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ALK.N - Q1 2025 Alaska Air Group Inc Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good morning ladies and gentlemen, and welcome to the Alaska Air Group 2025 1st quarter earnings call. At this time, all participants have been placed on mute to prevent background noise.

Today's call is being recorded and will be accessible for future playback at aaskair.com.

After our speaker's remarks, we will conduct a question and answer session for analysts.

I would now like to turn the call over to Alaska Air Group's Vice President of Finance, Planning and Investor Relations, Ryan St. John.

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

Thank you, operator, and.

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

Good morning.

Thank you for joining us for our first quarter of 2025 earnings call. Yesterday, we issued our earnings release along with several accompanying slides detailing our results, which are available at investor.Alaskaair.com.

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On today's call, you'll hear updates from Ben, Andrew and Shane. Several others of our management team are also on the line to answer your questions during the Q&A portion of the call.

Air Group reported a first quarter GAAP net loss of $166 million excluding special items and mark to market fuel hedge adjustments, Air Group reported an adjusted net loss of $95 million.

Our comments today will include discussion of Air Group reported results, and forward-looking guidance compared to prior year pro forma results as if Alaska and Hawaiian were a combined company for the full periods referenced.

Lastly, As a reminder, forward-looking statements about future performance may differ materially from actual results. Information on risk factors that could affect our business can be found within our SEC filings. We will also refer to certain non-gap financial measures such as adjusted earnings and unit cost excluding fuel.

And as usual, we have provided a reconciliation between the most directly comparable GAAP and non-gap measures in today's earnings release. Over to you, Ben.

Benito Minicucci - *Alaska Air Group Inc - President and Chief Executive Officer of Alaska Air Group, Inc. & Alaska Airlines, Inc., Director*

Thanks, Ray and good morning, everyone. The challenging start to this year was not what we expected as air travel demand diverged from the strength we saw just a few months ago. However, what remains certain at Air Group is our unwavering confidence in our strategy. Alaska Accelerate. We are executing with discipline, focusing on long-term value creation, and taking the right steps to strengthen our business through any cycle.

Regardless of what's happening today, we believe firmly in our ability to deliver performance and grow profitably both now and in the years ahead.

Air Group has a proven track record, not just of weathering downturns, but of emerging stronger every time. We're operating from a position of real strength, one of the industry's healthiest balance sheets, a diversified revenue base with nearly 50% generated outside the main cabin, market share leadership in our key hubs, and a substantial 15% cost advantage over our largest competitors. These advantages aren't just meaningful, they're decisive, and they position us to outperform in any environment. That said, the current landscape has been challenging to predict. While we're not updating our full year guidance today, we remain confident in our outlook. Even in the event of a recession, we expect to remain solidly profitable in 2025 and are fully committed to our share buyback plan of a billion dollars over the next four years. In fact, given where our stock price has trended, the current environment has provided a unique opportunity to accelerate our share repurchase program that is already underway.

As we outlined at our investor day last December, winning in this industry requires scale, relevance, and loyalty. That fundamental belief is as relevant today as it was 4 months ago, and we have conviction in our ability to deliver $10 of earnings per share by 2027. And do not believe what's happening today jeopardizes that target in any way.

Our energy is fully committed to driving Alaska accelerate and unlocking a billion dollars in incremental profit as we continue to strengthen various aspects of our business.

Importantly, what's in our control is going according to the plan. This is evidenced by our year over year industry leading unit revenue performance that is several points ahead of peers. Even those peers who have greater exposure to international markets that are clearly outperforming domestic trends.

Integration synergies are tracking slightly ahead of plans through the 1st quarter, and our Hawaiian assets are performing well. We delivered a 7 point margin improvement in our combined Q1 results year over year, including a double digit margin. Improvement from Hawaiian assets. The man to, from and within Hawaii remains strong, especially in premium cabins supported by continued loyalty growth and the value we're unlocking through a larger, more efficient network.

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Hukaiy by Hawaiian memberships are up 90% since year end, and Hawaiian card acquisitions have more than doubled year over year, and we are well on our way to building the scale, relevance, and loyalty needed to lead as Hawaii's trusted airline in this premium leisure market.

As we continue advancing our vision to connect guests to the world, we're just 18 days away from launching our first intercontinental flight from Seattle to Tokyo Narita.

This marks a major step forward in the evolution of our largest hub as we chart a path to serving at least 12 intercontinental destinations by 2030. It's a bold move that positions Air Group to capture high value international demand while deepening our relevance and loyalty across our network.

We know that delivering a seamless end to end premium travel experience is a key differentiator, and we're fully committed to investing in every aspect of it from our lobbies and lounges to premium cabins, food and beverage, and on board service. Even in the current environment, our premium revenues continue to outperform, and our premium cabin retrofits are on track to increase our premium seat exposure to 29% by next summer.

We're excited to expand our loyalty offerings and we'll be launching our uniquely branded single loyalty platform and our premium credit card later this summer, another exciting step in enhancing our guest experience.

And as we continue to diversify our revenue streams, our cargo operations are ramping to full capacity. We took delivery of 2 more Amazon A330 freighters for a total of 8, and our cargo revenue is up 36% year over year.

In terms of execution, our integration milestones remain on schedule. Our teams are working through the process to achieve a single operating certificate by the 4th quarter of this year. Work is underway to bring both passenger service systems together by early 2026, and we're starting joint bargaining negotiations across our union groups. We know we have a good playbook in place, and we're focused on executing every step of the way.

I also want to take a moment to thank our incredible employees. Their hard work and dedication are what make the Alaska accelerate vision possible. We're currently wrapping up our annual employee engagement survey, and I'm thrilled to share that engagement scores are at record levels, higher than at any point since we began the survey 14 years ago. That speaks volumes about the alignment and energy across our company.

Our employees believe in our vision, and they're already helping us bring it to life.

We are all energized by the opportunities ahead. Air Group is on a clear path to build scale, relevance, and loyalty, laying the foundation for strong long-term returns. I'll say this with complete confidence. Our company is significantly undervalued relative to where we're headed and the strength we're already showing in the areas fully within our control.

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

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

Thanks, Ben and good morning everyone. My comments today will focus on first quarter performance, but more importantly, the successful trends we're seeing that underpin our Alaska accelerate strategy.

In the first quarter, total revenues reached $3.1 billion up 9% year over year on capacity growth of 3.9%. Unit revenues finished strong, up 5%.

First class, premium class, and importantly, main cabin all delivered positive unit revenues year over year.

Loyalty continues to show strength. We generated $550 million in cash remuneration in Q1 from our co-brand cards, up 12% year over year. Importantly, new cards across the Alaska and Hawaiian networks increased 26%, with flown segments by our elites up 34%.

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These statistics demonstrate the power of our combined network and incredible value that accrues to guests enrolled in our loyalty programs.

Turning to premium, our revenues grew 10% and represent approximately 34% of our total revenues.

Our continued investment in premium cabins are coming to life. By July of this year, 84 of our 900s and dash 9s will have been retrofitted with 6 more premium class seats, with ALL159 aircraft completed by year end.

In the next several weeks, we will receive our 1st 3 max 8s configured with 161 seats, including 4 more first class seats.

The conversion of our existing 59 800s into the same configuration begins this summer as we look to improve guest comfort while reducing costs and increasing revenues.

Taking a step back, more than 200 of our Boeing 737 aircraft will have additional premium seats by the summer of 2026, and that's without removing any seats from these aircraft. This will add 1.3 million first and premium class seats per year and bring our premium seat mix to 29%.

Further strengthening our position in what we believe is a long-term driver of guest satisfaction and revenue and well suited to our network's long stage length.

Our synergy and revenue initiatives are on track despite near-term macroeconomic volatility.

I want to share with you 3 leveraged commercial initiatives that illustrate Alaska Accelerate is working and why this deepens our conviction in our positioning over the next several years to deliver results.

In Seattle and Portland, where we have leading market shares and the number one brand preference, our scheduled banking strategy is yielding significant positive results.

We are increasingly more relevant to more guests and driving more connecting traffic through these two hubs. In the first quarter, connecting passengers are up 15% in Seattle compared to last year, and we see similar trends as we look forward. Our banking schedule in Portland rolled out this month, and connecting bookings for May and June are up more than 200%.

In Hawaii, our recently acquired Hawaiian Airlines operations are producing strong results, including west coast to Hawaii and neighbor Island flying as we unlock the power behind a combined network, better utilization, and more connections.

Unit revenues of our Hawaiian Airlines assets were up 9% year over year, nearly twice that of system average. And not surprisingly, as a premium leisure market, we saw strength in premium revenues that were up 17%.

Furthermore, we're continuing to grow our loyalty with State of Hawaii card acquisitions, up nearly 40%, making it one of our highest percentage growth markets.

And as Ben mentioned, Hokkaiba Hawaiian memberships for our exclusive Hawaii resident travel program are up 90% since December, and we now have well over 200,000 members in just 5 months since launch.

And in San Diego, a key focus marker for us, we just announced a 30% increase in flights starting this fall, including new non-stop service to Chicago, Denver, and Phoenix. With these investments, we will have the highest network utility in San Diego by a wide margin and offer non-stop service to 44 destinations, 26% more than any other carrier.

Credit card growth has surpassed our San Diego capacity growth, which is evidence that our network investments are driving outsized loyalty. In fact, San Diego now has the highest average card spend of any city we serve within the state of California.

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Our product and offerings are well suited for San Diego, and we are excited to see San Diegans respond positively to our continued expansion and differentiated premium service.

Now turning to our outlook, we expect our capacity to be up approximately 2 to 3% in the second quarter.

Importantly, this growth is all driven by our Hawaiian Airlines assets, which are performing exceptionally well.

Hawaiian asset growth is slated to be up double digits as we implement network changes and increase utilization, while our Alaska assets are not expected to grow at all this quarter.

We still expect our full year capacity growth to be approximately 2 to 3%.

That said, we are currently evaluating certain off-peak capacity adjustments this fall as we continue to monitor the demand environment.

Unit revenues are expected to be flat to down low single digits in the 2nd quarter.

Overall bookings have stabilized as we look forward, albeit at lower yields than originally planned. Hawaii continues to book well with flat to positive loads and yields despite double digit increases in capacity.

Managed corporate revenue after posting a record January ended the quarter up 3% and has also stabilized. We've seen material improvements from two of our largest accounts in the last several weeks after a meaningful step back in February and March, and total forward bookings are up low single digits, improved from where they seem to have bottomed out in March.

Although the year has not started off as we'd envisioned, we remain focused on building scale, relevance, and loyalty through our commercial initiatives for long-term success.

Our revenues are more diversified than ever, and this will only continue to grow as we execute our plan over the coming years, adding strength and resiliency to Air Group. Our yields, loyalty, traffic, and revenue growth all point to a strong foundation that will bring additional revenue upside as the environment further stabilizes and ultimately recovers.

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

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

Thanks, Andrew.

For the first quarter, we reported an adjusted loss per share of $0.77, which was $0.07 or just $10 million of profit below our guide. This was a strong result given our more than 90% domestic exposure and the rapidly changed demand backdrop the entire industry experienced in the quarter.

More importantly, execution of the very early stages of our 20,277 Alaska accelerate vision we shared at Investor Day last year is going extremely well.

The only disappointment in the 1st quarter was the softening macro environment. Our synergy ramp, our commercial initiatives, and our cost performance were right on or better than our plan, and our domestic unit revenue led the industry.

These are strong initial steps on our path to achieve at least $10 in earnings per share.

Moving to our balance sheet and liquidity.

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Our total liquidity, inclusive of on-hand cash and undrawn lines of credit stood at $3.3 billion at quarter end. Scheduled debt repayments for the quarter were $155 million and are expected to be approximately $100 million in the second quarter.

Our debt to GAAP stood at 58% with our net leverage at 2.1 times.

Share repurchases have totaled $149 million a year-to-date and nearly $400 million in the last six months, or approximately 5% of our market capitalization.

We plan to continue to execute repurchases aggressively at our current low market valuation, given our conviction and our ability to drive future earnings, and we'll do so while maintaining our commitment to a healthy balance sheet.

First quarter unit costs were up 2.1% year over year, coming in better than expected and reflecting the new contract we ratified with our Alaska flight attendants in February. Our cost expectations remain unchanged and on track for the year, with the largest areas of year over year increases in wages and real estate costs, as we've discussed before.

Also, as indicated last call, the 2nd quarter will be the most pressured this year with improving unit cost trends in the 2nd half of the year.

For the 2nd quarter, unit costs are expected to be up mid to high single digits, consistent with our original plan and on capacity growth of just 2 to 3%.

Our fuel price averaged $2.61 per gallon, consistent with our original expectation.

While crude prices came down recently, West Coast refining margins spiked in the last 3 weeks of the quarter to well above $0.70 due to unplanned refinery maintenance events.

Margins have since come back down over the past two weeks.

For the second quarter, we expect EPS of $1.15 to $1.65 reflecting approximately 6 points of revenue impact from the demand backdrop. Absent this softer outlook, the areas of our business within our control are performing well and remain in line with our prior expectations.

While we've started to see stabilization, the environment remains challenging to predict, and for now we will pause on providing an update to our full year expectations.

To provide some context to the rest of the year, however, we have seen a 5 point deterioration of revenue for the first half. And if this continued throughout the rest of the year, we still expect to be solidly profitable and expect to continue to outperform on a domestic unit revenue basis.

Demand fluctuations and uncertainty are not new for our industry or our team.

We are well versed in navigating these environments, and we will again continue to focus on building strength into Alaska. So when demand returns to more robust levels, we are poised to capitalize on it and outperform our peers.

We have an exciting future ahead of us with many unique drivers of value and are pleased with the initial stages of delivering on both integration and our Alaska accelerate commercial and synergy initiatives this quarter. We believe we have a business model that can outperform in any industry backdrop and have the best domestic setup for the long term.

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

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QUESTIONS AND ANSWERS

Operator

Thank you. At this time, I'd like to invite analysts who would like to ask a question to please press star, then the number one on your telephone keypad.

We'll pause for just a moment to compile the Q&A roster.

And our first question will come from Catherine O'Brien with Goldman Sachs.

Catherine O'Brien - *Goldman Sachs - Analyst*

Good morning everyone, thanks so much for the time.

I just want to dig in on the on the 2Q guy a little bit if you'll allow it. Can we just talk about some of the moving pieces underlying that 6 point headwind in in the flat to down ram guidance, maybe first just to set the baseline how much that quarter is already booked and and then it sounds like corporates moved off the bottom international may be getting a little bit better. Cargo is growing. You've got new premium card launching this summer. Hawaiian synergies are ramping ahead of schedule, you noted in the prepared remarks. So a couple of pauses if we go into 2, just trying to get a sense of how you're assuming trends in some of these buckets evolve in the second quarter and what's offsetting the positives. I know obviously the macro is a little bit worse, but just how all those pieces fit together would be super helpful.

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

Hi, Katie. Good morning. Thanks for the question. So, a couple of things. We're about 62, 63% booked for the quarter. I would say, a couple of things about the environment. And number one, I think holistically, it is about the general environment is where we're seeing all the softness. It's not in any of our synergies, our initiatives. We're seeing all of our hub banking working, we're seeing strong loyalty growth. We're seeing strong Hawaiian assets. The industry is growing at 2 X domestically than it was in the first quarter. And the other important thing is that I think we're very excited about, we might have reached a new baseline for, Razzam for the first quarter as we have really worked hard to change the seasonality and get to a better place. So as we sit here today, the macro environment is about the only thing, that, is weighing us down. And on the business side, again, we're sort of seeing a stabilization there of bookings. There are some sort of in the manufacturing and high tech that are still soft, and then there are others in professional services that are doing well. So overall, flat down down mid single digits is sort of what we're seeing today.

Catherine O'Brien - *Goldman Sachs - Analyst*

Okay, got it. And maybe just to focusing on Hawaiian for a moment, 14 point margin improvement that's impressive in this environment. Is there some element of a longer booking curve helping in that business in the first quarter, or are you expecting a similar level of improvement to you, and with Hawaii being a more premium leisure destination, are you seeing any negative impacts on our bookings or that's holding a little bit better system? Thanks so much for the time.

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

Yeah, the Hawaii franchise and this sort of, 25%, mainland of our ASMs is actually sort of bucking the trend. The neighbor islands are up double digit unit revenues. The international franchise in Hawaii actually margins improved 15 points. And the mainland with all the connections, the banking. The selling of each other's metal, has just been performing very well, and we're actually seeing positive, revenues in that regard. So very good, place there.

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Benito Minicucci - *Alaska Air Group Inc - President and Chief Executive Officer of Alaska Air Group, Inc. & Alaska Airlines, Inc., Director*

And Katie, it's been, and what we're forecasting, and it'll depend again on the macro environment of balls, but the last three quarters for Hawaiian should be close to break even. So we're feeling extremely, positive about how our, acquisition is performing.

Much of the time.

Thanks, Katie.

Operator

And our next question will come from Tom Fitzgerald with Cowen and Company.

Tom Fitzgerald - *TD Cowen - Analyst*

Hi everyone, thanks so much for the time. I'm just wondering thinking about demand if we could talk about California for a little bit and and maybe comparing and contrasting San Diego with SF and LA and and how you'd how you how you characterize the competitive environment in those markets.

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

Yeah, thanks, Tom. I think, it, it's, as you can see publicly in the tape, there's been a very significant increase in ASMs in San Francisco as major carrier there gets back and above pre-COVID levels. So I think, we're sort of seeing pressure there. But I will say that, in San Diego, and that's what you see is leaning into that, it's just performed very well on our growth. It's performed very well. So that's a place that we're going to continue to invest in.

Tom Fitzgerald - *TD Cowen - Analyst*

Okay. That's, that, that's really helpful. And then I guess, I don't know, has there been any change in how you're thinking about just the premium product over overhaul, and that, the retrofits just given the softening and demand, and, given there's been a lot of growth in that, in that market, just really just thinking there, just given all the change in the macro. Thanks again for the time.

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

Yeah, thanks. If anything, I'm actually very excited that we actually did that for a couple of reasons. Number one, just looking at our first class cabin, it's sort of been uninfected by the macro environment right now. We've seen very strong double-digit increases in revenue. We've also had, obviously, given the acquisition of very big change as well as some program changes, big step up in our elites. And so, we need to make sure we continue to have premium class seats available for our top elites that they can upgrade into. And again, overall, as I shared in my prepared remarks, we've not removed any seats from our airplanes. And in fact, on the 800s, we've increased the seats. So we feel very well positioned with how we're rolling out our premium product.

Benito Minicucci - *Alaska Air Group Inc - President and Chief Executive Officer of Alaska Air Group, Inc. & Alaska Airlines, Inc., Director*

Thank you, Tom.

Operator

And our next question comes from Connor Cunningham with Mealyus Research.

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Conor Cunningham - *Melius Research - Analyst*

Everyone, thank you. Just on the $10 earnings number by 2027, surprised you you guys kinda have so much good believe you sound like you have a ton of conviction around. So I'm just curious if you could just unpack what you're seeing that will bridge us from here till that until then. It just seemed obviously the macro is different, but you, you've had more time to integrate the two companies. You're seeing how the competition's responding to your long term plans. So if you could just talk about why you feel so you're so confident in the outlook, come 2027.

Thank you.

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

Hey, Connor, this is Shane. Thanks. I appreciate the long term oriented question, which, we love to talk about. Look, I think, and you heard a lot of this on the script, all of the things that we laid out in investor in terms of commercial initiatives, the synergy ramp, integration milestones, cost management, we delivered on in the first quarter. In fact, each one of those things was on plan or better than plan and, we tend to, Be very focused on delivering the things that we set, the company, down a path to go and execute, and we're really happy with how we performed in the first quarter. So if you look at the billion dollars of incremental profit from initiatives and from synergies, there's no reason to think that we can't go deliver all of those. We're also going to buy a lot of shares back if the price remains undervalued like it is today, and so, Look, I, we're not going to predict a 3 year recession. That's super deep. So if we believe that the macro environment will come back, it'll rebound. I don't know when, if it's in the second half of this year, or if it's sometime next year, but when it does, there's no airline better positioned domestically To ultimately capitalize on that, and that will be happening while we're still executing on this billion dollar ramp of of initiatives and synergies. So, no reason for us to believe we can't go get at least $10 of EPS by 27.

Conor Cunningham - *Melius Research - Analyst*

Okay, love that.

And now I'm going to ask you a really short term question.

I'm sorry.

The.

Benito Minicucci - *Alaska Air Group Inc - President and Chief Executive Officer of Alaska Air Group, Inc. & Alaska Airlines, Inc., Director*

Can you just.

Conor Cunningham - *Melius Research - Analyst*

Talk to maybe to Katie's original question, I'm just trying to, I think we're all trying to understand. How the the booking curve and pricing in general is moving throughout the quarter, from what I think about like March, you guys probably have a lot of that booked in February before things really started to change. So like, as you sit here today, are people discounting in June more aggressively than they are in April? And I mean, I'm just trying to understand like what's contemplated within the, within the near term outlook as you TRY to manage through things, in general.

Thank you.

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

Yeah, Andrew will answer one just piece of context, I think we said it, we had a 3 point revenue sort of headwind for macro in Q1, and we believe it's 6 points in Q2. That is really what's driving the short term. I think it's consistent on the, on a domestic basis with what we've heard from other airlines, so I don't think we're in any different. Situation, but Angel can maybe say more about, sort of where we were booked, a few weeks ago for Q2 and what we're seeing in terms of stabilization and fair environment. Yeah, I.

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

I think, just on the sequential, I think, April's going to be a little bit stronger, and I think we've seen some good close in demand, just to be frank, as we move into April, and a little bit softer in May and June where ASMs are up a bit more and, have been more fully exposed. To the fullness of this downturn that sort of happened in February. So that's really what's going on. And I think, again, we sit here today, if you look at our load factor in the first quarter, what we believe our loads are going to be in the 2nd quarter, volume, we're not concerned about it. I think we've got good solid demand for our product. It's just working out where the industry pricing is going and what we need to do to fill those seats.

Conor Cunningham - *Melius Research - Analyst*

Appreciate the detail.

Benito Minicucci - *Alaska Air Group Inc - President and Chief Executive Officer of Alaska Air Group, Inc. & Alaska Airlines, Inc., Director*

Thank you.

Thank you, Connor.

Operator

And our next question comes from Andrew Dedora with Bank of America.

Andrew Didora - *BofA Global Research - Analyst*

Hi, good morning, everyone. So Shane, both, I guess you and Ben have spoke, several times about the potential for accelerating your buybacks. Just curious, like how should we think about the potential size of what you could accelerate here or I guess kind of your comfort level of how that could be like.

Are there any kind of balance sheet or liquidity guard guardrails that we should be aware of, that could be a somewhat limiting factor in the near term, just trying to think about, what the buyback potential could be kind of very near term here.

Benito Minicucci - *Alaska Air Group Inc - President and Chief Executive Officer of Alaska Air Group, Inc. & Alaska Airlines, Inc., Director*

Hey, great question, Andrew. I'll start and then I'll give it to Emily to provide some context on on the liquidity, questions you had. Look, I said in my script, I think we're significantly undervalued, we announced our billion dollar share buyback and investor day. And we were, again in the 60 to $70 dollar range. So this is just a significant opportunity for us to accelerate. So we've done some math and I'll just hand it over to Emily just to give you some context and how we're thinking about it here in the next few months.

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

What the opportunity is to accelerate this program this year and the balance sheet impact that that would have, it really will be de minimis in terms of where we're at today with debt to cap and our net debt to but our metrics. So we could do up to half the program and have essentially no change in trajectory for those metrics.

Andrew Didora - *BofA Global Research - Analyst*

Got it, very helpful. And then, Shane, maybe a little bit of a longer term question though, you may not like it, I know you're not got to 25, but I guess I'll ask the 26 question. The flattish chasm that you put in your slide deck, in 4Q.

Should we think of that as a good exit rate into 2026 or any, puts and takes you would like to add right now?

Thank you.

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

Thanks Andrew. If you're asking if we're going to have a flat chasm in in 2026, I can't answer that question, although our head of FPA was just setting up the budget review calendar already for later this year, yesterday. But I think, look, we'd like to grow a little bit more. Obviously we're planning to take a good number of of Boeing aircraft at the end of the year. We've got some more 787s coming. We can, we continue to look forward to expanding international out of Seattle next year, and, I think we got to get, into that growth range. We talked about it investor somewhere around 3 or 4%, to have, more of a flattish mindset around unit costs, but the thing, and you guys, I know we talk about this all the time, we will always talk about this, our relative cost performance. I think even this year will be amongst the best in the industry, if not the best, on one of the lower growth rates. Lots of synergy opportunities, lots of opportunities to get productivity out of the aircraft assets from Hawaii and and all of our folks as well, and we're going to go execute on those. So I think from a cost, Competitive position, we're going to be really well positioned over the next few years, and that's going to serve us well, ultimately in terms of driving earnings.

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

And I'll just add this Ryan. Some of our cost energies really ramp up in the 4th quarter, so a lot of that annualizes in 2026. So I do think we'll have a pretty good tailwind on at least the cost energy side next year, which will obviously help offset sort of any, core inflation.

Andrew Didora - *BofA Global Research - Analyst*

That's great. Thanks everyone.

Benito Minicucci - *Alaska Air Group Inc - President and Chief Executive Officer of Alaska Air Group, Inc. & Alaska Airlines, Inc., Director*

Thanks, Andrew.

Operator

And we'll move next to Jamie Baker with JPMorgan.

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Jamie Baker - *JPMorgan - Analyst*

Hey, good morning, everybody. So obviously not Air Group's, first downturn ever, but obviously one difference, to this downturn is that several of your competitors are, already struggling with profitability. So, ordinarily I might be thinking about Alaska coming out the other side even stronger than if the downturn hadn't happened, never let a good crisis go to waste, all that kind of stuff, but your plate seems pretty full at the moment, so I guess my question to Ben is. If one of your lieutenants came to you with an incremental idea, and I'm not talking M&A, I'm thinking more from a network perspective, taking advantage of OA pressures, do you think you'd execute, or is the preference just to kind of keep your head down and and power through? I'm just trying to decide if the downturn structurally helps you longer term, and it's not clear to me if it does.

Benito Minicucci - *Alaska Air Group Inc - President and Chief Executive Officer of Alaska Air Group, Inc. & Alaska Airlines, Inc., Director*

Jamie, I love your questions, because I think that, they're actually they're very thoughtful. Like, I think if you, we're deeper in our team mindset is we never look a great idea away, and we will make trade-offs to what is best, long term for Alaska group. So if we saw an opportunity and we needed to make a trade-off and move something off to the right, so we can Put another initiative in that we think would have greater value to the company, we would do that. We would, we weigh all the possibilities and make a move. We are nimble, we are decisive, and I think we have, the team to go pull it off, so, but that's how, that's just how we think.

Jamie Baker - *JPMorgan - Analyst*

Okay. And then my follow up, what would be the a geekiest thing you've ever done? Oh no, wait, sorry, you were on that at the Wings Club on slide 10, progress underway with the FAA on the single operating certificate in 4th quarter. It seems, and I'm not in the weeds, but it seems that everything involving the FAA takes longer these days than anticipated. So if that timing slips.

Does it push the other two milestones to the right? I could see maybe it would do that for the red system, but it wouldn't preclude the collective bargaining momentum. Is that the right way to think about it, if the second milestone does shift to the right?

Benito Minicucci - *Alaska Air Group Inc - President and Chief Executive Officer of Alaska Air Group, Inc. & Alaska Airlines, Inc., Director*

Yeah, I think that's the right way to think about it. It, right now what I'll say is single operating certificate, we just completed our second submission. The third one is going in, sorry, the 2nd submission was accepted by the FAA. The 3rd submission is in. Single operating certificate is really tracking the plan, so we're really confident about the October date.

Our PSS as we did it last time, that is, really well in hand with our team. And so the, and the joint bargainings are just beginning right now, so that they really are not interrelated. We're starting those independently of the other milestones and we've done this before, so we know how to go do this. The playbook is clear for us and so I have a lot of comments that the team really knows how to go do this and and and the other thing I'll say is our employees are excited, like I mentioned in my script. They want this integration to happen. They want to get it behind us and look forward to, a combined company who's going to go do big things.

Okay, perfect.

Jamie Baker - *JPMorgan - Analyst*

Thanks for the answers, Ben, I appreciate it. Take.

Operator

Care.

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And our next question will come from Scott Group with Wolf Research.

Okay, thanks. Morning. So, I think you talked about, premium and main cabin unit revenue, both positive and in Q1. Can you just talk about like directionally the spread between the two and to what extent or how much is that spread wide and into Q2?

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

Thanks, Scott. I think what I would say on that is that The first class cabin, and I'm not going to get into specific spreads here, but the first class, cabin actually is, really doing strong and outperforming. I think, as with the premium class, it's undergirded by main cabin seats. So the real opportunity there is the roughly 15%, of revenues on the sell up. And I think as we go into queue. Again, that's why we're very focused on keeping full airplanes results in premium class performing better than it would when they were not full. So, I would say though that, PC is probably a little softer than certainly first class. But overall, we see the relationship holding, as we go in. And just to say it on the safer side, we still have very generous availability on that around 60%, but in the first quarter, we were able to actually expand. Our our upsell from Saver into the main cabin, so, we've got pricing and yield from that, so we're getting better and smarter about how to manage, saver in this downturned environment.

Okay, and then, Shane, I don't, maybe, I know you don't have a full year guide, so maybe there's not much to say, but In that scenario you laid out of it, there's a 5 point revenue headwind in the first half. If we just assume that that continues, stabilizes, but that similar 5 point headwind to revenue in the second half, is there a reason to think Q3, Q4 are any better than Q2 as synergies ramp or I don't know, maybe seasonality makes that harder? I know how would you think about that?

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

Yeah, I think, first of all, if the situation we see today persists, we still think we're going to be amongst the TOP3 industry margin producers. So, hence the comment in the script that will be solidly profitable still. The synergy ramp is pretty, I think, firm. We, we've got a really, and just to the com question Jamie asked on integration and timelines. I mean these things are pretty tight in terms of each of the initiatives we need to execute them for integration, and as we integrate, we unlock some of those synergies. Now, like the things that we have done first, like coding across each other's network and sort of turning on connectivity, those have been working really well and maybe even a little better than planned. So there are, there, there's a chance that we'll find out that The initiatives, even as they come in on time, are a little bit more valuable than we had thought before and certainly we hope for that, but we won't know until we sort of cross those dates.

Benito Minicucci - *Alaska Air Group Inc - President and Chief Executive Officer of Alaska Air Group, Inc. & Alaska Airlines, Inc., Director*

Okay. All right.

Thank you.

Thanks, Scott. Thanks Scott.

Operator

And we'll move next to Brandon Oglinski with Barclays Capital.

Brandon Oglenski - *Barclays Estimates - Analyst*

Hey, good afternoon. Thanks for taking the question. So Ben, maybe if I can just merge Andrew and Jamie's question together and ask it maybe a little bit more directly. I mean, we see a lot of unsustainable airline business models out there and maybe more treacherous balance sheets across the industry.

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I mean, why accelerate a share repurchase in this environment, especially not knowing where demand is going to end up and potentially like other industry opportunities that could present themselves over the next few years. You guys have been the most acquisitive of anyone, I think, in the last decade.

Benito Minicucci - *Alaska Air Group Inc - President and Chief Executive Officer of Alaska Air Group, Inc. & Alaska Airlines, Inc., Director*

It's a great question. It's good to push us on this. Look, I just think, we know where we're going to be with our long term plan in 2027. So we're so confident where that what that's going to deliver. So we just think it's a significant opportunity. Everything else we're doing is in our control. We're executing and, we believe that, we're going to get through this turbulence and if you, we look at at past downturns, whether it was in 2000.

It turns, whether it was in 2008, the Great Recession, or before that, these things will last 6 to 12 months, and we want to be on the right side of it. And, airlines always make that same mistake, Brandon, that we buy back stock when it's high, and then, and don't buy back stock when it's low, so we're not going to make that mistake this time. And I think we're convicted that, the company is undervalued, and I think we have enough assets, in a balance sheet that if other opportunities were to come up, I think we can take advantage of those in addition to what, to buying back stock.

Brandon Oglenski - *Barclays Estimates - Analyst*

Appreciate the message there and Andrew, I know you've gotten a lot of questions on competition, but maybe just specific to Hawaii and, a big competitor change with their pricing structure coming up later. I'm not asking to talk to their change, but just, how do you see industry competitive dynamics, especially going into peak summer.

Benito Minicucci - *Alaska Air Group Inc - President and Chief Executive Officer of Alaska Air Group, Inc. & Alaska Airlines, Inc., Director*

Months here?

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

Specifically to Hawaii, is that your question? Well, yeah.

Brandon Oglenski - *Barclays Estimates - Analyst*

Hawaii, but maybe more broadly too.

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

Yeah, I think, number one, our growth is low, and I think the industry right now is in the business of reducing capacity, not increasing it. And I think when you see, in times of, softness, people go to their strength. And I think the way I look at this right now is that we are playing to our strengths. And so I feel pretty good about the macro, network landscape as it sits here today. And, yeah.

Operator

Thank you.

And we'll move to our next question from Duane Fenneworth with Evercore ISI.

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Duane Pfennigwerth - *Evercore ISI - Analyst*

Hey, thanks. .

Most of my questions have been asked, but maybe we could just play back what happened in the back half of March, it feels like and maybe this is a misinterpretation by us, but it feels like your tone was relatively more constructive at that time when some of your peers were guiding down. So what shifted for you, was it perhaps later? Was it more of a corporate or leisure dynamic? Can you just walk us through the timeline, since mid-March?

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

Hey, Dwayne, thanks.

Interesting, interpretation. I think that wasn't intentional at all. I don't think we feel incrementally worse about the business today than we did in March. In fact, we, we've seen, as we mentioned, a lot of stabilization in the demand backdrop. We're going to sell airplanes in the summer. We're going to run, load factors consistent, I think, with historically what we do in the summer. So I'm not sure what what the venue was or why we sort of came off that way. We did make a choice to not update guidance in the midst of the quarter. It was, we weren't at sort of some of the conferences that the others were using to to update, and maybe we should have, but, what we're seeing is like very similar trends to everybody else, except we also have unique drivers of value going forward, and so we're feeling.

As excited about the long term as we were in December, and we can't wait for, the demand environment to get back to the, really robust place it was in Q4 and Q1, and whether that happens this year or next, we're, we'll be ready for it.

Duane Pfennigwerth - *Evercore ISI - Analyst*

I appreciate that. And then just for Maui specifically, I don't know if you have this data in front of you, but how recovered is your capacity to Maui from maybe the pre wildfire baseline and what does the booking curve look like, into the summer for Maui versus last year? Are you seeing, what how booked up are you and what do yields look like?

Thank you for taking the questions.

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

Yeah, I would say just in Maui specifically, I think, the horrific fires and all of that, obviously, was terrible, is really from a demand, somewhat behind us. Hawaii never really, at that time really pulled down much of their capacity at all. And given what we're doing now, we've pretty much restored it. And as Maui versus Honolulu, it all sits in the same ecosystem. So, Those things are behind us, and I think what we're doing right now is looking to continue to make more connections and grow that.

Duane Pfennigwerth - *Evercore ISI - Analyst*

And just on the booking curve.

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

Yeah, I'm not seeing any, in general, booking curves are holding out to where they were before. I think, the question a little bit is, it gets a little complicated because now we're playing a little bit with yield to maintain the bookings coming in on traditional curves. So, but again, not seeing anything majorly unusual there.

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Okay, thank you.

Benito Minicucci - *Alaska Air Group Inc - President and Chief Executive Officer of Alaska Air Group, Inc. & Alaska Airlines, Inc., Director*

And Dwayne, I think overall what we're seeing is Hawaii is a bright spot for us, that's the big takeaway. It's just a bright spot. Everything we're doing is.

Is ahead of expectations.

Duane Pfennigwerth - *Evercore ISI - Analyst*

Very good. Thanks, Ben.

Benito Minicucci - *Alaska Air Group Inc - President and Chief Executive Officer of Alaska Air Group, Inc. & Alaska Airlines, Inc., Director*

Thanks, Dwayne.

Operator

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

Mike Linenberg - *Deutsche Bank - Analyst*

Oh yeah, hey, Good well good morning for you guys. Andrew, your comments about, the San Diego build up and, the network and now being in a position where you sort of offer the most utility to the customer base in that market, I found that interesting.

It does look like that it's being funded by pulling down some markets that I would have thought were court to Alaska, like Alaska to DC, excuse me, San Francisco to DC and San Fran to Chicago, and so it does seem like that San Diego's gain is San Francisco's loss because it does seem like it would reduce the utility of of your product in the SFO market.

How should I think about it, and are those the types of moves that we should expect from you going forward from a network perspective?

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

Yeah, Mike, that's a very perceptive question.

Thank you for, looking at the details behind it. But here's what I would say is, number one, we continue to reshape California to make sure that it's in the best place possible. I would say if you're referring to places like Dallas, we fly lucrative DCA markets. So we've not really lost the utility there. We have a great partner in American Airlines in Chicago, where our leads can earn and accrue miles and all of that. And Nassau, just to be H1st with you, was a COVID, post-COVID market that is more of a cruise stop destination. We couldn't work. So we used those loss-making markets. We reinvested them in, San Diego, which has actually been more profitable. So net net. We're doing it smart, we're doing it, incremental, and I think overall air group and our guests are going to benefit from this. And.

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Benito Minicucci - *Alaska Air Group Inc - President and Chief Executive Officer of Alaska Air Group, Inc. & Alaska Airlines, Inc., Director*

Mike, just let me be clear, San Francisco and Los Angeles are still a key part of our California strategy and in no way, interpret these moves as putting less focus on SFO and LAX. It's SFO, LAX and San Diego, it's part of the strategy.

Mike Linenberg - *Deutsche Bank - Analyst*

Great, makes sense. And just my second question, I'm obviously seeing all the, you put out a release about the co-location and you and Hawaiian coming together in some of these key airports.

Are there any airports in your system where you're going to run into real estate? Constraints and it looks like San Diego is actually going to be a huge opportunity because they're building out and I'm sure you're getting a lot of gates there, but are any of the other key airports in your system, not just California but like Cech, Portland, where you're going to run into some real estate constraints over the next year or so? Thanks for taking my questions.

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

I think just from a network, I would sort of say no. I think certainly on the infrastructure, we get great economies of scale with the Hawaiian assets flying on all the cities on the west coast. We just absorb those into our network. I think we're in a really good position in our core hubs and managing capacity and gates. So, big picture, I don't see any Material issues with bringing the networks together, and being able to have adequate space.

Benito Minicucci - *Alaska Air Group Inc - President and Chief Executive Officer of Alaska Air Group, Inc. & Alaska Airlines, Inc., Director*

And Mike, just to remind you, like at investor day we said, Portland is a huge opportunity for us. It's got, it's got a ton of capacity. And it's a great relief valve for Seattle as we bring international flying into Seattle. And so we're creating a connecting complex in Portland. So Portland, there's a huge investment, there's a phenomenal lobby if you haven't seen it. I think it's the nicest lobby in the country, and we've invested heavily in it. So see us invest more in Portland is what, and creating that connecting complex as an opportunity to help offload Seattle a little bit.

Mike Linenberg - *Deutsche Bank - Analyst*

Great, thanks.

Everyone.

Operator

And we'll move next to Tom Wadewitz with UBS Financial.

Tom Wadewitz - *UBS Equities - Analyst*

Yeah, thank you for giving me some questions here on the call. I wanted to get your maybe higher level in a lot of the questions you've had on kind of premium. How do you think about the, I guess macro backdrop that would give you greater concern on weakening and, premium and first class and that, kind of broader category, I think we were thinking that, a big step down in the equity market could cause some pressure, some risk.

It could be going into, a mild recession, but I guess you could say, well, maybe that income cohort is so well protected that you could do a mild recession. You go into a mild recession and maybe you would still be resilient. So just wanted to see if you could offer some thoughts about, how do you think about how premium would go through a downturn and and an economic downturn and how resilient it might be.

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

I think, Tom, it's, the question I know as I've been asked a few ways. I think we're just not seeing it. I'll just be clear about that. We are not seeing any pressure, certainly in the front cabin. And I think as we've shared in Invest today, we have the long, if not the longest domestic stage length of any carrier in the United States. So when you look at a quarter of our capacity, Hawaii alone is flying 6 hours, let alone everything else. There is a real demand for our premium and first-class product.

Where most of our network is flying 4 or 5 hours, on any given day.

Tom Wadewitz - *UBS Equities - Analyst*

So then I guess you're My question was more if you had further weakness, not what you're currently seeing, but it sounds like you think even if you saw, an actual recession, you think it would still be resilient.

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

I think if at some point there may be.

A softness in those fares. But again, as I've shared, we, it's not like we've removed any seats from our airplane and our unit costs went up and we're banking on that. We still have the same amount of seats. So, yeah, there will be probably be yield pressure if we saw that turn, but I think we're very well positioned versus other carriers who are just literally taking seats off airplanes.

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

Yeah, Tom, this is Ryan. I think our theory, based on what we've seen is the relative gaps between first PC, main and saver would likely remain. Of course, if the overall environment got worse, everything may come down by some amount, but I still don't, I think we're going to see first and PC outperform the main cabin, even in a downturn.

Tom Wadewitz - *UBS Equities - Analyst*

Yeah, right, okay, that makes a lot of sense. And then just the second one would be how do you think about capacity in the second half, it sounds like a maybe a more careful approach on it, but are you, what would you kind of need to see to really take it down more aggressively or do you think you're kind of, even if you saw some further weakening in main cabin you would kind of stick with the the capacity plan for the second half?

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

The good thing a little bit is the 2nd and the, especially the 3rd quarter are our lowest growth quarters already, so we've got a natural hedge there. And as I did share on my prepared remark, we are already, looking at some of the fallen beyond and looking at some capacity cuts. I will say that as we have shown and we demonstrated that if there is a, if there was a continued weakness, we would definitely be looking at capacity and how we ensure that we position this airline well for that.

Tom Wadewitz - *UBS Equities - Analyst*

So if you had further weakness, then you would, you'd be willing to cut a bit more or just back a little more. Okay.

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

Okay, great, thank.

Benito Minicucci - *Alaska Air Group Inc - President and Chief Executive Officer of Alaska Air Group, Inc. & Alaska Airlines, Inc., Director*

You for the time.

Yeah, Tom, just, our history is we will respond and we'll respond quick. If there is a massive quick downturn, we will take the appropriate action, because, Alaska, our growth for the whole year was 2 to 3%. It was never high and was really baked on utilization. A lot of other airlines have brought down their capacity, which I think will benefit the second half of the year, and we'll see how that pans out based on what happens.

Okay, thank you for one more question, okay.

Operator

Thank you. That question will come from Robbie Schenker with Morgan Stanley.

Robbie Schenker - *Morgan Stanley - Analyst*

Great nice morning. Thanks for squeezing me in here. Just a few high-level questions on Hawaii kind of going back to the earlier commentary on the booking curve. There's some speculation that US travelers may kind of not want to go, international as much as maybe the last couple of years.

Do you see any potential or evidence that Hawaii may be a natural alternative there? And also there's some talk locally in Hawaii of maybe restricting the number of tourists coming in.

Is that an opportunity on mix or a risk on volume?

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

Hey, Robbie, Andrew can jump into. I, look, we've, we talked about this a bit over the last 12 months. We think internationals, doing great right now over the last couple of years, and it's certainly helping those folks who have a lot of capacity pointed that way. We've always thought it's going to normalize over time.

And it's one of the reasons we love the, partnership and acquisition of Hawaiian. It's a premium leisure market. It fits our network perfectly. I think, folks want to go to Hawaii. Many of us off the West Coast go there regularly, and we did before, the acquisition. So I think it's a durable premium market. That we're going to serve really well. We have over 50% of the market share today, and yeah, as folks, for whatever reason, decide to not travel as much internationally, I think Hawaii is a great destination for those folks and we'll be the people who are carrying them there.

Robbie Schenker - *Morgan Stanley - Analyst*

I need a quick follow up on that as well, good to see the momentum and Hawaii loyalty there. Is that something we should expect to see be really strong out of the gate of this acquisition, or does that is that something that will accelerate later on once you've completed the operating certificate PSS loyalty program combination is that going to going to peak later or is that like the the most you see now?

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

Yeah, I think we're very excited. We just think loyalty's going to continue to accelerate. We go to a single loyalty program, this summer, and we have, we're making continual changes to our program, which we'll be announcing, and we also have a premium card. And then elites will get full access across the breadth and the depth of both, metal, as we get to single, PSS. So we're just excited that there will be continued momentum on the loyalty side.

Benito Minicucci - *Alaska Air Group Inc - President and Chief Executive Officer of Alaska Air Group, Inc. & Alaska Airlines, Inc., Director*

And Ravi, if you remember from an investor day, one of our big priorities on our Alaska accelerated vision was be Hawaii's trusted airline. This is the trusted airline. That will take people, between neighbor island travel, which is hugely important, that are going to take them internationally out of Honolulu and will connect people from the islands to the west coast to our massive network from the from the west coast to the rest of, the continental US. So, we're seeing gains. I, to be H1st, I think we just scratched the surface, on this. I think we're going to see this accelerate more. As the year progresses and when we become on one single reservation system, a single loyalty program, which is going to be in place here by by August, I think you're going to see this, continue to grow and and and then we'll achieve that vision of being Hawaii's trusted airline.

Wonderful, thank you.

I think we're out of time, so I want to thank everyone for joining us and we'll follow up with any questions with anybody and we'll talk to you next quarter.

Thank you so much.

Operator

And this concludes today's conference call.

Thank you for attending.

The host has ended this call. Goodbye.

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