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An LSEG Business

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PRESENTATION

Ryan St. John *Alaska Air Group Inc - Vice President, Finance, Planning and Investor Relations*

Good afternoon, and welcome to Alaska Air Group's 2024 Investor Day. For those who don't know me, my name is Ryan St. John. I'm our Vice President of Finance, Planning and Investor Relations. On behalf of everyone at Alaska, Hawaiian, Horizon, and McGee Air Services, I'd like to thank those of you who are here with us in person and hello to everyone who is watching live on the webcast.

I'd also like to thank Stephanie Babij, our Senior Investor Relations manager, who has worked tirelessly to help us tell this story today. In true Alaska fashion, we are a lean but highly productive investor relations team and Stephanie is a critical part of everything we do.

It's been almost three years since we last spoke to you, and just a few things have happened since then that we are incredibly excited to talk about. We are at an inflection point in our company's 90-plus year history. This morning, we unveiled the Alaska Accelerate plan, which will return the company to double-digit adjusted pre-tax margins by 2027 and strengthen our already deep relevance and loyalty in the markets we serve.

You'll hear directly from several members of our leadership team today during the presentation. And there are many more attendance from across the company who will be available during our question-and-answer session.

We will have just over an hour of prepared remarks. We'll take a short break and then do live Q&A for at least 45 minutes. For those of you on the webcast, we will continue broadcasting during the Q&A and afterwards, anyone will be able to watch a replay of the entire presentation on our investor relations website.

Now before we get started, I have to mention that our comments today include forward-looking statements regarding future performance, and our actual performance may differ materially. Information on our risk factors that could affect our business are available in our SEC filings. We will also refer to certain non-GAAP measures today, which you can find a reconciliation of in our SEC filings.

And with that, it's my pleasure to introduce Alaska Air Group's CEO, Ben Minicucci.

Benito Minicucci *Alaska Air Group Inc - Chief Executive Officer and President of Alaska Air Group*

Well, welcome, everyone, and thank you for joining us. This is an exciting moment for our company, a new chapter in many ways. It's not just a merger or integration story. It's much more than that. It's a vision for our future, and we're excited to share it with you today.

It's about our fundamental belief in the durable strengths of Alaska Air Group. And what I can tell you is that we're not standing still. We're evolving those advantages to compete and win in this fast-changing industry. It's about our fundamental belief that the requirements to be successful in this industry is about relevance and loyalty.

So you hear today from my talented leaders, each outlining their areas of expertise, all of which will contribute how we create value for everyone who depends on our company, our people, our employees, our guests, the communities we operate in and of course, our investors.

Now I've been in Alaska for 20 years, and I was just telling folks how time flies. And we look a lot different today than we did back when I started in 2004. Since then, we've grown our business to multiples of what it was. Today, we generate 5 times the revenue, totaling over $13 billion.

We've tripled our fleet to almost 400 airplanes across our mainline and regional fleets. And we've doubled our workforce to 30,000 employees as we welcome our new Hawaiian employees. Our service now extends to 141 destinations, that's up over 50% of the 89 cities we serve back in 2004.

But now feels different. And all my time here, this is the most excited that I've been, my leadership team, and our 30,000 employees have ever been about our company's future.

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And I think it's because we're creating something special. We're not repairing, we're not fixing. We're not restructuring, we're not recovering. We're building our future that's a step change from our past, and we believe our potential is transformative.

Yet as exciting as the future is, and you'll all be glad to hear this, we're not losing sight of all the things that have made Alaska strong. For the past two decades, we've worked on fortifying the pillars of our resilient business model and we have the track record to back it up. These include safety being at the core of everything we do and that from this base, we've been the on-time leaders in the industry for the past 15 years. We've differentiated our customer service with our people living our values of being kind-hearted and doing the right thing.

Our religious focus on low-cost discipline has earned us a 15% to 20% cost advantage versus our industry peers. And then underpinning all of this, a fortress balance sheet that continues to be among the best in the industry, even with the Hawaiian acquisition.

So taking that all together and we posted the industry's best pre-tax margin, 12 out of the last 16 years. So I'm extremely proud of this track record because the consistency we've shown is not something that happens by chance. You need a great company culture with amazing employees who love the company and live our values and a leadership team that's always looking around corners aware and reflective, but willing to celebrate wins, but even quicker to move forward to our next objectives and outcomes.

And you know that the best companies continually look to the future and don't rest in the past, observing, learning, adapting. What we have seen is an industry that continues to evolve where segmentation and differentiation have become more important than ever. Shane will talk about this in a few minutes.

And while we've been an integral part of our industry shifting landscape, our path to revenue diversification began back in 2017, and we're continuing to build on that momentum in key areas of our business. Now our first focus will be to create even greater relevance and loyalty in our West Coast hubs. So beginning with Seattle, we're going to complement our formidable domestic network by building an international gateway for our guests.

And we're going to start with Tokyo and Seoul in 2025. And we're going to build that up over the next three years with the 12 787s gained through our acquisition to better serve our guest demand. We're going to focus growth in the geographies of strength, for example, Portland and San Diego.

Our second focus is to be Hawaii's trusted airline. You see, Hawaiian on its own could not serve all the needs of all Hawaii residents because it had a limited Continental US network. But combined, we can. We have access to 141 cities on our own metal and 1,200 destinations worldwide. We can now serve 90% of Hawaii demand compared to only 70% before.

And given Hawaiian's unmatched brand strength among guests traveling to and from Hawaii, we're serving that preference by branding - this is the dual brand - everything to, from, and within the islands as Hawaiian. And through our commitment to Neighbor Island flying and curating a loyalty program exclusively for residents of Hawaii - we call it Huaka'i by Hawaiian - which has seen card acquisitions nearly triple since launching, we're well on our path to be the undisputed leader in loyalty and relevance in Hawaii, which is an $8 billion premium leisure market where we now have 50% share.

The third focus is on meeting the full spectrum of our guests' needs, including growing our ability to serve the premium end of the market. Now, we began to invest in our PMA experience, as I said, in 2017, and this has been a key factor in our profitability in the last few years. You'll hear more from Andrew on how we will accelerate this strategy and increase the percentage of premium seats across our fleets.

The one area I'm really super excited, and Brett will walk you through it, is our combined and uniquely branded loyalty platform that we're going to launch in mid-2025. Now you pair that with the launch of our premium credit card, and we're unlocking a lot of opportunities to deliver value to our guests.

The fourth focus area is on diversifying our revenues and on innovation. Jason, who's been in the cargo business longer than I've been at Alaska will walk you through the unique opportunity we see to grow our cargo business to multiples of the one we operate today.

Charu will touch on the work we've done to ensure technology will be an enabler of our strategy, not an obstacle, and allowing us to meet this integration process head on with confidence. And finally, Diana will speak about the investment approach we've taken to leveraging groundbreaking technology to transform the future while adding direct business value.

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So the bottom line is we're no longer just a strong West Coast domestic airline. With the combination of Alaska and Hawaiian, we connect our guests to the world with a remarkable travel experience, rooted in safety, care, and performance. We call this vision Alaska Accelerate because acquiring Hawaiian has fast forwarded our strategic plan.

Now many in this room have asked us, with the business performing well and producing strong results, why Hawaiian and why now? I used the word transformative before. Air Group has been around for more than 90 years, and I can tell you we intend to be around for at least another 90. In that time, we will continue fortifying our strengths and building to our future state.

Acquiring Hawaiian was an opportunity we could not pass up. It provides a catalyst for that future vision in a few important ways.

First, on timing. What could have taken us decades to build is at our fingertips today, with a wide-body fleet to launch international flying out of Seattle and a leading market share in a top 25 Honolulu hub, where we know scale drives outsized returns. Honolulu now becomes our second largest hub in our system. And our Hawaii franchise will generate over $4 billion of revenue for us.

The second is strategy. We're maximizing the impact of our proven business model across a larger combined base, reaching more guests than ever before and then multiplying these new opportunities because of that scale. So we knew this was a compelling opportunity at this time in our company's history. It doesn't happen often, but we believe we got the timing right on this one.

And so what started as a combination to unlock $235 million of synergies has now more than doubled to at least $500 million of synergies and a platform for accelerating our vision for the future. So everything I just shared is exciting. But it's also about producing industry-leading financial returns.

So here's what you can expect from Alaska over the next three years. First, as I mentioned, synergies go to $500 million, plus with additional commercial initiatives that you'll hear from Andrew, we will generate $1 billion in incremental profit by 2027.

Second, no margin dilution in 2025 due to the acquisition. In fact, by 2027, we will produce double-digit pre-tax margins. Third, we will grow EPS by 30% in 2025 and by 2027, EPS will be at least $10/share.

Fourth, a stellar balance sheet restored to less than 50% debt-to-cap and net leverage below 1.5 times by 2026. And fifth, on top of all this, our newly approved share repurchase program of $1 billion will be executed over the next four years, while generating positive free cash flow.

Now before I hand it off to the team, let me leave you with this. We're focused on building relevance and loyalty in the geographies we serve, what we believe are the essential factors for success in this industry. Hawaiian acquisition has allowed us to accelerate our future, which is why we call our plan Alaska Accelerate. And that's why we believe we have one of the best airline stories out there.

As you hear our team walk through the plans in detail, we think you're going to have to conclude that Alaska is undervalued for the potential we're poised to unlock. And yes, I'm going to say it again, we are excited about our future all 30,000 of us so excited.

So with that, I'm going to hand it over to Shane. Thank you.

Shane Tackett *Alaska Air Group Inc - Executive Vice President and Chief Financial Officer*

All right. Thank you, Ben. Hello, and thanks, everybody, for being here with us today. And also, thanks to those who are listening in via the live webcast.

We have a lot of content to share over the next 45 minutes to further unpack the vision that Ben just outlined. And most of our time today will be devoted to that - to sharing specifics about our plan. We want you to understand both what we are planning and why it will work. And I also want to convey that Alaska is already configured to deliver on our strategy across the combined company.

But before we get to the details, I want to talk more broadly about how we are adapting our business model to the clear and durable shifts we are all seeing in the industry. I think increasingly, what is on this slide is well understood by those who follow the airline industry.

And I want to begin by looking at the right -- begin by looking at the chart on the right. It's a simple depiction of third-quarter profits both before and after the pandemic. And the clear implication is that there are airline models that are working and ones that are not.

Now let me say this is a tough industry. Everyone is trying incredibly hard to run a good airline. It's not for lack of effort that this dynamic has developed. It's simply going to take a specific business model to thrive in the current industry context.

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I would also note the gap between margin production. This is the quarter where every airline usually makes the majority of their profits. I've personally never seen a gap like this between the highest and the lowest margin models.

Why this is happening, of course, is summarized on the left. And we view these as likely to be persistent industry shifts, and they are informing our thinking about our own business model going forward. Costs are converging and constrained growth, both due to airport infrastructure and aircraft availability is likely to ensure this persists.

The airline experience is being differentiated once again, and the largest area of demand growth is by far within the segment of those travelers wanting a better end-to-end experience. Relevance and loyalty in your core geographies are what will ultimately drive success, and scale will increasingly matter.

It's in light of these facts that we created our plan for the next several years. We've come to the conclusion, as you heard Ben share, we need to adapt our business model if we are to drive industry-leading margins into the future.

Now I want to highlight something our vision does not entail. Often when you shift or change business models, people invariably ask, are you giving up something crucial? And the answer is no. We will not abandon the core advantages we've built the Alaska Air Group of today on. Those stay. What we do need to do is add to our business model, a clear focus on creating greater capabilities on the commercial side of the business that will result in stronger loyalty and revenue.

Andrew, Brett, Jason and Charu will give you a lot more on this. They're going to cover each of the areas noted here, product, network, loyalty, cargo and technology and innovation. Taken together though, and I'll come back around at the end to summarize this again, but the bottom line is our commercial initiatives, coupled with synergies, we expect, will drive $1 billion of incremental profit from where we are today by 2027.

I'll end with this and then invite Andrew to the stage. What we hope this shows is a simple, clear, high-level outline of our playbook for the future. What you see here is an important evolution from our pre-pandemic thinking. And I'm confident these are the right responses to the industry shifts we just spoke about and will provide Air Group with the best playbook to win in the industry in the years ahead.

To summarize this, we'll have a continued cost advantage versus the legacies. A focus on building relevance, loyalty, and scale, a lower growth target for now versus what we had targeted in the past. A focus on delivering products and a network that meets all of our guests' demand and strong - we believe industry leading - financial returns.

Thank you, again, for being here today. We have been anxious to have the chance to share our thinking with all of you for quite a while now.

I'll come back at the end of the day to summarize. But for now, we'll hand this off to Andrew Harrison, our Chief Commercial Officer.

Andrew Harrison *Alaska Air Group Inc - Executive Vice President and Chief Commercial Officer*

Thanks, Shane, and good afternoon, everyone. We have entered a very exciting period at Alaska and especially for the commercial team. And as you can see from the title slide, I'm going to talk about how we plan to unlock Alaska's full revenue potential over the next three years.

As Shane just laid out, Air Group's commercial engine is a critical pillar of our resilient business model. Our commercial plan is geared to unlock $800 million of that $1 billion of incremental profit, $300 million from synergies and $500 million from other commercial initiatives.

And we're doing this on sub 4% annual capacity growth. This profit growth is made possible by the investments we've made over the past few years, which are now ripe for harvest with access to significantly larger revenue pools through our acquisition of Hawaiian Airlines.

So this revenue unlock comes from four primary pillars, and I'm going to go through these now. The first one is harnessing the power of our newly combined network to connect our guests to the world. See, our larger optimized network bolstered by our new global gateway in Seattle will take our guests nearly everywhere they want to go.

And we will grow daily addressable guests - which are those passengers that could fly us - by 16,000 per day or almost 6 million per year without additional capacity. Second, it's delivering a premium experience for all of our guests from booking to destination. This means fortifying our entire ecosystem. That's the expansion of our lounges, implementation of next-generation technology in our lobbies, modernization of the terminals at our primary hubs and continued investment in our premium seats and onboard product.

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The third area is rewarding our guests with a valuable loyalty program. The combined Alaska and Hawaiian program will include new benefits and the launch of a premium credit card focused on rewards for all our global travelers. So these enhancements help deepen loyalty among our guests and further fuel our revenue growth.

And then the fourth area is leveraging the power of our newly combined cargo operations and geographic access. This will grow cargo's strategic importance and diversify our revenue base. But importantly, all of this is supported by investments we have made to modernize our technology architecture and platforms. And this will enable us to bring our commercial initiatives to market with speed.

So my team and I are now going to spend the time walking you through our investments and strategies in each of these areas with solid proof points as to why Alaska is positioned to unlock these revenues. And at its core, Alaska Accelerate is focused on building scale, relevance, and loyalty. This strategy will enable significant returns as we prioritize growth in our geographies of strength where we have a right to win.

So up first, the foundation, which is our network, and how Alaska Air Group is geographically positioned to win more than ever before. You see the Alaska standalone network was historically concentrated east of our West Coast hubs. So 53% of our capacity was deployed there. By adding Hawaiian, along with opening a global gateway in Seattle, the shape of our network has changed. Now our hubs are the center with balanced capacity, both east and west of our hubs while maintaining a strong north-south network. This enables much greater connectivity to optimize those revenue capture of those incremental guests. So what's the bottom line? It's we achieve greater scale and relevance with this combination to grow our revenues.

And turning to revenue synergies. Our combined Hawaii and Alaska networks are Exhibit A of this powerful connectivity unlock. And as a combined carrier, we not only have more flights to and from Hawaii than any other carrier, but we're also able to time those flights to serve more guests.

And I just want to give you an example. So instead of two flights departing within the 8 AM hour from Portland to Honolulu, these will now be spread to include early morning, mid-morning, and evening flights. And that will allow the rest of our network to connect and feed more passengers to those flights. We'll have optimized flight schedules on all 12 of our Continental US to Hawaii overlap markets starting this summer.

And these changes allow us to serve, on average, 90% of North America demand to Hawaii versus only 70% previously. So this translates into access to another 4 million guests annually that we could not serve before with some of the best schedule quality in the industry.

We've also been able to unlock additional synergy gains. So first, our ability to materially increase the utilization of Hawaiian's fleet. And as you can see in the table, increasing aircraft hours across the majority of Hawaiian's fleet frees up the equivalent of seven additional narrow-body aircraft. So put another way, that's essentially adding seven aircraft worth of revenue at marginal incremental cost. With more Hawaiian airline flying available to us, we can deploy these assets into Hawaii to leverage the incredible strength of the Hawaiian brand.

And we know Hawaiian has historically commanded a 12% RASM premium to Alaska's Hawaii network average. And this is because of the way the aircraft are configured but also because guests love the Hawaiian brand, an affinity that has been built over decades. And this is real value that we'll be able to capture.

We're increasing Hawaiian seats by 18% at a 12% RASM premium and reallocating Alaska seats while ensuring overall seats to Hawaii remain flat. So in total, we expect our combined optimized network to unlock $175 million in synergies. And that's just the network. And the beauty of the combination is we have much more value to capture beyond these synergies.

As a combined entity, our base is now much larger. And as Shane shared, we'll have target growth of under 4% per year through 2027. We plan to focus this growth by adding seats into the fastest-growing markets. Those are Seattle, Portland, and San Diego. And we'll do that while maintaining a GDP level growth in the remainder of our hubs.

In Seattle, we have the number one market share and number one utility, and we're set to bring even more guests over our Seattle hub. And we'll achieve this through opening a global gateway, increasing domestic wide-body departures to and from Seattle from once daily to 6 times daily, and importantly, rebanking our Seattle hub to capture even greater demand.

And if you look at Portland, we are just well positioned to capitalize on our existing strength with the number one market share in utility in this 20,000 daily passenger market, we're evolving this hub into a key connecting complex.

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And in San Diego, we are number two in market share, but we are number one in destinations. And I want to highlight the incredible opportunity that we have in San Diego. You see whether it's capacity, number of seats, or destinations offered, we are compelling in San Diego in every one of those categories. We've been actively growing San Diego for years, and our product offering is well suited to the demand and the demographics of that region. We're going to leverage our experience to go after a meaningful share of that 5% GDP growth. And as part of that effort, we're leveling up the guest experience having already started design plans on a large San Diego lounge -- yes, I can see the smiles -- which will be a fantastic addition to come.

And as I've just shared, restructuring our banks in Seattle and Portland provide several important benefits. We can capture more connecting traffic for our combined network by implementing schedule changes to create optimized flight banks throughout the day.

So for Seattle, this increases our total addressable market by 20%, or access to nearly 6 million more connecting passengers a year for a total of approximately 36 million. And in Portland, rebanking will enable 4 times the number of possible connections. And beyond just connections, rebanking should also improve our network seasonal performance, particularly in trough periods like the first quarter as we're now relevant to a wider swath of the population outside the Pacific Northwest with different travel patterns.

Portland has always been critical to our network, but turning Portland into a robust connecting hub will complement Seattle and serve as an alternate gateway to our guests to where they want to go. So importantly, in managing North-South flow and peak spill periods, we will now be able to accommodate more traffic through Portland.

And as we grow our global gateway in Seattle, Portland, will also grow in importance, acting as a lever to free up Seattle to enable more high-value international connecting traffic and provide room for the ever-expanding local Seattle market.

So after establishing more powerful connecting complexes, the next step is to capture the value that this actually creates. And we are investing in proven revenue management tools and technology to help us maximize and optimize the revenue potential from our network and schedule.

So within our West Coast hubs that are now situated in the center of our new network, we will focus on being more of an origin and destination carrier, catering to a strong base of local demand and becoming even more relevant to guests all over the country and even the globe. In themselves, all these levers create strong opportunity for Alaska.

But combining with Hawaiian, this has unlocked access to a wide-body order book and Seattle revenue growth the likes of which we have never seen before. And as you heard earlier today, we're launching two international flights from Seattle - Tokyo and Seoul. This is a new phase for us, unlocking greater scale, relevance and loyalty across our geographies, tapping into not only demand that exists in Seattle, but this is demand from the surrounding Pacific Northwest region.

And the beauty of this is we've derisked our initial international routes since both destinations were already served by Hawaiian. And in fact, we expect the launch of Narita to be materially profit-accretive to our combined network, year one. As we consolidate Honolulu to Tokyo traffic serving it through Haneda and so we can move Narita flying up to Seattle to capitalize on the US point-of-sale strength. And additionally, we believe our oneworld partners will be very excited about working together with us to promote network connectivity and enhanced customer benefits.

So you've heard the plan. Now let's walk through why we are well equipped to capture Seattle's international travel. It's no secret that Seattle is our home. And here, we have the greatest relevance and loyalty where we operate the largest connecting complex on the West Coast at 46,000 seats per day. That is 2 times our next largest competitor in Seattle and 28% more than San Francisco's largest carrier. And we also have the most nonstop destinations in North America from our Seattle hub when you compare that to our competitors in the other two large West Coast hubs.

But let's zoom out and look globally. And you'll see that Seattle is the sixth largest market for local demand to Asia and the Oceania in the United States and the tenth largest to Europe. And when you add in our loyal guests from the states of Alaska, Idaho, Montana, and Oregon, the pool of demand just gets even larger. And we're now talking about 1 million passenger demand pool for Asia and 1.3 million for Europe.

So next, our hometown geography plays to our advantage. Believe it or not, Seattle is closer to 90% of the world's population when compared with San Francisco or Los Angeles. You see, both international routes we announced this morning, Tokyo and Seoul, they're actually 10% closer than traveling from San Francisco or Los Angeles. So this means our capital investment and operating costs are lower when compared with our competitors flying from their hubs.

And importantly, let's double-click on connecting passengers. Since Seattle is closer to Asia than the two other large West Coast gateways, we can serve connecting guests from the middle part of the country more efficiently. So for cities without nonstop service to Asia, we become that top choice, creating an opportunity for us to capture that incremental pool of demand.

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And then lastly, building our international gateway allows us to tap into the new guest demand that we did not directly compete for previously. This includes international corporate travel from some of the largest companies in the world. And our managed corporate clients spend $300 million a year on international travel, and that's just from Seattle alone.

Our top five managed corporate accounts represent a $200 million opportunity, so there is no reason we can't compete for our fair share. And it also includes our leisure guests, especially our loyal elites, who we know enjoy international travel and 50% of our elites surveyed stated that they flew internationally, just in the last past 12 months, and even more said they intend to fly internationally over the next 12 months. The proof points are there, we have a unique geographic advantage, and we're well positioned to meet international demand to support our global strategy from Seattle.

So we've covered when and where we're taking guests. The next important element of our commercial growth is how we get them there and specifically the premium ecosystem we've created that sets us apart from other airlines.

We've been investing in this ecosystem for many years, and this is not new to us, but we're innovating and growing our footprint. And our investments and those into the future have diversified our product offering. It now spans customer segments across the board and ensures that we are serving all of our guests.

But as Shane explained, in this current state of the industry and for the foreseeable future, premium is the profit differentiator where we will unlock further value. Highlighted in this chart, you can see that since 2019, our premium revenue growth has far outpaced our premium seat growth. This combination of continued product investment and merchandising will further fuel premium profit expansion, adding $100 million by 2027.

As the table on the right shows, we generate meaningful premiums from our products that offer more than just the main cabin experience. We've invested and continued to invest in our hard product - that's our seats. Two decades ago, first class represented only 8% of our seats. First and premium class represent 26% today.

So with the premium retrofits we've already announced and are in process, we are well on our way to achieving a 29% premium seat mix by 2027. This is near the average network carrier mix. However, we know there is more opportunity on our new wide-body fleet. You see the Airbus 330s and the Boeing 787s are under-indexed in business class and lack an international premium economy cabin. So we expect that beyond 2027, you will see our premium mix continue to grow.

Now I know we're not the only ones talking about premium right now, but it's really important to understand there is a reason premium works exceptionally well in our network. And it's not just adding pitch to a seat. And here's why I say this - I see Jamie smiling.

The first reason is our stage length. Passengers are willing to pay more for premium cabins on longer flights - a lot more. And this makes sense, right? I mean some guests may not want to pay for a first-class seat for a 90-minute flight or approximately 750 miles. But sitting on a plane for three hours or more? Our data demonstrates that guests are willing to pay for a more comfortable experience, the longer the flight. Our stage length is nearly 50% longer than the big 4.

Importantly, 70% of our capacity is deployed on routes that are over four hours in length. So we are uniquely positioned to sell premium seats and experiences. These are flights where our guests are willing to pay 275% more than main cabin fares for first class and over 90% more for a premium cabin seat.

And the second reason we're well positioned, premium is not simply about your seat on a flight. We want to reach passengers at every point in their journey and have created an entire premium ecosystem through years of investment that just cannot be replicated overnight.

And it starts with next-generation lobbies and industry-leading technology that will get you checked in and through the lobby in under five minutes, and the best facilities with modernized terminals in our largest hubs. To date, we've actually invested $3 billion at Seattle, Portland, and San Francisco. Hawaiian also recently completed work on the beautiful Mauka terminal in Honolulu.

And our lounge footprint is estimated to double by 2027, and it doesn't stop there. A planned flagship lounge in Seattle will be our largest yet, serving international passengers across our premium cabins.

It really takes off with the exceptional customer service our guests have come to associate with Alaska and Hawaiian and enhancing the onboard experience.

And we have several of our amazing local business partners joining us here today, all of whom contribute to our award-winning food, beverage, and amenities.

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And not to mention these beautiful new premium cabin seats.

And finally, extending a seamless travel experience across our oneworld and global partners. It's about the entire guest journey.

So in summary, we're continuing to invest in our premium guest experience both on and off the aircraft. We're increasing our connection with guests and deepening our loyalty, and no matter where you are in the ecosystem, you'll get the best experience in the industry.

But critical to all of this are our amazing, talented and hard-working employees who bring all of this to life. And we're seeing it externally - you see the validation that our strategy is working. We have industry-leading net promoter scores that are 20 points above the network carrier average. We've put our guests at the center of every decision, and it shows.

So I've walked you through the first couple of components of our commercial pillar. The first one, as a reminder, is getting guests everywhere that they want to go with a combined, optimized, and bigger network. And then secondly, we have provided a premium experience at every point in their journey.

So now I'm going to pass it off to Brett Catlin, who will unpack the next component of our commercial unlock, which is how we will create an even more valuable loyalty program that expands our relevance and reach. Thank you. Brett.

Brett Catlin *Alaska Air Group Inc - Vice President, Loyalty, Alliances and Sales*

Thanks, Andrew. And good afternoon, everyone. It's great to see so many familiar faces. Over nearly 40 years, Air Group has built a powerful loyalty franchise that is rewarding for our guests and for our shareholders. With Hawaiian, we see an opportunity to further scale our differentiated and well-regarded guest proposition.

As you can see on the slide behind me, we're building from a position of strength with more than 11 million active members. Importantly, in a point I'll come back to in a few minutes, is of those 11 million active members, 4 million are outside the West Coast. Additionally, at over 15% of Air Group revenue, loyalty is integral to our success and I'm excited to talk you through our plans to further accelerate growth.

For the past two years, we've been focused on modernizing foundational loyalty systems. On the next slide here, theoretically, there we go. Over the next two years, we've been really focused on building the foundation to ensure that we can now go and successfully integrate Mileage Plan and HawaiianMiles, and we recognize that the systems behind that are core to every aspect of the program. These costly and complex upgrades were prerequisites to our growth initiatives and now have the added benefit of allowing us to integrate quickly.

Moving on to our program growth. Our loyalty playbook and the strategy behind it is geared toward driving a step change in program cash generation with the unlock coming from four key initiatives that I'll spend a few minutes talking through.

The first is our announced program refresh. The second is synergy capture coming from our combined loyalty programs. The third, and I'm particularly excited to talk to you about this, is an expansion of our credit card portfolio with an all-new premium product that Ben teed up earlier. And then finally, we're planning to launch a new nationally relevant travel platform that's reward-centric in nature and builds on the success of mileage plan. Across each area, we've put together detailed plans and, in most cases, have been working to bring these concepts to life for quite a while with go-live targeted in 2025 and meaningful P&L accretion from 2026. When taken together, these initiatives will restore annual growth and loyalty program remuneration to the high single digits with over $500 million of incremental receipts by 2027.

Beginning with our program refresh. In 2025, we'll roll out a series of enhancements. We've taken the most guest requested, P&L accretive elements of competitor and broader travel ecosystem programs. To put it simply, we borrowed the best from what we see across the industry. This includes the introduction of milestone rewards that offer members perks they can choose before between and beyond our traditional elite tiers, with more opportunities to engage, there is a much stronger incentive for members to consolidate their flight activity and importantly, their co-brand card spend with Air Group.

In tandem with the launch of Milestone Rewards, we're also adding the ability for members to earn perks and elite benefits across all the ways they engage with the Air Group, from credit card spend to award travel to partner activity. These improvements are further enhanced by strength and rewards currency that offers great everyday utility, along with the continued ability for guests to redeem their points for outsized value across Alaska, Hawaiian and our fantastic global partners. The stand-alone investments we're making further differentiate Mileage Plan from the competition and become even more valuable as we move to a single loyalty program next year.

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Moving to our combination with Hawaiian. With HawaiianMiles coming into the broader Air Group ecosystem, there is a clear opportunity to meaningfully improve program economics. To give you an example, prior to the combination, HawaiianMiles produced about 10% of Hawaiian's total revenue, while Mileage Plan delivered an industry-leading 17% of Alaska's revenue. Across a number of co-brand card specific initiatives, we have conviction that we can close the 7-point gap with a corresponding unlock of at least $160 million of added cash remuneration and $90 million and added program profitability, as you see on the slide behind me.

The early returns are promising. While it's only been three months since we closed the transaction, we've seen new card acquisition on the Hawaiian portfolio increased by nearly 3x, and spend growth is running 2x comparable portfolios. Guests are noticing the combination and the value of the combined program and they're responding accordingly.

Spending a moment specifically on the state of Hawaii, our larger network, our oneworld partners and the power of our modernized loyalty offering unlock a significant deal synergy. Residents now have the opportunity to consolidate all of their travel activity on one carrier. And with Huaka'i by Hawaiian, we're giving them every incentive to do just that. And what's fantastic, is when you go, when you actually talk to the residents of Hawaii, people are excited about this combination. They're excited to travel on one carrier to Neighbor Island to the Continental US and abroad and we're excited to take them there.

The program, what you see here, Huaka'i by Hawaiian is designed specifically for Hawaii residents. It's strategically tuned to the Neighbor Island market with free bags and quarterly flight discounts. With Huaka'i we're leveraging a playbook that has worked well in our core markets including the state of Alaska, where we offer a program known as Club 49.

Since the program launched in mid-November, we've already had nearly 100,000 residents enroll and we intend on having a 70% local market penetration by 2027. With this level of engagement, we're confident we can drive a step change in new card acquisition with penetration levels, card spend and importantly, corresponding cash remuneration, reaching what we see across other scale markets.

Moving to our multiyear effort to expand our co-brand card portfolio. We've been working closely with our long-time partners at Bank of America and at Visa to bring to market a new industry-leading premium card product. And this isn't a cookie cutter card.

With launch slated for next summer, this innovative offering is designed squarely for next-generation travelers that prioritize global experiences and have increasingly gravitated towards bank branded cards. At run rate, we see this as a sizable market opportunity with line of sight to over $165 million of added cash remuneration by 2027 as we capture both new cardholders and greater share of wallet among existing cardholders. At run rate, we anticipate this product delivering over $90 million of incremental annual profit with $40 million of that as the slide shows, realized by 2027.

This next slide is actually -- it's my favorite in this section, specifically because it speaks to what's in it for our guests. There's a lot of great financial numbers in this deck, but as Andrew mentioned, we're a guest-centric company and we've built what we believe to be an exceptional card product for this cohort of travelers. It has a ton of unique rewards that only an airline can offer. This includes a global companion award that functions like a buy 1 get 1 free on redemption tickets across not only Alaska and Hawaiian but our 20-plus global partners. Other industry-leading benefits include 3x miles on all dining and foreign spend, expanded currency flexibility and thoughtful day of travel perks like lounge passes and fee waivers across almost every touch point.

At $395 annually, our new premium card will offer one of the most compelling value propositions of any product on the market. And I was just looking before we began the show today, we opened up preregistration, which you can see the link on the slide. We've already had over 10,000 people express interest in this card product, and it's been about six hours. So we're really excited about the market potential of this product and we're going to have an aggressive launch campaign next summer.

Moving to the fourth aspect of our loyalty platform. This is our all-new reward-centric travel platform. Next summer, we'll merge HawaiianMiles and Mileage Plan into a single program. We see this combination as a unique opportunity to accelerate Air Group's relevance to new geographies and to new travelers. I mentioned how we already have 4 million members outside the West Coast. This platform is going to be key to activating and growing that population.

Our house of brands approach to loyalty will leverage the strength of Alaska, Hawaiian as well as our regional, national and global airline partners. We'll build on the foundation of the Mileage Plan program while offering new benefits, content partnerships, and reasons for members to engage. Later in 2025, we'll share more details on the brand, the digital experience and our strategy to drive step-out member growth.

And then finally, as I wrap up the overview of our loyalty playbook, 2025 could be best summarized as a year of execution. As we harvest the technology investments we've made over the past two years and begin to fully deliver on the platform's full P&L potential.

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We've already begun a meaningful program refresh, synergy capture is ramping in tandem with the launch of Huaka'i by Hawaiian, and today we've announced an all-new premium card product that promises further P&L expansion. With the launch of our new travel platform next year, we'll be fully on our way delivering an incremental $150 million of profit by 2027.

With that, I'm going to invite Jason Berry, who leads our Horizon Air and Air Group's cargo portfolio onto the stage.

Jason Berry *Alaska Air Group Inc – Executive Vice President Cargo and President of Horizon Air*

Thanks, Brett. You heard Ben earlier, say I've been in cargo for quite a while. And actually, when we're preparing for this today, I realize next week will mark my 29th year in the industry. And while it's an incredible privilege to serve as the President of Horizon Air today, the majority of my career has been spent developing and growing cargo organizations. And I got to tell you, the task that Ben has put in front of us is something unique and rare and an opportunity that I've never really ever seen.

We're combining two respected long-standing cargo organizations and building on their strengths to deliver a step change in value creation. You heard from Andrew, cargo is poised to deliver $150 million of new annual profit. And for cargo, our mission is actually relatively -- in relative terms, it's actually pretty simple. We have to maximize our new combined network and fill our bellies. It's really that simple, fill the bellies.

So how are we going to get there? A little more than just filling the bellies, but that's sort of what we're doing here. So today, as separate carriers, Hawaiian Airline's widebody fleet underperformed the industry average load factor by nearly 3,000 pounds per departure, and they underperform yield by over 40%. This underperformance was primarily driven by schedule quality and an imbalance of capacity to and from the islands. This restricted Hawaiian's ability to flow cargo from Hawaii to the largest and most valuable gateways in the Americas.

As a combined carrier, we're removing these constraints. As you heard, we're starting service from Seattle to Tokyo and Seoul. Those are the third and fourth largest cargo export markets in Asia. This is jump-starting our international cargo expansion by providing flow outside of the constrained islands directly into our flagship cargo hub in Seattle. With Tokyo and Seoul, our newly combined route map balloons from 6,500 sellable O&D pairs to nearly 18,000 overnight.

And by bringing our load factor up to par with the industry and optimizing fleet deployment, will drive an additional $35 million in annual profit to the business. This is pure synergy capture just based on the combined network.

And in addition to utilization, by tapping into our commercial knowledge and expertise, we expect to drive an additional $55 million of yield enhancements. In simple terms, we're going to find the right product for the right lanes to help bring our selling average rates up to the industry average.

From our original base, we believe we can build franchise that, at a minimum, will be double its size and with 2 to 3 -- with system margins 2 to 3 times our system average.

Our in-house freighter program further expands our reach and we bring capabilities to our customers that others in the region simply cannot offer. This, combined with our scheduled contract CMI business, which is our newest revenue stream, we expect to inject an additional $60 million of new profit. The CMI work is slated currently for 10 Airbus A330 freighters, operated on behalf of Amazon's Prime Air network. And while we're still in the introductory phase, and we are still evaluating the program, we believe Alaska and Amazon stand to benefit mutually from this partnership.

And CMI flying, this is not a traditional space for passenger carriers, but our operational excellence, combined with our decades of freighter experience, we believe this becomes a worthwhile diversification opportunity for Air Group. And we have incredible employees, and they're excited to come together to do this.

When Ben spoke to me about taking on this role, I knew my number one priority was actually to help me find the right leader to bring these two groups together. And I can say with certainty we found that in Ian Morgan, our new VP of Cargo. Ian brings over four decades of international air cargo experience to our team.

His deep relationships with the world's most respected freight forwarders and his track record for high growth and commercial savvy, they're already helping us unlock value. And while he's only been here for two months, he has hit the ground running. And he's actually here with us today. So if you have a chance, you might get a chat with them later as well.

So to sum it up for cargo, it is relatively simple. We're the last major combination carrier in the United States, and we're one of only a few in North America with the capabilities to unlock the full potential of a passenger and freighter suite of assets. We have a clear

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and unique plan in front of us, and we have -- we know what we need to do to execute: global expansion, diversification, and a strong cargo leadership team that will help us accelerate our business forward. Thanks.

And now I'm going to turn it over to Charu to talk about technology and innovation.

Charu Jain *Alaska Air Group Inc - Senior Vice President, Merchandising and Innovation*

Thanks, Jason, and hello, everyone. So after 30 years in the airline industry, I understand how critical technology is to an airline. We are an airline, but we're also a technology company. And enabling the future is vital. So that's why my team and I have really been focused on it.

Our innovative approach, our investments in technology are what's going to enable Andrew's team to unlock the commercial plan that you've heard about today. The digital foundation that we're creating actually allows us to go faster and further, benefiting our guests and our bottom line.

Innovation has been in our DNA. It's always been in our DNA. We were the first airline to sell tickets online, and we were the first airline to put self-service kiosks at the airport.

We're driven towards technology that improves the guest experience and reduces the pain points we know can happen when traveling. The most recent version of this innovation is focused on airports. We studied the guest journey on day of travel and found that most of the friction happens in the lobby. So we started with transforming our lobbies and electronic bag tags, custom iPad-based bag tag stations, and automated bag drops are a result of that. Our guests with bags can move seamlessly from curb to security in less than five minutes.

And by 2027, guests will be able to use their face or phone as their identity across every airport touchpoint, including security. So this is good for the guests and good for our business. Our innovations at the airport have increased the throughput at our hubs with an eye towards 2030 growth, all within the airport's existing footprint.

I'm also really excited about how we're using AI, not just across the business but also the guest journey. So through our partnership with Microsoft and Google, we were the first airline to launch a generative AI flight search tool that helps our guests plan their next trip by discovering locations, they may not have thought of otherwise.

Imagine asking, “where can I go in Europe for 50,000 miles?” and getting multiple destination options to book. This is available today on our site and is saving guests time finding and booking that perfect trip.

But some of the most important investments we're making are invisible to the guest, and that's by design. Everyone in this room probably knows how painful legacy technologies can be for airlines. Having done this work for 30 years at multiple airlines, I understand the resiliency and reliability that comes from investing in the right technology.

Customers do not see the complexity that's enabling their flight. But modernizing our guest technology platforms is critical for growth. That is why two years ago, we started a careful and deliberate plan to migrate to cloud-based systems and a modern architecture. The last 15% of that effort will be complete next year. Modernizing our technology also sets us up for the Hawaiian integration, especially as it relates to having dual brands across a single platform.

What's even more interesting about this shift is the speed and agility that it gives us when we introduce new products. An example is when we started offering exit row seats as an ancillary. A couple of years ago, it would have taken us more than nine months to enable this option. With the technology upgrades in place that we have today, it took us just six weeks from when we decided to do this to when it was available on our site.

We also want to meet our guests where they are, the channels they're on, offering them a very personalized user experience that helps transform shoppers into buyers. We now sell 24 of our oneworld and global partners through our website and app. That's 550 unique destinations that guests can book from our platforms.

So even when we cannot get a guess exactly where they want to go on our own metal, our digital investments ensure that we offer a seamless experience across our partners. Our partner selling platform now accounts for 8% of Alaska revenue.

As we focus on growing Air Group, indirect channels are being transformed. We have expanded our distribution strategy and have launched new distribution capability or NDC. NDC technology provides the ability to make our premium products available to larger audiences where they want to be reached now and as we move into the future.

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So hopefully, what you take away from today is an understanding of how we've positioned our technology as a foundation to enable Alaska Accelerate. It is truly the culmination of years of investments that's paying dividends for guests and for the business.

With that, I'm going to turn it over to Diana to talk about other ways we're investing in the future.

Diana Birkett-Rakow *Alaska Air Group Inc - Senior Vice President, Public Affairs and Sustainability*

Thanks, Charu. Hi, everybody. It's great to see you here today. Thanks for being with us.

So this last chapter builds on Charu's comments about how we're leveraging the innovation ecosystem to enable our strategy, both now and long term. Charu spoke about how we are using technology to deliver a remarkable travel experience, with new capabilities and solutions inside our company.

At the same time, the pace of change around us touching our industry is incredible. The technologies that are emerging and maturing are fascinating, they're exciting, and they're real. And it's incumbent on us to both use that technology to drive efficiency and performance now and to know what's on the horizon, use it to inform our strategy and help to shape the future of aviation.

So that's why in [2021], we established Alaska Star Ventures, an investment arm of our company. While we can't predict the future, we are doing the next best thing, identifying, investing, and working alongside the technology companies who are creating that future.

We're not out to do a certain number of deals or to invest a certain amount. What we want to do is four things. First, to boost our radar for the trends and technologies that are impacting our industry. Second, to identify the technologies that we can use in our business to improve guest experience, drive performance or help us decarbonize. Third, pairing small investments with deeper partnerships to inform technology development and to support shared success. And finally, to create multiple paths to value creation as both a user of the technology and an investor.

So over the last few years, we've built a modest portfolio of investments, we've committed about $89 million to date with about $15 million deployed annually to date and three main areas of technology. First, AI-powered software to sharpen operational efficiency or commercial performance. Second, aircraft fuels and propulsion systems or what actually powers the aircraft and new aircraft and airframe designs.

There's a lot of great companies in our portfolio, but I'll just highlight four examples today. The first is Assaia which is an AI and camera vision tool that we're using in Seattle to streamline aircraft turns, resulting in ground delay reduction of over one minute per airplane.

The second is ZeroAvia, who are the global leader in developing a hydrogen electric powertrain that could power our regional flights and more. Another is Twelve who are actually making low carbon fuel directly from recaptured carbon dioxide in Washington state, and they're working with us and Microsoft to bring it into our operations.

And finally, JetZero whose blended wing body jet offers a step-level improvement in fuel efficiency with new possibilities for interior configuration. When you look at this image, you might wonder how in the world we'll get there. But JetZero's design actually implements all commercial off-the-shelf products, which significantly derisks certification and production, making this kind of aircraft closer and more feasible than you might think.

So just imagine what this industry could look like in 20 years. The technologies that are being created and shaped today -- the technologies that we will use in our company are being created and shaped today. And we believe that we and they will be stronger if we actually build them together.

So the examples I just shared are cases where technology is already being developed that's relevant to our business and our industry. But there's a lot of areas of opportunity where technology simply doesn't exist yet. So we're also setting out to create it.

A couple of years ago, we were the first airline to use AI-enabled route optimization software called Flyways. And their software engineers actually sat next to our dispatchers for a period of time to understand how we plan flights. And the resulting product saved us over 1.2 million gallons of fuel last year. This experience really inspired us and helped us understand how we can work with software developers and entrepreneurs to develop technology.

So we've partnered with UP.Labs to actually identify other complex issues and value creation opportunities that can be tackled with AI-enabled software and for which there's a market beyond our own company, and we're working together to create the solutions.

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We are the first customer of the resulting companies with an edge on the business impact. And as the company grows with new customers and new revenue, we benefit as an equity investor.

Our first company launched this fall. It's called Odysee and it leverages AI to put -- help us put aircraft in the right place at the right time, optimizing schedule plans by analyzing scenarios and real-time trade-offs for impact on operational reliability, guest experience, and revenue. We're really looking forward to launching our second startup early next year, a third is in development, and we're actively assessing candidates for several more.

So the bottom line is that with the rapid pace of innovation around us, we will succeed by both capitalizing on our core strengths and always looking to the horizon for a competitive edge and to delight our customers for years to come. Alaska Star Ventures is a key part of that journey now, with a powerful network of investees and partners, working to help shape the future of our business and industry.

So now I'll turn it back to Shane to close this out.

Shane Tackett *Alaska Air Group Inc - Executive Vice President and Chief Financial Officer*

Okay. Yeah. Thank you, Diana. We are almost done with the prepared part of today, which you guys are probably glad to hear. What I want to do is summarize everything you've heard into our expectations for the financial performance of the business over the next three years.

First, as we shared, we expect to achieve at least $500 million in synergies from our combination with Hawaiian. And we expect to achieve these by 2027 with a significant $200 million year one contribution. I want to note that the planning for synergy capture is effectively complete. And in fact, we have already begun to ramp the execution of synergy capture across the organization with biweekly check-ins with each synergy area owner.

Network and loyalty represent the biggest synergy pools on the revenue side of the business and we have a high degree of confidence given the nature of these synergies that we will capture at least these amounts. I'm certainly confident in our ability to deliver on cost synergies given our strong cost culture across all of Air Group, which remains focused on being disciplined and delivering on productivity.

We're confident in our path back to target margins of between 11% and 13% by 2027. The $500 million of synergies, coupled with previously announced premium seat expansion on our existing fleet and clearing one-time known headwinds at both Alaska and Hawaiian get us back to 10%. The path then to target margins comes from the commercial road map we outlined today.

And regarding those initiatives, they are relatively tried and true across the industry. Banking for O&D connectivity, moving to more modern RM capabilities, implementing another card tier in our loyalty program have all been done by others and the value associated with those are clear and measurable, which is to say we have a lot of confidence we'll be able to deliver on the initiatives and the value from them to the bottom line.

And all of this is before you account for industry factors that we see as favorable to our business model or the full return of revenue across Hawaiian's pre-pandemic network, namely Japan travel to Hawaii. In other words, we have multiple pathways to delivering on this plan, there may be puts and takes along the way, but our confidence level is as strong as it's been any time over the past five years.

On the capital allocation side, there are a few important things to note as well. First, we are starting from a really good place with our balance sheet. We're just 8 points and 1 leverage turn from being at our targets with a clear path to reach those by 2026.

Second, we see stable CapEx the next three years at levels that will allow for strong free cash flow generation as the business produces more margin. And because of that, we have received authorization from the Board to implement a further $1 billion share repurchase over the next few years, the cadence of which will be driven by our return profile and the price of ALK.

Okay. Very briefly on 2024 guidance. We now expect earnings per share between $0.40 and $0.50 for the fourth quarter, which was $0.15 better than our previous midpoint and brings our full-year guide to between $4.25 to $4.50, which is the top end of our last reported guide. Demand has been great into the fourth quarter, and we see similar strength into January. Looking forward though, as Ben mentioned, we expect no earnings dilution next year and, in fact, expect 30% EPS accretion in 2025. This is a fantastic way to start our integration process and begin the process of delivering on our 2027 strategy.

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Also, as Ben shared, we expect to achieve greater than $10 per share in earnings by 2027. And for clarity on the math -- I was looking for Ravi because somebody asked this earlier, there he is -- it does not include any reduction in the outstanding number of shares of ALK from share repurchases. We will talk more about 2025 guidance on the Q4 earnings call, i.e., not during the Q&A. We'll see. We'll talk a little bit about it, maybe.

Let me close with this. We've established a clear vision of where we want to go. We understand the industry, and we understand what capabilities we need to further develop to win in the industry and that is what we are all focused on now. We have substantial unlock opportunities with the combined network and new fleet, both on the passenger, loyalty, and cargo side of the business. We have substantial synergy opportunity and are already executing on delivering them.

We have a great product offering that we will make even stronger to continue to earn the loyalty of our guests and the industry's best Net Promoter Scores, and we'll do all of this while delivering strong financial performance that we believe can lead the industry.

And with that, Ryan will share the plan to move on to Q&A.

QUESTIONS AND ANSWERS

Ryan St. John *Alaska Air Group Inc - Vice President, Finance, Planning and Investor Relations*

(Event Instructions) All right. Welcome back. We'll spend about the next 45 minutes doing question and answer, and we'll get right into it. First question, I'll go with Conor.

Conor Cunningham *Melius Research - Analyst*

Just on the integration, can you just mark where things are today? You're talking about $200 million of synergies. It's a big number. Can you -- is that -- I assume that's an exit rate number. Can you just talk about what needs to change for things to be unlocked throughout the year?

I would imagine that you don't have a lot in the first quarter and that kind of gradually accelerates. And then like, for example, like the loyalty side of the equation, do you need to have a single loyalty program for that to start to flow through. And then I have a follow-up too.

Shane Tackett *Alaska Air Group Inc - Executive Vice President and Chief Financial Officer*

Yes. Maybe we'll start just dates, like the SoC, PSS and then we can get into like some more of the nuance of that?

Charu Jain *Alaska Air Group Inc - Senior Vice President, Merchandising and Innovation*

Sure. So we're the last integration in the industry with Alaska and Virgin, so we have a lot of people and our playbooks are still there. Personally, this is my fourth airline integration. So I'm looking forward, we're very -- I'm very confident in our plan and approach.

But we're looking at single operating certificate about a year out, so in October of next year. And then the passenger service system integration, which is a big key to unlocking the guest experience will be in second quarter of '26.

Brett Catlin *Alaska Air Group Inc - Vice President, Loyalty, Alliances and Sales*

Yes. And then single loyalty, we'll begin the process next summer with the new brand rollout, as we shared during the presentation. Obviously, the movement to -- from two cards to one and how that transition happens over a couple of years. But to the question on the ramp on loyalty, we're already seeing it out of the gate. Just in terms of new card acquisition, and we're pretty excited about what we're seeing early on.

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Ryan St. John *Alaska Air Group Inc - Vice President, Finance, Planning and Investor Relations*

Yes. The $200 million is calendar year. It's not exit rate. So we expect next year to have $200 million in the bank from synergies.

Andrew Harrison *Alaska Air Group Inc - Executive Vice President and Chief Commercial Officer*

And I'll just say on the network side, that's very quick and very immediate. We've already done some rebanking in the first quarter. And then today, and over the next three days, the summer schedule and all that cross-fleeting I just shared earlier and moving aircraft around and getting more utilization and getting O&Ds all have gone into place over the next few days.

Conor Cunningham *Melius Research - Analyst*

Okay. And then on the labor side, that maybe the dis-synergy side, can -- does your 25 EPS number assume a flight attendant contract? And then as you work towards collective bargaining, are you assuming additional agreements to be extended and whatnot as you work through that.

Shane Tackett *Alaska Air Group Inc - Executive Vice President and Chief Financial Officer*

Yes. Thanks, Conor. So we do assume that we'll get a deal with the flight attendants. We're hopeful. I think we're back at the table next week, and then we have another set of dates in January.

And that assumption is in our guide for next year. we assume we'll get it done. We're hopeful we'll get it done. That one is not a dissynergy. That's just something we need to get done for our people. They deserve it, and we're anxious to get to a second TA.

And in terms of all of the other groups like getting -- going on the joint CBAs, we actually have transition process agreements already done with, I think, all of the folks we need to on the Hawaiian side and our Alaska counterparts and -- we'll be starting joint CBA early next year, I think with at least one of our groups, if not all of them. But I think that process has a chance of going a little quicker than last time. We certainly hope so.

Ryan St. John *Alaska Air Group Inc - Vice President, Finance, Planning and Investor Relations*

Jamie.

Jamie Baker *JPMorgan - Analyst*

Jamie Baker with JPMorgan. First question. So the three years that you've spent being a oneworld carrier, to what degree does that shape your internal forecasts for the international expansion. The reason I ask is the question I've gotten today from clients is, what does Alaska possibly know about these longer-haul markets. And I would think that you draw on oneworld, but I don't want to oversell your data set or intellect in this regard. So how do I better answer that question?

Benito Minicucci *Alaska Air Group Inc - Chief Executive Officer and President of Alaska Air Group*

Jamie, I think the news that we announced today is our partners are going to be very enthusiastic and happy with this announcement. And I think once we're done here is we're going to very quickly explore more conversations on how we can do more together in terms of connectivity and partnerships going forward. So I just think there's a lot that's already been done under the oneworld structure. And for us to piggyback on that, I think, will be a path that we're going to look at.

Shane Tackett *Alaska Air Group Inc - Executive Vice President and Chief Financial Officer*

And maybe just on data and traffic and demand and what do we know because we've been part of oneworld.

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Brett Catlin *Alaska Air Group Inc - Vice President, Loyalty, Alliances and Sales*

Yes, it's a super interesting question, Jamie. Of course, we look at it. We have great insight now into where guests want to go. As Andrew shared, 50% of travelers, Mileage Plan members went globally. We looked at the data just a couple of weeks ago, just the folks that are accruing or redeeming on our partners.

Every day, we could fill 14 787s there's an enormous number of [our elites] all of our mileage plan members that want to go global and they want to do it on Alaska. We just haven't given them that opportunity. And as Ben mentioned, our partners are going to be excited that we're flying to their hubs. We're building out the presence in Seattle, and we're creating something that ultimately enhances the proposition of oneworld. So we're really optimistic about that.

Jamie Baker *JPMorgan - Analyst*

Thanks. And a follow-up. So early on in the presentation, you talked about the CASM, CASM with an H between the margin haves and have nots in the industry. And I agree with all of those structural observations. One other longer-term structural reality of the industry, though, is that it's exceedingly rare to have two airlines of size profitably coexist in a single hub. And where it does exist, it's usually a legacy of slot holdings BA in Virgin and Heathrow, American United in Chicago, that sort of thing.

What is it about the Seattle market and Alaska that gives you the long-term confidence that you'll be able to sustain that cohabitative relationship that you have with Delta? No, it's -- that can't be a word cohabitate.

Benito Minicucci *Alaska Air Group Inc - Chief Executive Officer and President of Alaska Air Group*

No, it's a great question. Look, for people who know us, they know that Seattle is the hub, our hub, it's our hometown. It's where we live. It's where we do a lot with communities, and we've built a legacy over decades about Seattle being -- about Alaska being Seattle's hometown carrier. We've spent a lot of the last decade building our domestic network.

So if you look at our domestic network now, I think Andrew showed it a little bit, just in terms of flights, we're 2x our competitor. We have more connecting passengers. We fly to more destinations. And that was the strategy from way back, a decade ago that says, look, we have to fly to everywhere where people want to go out of Seattle, and we're not done yet.

But the one missing arrow in our quiver, and we tried and it's worked with oneworld. So three, four years ago, we entered oneworld to give our guest that connections internationally. But the one real are that was missing was our ability to do it ourselves. And I think with the loyalty that we've nurtured over the last few decades, the domestic network we have, the partnerships that we have, we're going to be successful in Seattle. There's no doubt in my mind.

Catherine O'Brien *Goldman Sachs - Analyst*

Catie O'Brien^, Goldman Sachs. Another one on international. Not looking for a number, but how do we think about the size of the international strategy within that $400 million network bucket would love to hear your thoughts on the longer-term potential there? And then I know you mentioned you sell your oneworld partner tickets on your website, Charu, I think you said 8% of revenue. Does flying your own metal make that number tick higher? Or is there any potential cannibalization there?

Andrew Harrison *Alaska Air Group Inc - Executive Vice President and Chief Commercial Officer*

Maybe I'll start with the international. None of that in the synergy numbers other than you heard what we would be able to do moving Narita from Honolulu to Seattle, that is accretive. But other than that, the $400 million in the synergies does not include the international. And I think the most exciting thing about the international as we shared, is the size of Seattle for Alaska, which many might have said was capped at certain revenue basis. And we've shared over $1.5 billion of incremental revenue already on our $5.5 billion hub just allows us to grow even more and generate more loyalty with more room to go.

So I would say that the international other than some of the loyalty is all incremental goodness over time that you will see accrue to Alaska.

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Catherine O'Brien *Goldman Sachs - Analyst*

Great. And then maybe just my follow-up. You mentioned that your earnings targets don't include much upside from the current favorable industry backdrop and don't really envision much improvement for some of the still recovering elements of Hawaiian's, demand, Japan and dryland. Could you just flesh that out a little bit more? What's in the numbers and in terms of the recovery of some of these more still recovering segments?

Shane Tackett *Alaska Air Group Inc - Executive Vice President and Chief Financial Officer*

Yes, like very little - immaterial amounts. I think we wanted to share today, and we certainly wanted to build a roadmap towards target margins that we felt like we could go execute on, right? Like things that were in our control that we can go deliver on, many of which we've already started. We've been planning for a long time, Catie. And we didn't want to wait for a market recovery in any particular geography.

So again, I think at some point, I think Hawaii is a preferred destination amongst Japan travelers. And our suspicion is as soon as there's a better exchange rate between the US dollar and the yen, a lot of folks are going to come back to Hawaii and probably in an excited way, I think that we might get more volume like a step change in volume as soon as you see it become more affordable. When that happens, I couldn't tell you when that's going to happen. So it's not really contemplated in anything that we shared today.

And it's why I said like during the closing remarks, I think there's going to be puts and takes, but there's like more than one pathway to get to the financial output that we talked about today.

Duane Pfennigwerth *EVERCORE ISI - Analyst*

Thanks for doing this event. Duane Pfenningwerth from Evercore. Maybe just to start there, where you left off on international inbound. And I don't know the right way to frame it, if it's Asia inbound or Japan inbound, what historically has that represented as a percentage of Hawaii demand? And again, historically, what percentage of that -- what was Hawaiian's share of that demand?

Andrew Harrison *Alaska Air Group Inc - Executive Vice President and Chief Commercial Officer*

Yes. I mean Asia, I think, was over 60%-plus inbound from Japan into Hawaii that is only half recovered. And so what we have seen, as the industry has seen is a pickup on US origin to Japan. And I think that's a key reason we believe moving Honolulu-Narita to Seattle-Narita, we will be able to tap in and leverage that international point-of-sale strength that's now going from the US to Japan.

Shane Tackett *Alaska Air Group Inc - Executive Vice President and Chief Financial Officer*

So Duane, the number is roughly $1 billion of Hawaiian's pre-pandemic revenue was Asia into the islands I think it's well under half recovered if you just look at the Japan component. So there's a lot of missing revenue on that network still.

Duane Pfennigwerth *EVERCORE ISI - Analyst*

And then maybe just a couple more networks. You called out a couple of anecdotes there. I think it was Portland was not banked and it will be banked. So any color as to why it wasn't and why that makes sense now? And then why was Hawaiian's utilization so much lower? Why is that an opportunity now?

Andrew Harrison *Alaska Air Group Inc - Executive Vice President and Chief Commercial Officer*

I think Portland is very interesting and just full disclosure, we were getting ready to create just prior to the pandemic to start to really bank Portland. Portland was really an origin. You start importantly, and you fly out and come back. We didn't have specific banks. Our volumes got to a place where it was time to bank, the pandemic hit, we let it go.

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So now with the number of O&Ds we serve with the congestion in Seattle, creating five specifically defined banks. And as I shared, you're going to have 4x the O&Ds that we can create. So we think that's going to be very powerful for that. And then your second question was --

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Benito Minicucci *Alaska Air Group Inc - Chief Executive Officer and President of Alaska Air Group*

Utilization.

Andrew Harrison *Alaska Air Group Inc - Executive Vice President and Chief Commercial Officer*

Utilization. So again, huge credit to Hawaiian that they don't have a network on the Continental US, they're point-to-point. So they would fly at certain times a day in the peak and very, very large local traffic on their aircraft. Now that we come together, Portland is a classic example where we had both carriers leaving at 8:00 AM, we can have a morning noon at night and Hawaiian now can leave later in the day. we're actually instituting about four red eyes on Hawaiian because now they have a network to feed them and they don't necessarily have to leave at these set times in the morning at the peak time. So we're combining the networks and through that we are able to get seven aircraft more flying at a point.

Ryan St. John *Alaska Air Group Inc - Vice President, Finance, Planning and Investor Relations*

And I'd just add to, I think you probably saw it in a footnote, but this summer, we're going to fly two A330s between Seattle and Anchorage which, of course, Hawaiian likely wouldn't have done on their own. The cargo uplift is massive in the summer with all that seafood. We fill up 20-plus planes a day so there's things like that, too, which are not traditional Hawaii point of sale that you would expect we're going to be able to do as a combined airline.

Brandon Oglenski *Barclays - Analyst*

Brandon Oglenski from Barclays. And thanks, everyone, for hosting a pretty bullish outlook here. Ben, what can you tell us about your prior experience integrating Virgin? And I guess, what were the lessons learned there, especially when you think about from like a labor and a technology perspective because historically, airline mergers they can be hit or miss. Sometimes they go well, sometimes they don't.

And so how are you approaching that with Hawaiian now? And how do you really maintain or even improve the culture going forward?

Benito Minicucci *Alaska Air Group Inc - Chief Executive Officer and President of Alaska Air Group*

Great question, Brandon. And we're fortunate because the majority of people who executed the Virgin American integration, I was talking with Mike here a few minutes ago, are here. So myself, the whole -- most of the team here, Charu, Vikram, who heads our operational IT. We've all been through single operating certificates, PSS cutovers. So we're like on the complicated stuff, super confident.

We know what we did. We pulled our playbook out. We improved upon it and we're moving with more speed. So one of the things we're going to do is we want to move with more speed than we did, which is why I think the international announcement today, people are asking us, wow, that was quicker than we thought. Because we have confidence in going, executing the integration because we know what we're doing, we could still do these things in parallel.

What was more difficult for Virgin. We were doing things in series. We wanted to do this, and then we've done this, we'll move on to this. Now we're working parallel swim lanes, which I think is the difference you're seeing with Alaska because of the confidence we have to go execute this. One of the things that I think we're so fortunate is -- and I've said it before and I'll say it again, we have amazing employees, amazing union relationships at Alaska.

And it's a virtue of those relationships that we've nurtured over a couple of decades, that I think is going to give us good traction in getting -- one of the big pieces, single operating certificate PSS. The other big piece, loyalty is another big piece, is joint collective

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bargaining arrangements and seniority list. And so we are fortunate we have great unions. We work well together. And that is the other big piece that I hope through our experience we can get done a little quicker like Shane mentioned.

So I think we have a lot of tailwinds at our back. And yeah, I have a lot of confidence.

Brandon Oglenski *Barclays - Analyst*

Appreciate that. And maybe as a quick follow-up, I think Jason mentioned that the Amazon flying, it could be interesting, but a lot of passenger airlines haven't done this in the past. Can you tell us how the Amazon portfolio fits into the future here? And then maybe expand a little bit more on how you're going to leverage the cargo footprint?

Jason Berry *Alaska Air Group Inc – Executive Vice President Cargo and President of Horizon Air*

I think the big thing is we have freighters. We understand how to run a freighter operation. And a lot of times, larger carriers schedules change differently on a cargo operation in Amazon's in case and it moves crews around a little bit differently. It's a different type of flying. And so we have freighter crews already.

We know how to do that. We understand how to work in that environment where it's a little bit different than in traditional passenger flying. So it's worthwhile looking at. Other carriers have done it. not a large legacy carrier, because I think they've not wanted to dig into that.

They don't have the experience that we have with freighter operations, I think that helps us. So I think that right there gets us in a situation where we're comfortable with it. We know what we're coming into and we're prepared to work with Amazon to do the best we can to optimize their network.

Ravi Shanker *Morgan Stanley - Analyst*

Ravi Shanker, Morgan Stanley. Maybe a big picture question. Obviously, the plan you laid out today is very ambitious and the targets are much higher than what you gave us 12 months ago. When do you know that this was the scope of the plan? Did you know this on day one, did you have dry powder in your back pocket?

Or is this something you discovered when you got the keys to Hawaii? I'm trying to get a sense of what you found when you got those keys.

Benito Minicucci *Alaska Air Group Inc - Chief Executive Officer and President of Alaska Air Group*

Ravi, when -- the -- I did came to us, and we were looking at a few things to go check off the box. And so 2.5 years ago, as we spoke with our Board, we wanted to say, look, how do we broaden our network. How do we create more relevance and loyalty. We talked about relevance and loyalty, but we wanted to grow in markets where we could win. How do we double down on premium.

So we started looking at those elements. And how do we -- the other question was how do we improve and expand our Hawaii franchise organically and inorganically. So we were looking at choices. When we started looking at Hawaiian, we got excited because we knew that this would check off a lot of those boxes for us. And so when we made our initial due diligence and the Board put us through a very deep due diligence on every area, including regulatory, which is I think one of the reasons why we got we got the deal done.

But on the financial due diligence, we knew there was an amazing opportunity, but we hadn't gone under the covers yet. We said, look, we think there's at least $235 million synergies. We know there's a ton of potential connecting the networks the loyalty side, there was just a ton of potential as soon as we get in there, we'll know a little bit more.

So when the deal got approved and we went in there, we said, okay, everything we assume is there, this is so valuable. It is such a phenomenal brand with rich history, what I would tell you, amazing caring employees, their culture, Brandon, you asked the question, one thing I love the culture of Hawaiian so matches Alaska. It -- they are just generous kind people that are like our Alaska employees.

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So when we started looking at all this and we opened up the covers, they're saying, wow, there's a lot more we can double the synergies, the network connectivity is a lot stronger, more dry powder on the loyalty. And so that's how it came. So we had the assumptions based on our baseline that this was going to be better. But as soon as September 18 came when we got in there and then we said, yes, absolutely based on our initial assumptions.

Ravi Shanker *Morgan Stanley - Analyst*

Great. Very helpful. And maybe as a follow-up, you have 50% share in Hawaii and obviously dominant share in a very big market. Is there a natural ceiling to that share? And kind of what is that number?

And you spoke of expanding the Hawaiian opportunity is one way to grow that maybe growing beyond the 12 international destinations you have by 2030, like is there an opportunity for that over time?

Benito Minicucci *Alaska Air Group Inc - Chief Executive Officer and President of Alaska Air Group*

I'll start a little bit, and Daniel Chun is in the -- he's been with us. Daniel, are you here? Where's Daniel? Oh, Daniel, you're right there. I might ask Daniel to help me a little bit with this one.

But look, I think the Hawaiian leisure market will only grow so much. It's not going to grow by 10% or 15% a year. I think there's a lot of complexities with growing Hawaii. So -- and Daniel come on up here, you can talk about a little bit how the tourism industry views Hawaii in terms of tourism. And then we'll get to your second question. Why don't you talk a little bit about that?

Daniel Chun *Alaska Air Group Inc - Regional Vice President, Hawai'i*

Yes. Hello, everyone. I'm Daniel Chun, Regional Vice President in Hawaii for Alaska over the last 13 years. One of the things that -- when we first announced the combination last year, is we had really early and strong support from many stakeholders within the community, in particular, within the tourism industry because that support was really fueled by the optimism that this deal could bring for Hawaii tourism but overall for the community.

And so what we're seeing today, I think, is really that proof. This commitment to Hawai'i I had many conversations just last night with folks within our tourism industry, the Head of the Tourism Authority, the Chair of the Tourism Authority, they're all very excited by what this combination can enable and also the many different markets that this could potentially bring for Hawaii.

Shane Tackett *Alaska Air Group Inc - Executive Vice President and Chief Financial Officer*

Yes. Ravi, on market share, I think we can do better than where we are today. I don't think our intention is to stay at the current level of market share. I think -- and we discussed all of this today, I think for Hawaii residents both inter-island and certainly those that are traveling into the Continental US, I think we have more relevance than anyone by a long margin. And so we should be able to increasingly earn the loyalty of Hawai'i residents.

I also think that our view and belief is like the Hawaiian brand is the most preferred brand from California. Leisure travelers going on vacation into Hawaii. We have a lot of data that supports that. And today, like if you're going to California, on Hawaiian you're splitting your domestic travel, right? And tomorrow, we should be able to get all of that travel.

We can carry you anywhere you want to go. So I think we have a lot more relevance and this is why we talk about relevance and loyalty so much down and throughout California in ways that we just couldn't do organically, and we didn't get from the last acquisition. So I think we want to be obviously see a growing share of people want to fly with us down into Hawaii. And I think over three years if we didn't see improved -- like more market share, we would view like -- we wonder why we weren't able to get that. I think we will.

Andrew Didora *BofA Global Research - Analyst*

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Andrew Didora, Bank of America. Just maybe going back to international. Look, I think it makes a lot of sense. You're starting in markets like Tokyo and Seoul where Hawaiian had a presence. But when you think about growing that footprint into maybe markets into -- in Europe, for instance, how easy is it for you to get access into airports in London or Paris? How do you think about the timeline there? And is that something you think about doing on your own or leveraging maybe some of your oneworld partners?

Andrew Harrison *Alaska Air Group Inc - Executive Vice President and Chief Commercial Officer*

Yeah. I think -- so a couple of things. I think we've laid out a sort of a five-year journey on the international. Certain parts of the long haul is seasonal versus not. But as Ben very eloquently shared, we are part of a global oneworld partnership.

And while today, we've just done these announcements, we're going to have a lot of opportunity in the future to see what makes sense where we need to fly, what makes sense for our fleet, how can we work with code share and marketing support and all other things to grow that.

Certainly, carriers continue to start international service. We'll be new to many of these markets. And although I'm not saying it will be easy, but we feel very confident that we'll be able to grow our footprint and serve the markets we need to do over the next five years.

Benito Minicucci *Alaska Air Group Inc - Chief Executive Officer and President of Alaska Air Group*

But Andrew, to your question, if we have to start a destination in Europe, it takes -- you can't do it in two months, right? It takes a lot of forethought, -- so again, the roadmap is there once we start thinking about it, we start building the infrastructure to do that.

Andrew Didora *BofA Global Research - Analyst*

Got it. Understood. And then second question just for Andrew, your part of the presentation focused a lot on premium. I think you put -- I think the number you mentioned was you've invested over $3 billion in your premium products. What CapEx is needed going forward to get premium to where you want it to be?

Andrew Harrison *Alaska Air Group Inc - Executive Vice President and Chief Commercial Officer*

Thanks, Andrew. The $3 billion, just to be clear, was on the airport infrastructure, both Alaska spend and airports on the hubs. But a lot of the premium, and we talked about the $100 million, a lot of that has already started to invest in our seats today. We've been putting them on. A lot of the -- we've been much better at selling exit rows and main cabin preferred seats.

And the capital, most of these projects are payback in less than two years. So the capital is not significant versus the revenue. I think the last piece that, as I shared, that we still are working through is on these wide-body aircraft, especially on a 330 front cabin and both on the 787 and the 330 international premium.

The last thing I'll say is that the 330 is ready for a full makeover anyway. It's been operating for many years now. And so you're going to see an entire new seats and products which would have had to have been done anyway. But I would say, overall, the premium revenue comes with a very fast payback.

Mike Linenberg *Deutsche Bank - Analyst*

Mike Linenberg, Deutsche Bank. Great presentation this morning. My first, I want to bring the topic back to banks, but not you, Andrew, Shane and Brett, more about you're issuing your banks that issue credit cards. You talked about merging the loyalty program next year. Where do things stand with respect to the banks that are involved both on the Hawaiian and Alaska side? Do we see an opportunity for reset? You're obviously, you have a much more valuable product offering, the two of you combined. Is that included in the assumptions through 2027, if not, is that potential upside?

Shane Tackett *Alaska Air Group Inc - Executive Vice President and Chief Financial Officer*

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I'm going to let Brett answer I'm just going to say hello to our banking partners, BofA and Barclays, who are both here today. So they're probably both interested --

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Brett Catlin *Alaska Air Group Inc - Vice President, Loyalty, Alliances and Sales*

That wasn't lost on me. It's a great question. Look, what's baked into the assumption is the existing economics and the agreements that we already have inked. And so ultimately, we've got great partners at Bank of America, a partner of Alaska for many, many decades. And of course, on the Hawaiian side, they had worked with Barclays for a number of years. And so we're excited at the opportunity to figure out the best way to serve the communities where we fly.

And so perhaps it's a different offering in Hawaii than it is in the continental US, but ultimately, we want what's going to get people into our credit card program into our membership program and ultimately spending on the products that we have in offer -- and we think there's a lot of different ways that we could configure that. And we're going to take the next year, 1.5 years to figure out the absolute best way for us to do it going forward.

Mike Linenberg *Deutsche Bank - Analyst*

Great. And then I just want to dig into cargo a little bit more. We didn't get much information on it from Hawaiian since they were just ramping up. And I think maybe they're going to be at seven airplanes in 2025. I'm not sure Phase 1 was 10%. Where are we by 2027? And by the way, this should help you because it's an advertisement for wide-body pilot jobs, which is going to make your organization that much more attractive in recruiting.

Jason Berry *Alaska Air Group Inc – Executive Vice President Cargo and President of Horizon Air*

So we'll have all 10 by the end of next year operating. So we're up to six today. We have another one that should come out, and I just looked at the numbers, I think, in February now. It was a long ramp-up. And now the energy is there, the production facilities are now going, and so we expect to have them all flying and fully utilized by the end of the year.

Mike Linenberg *Deutsche Bank - Analyst*

Are we just at 10 in 2027 -- or should we see --

Jason Berry *Alaska Air Group Inc – Executive Vice President Cargo and President of Horizon Air*

It is what we're at today.

Shane Tackett *Alaska Air Group Inc - Executive Vice President and Chief Financial Officer*

Mike, I think we're interested to see if this could be a meaningful contributor to revenue and profit expansion. We need to better understand the deal. We obviously -- Amazon Air is -- it's 2 miles beyond the Boeing factory. Up the road from us, we know them well.

Many of our ex-Alaska employees have gone up there and work. So we're pretty well versed and have a good relationship with Amazon. I think we need to make sure that we feel like we're able to get the right economics out of that relationship ultimately. And I think as Jason said, we're optimistic it will work really well for them and for us, but we just need a little more time to decide if that should -- that relationship should expand. And if it can, we'd be excited to fly more than 10. 10 is a pretty small fleet.

Jason Berry *Alaska Air Group Inc – Executive Vice President Cargo and President of Horizon Air*

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And the 1 thing I'll say, just to add to that is the 330 is the right platform. The 67 feedstock is running out. That's an aging aircraft. The 330s are really going to be the future. So it's the right airplane to be in, to be honest, going forward.

Savanthi Syth *Raymond James - Analyst*

Savi from Raymond James. On the capacity growth that you talked about of less than 4%. I was kind of curious, next year and the following year, how you're thinking about domestic versus international? And along those lines and trying not to get in trouble with you Shane is how should we think about unit cost in an environment where you're not growing as much? Because I think historically, you need to grow 5% to keep costs flat?

Shane Tackett *Alaska Air Group Inc - Executive Vice President and Chief Financial Officer*

Sure. We went 30 minutes. So maybe a network stuff, Andrew?

Andrew Harrison *Alaska Air Group Inc - Executive Vice President and Chief Commercial Officer*

Yes. I think the growth -- we gave some guidance on growth and the international, again, Incheon starts sort of October of '25, Narita earlier. So most of it, it's domestic, but again, sub 4%, 3% and I think what we're excited about is our network and looking at the additional O&Ds that we have created with the combined network that will allow us to have a lot greater volume and to help fill our aircraft to capacity as we grow. And our growth in revenue is going to come from that connectivity. It's going to come from the premium products.

It's going to come from the loyalty engagement. It's not going to come from buying expensive airplanes and flying to new dots. And I think this is why it's optimized, and I think that's what we're very excited about over the next few years.

Shane Tackett *Alaska Air Group Inc - Executive Vice President and Chief Financial Officer*

Yes. I think, look, CASMX in a lower growth environment is going to be more challenged. And I think your number is roughly right. 4% or 5% is probably the core sort of growth of just natural cost curve growth in the company. We're not ready to concede that it has to go up every year.

The one thing I can tell you is we -- and it's implied, but we'll just say it RASM needs to outpace CASM. And we're going to make investments that we believe help us do that. And if not, then we won't make that investment.

I do think an area we're looking a lot at -- we're not going to -- we didn't talk a lot about today, but maybe in a year or two years, there are significant opportunities for further internal productivity and efficiencies to be had, especially with technology. And whether it's AI or automation, just the compute power that's now there that can do things that you couldn't do before.

I think there's opportunities to bend the cost curve differently. But I do think at a 3% or 4% growth rate, I don't -- I wouldn't assume that the default of the CASM is coming down aggressively at those growth rates.

Ryan St. John *Alaska Air Group Inc - Vice President, Finance, Planning and Investor Relations*

Yes. All I would just add real quick, too, is obviously this low growth period is happening when we're going to unlock $200 million of cost synergies, too. So we do have a little bit of a unique tailwind that should help mitigate the low growth on the cost side.

Savanthi Syth *Raymond James - Analyst*

Good points. And if I might just follow up a little bit on the network question. So what's the connecting of the combined company today? And does that change? Or is it just the connections stay the same, but then you just drive higher yields with what you do have?

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Andrew Harrison *Alaska Air Group Inc - Executive Vice President and Chief Commercial Officer*

I think if I understood your question, they're essentially taking the Hawaiian network from Hawaii and all the locals and then bringing them to the Continental US and then the connection. So we have more opportunity versus just going after the local passenger. We can expand that both on the Hawaii side, and the West Coast side to create more passengers. And I think as you've heard us, we now have the ability to move around airplanes.

The gates, a lot of our flights. Historically, we're constrained by gates and the availability for us, Alaska side to get on gates and Hawaiian. So I think overall, it's going to give us aircraft flexibility, time of day flexibility, utilization flexibility. And so the amount of relevance of passengers to this combined network will be far significant than just Hawaiian on their own and Alaska on their own. And that increased demand pool and loyalty is where we think there's going to be good upside for us.

Stephen Trent *Citi - Analyst*

Steve Trent from Citi. The first thing, I was just curious about how you guys are thinking about the brand. So you're currently operating the two brands separately. Are there any factors out there whether they're strategic or consumer focus group oriented, which could lead you guys to either accelerate or slow down, let's say, the long-term combination of the brands.

Benito Minicucci *Alaska Air Group Inc - Chief Executive Officer and President of Alaska Air Group*

So great question, Steve, and this is a little bit Brandon's initial question. What we're doing differently is the Hawaiian brand is here to stay. And I just want to say is the more we got into it, we understood how deeply relevant the Hawaiian brand is in the islands. And Shane and Andrew both talked about the RASM premium Hawaiian gets flying from the West Coast to Hawaii. So one of the things that and it probably didn't come through as Hawaii's trusted airline, but what you'll see is everything that goes to from and within the islands will be branded Hawaiian because we think there's so much rich history there's so much power in the brands.

There's so much loyalty that's going to be driven through Neighbor Island flying and where people want to go with the Pualani on the tail that the dual brand was simply the right choice to make through this merger. Now I'm not going to say it's going to be easy. My team is working on it, Sangita that's right there. And I'm excited about some of the things we're thinking about dual brand. I think it's going to be unique.

But think about every time you start a flight on the West Coast, your Hawaiian experience starts by the time you put your foot on that airplane. It doesn't start when you land in the island. So that's our goal, is that your experience begins when you put your foot on that airplane. And I think that's what Hawaiian so well, and that's when we want to continue to nourish.

Shane Tackett *Alaska Air Group Inc - Executive Vice President and Chief Financial Officer*

I appreciate that, Ben. And when I think about, first off, kudos for getting the merger done and the environment we're in. When you think about longer-term let's say, domestic market opportunities. Are there any sort of potential strategies that look interesting? The Northeast Alliance was tried for some time, it didn't work. There's smaller kinds of soft M&A? Are you thinking about longer-term opportunities maybe to expand the domestic footprint?

Benito Minicucci *Alaska Air Group Inc - Chief Executive Officer and President of Alaska Air Group*

Right now, we are focused on Alaska Accelerate -- and I'm telling everyone, as you can see, we're going to manage an integration and do all those things there, which is a lot, but we are punching that accelerator. And our first focus, what I'm going to keep the team focused on is executing this plan that's going to deliver these industry-leading financial returns. That's the focus now what I'm telling people: Alaska Accelerate.

Andrew Harrison *Alaska Air Group Inc - Executive Vice President and Chief Commercial Officer*

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And to Ben's point, which you heard included, we're going to grow Seattle we're going to grow Portland and San Diego over the next three years, and there is more than adequate opportunity given our growth rates to do very well there.

Daniel McKenzie *Seaport Global Securities LLC - Analyst*

A couple of questions. First of all, on CapEx, following up on one of the earlier questions. Shane, I know we're in a period of elevated CapEx. Where would you like to see normalized CapEx to drive the free cash flow? So what is the shape of that expenditure look like?

Shane Tackett *Alaska Air Group Inc - Executive Vice President and Chief Financial Officer*

Yeah. And I think we didn't print it, but we're expecting $1.5 to $1.6 over the next 3 years. Sorry, $1.4 to $1.6 over the next three years. Maybe it's a little lumpy. I'm not sure, but if you just add -- multiply that by three, that's the number we're going to constrain ourselves to.

That feels about right for now. That will allow us to take the rest of the 787 order a good number of the 737s on order. We're in a good place from an aircraft perspective. There's a few that need to retire. We're in the middle of that.

And then we don't really have aircraft that we need to retire until the end of the decade, the one fleet that we really need to think about is the 717 fleet, but there's multiple ways to ultimately determine a replacement for that fleet. So I think we're in a stable environment. I think it's going to be certainly less than it had been when we were going through the fleet transition.

Daniel McKenzie *Seaport Global Securities LLC - Analyst*

Yes. Understood. A second question here. Going back to your point that RASM has to exceed CASM, question for Andrew. And maybe Charu, it's really the technology platform that can help drive that revenue premium.

So I'm curious about NDC, you referenced that. Specifically, was there a revenue loss tied with that cutover that is buried in the results somewhere? Or if you could just talk about how that's helping to drive the revenue number. And then second to that, have you guys implemented continuous pricing? How does AI help to drive pricing, the merchandising, the upsell? What is embedded in the plan, if anything, from those potential technology drivers?

Andrew Harrison *Alaska Air Group Inc - Executive Vice President and Chief Commercial Officer*

Let me start with continuous pricing. I'll touch quickly on NDC and I'll hand it to Charu to fill in the gaps there. But I think as you shared -- we shared today, we're continuous pricing. We have the products, the tools that will go in and start creating synergies next year, and they are in that model. So the two big ones, obviously, are O&D revenue management and then continuous pricing, dynamic pricing, the tools. So that will go into effect.

I think on the NDC, Charu will explain where we are at. But what's really exciting here is just because of the way we sell our premium seats, our premium class is actually not a cabin. It's just seats on the seat map. And so NDC will allow us through OTAs and other distribution channels to sell premium class, which we have never been able to do before, and that unlocks an entire new distribution channel for us.

Charu Jain *Alaska Air Group Inc - Senior Vice President, Merchandising and Innovation*

Yes. So I wanted to come out and down and see you. And so we've started our NDC journey. We're focused on direct connect with our OTA partners first. And we actually see revenue opportunity there because of what Andrew mentioned. We're not selling our premium products in those channels right now, and that's going to be a huge opportunity for us.

Ryan St. John *Alaska Air Group Inc - Vice President, Finance, Planning and Investor Relations*

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Thanks so much. All right, we have about eight minutes left, so we're going to try to go quick. Tom?

Tom Fitzgerald *TD Cowen - Analyst*

Tom Fitzgerald from TD Cowen. What type of share gains is the plan contemplating, whether on the corporate side or in like San Diego, do you see yourself becoming the number one player in that market.

Andrew Harrison *Alaska Air Group Inc - Executive Vice President and Chief Commercial Officer*

Real quickly on the network side, I think there is opportunity, obviously, in those -- both in Portland and San Diego. And I think, just on the corporate side, we already see share premiums across our network. And I just think especially with the international add in Seattle and the expansion of our network, there is just more reason for corporate travelers to stay in our program and travel with us across the West Coast and we've just seen recently, again, corporate demand is coming back strong.

Both the high tech and professional services are recovering very rapidly. And as we sit here today, our held corporate booking revenues up 30% year-over-year. And so we just see our network evolution and the strength and demand that we continue to see in corporate really accrue to us in a fantastic way.

Tom Fitzgerald *TD Cowen - Analyst*

Thanks so much. And then just as a quick follow-up, Andrew, how would you rank order maybe Europe, Southeast Asia and India as you think about the next frontier for international?

Andrew Harrison *Alaska Air Group Inc - Executive Vice President and Chief Commercial Officer*

Well, I think you've seen where we've started with Asia. We have stations, investment, and infrastructure to build. Asia is also more of a year-round market to use that term loosely. Europe is extremely seasonal. But I think where we are today, we're going to step into this in a very Alaska way, very thoughtful.

But we are going to do both Asia and Europe over these next five years and build those out to what we shared to be 12 destinations.

Christopher Stathoulopoulos *Susquehanna Financial Group LLLP - Analyst*

I'll keep it to one. So Shane, as we look at the algo of RASM greater than CASM and kind of weight or rank order potential outcomes here, I just want to make sure I have the moving pieces and if would like to hear your sort of if you can rank order of these. So it sounds like low-risk growth, Seattle, Portland, San Fran, you said GDP like growth in other areas. There's obviously the premium focus, the embedded US West Coast RASM premium via Hawaiian, loyalty.

And then it sounds like some conservatism in the recovery in Japan and perhaps Asia Pacific. Am I missing anything? And then perhaps maybe where is the biggest piece of this growth as we think about sort of weighted outcomes? It would seem to me, certainly Seattle, Portland and San Fran. And of course, that premium that you get without much effort off the West Coast via Hawaii?

Shane Tackett *Alaska Air Group Inc - Executive Vice President and Chief Financial Officer*

Yes. No, I think you've got it San Diego, just to make -- it's Seattle, Portland, and San Diego. I think you've hit all of them. Yes, well, premium and loyalty, but I think it was just talking about network Yes. So -- and one thing I just -- and Andrew mentioned it, but I wouldn't lose sight of this idea of opening Seattle back up for high-value connectivity internationally and more local, right, by moving some of our connections over Portland.

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Portland is a perfect connect point for a lot of domestic connections that we run through Seattle today. And as we can get more folks going through Portland is a brand-new airport, we're going to have a brand-new lounge. There's -- we are the number one carrier there. It's -- it will help us on connect times and operations. All of a sudden and we have larger airplanes coming into Seattle.

We can now take the high-value flow that wants to go to initially Asia and ultimately, Europe and reopen ourselves for local traffic that we're probably spilling today, to be honest. And so that -- this is why it's such a huge unlock for Seattle, where we already know we're going to get the most value out of bringing the wide-body assets there. And then yes, San Diego, I think Portland are going to -- we'll do well. We're doing well there today. But I think you've got the right list.

Ryan St. John *Alaska Air Group Inc - Vice President, Finance, Planning and Investor Relations*

I would say, too, just the network synergies, like clearly the first unlock, we're already moving the planes around in the first quarter. And just for context, we just obviously did Cyber Monday sales and Monday and Tuesday were both Alaska and Hawaiian highest booking days in our history. And for Hawaiian, it was 30% higher than they've ever had in any other peak day booking. So you can see how quickly the network is turning on for Hawaiian in particular because not only is it, did it break a record, but a broken by multiple double digits.

I'll go with UBS in the back.

Thomas Wadewitz *UBS - Analyst*

So Tom Wadewitz from UBS. I wanted to just ask if you could give a sense, just one question kind of on how we think about risks the plan. So what are the biggest risk? Is it a competitive response in some of those key markets, Seattle, Portland, San Diego as well. Is it -- it sounds like there's not a lot to OEM deliveries and 787s in the future.

But how do you think about kind of the biggest risk that you have? I don't know if there's some labor cost issues or inflation in the future. But it seems -- and maybe refer to the 11% to 13% margin. It seems like maybe you get beyond $10 of earnings even if you're in that range, but what's the risk to being that 11% to 13% on pre-tax margin? Yes.

Shane Tackett *Alaska Air Group Inc - Executive Vice President and Chief Financial Officer*

Thanks, Tom. I think a couple of ways to think about this. The -- I think -- and I stated it before the -- sorry, this thing fell off of me, so I'm just going to move it around here. The I think it's mostly execution risk, and I think we're really confident that we're going to be able to go and execute.

The exogenous risk would always be some sort of like market dynamics. It's a very competitive industry. And it's hard to predict how folks might think about their future in some of these geographies. But these are all geographies that we do really well in today. We win today and we've defended over the time when we've needed to defend -- and I think we know that there -- the geographies that we're going to be able to perform really well and outperform any competitors.

And so I think it comes back to -- have we made all of the decisions we needed to make. We've already sort of put infrastructure in place and how we resource the plan to go execute it. And that's already happening, like the network connectivity stuff is happening. The schedules are already turning on. The banking is starting. So now we got to go out and operate it.

And Constance -- Where did Constance go? Yeah, there she is. Constance has told us it's no problem. She's going to get all of it done. It doesn't matter at all. No, no, I think it's all like we've got to go execute. We've got to integrate.

We do have to go operate a banked schedule in Seattle and Portland. Those are a little bit harder than a flat schedule. But it's really up to us. That's the way we've looked at it. And then just to harken back to the thing I said before.

Because we haven't added everything that we could have potentially seen as upside if some of the things that we mentioned today don't perform as planned, I think there's a lot of other things that could go better than we've talked about here today that could cover for those things. And that's why, like we're pretty bullish on the 11% to 13%, and we're very confident on the greater than $10 of EPS.

Any others?

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David Vernon *BERNSTEIN - Analyst*

It's David Vernon from Bernstein. I guess as you think about bridging the '25 number to 2027 it's 70%, 75% earnings growth. Can you add any color in terms of the cadence of whether that would be more front or back-end load between '26 and '27 as the first question? And then maybe just as a quick follow-up. Think about labor cost inflation, harmonizing the work rules, is there anything in the agreement that stands out as something that's going to add cost, whether it's where you're going to be on pilots or just getting the work was harmonized?

Shane Tackett *Alaska Air Group Inc - Executive Vice President and Chief Financial Officer*

We don't do hockey sticks as a general rule. So this is going to be nice and ratable. -- not exactly right a little bit. I think we said $575 million next year, we would take another step towards $10 the year after. And I think it will be a nice a nice sort of curve that we go up.

Yes, the labor contracts we're digging into today, I think we -- Ben mentioned that we have great relationships. We already have transition process agreements in place. The complexity is really around multiple fleets, and that's the one area we really have to better understand. There's a lot of knowledge base over on the Hawaiian side of the business with respect to that. So we're not nervous about it.

We just have to make sure we get it right. I think the biggest real source of cost impact of bringing the two groups together is bringing everybody to Alaska rates ultimately. And that's been figured into everything we showed you today. So there is some rate dissynergy, if you will, but other than that, we're just excited to get going on the process of bringing them together. And I think we don't believe there's any major sort of cost issue with bringing the two groups together.

Scott Group *Wolfe Research - Analyst*

It's Scott Group from Wolfe. So just maybe some idea, the $800 million of profit from commercial opportunities, is that a similar linear outcome? Is that in any way more back half weighted? And then I know, Shane, you said a few times like you're not counting on market tailwinds, but clearly, some showed up in Q4 in your higher RASM guide, like -- is there not an assumption that, that continues -- are giving ourselves some credit for that into '25 or (inaudible)?

Shane Tackett *Alaska Air Group Inc - Executive Vice President and Chief Financial Officer*

Yeah. I think I just put that in the category of why we're confident. I mean the -- look, there's a lot of -- I don't know, there's six or seven or eight discrete initiatives. There's a lot of revenue attached to them. Certainly, we're as or more bullish about our ability to deliver than because of the backdrop that we're in. So I can't totally separate the two at all.

I think it's pretty ratable on sort of the run up on the commercial side of the business, the $800 million, I don't think there's much that's really back-end loaded. And to be honest, Brett had an exciting part of the presentation, a lot of the real loyalty benefits we actually think come sort of starting in '27 and beyond. So there's -- we're already trying to build resiliency even beyond '27 at this point.

Andrew Harrison *Alaska Air Group Inc - Executive Vice President and Chief Commercial Officer*

The only thing I would add is -- the network goes very quickly. And some of the cargo comes in. But then the RM tools kick in '25, '26 and then the seats. So I think you get a big boost from the network and connectivity and some of this loyalty and then as you move through the three-year period, then the RM tools really start to spool up and kick in once we have a single RM system and single passenger service system and single loyalty, those are big unlocks in '25 and '26.

Shane Tackett *Alaska Air Group Inc - Executive Vice President and Chief Financial Officer*

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So last thing that I think my -- I think it's in there. Our walk up, I think, started sort of the walk up at 3% or 4% margins. And then really the only thing that we've assumed about the current environment is we've passed through some onetime headwinds. We already know that on the 1282 incident. We're really confident that Hawaiian has already improved by $130 million relative to where they were operating through the first half of the year.

And so beyond that, it's all initiatives and synergy and anything else that happens in the environment should be helpful to us.

Ryan St. John *Alaska Air Group Inc - Vice President, Finance, Planning and Investor Relations*

All right. Well, that concludes our Q&A. Thank you to everybody to online and everybody in person. We are, as you can tell, ecstatic about the Alaska Accelerate plan, and we can't wait to talk to you again in January with our year-end earnings. So thank you.

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