement came once we restored our schedule reliability, and we saw strength in close-in leisure demand return. This strength is especially evident in February, where revenue beat our original pre-grounding expectations, despite lost flying and book away at the beginning of the month.

Similarly, our total March revenue surpassed our record-breaking result last year on just over 1 point lower load factor, bolstered by yields that improved 2 points in month driven by strong close-in performance. Taken altogether, these impacts drove a 3.5 point improvement above the midpoint of our original guide for the quarter.

Lastly, our Premium Cabin performance continues to support what we believe to be a structural shift in higher demand for premium products. First and Premium Class revenues finished up 4% and 11%, respectively, during the quarter, with our first-class paid load factor hitting monthly records at 68% during February and 69% in March.

What makes these premium revenue results even more significant is that they would have been higher had we not experienced the grounding. Our paid premium capacity has come a long way from the days of paid load factors in the 40% range for mainline and an all-coach regional fleet.

As we continue to refine our premium strategy across our products and markets, we have further upside to come and remain committed to building on our premium guest experience, offering the products our guests and loyalty members want. Our loyalty program, which we hope to share more on later this year, also continues to post strong results. with co-brand cash remuneration of approximately $430 million in Q1, up 4.2% year-over-year, notwithstanding the grounding and a major contributor to the 48% of revenues we generate outside the main cabin.

Now turning to our outlook and guidance. We expect capacity to step up 5% to 7% year-over-year in the second quarter, with the low end of this range, assuming no aircraft are delivered this quarter.

Given the uncertainty around delivery timing, following the grounding, we have extended retirements of several of our older aircraft over the next few months and pushed utilization slightly higher across the mainline fleet, where we had opportunity.

We also added back more capacity on the regional side through Horizon and SkyWest, given higher utilization from improved pilot staffing. Through the combination of these changes, we are confident in flying a reliable schedule for our guests.

While the second quarter will be our highest growth this year, it is also our most profitable growth, with June, a clear peak month for us. While we've added a handful of new routes across our network, the majority of our added flying is focused on additional frequencies in high-demand markets, where we have conviction in their profitability.

Second quarter bookings so far are encouraging, with yields continuing at healthy levels in April and beyond albeit slightly moderating through the quarter on growing industry capacity. This year, we have seen a more normalized yield and booking curve, building in strength as we get closer in, a trend we expect should persist.

Looking beyond Q2, the back half of the year looks to be shaping up well as industry capacity constraints remain in place and competitive intensity dynamics across our West Coast markets stabilize.

In closing, the team has done a tremendous job in reshaping our network to produce a strong result for our most seasonally challenged period, with the full value of our differentiated product offering from premium seating to lounges to global partnerships, I believe we are well positioned to drive another solid quarter of performance, as we move into our peak periods this summer.

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

Shane R. Tackett - *Alaska Air Group, Inc. - CFO & Executive VP of Finance*

Thanks, Andrew, and good morning, everyone. In what has been a challenging start to the year, our people and our business model have shown amazing resilience.

Safety, of course, is our absolute priority, and it will continue to be our top focus above all else. It has, however, been encouraging to see the level of improvement to our core first quarter performance this year.

While managing through the difficult circumstances of Flight 1282 and its aftermath, the teams did an admirable job operating safely and on time, and our commercial team put together a network plan that coupled with strong demand, positioned us well to meet our long-term target to breakeven in Q1.

We are not shy about setting ambitious goals for ourselves, and we have a good history of delivering on those commitments. Our financial focus remains on continuing to strengthen our business model and delivering strong financial performance over the long term.

Turning to our results. For the first quarter, our adjusted loss per share was $0.92, which excludes compensation received from Boeing related to our MAX fleet grounding. The profit impact of the fleet grounding in Q1 was $162 million or $0.95 of EPS and 7 points of margin.

Fuel price per gallon was $3.08, as West Coast refining margins continue to be a unique margin headwind to our results relative to the rest of the country.

Our total liquidity inclusive of on-hand cash and undrawn lines of credit stood at $2.8 billion, as of March 31. Debt repayments for the quarter were approximately $100 million and are expected to be approximately $50 million in the second quarter. Our leverage levels remain healthy at 47% debt-to-cap and 1.1x net debt to EBITDAR, while our ROIC stands above 9%.

For the quarter, unit costs were up 11.2% year-over-year, 6 points of which are directly attributable to the fleet grounding, primarily from the significant loss of planned capacity, but we also incurred approximately $30 million of incremental operational recovery costs due to the grounding as well.

Our core unit costs, absent grounding impacts, were up approximately 5% year-over-year in the first quarter. The drivers remain similar to prior quarters and are consistent with pressures faced by most airlines, the primary of which is higher labor rates for our people. We have completed 7 labor contracts over the past 2 years, including a recently signed agreement with our aircraft technicians, and we continue to prioritize finalizing an agreement with our flight attendants.

We remain committed to high productivity in our contracts, and absent the MAX grounding, we would have had a 2% increase in productivity year-over-year, as measured by passengers carried per FTE. We expect continued productivity improvements throughout the year across the company, and in May, will operate under our new preferential bidding system for pilots for the first time, which will allow for both enhanced pilot productivity and importantly, schedules that are more aligned with our pilots' priorities.

While costs are materially higher structurally for the industry, our margin profile for the first quarter is evidence we are making the right decisions on capacity deployment. And we will continue to prioritize the overall margin health of the company over growth for the sake of unit cost performance alone.

We are committed to also retain our relative cost advantage, and we continue to do well on that basis. We achieved the industry's best cost performance last year and looking at our rolling 4 quarter unit costs, we have outperformed both Delta and United by 3 points on a stage length adjusted unit cost basis.

While we may experience quarterly variances on a unit basis, we are not ceding any of our relative advantage. We have widened the gap over the past 12 months, and we remain focused on managing to aggressive budgets and delivering strong margin performance. Not only did we improve profitability, excluding the grounding by $120 million year-over-year, when compared to the first quarter of 2019 and 2023, we've closed the margin gap to our largest peers by approximately 2 to 3 points.

As we look ahead to Q2 and the rest of the year. I will provide capacity fuel, EPS and CapEx guidance, consistent with the metrics we shared last quarter and our focus on the overall margin profile of the business. For the full year, as Ben shared, we do not expect to receive all 23 deliveries from Boeing that we had originally planned for this year.

We are in discussions with Boeing and as we gain more clarity on those deliveries, we will update our expectations but we expect full year capacity growth at this point to be below 3%. Also, due to lower expected deliveries, we now expect CapEx of $1.2 billion to $1.3 billion versus our prior expectation of $1.4 billion to $1.5 billion.

We expect economic fuel cost per gallon to be between $3.00 and $3.20 for the second quarter and expect refining margins on the West Coast to be more in line with Gulf Coast, which we've seen the past several weeks. Given the significant spread in West Coast fuel costs versus the rest of the country, we are developing strategies to mitigate this disadvantage.

Our first step was to discontinue our hedging program, given refining margins have become the more volatile component of fuel costs, which hedging did not protect us from. The full value of hedging cost reduction will take several quarters to bleed in.

We are also changing our strategy for our annual fuel tender process to obtain better pricing and are likely to begin a program to begin a modest amount of self-supply of fuel later this year and into 2025. While these will take time to fully mature into our results, we expect these actions to close the current fuel headwind we face versus the rest of the industry and will help us to be well positioned to lead the industry in margins.

And as Ben mentioned, we expect full year EPS to now land between $3.25 and $5.25 for the full year and $2.20 and $2.40 for Q2. Despite a likely $0.35 year-over-year headwind from fuel, we have visibility to a path back to healthy double-digit margins in the second quarter on our way to another strong full year performance.

With the immediate impact of the grounding behind us and our operational reliability back on track, we are optimistic about our outlook for the rest of the year. The economy continues to expand with supportive wage growth, recently improving consumer sentiment and trends indicating a continuing preference to prioritize spending on travel and experiences over goods.

By remaining focused on our historical strengths - safety, operational excellence and relative cost performance - and continuing to reap the benefits of our commercial initiatives, our business is configured to compete, to maintain our relative advantage and to continue to deliver strong financial results.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question will come from Andrew Didora with Bank of America.

Andrew George Didora - *BofA Securities, Research Division - Director*

Shane, I know you're not guiding to CASM, but if I were to just think about 1Q being up 3% on 3.5% capacity. Are there any kind of puts and takes you would call out for 2Q, whereby we wouldn't see kind of CASM stepped down nicely given you're growing at 6%? And then similarly, as I think about the back half as growth comes down, I would expect CASM to maybe flex back up. Is that a fair assessment?

Shane R. Tackett - *Alaska Air Group, Inc. - CFO & Executive VP of Finance*

Andrew, yes, I think that's the right contour that we're expecting to see this year. We'll see a decent improvement in unit cost in the second quarter, given the growth profile of the company. And as you mentioned, growth slows down in the back half of the year, and we'll probably see a little more pressure in the back half of the year again on unit costs.

I think -- I do just want to mention like the company, I like -- I think we've done a nice job though balancing capacity versus unit costs. You've heard us increasingly talk about our focus on the margin health of the company. So we're going to continue to be smart about how we put capacity into the market, and we'll continue to compete really well on a unit cost basis against the larger airlines in our markets.

Andrew George Didora - *BofA Securities, Research Division - Director*

That's great. And then just a follow-up for Andrew. I appreciate all the color you gave on corporate travel. Do you know what percentage of your revenues today are corporate and how that compares to pre-pandemic? And any color you can give us just in terms of what the RASM premium would be on corporate, say, versus leisure travel?

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

Yes. Thanks, Andrew. We don't disclose that sort of information. But I will tell you that we see continued improvement in strength in our corporate position, the business that is coming our way.

And again, as we've shared for some time, this return from West Coast business travel, especially in the technology area has just been very significant. And I think when you look at others' comments around how much their managed business travel increased, ours increased significantly more year-over-year, which is very encouraging.

Operator

And our next question will come from Helane Becker with TD Cowen.

Helane Renee Becker - *TD Cowen, Research Division - MD & Senior Research Analyst*

Just a question with respect to the way we should think about the second half of the year. So second quarter continues kind of the first quarter strength? And then how are you thinking third quarter versus second quarter?

Some of your peer group have been talking about a shift in seasonality, maybe stronger July. I want to say a stronger July and June and maybe not so strong August, so much or how you guys -- the pattern of travel goes?

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

Yes. Helane, yes, we're seeing the same thing. I think August and the return of schools and just the exposure of our network across different geographies, June is becoming the single strongest month. And so what you'll see here is we moved capacity around to accommodate that. So we feel pretty good about getting ahead of that mix.

Helane Renee Becker - *TD Cowen, Research Division - MD & Senior Research Analyst*

Okay. That's really helpful. And then, Andrew, as you look at like Alaska and the state of Alaska, what's the capacity -- industry capacity situation look like up there? I've been seeing some other airlines adding capacity to Anchorage and Fairbanks from various cities, not Seattle. And I'm just kind of wondering if that's impacting your overall, I don't know, market share maybe is the right word up there?

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

Yes. I think it ebbs and flows. People love to put their capacity into Alaska as we go into the summer period. I would say industry capacity, what I call Alaska long haul is up decently. So that's putting a little bit of pressure.

But overall, we feel really good about our position in Alaska and the routes that we serve. And of course, we are very well positioned to serve anybody who is wanting to travel to Alaska.

Operator

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

Zara Ahluwalia - *Raymond James & Associates, Inc., Research Division - Research Associate*

This is Zara on for Savi. What's the general environment that you're assuming for the second half of the year that's reflected in your full year EPS guide?

Shane R. Tackett - *Alaska Air Group, Inc. - CFO & Executive VP of Finance*

Yes. Look, I think the second half of the year, we expect to continue to be strong and stable. We view it right now, we think it's going to be consistent with what we're seeing today.

I don't think there's a sign that demand is slowing down. We don't expect that at all. I think fuel costs are a little higher than we had planned for the year, which was roughly $3 and came in at $3.08. And I think some of that increase in costs, we expect to be offset by the stronger close-in demand certainly on the business side.

And so net-net, we haven't really changed our expectation for the full year, and we think it's going to continue to be a strong demand environment.

Zara Ahluwalia - *Raymond James & Associates, Inc., Research Division - Research Associate*

Okay. Sounds good. And then one more, if you can provide any color about your recent commercial initiatives like Alaska Access and your expectations for the contribution from these programs, that would be great.

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

Well, I'm glad you noticed Alaska Access. I think what you're really seeing here is that we're continuing to broaden the products and services that we offer. That's obviously something that's quite small.

The reality is the distribution landscape is materially changing. You've got NDC, but you've also got offer order, settlement and delivery these technology changes are going to massively increase our ability on the revenue side to distribute our various products and services. So what you're going to see us continue to do is to bifurcate all the products and services that we have and continue to distribute those in different forms and ways over time.

So we're really excited about just the technology that's coming our way to help us generate greater revenues.

Operator

And our next question will come from Ravi Shanker with Morgan Stanley.

Ravi Shanker - *Morgan Stanley, Research Division - Executive Director*

So just on the close-in commentary. Your comments on the strength of close-in was particularly notable because some of your competitors have been having some challenges with close-in strength or weakness, actually. So are you doing something differently, is the strength idiosyncratic to you is the weakness idiosyncratic to them? If you can unpack that, that would be great.

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

I can't specifically speak to other carriers. What I can tell you sitting here looking into April, demand is coming in very nicely with double-digit increases in unit revenues year-over-year, as we move through the month of April.

And as we look to May and June, where we have, obviously, a little bit more industry capacity, we're also seeing a very positive direction in the yields that are coming in through our system. So overall, we feel that Q2 is going to continue to be strong. Our network is well configured. Our premium class is performing. Our ancillary revenues are performing, they were actually up 6% in the first quarter, even though passengers were down. So we feel good about our setup for the second quarter.

Shane R. Tackett - *Alaska Air Group, Inc. - CFO & Executive VP of Finance*

And Ravi, I might just -- there could be some effect that, as you know, the West Coast have been more depressed on a business recovery basis. And I think that's caught up pretty quickly here in the first quarter, and that could be helping us.

And then I also think just premium continues to be the place where most of the demand growth is happening, and I think we're doing a good job meeting that demand.

Ravi Shanker - *Morgan Stanley, Research Division - Executive Director*

Got it. That's helpful. And maybe a follow-up to that. Thanks for the detail on the slides in the CASM and the RASM walk. Can you maybe help us understand kind of what that gap between CASM and RASM might look like in 2Q and maybe for the rest of the year as well?

Shane R. Tackett - *Alaska Air Group, Inc. - CFO & Executive VP of Finance*

Well, Ravi, we're not going to give guidance on those 2 unit metrics, but I would tell you, I think that as we mentioned earlier, maybe the first question, I think CASM will perform better in the second quarter than it did in the first quarter, just given the higher capacity, we'll be able to see a better result.

It could like approach flattish. I think CASM could in the second quarter, we'll see ultimately, if we get to the midpoint of our capacity guide or not, based on deliveries over the next couple of months. And I think unit revenues, they're going to be still pressured a bit by the grounding impact of 1282 and some of the book away in spring break that happened over the first quarter.

But I think they're going to be strong. I think they're going to continue to perform amongst the best in the industry, on a domestic basis anyhow. So I think we're looking at a strong second quarter from a margin perspective, which is what we said in the script.

Operator

And we'll move next to Duane Pfennigwerth with Evercore ISI.

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

Can you talk a little bit about what you're seeing in Hawaii how you're thinking about the recovery in Maui and your capacity recovery there? And what you're seeing competitively, any changes there?

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

Yes, Duane, Yes. So on Hawaii, actually, we were very pleasantly surprised as far as just the general framework and strength of Hawaii in general. That said, I think our capacity was down close to 40% out of Maui in total, still going to be down 20% as we move through.

So outside of Maui, Hawaii is performing within expectations. I think it's going to be some time before Maui recovers, just to be frank. And so we are adjusting our capacity to meet the demand that we're seeing there. But it's certainly a slow journey.

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

Okay. So maybe the down 40% recovers to down 20% and you kind of wait and see at that level. Is that a fair way to think about it?

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

Yes, I think the way to think about it is we get through this summer and then as we look into the back end of the year, which is more seasonally weak, we're going to assess how demand is and we'll adjust capacity appropriately.

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

Okay. Great. And then I guess, Shane, you piqued my interest with self supply of fuel. Can you just elaborate on that?

Shane R. Tackett - *Alaska Air Group, Inc. - CFO & Executive VP of Finance*

Sure, Duane. Thanks for asking about fuel supply. Look, I think we've been pretty passive other than the hedging program on managing the fuel line in the business. As you know, we've had significant headwinds that are unique to us, relative to the rest of the industry.

And I think it prevented us from being the top margin producer in the industry last year, just on a refining margin basis on the West Coast relative to Gulf Coast. So we're not going to sit idly by and let that continue to impact our results. We spent a lot of time in the first quarter understanding why we have a $0.30 differential relative to the rest of the industry.

And one of the things we believe we can do is ultimately buy our own fuel from other places around the globe and ship it into some of our larger cities. It takes a while to get that done. Other airlines do it. It's not a brand-new idea to the industry. And I think there'll be a way of saving a few pennies per gallon, which we're going to go after, later this year and into next year. We'll say more about it as we firm up plans.

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

That's great. And if I could sneak one more in here. Just on regional mix. Can you talk broad strokes, what regionals would be as a percent of your capacity maybe this year versus last year?

And I know you're not giving point estimates on the metrics, but just broad strokes how we should be thinking about it kind of tailwind to RASM, headwind to CASM and maybe margin impacts. It feels like there's probably parts of your network that we're starving for more regional lift, which just help us think about that.

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

Yes. Thanks for the question. I think from our perspective, it's give or take around 10% of our capacity is regional. I don't see that materially changing.

That said, the regional business' profitability, just with the return of utilization and redeployment has jumped significantly, and they've been a valuable partner, both SkyWest and Horizon to help us with our Boeing deliveries and those Embraer 175s backfilling some markets that we otherwise couldn't serve.

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

Yes. And Duane, I'll just say for -- on Horizon's part, this is Ben. Horizon is just performing fantastic. Margins are up. We put a lot of focus in the last few years in our regional business, and it's really performing nicely, and we continue to see that trend continue over the rest of the year.

Operator

Your next question will come from Jamie Baker with JPMorgan.

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

I'll admit I had to Google Alaska Access, a little embarrassing to start off with that. So obviously, the corporate momentum is a positive. Can you speak though to how corporate patterns compared to those of pre-COVID? How does trip duration compare as the booking curve elongated, as change fees have gone away, that sort of thing -- behavioral change, I guess, is what I'm asking about.

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

Yes. Thanks, Jamie. I think I probably will have a better answer for you next quarter. As I shared, the rapid up 10%, up 30%, up 24%, just in this first quarter with everything else going on was something we need to better digest, as we move through the second quarter.

But I am seeing a lot of the traditional demand return as we've seen it historically. But I'll have a better answer after we've digested this quarter and get through the second quarter.

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

Okay. Well, then you won't fold me when I asked the same question in 90 days. So second question, just on the revised full year guide, First quarter was solid. You've got good visibility, and in the second, I guess I'm wondering what's driving the $2 range in the guide? I mean, to be fair, United has a $2 range as well.

Is it just stylistic that you chose to maintain that range? Or do you really think there's that much variability and uncertainty in the second half? And if so, what are the most uncertain inputs in your model besides fuel?

Shane R. Tackett - *Alaska Air Group, Inc. - CFO & Executive VP of Finance*

Yes. Thank you, Jamie. There's probably a large component of it that's just habit. Like we've habitually done a $2 range and we tighten it in the maybe in the fourth quarter or something. I do think fuel is the largest immediate driver typically that we see that will run us up or down that EPS guide.

But yes, I do think the $2 range is more just out of habit than anything. That we're trying to architect around like a specific set of outcomes on the worst-case side versus the best case side.

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

And just if I can sneak in a clarification. Earlier in the call, did you say double-digit RASM on 3% capacity in April?

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

What I said was that our intakes coming into the month are up double digit for April.

Shane R. Tackett - *Alaska Air Group, Inc. - CFO & Executive VP of Finance*

Like the tickets we're selling today. Not the entire held book...

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

Yes, that makes sense. I was pinged by a client about that. So I hadn't heard it that way either. So thank you for the clarification.

Operator

And we'll move next to Scott Group with Wolfe Research.

Scott H. Group - *Wolfe Research, LLC - MD & Senior Analyst*

So I just want to follow-up on that last point because if you assume that CASM is approaching flat, right, it feels like the guidance assumes RASM that's flat to down and you're saying it was up 5% in Q1. You sound like everything is really, really good in Q2. So I'm not sure if I'm missing something or if there's a lot of conservatism in the guide? Or any color would be helpful.

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

Yes. I think -- Scott, I think the thing to remember in the first quarter is, it's obviously by far our seasonally weakest. Second quarter is very, very strong. And capacity industry-wide is growing, obviously, much more in a second. So it's all relative.

I think what your statements around CASM and RASM directionally are spot on. And as we've been shared before, as we get into this period and then we look at our margins and profitability for the second quarter, very strong. And as we've shared before, as we move through this quarter and beyond, West Coast capacity from the industry is reducing, growth is reducing, so there's a really good setup for the back half of the year.

Scott H. Group - *Wolfe Research, LLC - MD & Senior Analyst*

Okay. I think I understand. And then you had a comment about we'll tell you more at some point about loyalty, but maybe just give us a little bit of some thoughts about what you're referring to, and that would be helpful.

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

Yes, Scott, I think in general, I'm not going to share much today, but we have a number of things in the works that we're working on. And at the right time, we're going to be sharing more. I just really wanted folks to know, especially on the revenue side, we have some really good things in store, and we're not ready to share those yet.

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

Andrew was just teasing, Scott. But I -- look, there's a lot of things that we've got a lot of irons in the fire in terms of loyalty and products and stuff so yes, when the time is right, we'll provide more color on those. But I'm really excited about them.

Operator

Our next question will come from Stephen Trent with Citigroup.

Stephen Trent - *Citigroup Inc., Research Division - Managing Director*

The first one kind of an ignorant one for me, but let's say, hypothetically Alaska and Hawaiian merge, there aren't any sort of major adjustments in capacity that the DOJ passes down. Could you tell at this juncture whether your exposure to West Coast refining cost would rise with the combined Hawaiian? Or would it kind of stay the same or is it kind of too early to tell?

Shane R. Tackett - *Alaska Air Group, Inc. - CFO & Executive VP of Finance*

Yes. Thanks, Steve, I'll -- I'm not going to hypothesize too much, but I'll tell you that the fuel prices in Hawaii are significantly lower than you see in the Continental U.S.

Stephen Trent - *Citigroup Inc., Research Division - Managing Director*

Okay. Very clear. Super. And just one quick follow-up. I mentioned 90 days ago about what you guys are doing and the nice work you've done and having that investment-grade credit rating. Could you refresh my memory sort of what the push might be to get an investment-grade rating from all 3 agencies?

Shane R. Tackett - *Alaska Air Group, Inc. - CFO & Executive VP of Finance*

Yes, Stephen, good question. I think we deserve it, and we are hopeful that they review us soon and reconsider their ratings. We're not actively out talking with the other 2 agencies right now. We've got a lot going on, and we're really focused on hopefully, closing the proposed acquisition of Hawaiian, we've got to go to market potentially and raise some money to do that.

So that's our focus right now. We'll get that behind us and then I think we've got really good debt metrics, credit metrics. I think we're definitely deserving of reconsideration by the other 2 agencies, and we'll keep making our case over time to them.

Operator

And we'll move next to Conor Cunningham with Melius Research.

Conor T. Cunningham - *Melius Research LLC - Research Analyst*

As you talk to Boeing, are you looking to completely rework the order book? It just seems like -- the comments today seem like you're more focused on '24, but is there an opportunity to kind of, I don't know, stabilize that over the next couple of years? I'm just trying to understand what you want in a new delivery stream from them going forward?

Shane R. Tackett - *Alaska Air Group, Inc. - CFO & Executive VP of Finance*

Yes. Thanks, Conor. I think -- yes, look, there's 2 or 3 moving pieces, their own ability to get back to production rates that support a consistent and reliable delivery stream, which most important to us is the quality and safety of the manufacturing process.

So we've got to sort that out. We also prefer the MAX 10 at this point. It's not certified yet. We've got to make decisions about when to expect that. I think it's going to come later than we had expected, which was second half of next year.

And then again, if the proposed transaction is able to proceed, we've got another 60 to 65 aircraft to think about, along with 330 or so we have today. So we just need to take some time, look at all of these variables and put together a new skyline for the Boeing MAX deliveries.

I think, directionally, it will probably be less than we had been thinking about even a year ago. So it should be good for CapEx story, good for a free cash flow story over time, but we need another quarter or 2 to really work through that on our side and then with our partners over at Boeing.

Conor T. Cunningham - *Melius Research LLC - Research Analyst*

Okay. That's helpful. And then on this -- on the premium revenue and then versus your Saver, I'm just -- it seems like there's a pretty huge spread going on. And I don't know if there's anything to glean into like your main cabin Saver Fare option. Is -- I'm just trying to understand how you think about that spread over the long term.

And then maybe as -- sorry, as an incremental follow-up to that. Your -- I think your inventory -- you didn't sell your inventory as far out as you initially did and you talked about close-in. Are you thinking about changing how you -- how your inventory sits going forward to try to capture more of the close-in demand given your premium offering? Sorry about that. I realize it's like 9 questions, but thanks.

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

It's all right. I'll answer by just high level. I think the Saver Fare has been a very good product for us. In fact, we've made it significantly more available than we did last year. We've also seen significant increase in revenues buying out of Saver. And it's added a very valuable tool in the seasonality, given where our network moves around.

I think we're focused on and probably, historically, we've pretty much chased loads to some respect. And I think as we're seeing where the industry is and where we are, we're putting more focus on yields and how we structure the pricing of our cabins, both Main and Premium and the Saver. And I think what I can tell you is that we're more than ever getting more deliberate about how we manage our product setup in our cabin. And I think there's only goodness to come from that.

Operator

And we'll move next to Mike Linenberg with Deutsche Bank.

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

Andrew, you probably have better than anyone, a good sense of this evolution of close-in Leisure. I really feel like it was something that hit the scene big time during COVID. A lot of it had to do with just last-minute reopenings and the like. I sort of feel pre-COVID, it was either a bereavement fare or I don't know, maybe your pal scored you a ticket to the Taylor Swift concert and you found out about it last minute. But it's becoming a bigger piece. And I don't know if it's 5% of kind of your -- when you look at your various segments, corporate, discretionary, whatever long-haul international.

Can you talk about that evolution? Because I don't think it's a category, but maybe it's become a much bigger category than what I realize, and it can have a meaningful impact on RASM.

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

Well, number one, flattery will get you everywhere, so thank you. But we had a huge learning from COVID. We were squeezing out the cabin because we went for loads, and there was a robust leisure - and of course, when I talk about leisure, I'm talking also about Chase loyalty and Costco and major leisure agencies - so what we're really seeing is that for us at least, we had structured our cabin and our demand environment to take more further out and leave less closer in. And I think what we're finding is there is a -- the whole group of customers and guests who are a strong leisure traveler that just book a lot closer in and we're making seats available for them today. And of course, given the fair fencing and how that all works, the yields are much better than they would be further out.

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

Absolutely. Absolutely. That makes sense. And then just my second, I know you did talk about a couple of teasers and things that we should look out for. You did drop loyalty. I know Ben mentioned loyalty. If anything, are we up for renewal this year?

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

No. We're past that. But I think -- if you just -- what I would say about loyalty, and you've heard others say it, it's such a very powerful and important part of our business. If you look at the environment and how loyalty programs, they're all evolving and there's changes.

And so we are looking at how our loyalty program needs to change and evolve, and I think there's just real upside. And again, we're not willing to share anything today other than this is an area of focus for us.

Operator

And we'll move next to Dan McKenzie with Seaport Global.

Daniel J. McKenzie - *Seaport Research Partners - Senior Analyst*

A couple of questions here. I guess my first question really is a head count versus fleet count question. So what number of deliveries are you -- I guess, are you guys hiring to? And then I guess where I'm going with that is the overhead or the cost burden that Alaska is carrying because the deliveries are coming in a little less than expected. And then I guess, is Boeing compensating you for that cost burden?

Shane R. Tackett - *Alaska Air Group, Inc. - CFO & Executive VP of Finance*

Thanks, Dan. A couple of things here on this one. I think we originally had anticipated 23 deliveries. Of course, when they come is an important variable as well. As evidenced by our revised full year capacity guide and CapEx guide, we expect to get fewer than that.

Boeing actually has 10 aircraft essentially built and going through the final review and ticketing process. So we expect to get all of those and probably some additional units beyond that. So we're thinking somewhere between 10 and 20. We have a number of aircraft we are planning to retire. So many of those aircraft were going to replace older 900 classics. So our headcount situation is in really good shape relative to the delivery stream coming our way.

We're not going to be materially overstaffed. I don't believe in any part of our business. We watch that closely. We had to staff up a bit throughout the end of last year to get ready for this year and the spring, but I don't think that we're going to be in a significant drag position from a cost perspective. And to the extent that we are, we are having conversations with Boeing in terms of compensating us for that.

Daniel J. McKenzie - *Seaport Research Partners - Senior Analyst*

Yes. Very good. Okay. And then I guess, Shane, another question for you here. In the 10-K, Alaska highlighted 200 million gallons of SAF through 2030. And I guess I'm just curious, how many gallons you're planning to buy here in 2024? And what is the cost differential today of that versus West Coast jet fuel? And then where do you think that differential can go, say, in 2 to 3 years' time? And I guess what I'm trying to get at is probably a small percent of your overall volume, but I'm just trying to get a sense of the margin headwind from that.

Diana Birkett-Rakow - *Alaska Air Group, Inc. - SVP of Public Affairs & Sustainability - Alaska Airlines Inc*

Yes. Thanks for the question. So it is a small part of the overall buying and that's in large part because it's a small part of the supply in the world at large. For 2024, it will be about 1% of our total fuel and that's coming from a couple of different suppliers. It is -- there is a green premium over the cost of Jet A.

We're fortunate to have a lot of really strong corporate partners that are working with us to co-invest in SAF in a way that also offsets the Scope 3 emissions of their business travel. And we're doing a lot in the market to try to grow and mature the SAF market in the future and which includes looking at the cost down curve of different technologies and different producers.

Shane R. Tackett - *Alaska Air Group, Inc. - CFO & Executive VP of Finance*

Dan, I think -- thanks, Diana, for the color. I don't think there's a noticeable margin headwind from it this year. Obviously, it's a consideration for the entire industry as we move forward and becomes a larger part of supply, but we're probably a few years before it really starts to show up in a way that increases materially the cost of fuel going into the plane.

Operator

Your next question will come from Chris with Susquehanna Financial Group.

Christopher Nicholas Stathoulopoulos - *Susquehanna Financial Group, LLLP, Research Division - Associate*

Shane, the comment you said for 2Q, I think it was flattish CASMex. Just want to confirm that, that's ex the freighter cost? And then freighters are not typically discussed here. I think you're sizing up that fleet. Can you just remind us of the current size and where that's going this year?

Shane R. Tackett - *Alaska Air Group, Inc. - CFO & Executive VP of Finance*

Thanks, Chris. Yes. And that comment is ex freighter cost. But you'll be able to see the year-over-year, I don't think it's going to be materially different even if you included freighter costs in both years. Yes, we had a fleet of 3, which is a small fleet. They do a lot of work for us up in the State of Alaska.

It's really important to our customers up there. It's something we're proud of being able to do. We've been the predominant cargo carrier in the State of Alaska for most of our history. We're moving to 5 dedicated freighters. Again, most all of that lift will be in the State of Alaska. And who knows over time, if we'll be able to continue to increment from that base of 5. We would certainly like to if the business remains strong.

Christopher Nicholas Stathoulopoulos - *Susquehanna Financial Group, LLLP, Research Division - Associate*

Okay. And just my follow-up, and Ben, I think you said in your prepared remarks that you're anticipating a better supply-demand balance in the core markets in the second half. And so we've had a competitor retreat from parts of L.A. It doesn't look like they're coming back, outside of this, I'm curious how confident are you in this supply backdrop or this sort of new dynamic, if you will, going forward?

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

Well, look, I think if you look at how Q1 turned out for us and again, it was just an amazing quarter from what it was in Q1 of 2023. So we're just looking at just the higher water level we're starting from in Q1, and that's translating forward into Q2. Just based on everything we're seeing in terms of demand and Andrew touched on a lot of those things, we just feel like we're well positioned.

So that's why we're forecasting double-digit pretax margins. And so we're feeling really strong. It's our most profitable quarter and so I think we're really set up well for Q2 and the rest of the year.

Thank you so much, Chris, and thank you, everyone, for joining us. You guys, have a great day, and we'll see -- we'll talk to you guys next quarter.

Operator

This concludes today's conference call. Thank you for attending.