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ALK.N - Q4 2025 Alaska Air Group Inc Earnings Call

EVENT DATE/TIME: JANUARY 23, 2026 / 4:30PM GMT

OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Alaska Air Group 2025 fourth quarter earnings call. (Operator Instructions). Today's call is being recorded and will be accessible for future playback at alaskaair.com.

After our speakers 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.

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

Thank you, operator, and good morning. Thanks for joining us today to discuss our fourth quarter and full year 2025 earnings results. Yesterday, we issued our earnings release along with several accompanying slides detailing our results, which are available at investor.alaskaair.com.

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

Air Group reported fourth quarter and full year GAAP net income of \$21 million and \$100 million, respectively. Excluding special items and mark-to-market fuel hedge adjustments, Air Group reported adjusted fourth quarter and full year net income of \$50 million and \$293 million, respectively.

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 our actual results. Information on risk factors that could affect our business can be found within our SEC filings.

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

Ben Minicucci - Alaska Air Group Inc - Chief Executive Officer, President

Thanks, Ryan, and good morning, everyone. Before we dive in, I want to start by thanking our 30,000 employees for their efforts throughout 2025. Last year was a year of transformation where we laid the groundwork for the next chapter of Alaska Air Group.

It did not come without growing pains, but we delivered bold initiatives, strengthened our competitive position, improved our relevance and set the stage for long-term growth under our Alaska Accelerate vision.

Our employees navigated a lot of change last year, and I can't thank them enough for their commitment to helping us realize our long-term potential and for taking care of our guests every step of the way.

My belief in our future has never been more evident in the last few weeks as we secured the largest aircraft order in our history with Boeing. This solidifies our growth through 2035, resulting in an outstanding order book of 261 aircraft, if all options are exercised.

This now includes firm orders that will take our 787 fleet to a total of 17 aircraft supporting our goal of building Seattle into a world-class global hub with at least 12 destinations. I want to thank Boeing and Transportation Secretary Duffy for their support in our commitment to being the country's fourth global airline.

While 2025 did not result in the financial returns we had initially laid out at the start of the year, we strongly delivered against our Alaska Accelerate vision, ticking off many major milestones with several of them outperforming expectations.

By many measures, 2025 was a major success for our company. We firmly controlled the areas within our control. Synergies finished ahead of plan for the year, notably on the network side as the power of the combination of Alaska and Hawaiian was evident all year long.

Hawaii was by far our strongest region in the network on a year-over-year basis, demonstrating the benefits of the utility the merger has created.

We embarked on our journey to build Seattle into a world-class global hub launching flights to Tokyo and Seoul, and we're thrilled to begin service to London, Rome and Reykjavik this spring, three iconic European destinations that elevate Alaska's global relevance.

Our unified loyalty program, Atmos Rewards, went live in August, creating a single platform for engagement and brand reach.

We launched an industry-leading premium credit card that saw 75,000 sign-ups in just four months, exceeding our expectations by 3 times, demonstrating the power of the industry's best loyalty program.

Importantly, we achieved a single operating certificate in October, just 13 months post-merger, an impressive accomplishment, and the hard work behind the scenes was completed for our combined passenger service system with operational cutover scheduled for April of this year.

This will deliver a seamless, cohesive guest experience, eliminating friction from operating dual systems. These accomplishments demonstrate our ability to execute a complex integration while transforming ourselves into the country's fourth global airline.

While many things went exceptionally well last year as we rolled out a slew of new initiatives at a record pace, we know there is room for improvement. Our goal is to build world-class technology infrastructure.

The two outages we experienced last year were painful for our guests, employees and financial results. Corrective actions are underway and will continue throughout the year, supported by third-party experts as we invest in both near-term fixes and long-term sustainable solutions.

Turning to 2025 results. For the fourth quarter, we delivered adjusted EPS of \$0.43 and for the full year, adjusted EPS of \$2.44, both ahead of our revised guidance put out in early December. As we had shared at the time, results were impacted by the IT outage, elevated fuel costs and the impact from the government shutdown.

In the end, we've delivered a better cost result and benefited from slightly lower fuel in December than anticipated. Given our conviction in Alaska accelerate and our ability to generate \$10 of earnings per share by 2027, we executed \$570 million of share repurchases when our stock price was below its long-term potential.

This puts us more than halfway through the \$1 billion buyback authorization we unveiled at the end of 2024. As we look ahead to 2026, our overarching focus is on harvesting the investments we made in 2025 and driving margin expansion as we progress toward our goal of \$10 per share by 2027.

We expect full year earnings per share to be in the range of \$3.50 to \$6.50, representing a meaningful improvement over 2025. This reflects continued delivery of incremental earnings from our \$1 billion Alaska Accelerate plan, the benefit of lapping transitory challenges experienced in 2025 and the trajectory of the macroeconomic environment and industry capacity growth.

At Air Group, we feel the momentum building and accelerating in 2026 as our bold strategy comes to life. Our team is inspired and motivated to win. We have a winning business model and are continuing to configure it to meet the market where it's headed, more premium experiences, more international and fierce loyalty.

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

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

Thanks, Ben, and good morning, everyone. Today, my comments will focus on fourth quarter and full year results, along with our outlook and trends for 2026. For the fourth quarter, we delivered total revenues of \$3.6 billion. That's up 2.8% year-over-year on 2.2% capacity growth.

This resulted in unit revenues up 0.6 points. I'm proud of the team for delivering positive unit revenue performance considering we had one of the industry's most difficult year-over-year comparisons in addition to contending with a government shutdown.

As we shared in our investor update back in early December, the government shutdown impacted fourth quarter earnings by approximately \$30 million or \$0.15 of earnings per share. Bookings were solidly positive going into the heart of the shutdown, then went negative on a year-over-year basis for a short period and rebounded in early December back to positive territory to finish the year out strong.

For the full year, we delivered total revenues of \$14.2 billion, up 3.3% year-over-year on 1.9% capacity growth, resulting in unit revenues up 1.4%. This performance reflects our continued leadership in unit revenue growth, which we believe will finish the year ahead of the industry average, illustrating the benefits of our Alaska Accelerate synergies and initiatives.

As has been the case all year, we continue to see strong demand in our premium cabins. In the fourth quarter, First and Premium Class revenues were up 7.1% year-over-year, outperforming Main Cabin by 9.5 points.

Premium revenues represented 36% of total revenue, up 1 point from Q3. Main Cabin revenues were down 2.4%, which is a modest improvement versus the third quarter.

The fourth quarter has a much harder comparison than the third quarter, so the improvement in main cabin performance is encouraging as we look to 2026. For the full year, premium cabin revenues increased 6.7% and outperformed the main cabin by 7 points.

We are excited to see continued growth in our premium cabin revenues and now have 86% of our 218 Boeing 737 aircraft seat retrofit complete. All that remain are 31 737-800 aircraft.

As a reminder, all these retrofits will be finished in time for selling into the summer travel, enabling us to sell all 1.3 million incremental premium seats across our network, which will help us fully realize the \$100 million in incremental profit we outlined as part of Alaska Accelerate.

Managed corporate revenues in the fourth quarter were up 9%, notwithstanding the government shutdown and related flight reductions, a 2 point quarter-over-quarter sequential improvement.

I'm also pleased to report that our share of corporate travelers in our business class cabins on our Seattle to Tokyo and Seoul routes is about to cross over our fair market share, demonstrating that we have successfully tapped into the lucrative international corporate revenue pool off the West Coast that we previously did not have access to.

Forward-looking business bookings for 2026 are also very encouraging. Held managed corporate revenue on the books is up 20% year-over-year for Q1, with significant increases in the technology, manufacturing and financial services sectors.

Turning to loyalty. The launch of Atmos Rewards, our new single loyalty program, including our new premium credit card, the Atmos Summit card drove unprecedented increases in absolute card spend and new card members.

In the fourth quarter, loyalty revenues, which include bank cash and member redemptions were up 12% year-over-year. For the full year, bank cash remuneration was \$2.1 billion, up 10% year-over-year.

Turning to credit card. Acquisitions for the full year finished up 17% year-over-year, with a significant portion of those coming after the launch of Atmos in August. Our new premium card, the Atmos Summit card has been a resounding success.

To put it in perspective, in Q4, we had record card acquisitions for any single quarter in our history and nearly 1/4 of those new acquisitions were for the Summit card.

This is particularly important because premium cardholders are spending two times more than holders of the base credit card, demonstrating the value this new card product has brought to our portfolio from these high-value travelers.

The demand for new global benefits that come with the card when combined with our global network expansion was truly amazing. Importantly, in the fourth quarter, nearly 60% of all new card accounts came from outside our core in the Pacific Northwest with 25% of new accounts coming from California.

Our thesis that the new program and our new card products would appeal to a wider audience has proven true in the first four months post launch, helping us expand our reach.

The Atmos Rewards business card also had an impressive quarter. New accounts are up more than 185% year-over-year, benefiting from the new Atmos for business platform we launched, which is aimed at making travel for small and medium businesses more integrated and seamless.

Looking forward to 2026, as Ben said, this will be a year of harvesting and optimizing the investments we made in 2025 with a focus on our guests and other key touch points. These include the premium seat expansion I already touched on, which will be complete by spring, offering an overall better experience for our guests and higher revenue generation across our fleet.

We're rolling out expanded lounge footprints and new a food and beverage program and introducing curated onboard experiences for international service. We believe our new international service will be measured amongst the best.

We now sell in six foreign currencies and recently unveiled our Japanese, Korean and Italian language-based websites, helping us drive point of sale outside of the United States to support our new international service.

Starlink Wi-Fi installation is already underway on the Alaska branded fleet with 24 aircraft complete. Adding these 24 to the existing Hawaiian branded fleets, a total of 66 or 16% of our aircraft are now equipped with Starlink.

We expect to have 50% of the fleet online by the end of 2026 and 100% complete by the end of 2027. We will offer this for free to Atmos reward members, and we believe Starlink is a clear differentiator as it's the fastest Wi-Fi in the sky.

Turning to our outlook. Growth will be modest this year given only 6 737 deliveries as we await certification of the MAX 10. We'll also take 1 787 delivery and 4 Embraer 175s. The MAX 10, when it's delivered, will add 5.5% more seats and increase first-class seats by 25% when compared to the MAX 9.

We expect first quarter capacity to be up 1% to 2% with full year capacity projected to be up between 2% to 3%. Given that the demand environment is still recovering from the economic shocks experienced in 2025, we believe our low growth rate is prudent given the current backdrop.

100% of our net growth is represented by new long haul out of Seattle, and we have moved our domestic capacity around to focus on higher growth in both Portland and San Diego, which are geographies our brand, product and loyalty base is poised for further growth.

As Ben mentioned, we are also eager to launch flights to London, Rome and Iceland. All three new markets are selling extremely well. Not only have we turned on network access beyond Tokyo and Seoul, but we've also recently enabled access beyond all three European cities.

We're also finalizing regulatory approvals for 17 code-share destinations beyond London, which would bring us to 55 total destinations and enable us to take our guests to all the high-demand cities in Europe.

Additionally, we were awarded more favorable departure times on our Seattle to Seoul Incheon on route, which will improve connectivity options deeper into Asia effective late April of 2026.

Advanced bookings across the network have been robust since we started the year, well into the double digits since January 6. We have seen several of the highest booking days in Air Group's history the last few weeks.

The falloff in bookings and yields last year began the first half of February when demand was hit hard, so we expect sequential improvement each month throughout the quarter. First quarter industry capacity is also projected to remain in line with macroeconomic growth.

With strong demand momentum and a constructive backdrop, we expect solidly positive unit revenue growth in Q1 on the back of the toughest industry comp. Recall last year that even with the shock in demand, our first quarter unit revenue still finished up 5%.

I want to close by stating what might seem obvious. 2025 was a monumental year for the commercial team at Alaska Air Group with respect to systems integration, synergies and guest benefit unlock.

Not only did our synergies and initiatives finished the year slightly ahead of plan, but we also built the new foundation for our commercial engine and are just getting started on maximizing its potential. There is plenty of optimization and maturation opportunity within initiatives that have already been rolled out.

And we unveil dynamic pricing later this year and begin rolling out our new O&D revenue management system in 2027. While 2025's progress was slowed by macroeconomic challenges and integration friction, bookings momentum has been building since last July, and we are off to a strong start to the year.

Managed corporate business is looking strong. We continue to roll out new premium seats for sale, hub banking efforts continue to bear fruit, and we're excited to land our first scheduled service in Europe.

We are well on our way to realizing the full \$800 million in incremental revenue by 2027 that we laid out in Alaska Accelerate.

Importantly, our guests will begin to experience the full breadth and depth of what a seamless and integrated airline can offer, both domestically and now globally because of a single passenger service system, single loyalty program with seamless benefits across both brands, full One World unlock, co-location of airport operations and completion of construction in the Seattle and Portland lobbies, a single website and app reflecting two brands, and alignment of Hawaiian and Alaska guest policies along with enabling technologies.

We are now poised to see all the benefits envisaged by Alaska Accelerate come to life. And with that, I'll pass it over to Shane.

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

Thanks, Andrew, and good morning, everyone. As our fourth quarter earnings indicate, and as Ben and Andrew both shared, we exited 2025 on a strong trajectory, which has continued to strengthen further in the first three weeks of the year.

At this time last year, we were coming off of our Investor Day, and were experiencing a similar historically strong demand backdrop, which felt like a very constructive start on our path to \$10 of earnings per share by 2027.

Ultimately, the macroeconomic backdrop in 2025 played out differently, reducing revenues by more than \$500 million and underscoring that our industry remains a volatile one. Changes can occur quickly in either direction.

And that direction has been increasingly positive since September of last year, trends which were only briefly interrupted by the government shutdown.

While slightly below our guide, which was snapped a couple of weeks after our full flight schedule was restored when the government reopened, our fourth quarter unit revenues finished closer to our original plan versus any other quarter in 2025.

Demand rebounded quickly post shutdown, flattening modestly through the holiday and has since accelerated further with current bookings now improved on a year-over-year basis on difficult comps versus January and February 2025.

Given our 2026 capacity growth is in line with forecasted overall economic growth, we expect this trend can continue, hopefully backfilling the entire macro-driven revenue reduction from last year.

This strength, along with further synergy and initiative execution is expected to drive healthy earnings expansion this year. For the fourth quarter, we reported adjusted earnings per share of \$0.43, \$0.33 above the guidance we released in early December.

Roughly half of the beat was attributable to better nonfuel cost performance with the other half coming from a combination of lower fuel in December as West Coast refining margins normalized plus a lower tax rate due to higher earnings.

For the full year, we reported earnings per share of \$2.44 with an adjusted pretax margin of 2.8%, which is down about 1 point compared to 2024 on a pro forma basis. In addition to the macro-driven revenue gap to expectation, our full year earnings were also impacted by approximately \$100 million of transient items we do not expect to recur moving forward.

Despite the headwinds from macro and these transitory items, we generated \$1.2 billion of operating cash flow for the year. Our total liquidity inclusive of on-hand cash and undrawn lines of credit stood at \$3 billion at year-end.

Debt repayments for the quarter were approximately \$130 million and are expected to be approximately \$240 million in the first quarter.

As Ben mentioned, we repurchased \$570 million of ALK stock in 2025, including \$30 million of repurchases in the fourth quarter. With these purchases, we more than offset dilution and reduced our diluted share count to 117 million shares, down from 129 million shares last year and well below pre-pandemic levels.

We expect to continue to execute share repurchases in 2026 to at least offset dilution. Our debt-to-cap ended the year at 61% with our net debt-to-EBITDA at 3 times. Our long-term target remains 1.5 times, which is achievable as earnings expand, though could shift to the right slightly given macro factors and our share repurchase activity in 2025 that modestly slowed our debt repayment cadence.

Fourth quarter unit costs were up 1.3% year-over-year ending the year below guidance and on a trajectory in line with our original plan. As we pass integration milestones, we anticipate we will increasingly be able to fully focus on running excellent and productive core airline operations allowing us to return fully to our historic strength of cost discipline.

For the full year, unit costs were up approximately 4.7% year-over-year on just 1.9% capacity growth. Given this capacity was 0.75 point less than our original plan and given a nearly 2 point cost headwind from market-based labor deals, I view our overall cost performance as very strong.

This was partly helped by the unlocking of early cost synergies from the merger. Turning to our outlook. First quarter adjusted earnings per share are expected to be a loss of \$1.50 to a loss of \$0.50, while full year adjusted earnings per share is expected to be between \$3.50 and \$6.50.

First quarter earnings per share is expected to be approximately flat year-over-year, which would mark another sequential improvement towards earnings expansion. With planned CapEx of \$1.5 billion, we expect to generate positive free cash flow this year.

Our guidance range is wider than normal, but as I noted at the top of my remarks, our industry remains volatile. For further context, our range generally assumes the following.

That we deliver on synergy and initiative value as we did in 2025. That we lap onetime issues that impacted earnings this year, and the low end of the range would require a deceleration of current booking strength due to macroeconomic factors, or supply-demand imbalances in the industry, or there is extreme price pressure on fuel.

And the high end of the range can be achieved if current demand trends hold and fuel prices steady with normalized refining margins. As we talk today, the macro backdrop, bookings and overall supply side of the equation look quite positive.

But fuel has been volatile in January. And for context, every \$0.10 change for the full year in fuel price translates to \$0.75 of earnings per share. We remain committed to driving \$10 of earnings per share. This requires that we execute on our \$1 billion of profit unlock, which we are progressing well on, and that the macro backdrop looks as it did when we first set that goal.

We are excited to see how 2026 plays out to fully execute year two of our Accelerate plan and to deliver on our commitment of generating durable financial performance for our people and our owners. And with that, let's get to your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Duane Pfennigwerth from Evercore ISI.

Duane Pfennigwerth - Evercore Inc - Analyst

Just on the increase in managed corporate travel, that 20% number, what's interesting about that is the comps aren't easy yet. I think that's more of a late Feb-March event. So how do you interpret that 20% growth?

Do you think this is catch-up from travel that's deferred from the fourth quarter? Are there just differences kind of seasonally year-over-year? How do we think about that?

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

Duane, I think a couple of things. It's sort of in general, up in line with bookings. What we've really seen on the managed corporate side is driven by volumes. But the other thing I would just tell you is that I think as it relates to technology and some of those industries, we've just seen a real significant bump.

I also think that what we're starting to see is the fruits of our labor as it relates to our expanded network footprint, global. We're getting more and more penetration into our corporate contracts. And so I think it all stems to what we've been working on is to become more relevant for the corporate traveler.

Duane Pfennigwerth - Evercore Inc - Analyst

And then my follow-up is just on systems. You rattled off a lot of positives, and I just wanted to check with you, are those all in the bag? Or are there specific integration milestones from a systems perspective that you expect as we think about 2026.

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

Thanks, Duane. What's really exciting on the guest-facing systems, we cut over in October for all flights beyond April 22 on a single PSS. The last major milestone is actually in April where we people start flying on the new PSS.

But other than that, all major guest-facing commercial systems whether it's loyalty and all the rest of it are all single and in place now. So that's why we're very confident that our guest experiences in 2026 will be materially smoother and more seamless than they were in '25.

Operator

Conor Cunningham from Melius Research.

Conor Cunningham - *Melius Research LLC - Equity Analyst*

Maybe we can start off just by the guide for '26 in general. So I think it's pretty clear the high end on how you get there and if demand remains here and fuel normalize all that stuff, it's pretty easy to get to. But, just trying to understand the downside a little bit better.

You cited macro factors, but if you could just talk about how that could play out for you if the low end of the range was actually in play? Is it really more of an industry dynamic, or is it macro? Just how do you think about the risk in general?

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

Conor, it's Shane. Yeah, you actually just answered it at the very end. I think from the two things that really could take us to the low end of the range in our mind is either a step back on the macro side, which we're hopeful doesn't happen, and we're not expecting, but it did happen last year.

And so we're a little bit informed by last year's experience in terms of putting a guide out for this year. Or we just saw fuel prices spike. And just for reference or context, \$0.10 of fuel price increase for the year is \$0.75 of earnings. So \$0.20 fuel price increase could take us down there all else equal.

Again, we're not expecting that. But just given the volatility in the industry, recently, we thought it was the right thing to do to widen the range a bit and share more details about why we would approach the low end.

All of the things that are in our control, synergies, initiatives, running a great operation, lapping some things that happened to us last year, we're going to execute really, really well and we're confident about that.

Conor Cunningham - *Melius Research LLC - Equity Analyst*

Okay. And then, Shane, maybe sticking with you. Just, so in the past, you've talked about like 4% to 5% capacity growth. And then in the context of that, it's like flat unit [costs](corrected by company after the call). I know you're not giving you unit [cost directive](corrected by company after the call), but just hoping you could talk about the building box this year.

Because the way that I think about you're growing 2.5%, I assume you're back to hiring some, you have some investments that are in place, but you also have cost synergies. So if you could just help with the trajectory of costs throughout the year. I think that, that would be helpful.

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

Yeah, sure. So a couple of things. One, we did in the middle of the year, have a couple of large sort of step-ups, this is in '25 in certain categories we had, and we mentioned this in the script, market-based labor deals.

We're not fully lapped there, so we've got to get through the first and second quarter to fully lap those. And then we've talked about this thematically for a few years now, real estate costs continue to be sort of the highest cost CAGR in the P&L.

And that's because of all the investments that were necessary but are being made in a lot of our core hubs. And we're excited about the spaces that our guests are going to get to experience as those come online, but there is a cost reality that comes with it.

A lot of that comes in the middle of the year, so it hit us in Q3 and Q4, and we've got to lap those as well. So I think with low growth in the first quarter, which is the right thing for us to do with our seasonality in lapping those, were the most challenged on a unit cost basis in Q1 and Q2.

And then as we get to grow a little bit more into the summer and the latter part of the year I think we're going to have a really nice cost trajectory out of the end of the year as well this year.

Operator

Jamie Baker from JPMorgan.

Jamie Baker - *JPMorgan Chase & Co - Analyst*

So my first question, I guess, it kind of builds on Duane's second question on integration. Slide 9. You note that the selling cutover is behind us, that represents the most significant phase. I completely understand all that.

What's not clear to me is what remaining risk is there? I mean you mentioned being able to unify guest experiences after April. What exactly is that? Again, the goal is just trying to assess risk from here?

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

Jamie. So of course, my technology team are much more wound up, but I have full confidence in where we are. But essentially, every ticket sold after October beyond April was on Alaska's single system and all the rest of it.

So all that really has to happen on April 22, is that when people actually start flying those flights. Our systems need to point to the Hawaiian operational systems versus Alaska systems because they're not all integrated.

But the team is all over it. We've done this before. I have full confidence and we have good plans in place. So from a revenue and a commercial perspective, all things going well, we're in very good place for 2026.

Jamie Baker - *JPMorgan Chase & Co - Analyst*

Okay, that's helpful. And then second on Atmos, when we think about I'm first very disappointed with the overall level of industry disclosures. But when we think about rank ordering the industry's loyalty programs by profitability, where do you think Alaska ranks and what gives you the confidence in your answer?

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

Thanks, Jamie. I think, well, there's two sides to loyalty, obviously, there's the guest perception of loyalty. And then of course, there's the airlines economic reality. Both of those are critically important. I can unequivocally say we're at the top.

I believe, based on what we've heard from industry experts, banks and others that we're in a really good place. I also know that we win year after year on guest generosity. And we are very purposeful about how we manage our loyalty program, that the value of points that we provide our guests.

We don't depreciate and mess with materially. And the good news is that we're always growing. We're expanding our network. We've now got an international network and the platform and the Hawaii franchise and the network there.

So personally, what we have that others do not have is a real step change in our underlying business that's only going to, I think, attract more loyalty and the new program is even more expansive and generous.

Operator

Tom Fitzgerald from TD Cowen.

Thomas Fitzgerald - TD Cowen - Analyst

I was wondering if you could touch on some of the growth in San Diego, but both from a transportation perspective and the loyalty program sign up and how that's been absorbed?

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

Tom, actually really good, I think, and one of the key things that my team is very aware of as we move into '26 is with the increased utility, we fully expect and are seeing increased membership and most importantly, increased card sign-ups.

We are working hard with the operations teams to make sure that this growth is seamless. But overall, all the leading indicators about what you would expect to see from growth, which is share, share of corporates, card sign-ups, loyalty sign-ups, we're seeing come to pass.

Thomas Fitzgerald - TD Cowen - Analyst

Okay, great. That's really helpful. And then just one for Shane. I'm wondering if you could, I guess, just touch on maybe unpack some of the drivers of the nonfuel cost beat and the execution there in the fourth quarter?

And then maybe just an update on some of the IT overhaul investments and the improvements in IT hygiene coming on down the pipeline in '26.

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

Yeah, and I obviously covered this in the prepared remarks, but really good performance by the team across the board in terms of cost management and focus in the fourth quarter as we exited the year. The good news, I think, from my perspective is it was in many, many categories.

It wasn't one single area that we just sort of got an unexpected benefit out of. So as we crossed over getting our single operating certificate, it really is the moment that we're able to go and put more of our full focus on running really efficient, effective quality core airline operations.

And I think the fourth quarter is just evidence of what we can do when we're able to really focus on running the airline well.

So we had benefit versus our guide or forecast internally in wages and productivity on the maintenance side of the business and selling and distribution expenses, and anyhow, it's just a lot of like little things that added up to a nice beat.

So well done by the leadership team and everybody else at the company in the fourth quarter on costs. On the IT side, yes, we're making headway on investing in resiliency and redundancy, we've got a lot of sort of detailed plans ready to execute in the first quarter here.

And we've spent a good amount of time in the fourth quarter, understanding exactly what we need to do. And we're on our way of executing all of that. And all of the investments are already contemplated in our guide for next year, both the CapEx side and the EPS side.

Operator

Andrew Didora from Bank of America.

Andrew Didora - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Shane, maybe a follow-up there on, just on costs. I guess you are making a change to CASM. Can you maybe talk about the way I understand that there's still some profit share that's going to be in there. Could you maybe just talk to the changes you're making, why you're doing this now?

And I guess, more importantly, does this change like influence the way we should think about kind of your CASM trajectory versus, in conjunction with your capacity growth? Any thoughts around that would be helpful.

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

Yeah. I think, Andrew, you're sort of referring to the restatement of CASM ex to remove PBP. Honestly,, it's just become kind of an industry convention that we were a little bit of an outlier in. So we decided to adopt this year, we just had to choose a time to do it.

It's not going to change our focus on driving cost performance in the business and margin performance in the business at all. There isn't really any other profit sharing in the adjusted number.

There are some incentive payments that we have for customer satisfaction and for operational performance that employees can earn that remains in our core CASM because it's not really a profit-sharing metric. So it's really just like the rest of the industry has done, remove the volatility of year-over-year profit sharing from adjusted CASM ex.

Andrew Didora - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Got it, okay. It was that portion that's remaining that I was referring to. Okay, that's helpful. And then just Shane, you alluded to this at the end of your prepared remarks, but just the \$10 in 2027 EPS, you obviously still express confidence and at least the building box to get there.

I'm not asking about '27. I guess can you maybe walk us through what we need to see happen in 2026 in order to make this goal seem much more achievable today?

Ben Minicucci - *Alaska Air Group Inc - Chief Executive Officer, President*

Andrew, I'll jump in. It's Ben. Well, look, our thesis hasn't changed from our December 2024 Investor Day. What we laid out under Alaska Accelerate was a plan to unlock \$1 billion of pretax with the integration. And as Andrew mentioned, we're well on track, slightly ahead of plan on that.

And that is all the network synergies, the loyalty, the premium leaning into international, the elements where the big airlines are getting a lot of the profit accretion from. So these are things that are coming, they're harvesting for us in the next couple of years.

And, but for the, as Shane laid out, the macroeconomic volatility that we saw last year and a little bit of the pressure on fuel that we're seeing from West Coast refinery margins, we are on track, and I am as convicted and as committed as ever to \$10 of EPS to that goal.

And it's just that's how we see it. And if this trajectory continues, we're off to a good start in '26. If this trajectory continues, then we'll be solidly on the right-hand side of our guide.

Operator

Brandon Oglenski from Barclays.

Brandon Oglenski - *Barclays Services Corp - Analyst*

So Ben, I asked a similar question from your competitor this week. But effectively, we didn't see any industry revenue growth in 2025, even though GDP was pretty positive. And I think the prevailing thought here is that industry pricing has really been the culprit, it's not underlying demand, that's the problem.

Would you view that similarly? And just given the changes we're seeing on the low cost side with capacity coming out. Do you think that's going to be where the industry can get some traction and get on yields and margins?

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

Yeah. I'll take this one, Brandon. I think it was one of capacity out running economic growth in 2025. I think it was clearly documented in the third quarter. That was very significant. And as you're fully aware, the multiple shocks, to demand throughout '25 were significant.

I think as we look to 2026, I think as you look out and just read the commentary, I think there is a much closer alignment between economic growth and capacity growth. And as you referenced, there's a lot of carriers that are actually reducing.

So I think overall, I think we're in a better position in going into '26 than we were in '25 as it relates to GDP aligning more closely with the capacity growth for the industry, which should then, therefore, be positive on both the unit revenue side and as we've been talking about some of that lost economic demand coming back in 2026.

Brandon Oglenski - *Barclays Services Corp - Analyst*

I appreciate that, Andrew. And maybe as a follow-up, too, I know you guys were focused on maybe moving more domestic flow through Portland and restructuring Seattle for more international connectivity. How is that progressing?

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

Yeah. Thanks, Brandon. It's one of those exciting things you get to do when you look at your network and one of the wonderful things of having a Portland hub, 130 miles down the street from Seattle is we're able to focus both hubs to collectively take our local and connecting traffic across our network.

We continue to see significant increases in flow of volumes through both those hubs through this. And of course, Seattle is very constrained, and we're also able to make room for those local passengers that we need to serve out of Seattle, when we can put connections over to Portland.

So I think there's going to be a lot of work, further work to be done this year, but it's a real gift to be able to have both these hubs to do what we need to do with.

Ben Minicucci - Alaska Air Group Inc - Chief Executive Officer, President

And Brandon, maybe just to maybe to summarize all that, I think where you're seeing strength with the legacy carriers is in the premium space and in the international space. And, if you look at our strategy under Alaska Accelerate, that's exactly where we're winning into.

We're adding more premium seats. Andrew mentioned 36% of our revenues are from the premium space. Our international, we have two flights today. We're going to 5 up to 12 we're really leaning into the space where we can capture some of that revenue that's really been strong over the last several years.

So, this is why Alaska Accelerate is beginning to work. It is working, and we're confident moving forward on that.

Operator

Scott Group from Wolfe Research.

Scott Group - Wolfe Research LLC - Analyst

Thanks. So I know you're guiding to a solidly positive RASM in Q1. I'm just hoping to get a little color on like what that means. I think back last January, you said it would be high singles in Q1 and ended up mid-single. So like the comp gets obviously a lot easier.

Like if we just take like current trend and just assume it holds and then get the easy comp? Like what could this mean for Q1 RASM?

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

Scott. So a couple of things. I think we achieved, I think it was 5% unit revenue increases in the first quarter of '25, which was industry-leading, notwithstanding the massive shocks that happened there. We still have about 1/3, about \$1 billion of revenue to come.

And of course, that's going to be influenced by the continued strength in growth in both demand, both leisure and domestic, so I think, and again, Shane is not allow me to give any guidance here, but the reality is that if conditions continue, this could get better and stronger.

And I think the network dynamic, what we're seeing. And I think the opportunity we have, especially in the premium cabin. I think we have more upside there could only get better.

Scott Group - Wolfe Research LLC - Analyst

Okay. And then, Shane, just sort of like big picture, like you're saying, you're saying so solidly positive RASM in Q1 and flat earnings, but then earnings for the year are at the midpoint, kind of double, like what changes from Q1 to the rest of the year to see such a massive sort of change? Is it just the comps? Just some thoughts on that thought.

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

Yeah. No, I appreciate the question, Scott. And a couple of things, and I will answer specifically to what's going on in Q1 this year for us. But I think it's important to remind folks we are the most seasonal airline.

I think the second most seasonal airline prior to our merger was Hawaiian. And so Q1 is going to be the toughest quarter for us.

We're committed long term to still getting to breakeven in this quarter at a minimum. I think the core Alaska network was really close to that last year. And really, our cost profile sequentially coming out of Q4 into Q1, it's, the costs are pretty flat sort of quarter-over-quarter.

Like I had talked about, we have to lap these labor deals and the real estate step-up. And really, had we seen the demand environment we're seeing today for the entire Q1 booking window we wouldn't be talking about a flat result.

We'd be talking about a material improvement year-over-year performance in the first quarter. And so it really is ultimately how quickly this macro backdrop can recover and had it recovered a little bit sooner than it ultimately did.

I think we'd be in a different place in terms of the year-over-year comp. But again, if you sort of just take what's happening today forward, have to take it up from today forward. The rest of the year looks really, really good.

And I'll just remind everybody, you guys know this, but the biggest sort of missing revenue quarters for us last year and the whole industry were Q2 and Q3. And so that's really where we expect to see the biggest expansion of earnings this year.

Operator

Atul Maheswari from UBS.

Atul Maheswari - UBS AG - Analyst

I had a question on fuel first, which is like do you have a view on what's driving the volatility in the West Coast fuel like what's driving the elevated prices?

And what really needs to happen for some of the spreads to come down? And given all the volatility that we're seeing in the West Coast fuel, what can you do to reduce the reliance, and how quickly can that be achieved?

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

Yeah, thanks Atul. We do have a view on this, and it's pretty straightforward. We really need the West Coast refineries, particularly in California to stabilize. They just are not up and operating consistently enough and not operating at the level that they did for the last three years that I was at the company before the last two where it's really become very volatile.

So that's what we need. That's the driver. It's all on the refining margin side of the business. So just sort of, I think, good facts for folks to understand.

We get about 50% of our fuel is exposed to West Coast and 25% is really in Hawaii, and that's coming out of Singapore, and that's the lowest fuel all-in cost, I think, that you can get in the industry. And then we get 25% from the rest of the country, call it, US Gulf Coast types of pricing.

So we're, about half the fuel bill is exposed to the West Coast. We do need to see this volatility go away. And I think, by the way, it's not just Alaska. It's every airline that needs to see this over time and gets up and down the West Coast.

So we're going to increasingly work with local communities and probably federal agencies to see what we can do to ultimately help smooth out the frequency with which the refineries come offline.

And in addition to that, we need to bring more fuel supply into the West Coast that's not reliant on the refineries and we're working to do that in our biggest hubs, but that is a longer-term initiative.

It's probably a two year sort of initiative to get that in place. But ultimately, we're going to be able to, I believe, move back to parity, which we have to as an industry on the West Coast in terms of all-in fuel prices.

Atul Maheswari - *UBS AG - Analyst*

Got it, that's very helpful. And then as my follow-up, assuming you do the midpoint of the guidance for this year, which is, say, call it, \$5 in EPS in that scenario, is \$10 in EPS for 2027 still in play?

And if so, can you please give us a bridge to go from that \$5 to the \$10. And I think that will be helpful for all of us to understand how reasonable the \$10 estimate is.

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

Sure. Atul, I'll not fully verbatim repeat what Ben said. But yeah, it's still in play. And I'll just step back and sort of remind people of the high-level math that got us to \$10. We started with our 2024 result.

We've normalized that for the fleet grounding that had happened in the first quarter of that year. And then we added \$1 billion of profit unlocked from our Alaska Accelerate plan, which we're on track to outperform at this point over the three year period.

And that really got us above \$10. There was some buffer. We've never sort of shared the buffer. We're not going to show that today.

And then the other underlying assumptions were that macro organic revenue growth in the industry that we were exposed to and everybody else was exposed to roughly offset the cost growth of the company. And that's how we got to above \$10 fuel was roughly what it was back in '24 as we exited '24.

That's the underlying assumptions. All that's really gone negative on us is the macro backdrop, and it looks like it's coming back.

And if it comes back fully, and we get all of the \$500 million or \$600 million that we were missing out of last year, plus a little bit of macro growth on top of that, which should have naturally been happening in '26, '27, by '27, we are back into \$10 plus range.

So we're in month 13 of a 3 year plan, way too early for us to be saying we can't achieve this, we wouldn't say that anyway. We're committed to this number. And I think owners and our employees should expect that we go and achieve \$10 ultimately, that's the right way to be thinking about driving the business aggressively forward.

So we're super committed to it. We've got a lot of year left before we know what happens in '26 and what the setup for '27 is. But we're optimistic and we're going to go drive the synergy and initiative and the controllable piece of this, extraordinarily hard over the next two years.

Operator

Catherine O'Brien from Goldman Sachs.

Catherine O'Brien - *Goldman Sachs Group Inc - Analyst*

So not to be harping on the 2026 EPS range, but I just wanted to clarify what drives the midpoint. It sounds like for the high end, you just need demand to stay on the current trajectory and I guess fuel will come down a little bit from where we are today.

So at the midpoint, does that also entail a step down in the macro or maybe a flattening of the acceleration you're seeing? Or is that current macro plus higher fuels than where you'd be at the high end?

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

Thanks, Cathy. You guys are good at your job. We're trying to be as clear as we can, but also acknowledge it's a volatile industry, and we're in January. And so we really like the current setup and the demand feels very good right now, and we're, we expect and hope that it maintains over the rest of the year.

But I'll be super clear. The midpoint is essentially 2025 EPS, lapping transient issues that should not happen to us again, that did impact earnings last year, delivery of incremental synergies and initiatives and a little bit of recovery in macro. That's how we get to the midpoint.

And we're, right now, the macro line is above that modest recovery scenario, but it needs to hold to get above the midpoint. But that's essentially how we got to the midpoint, and we feel really good about the setup as we sit here and talk to you guys today.

And hopefully, in 90 days, we feel even better about it. But anyhow, that's the, those are the elements that you can sort of as you think about the way to bridge '25 to '26 midpoint.

Catherine O'Brien - Goldman Sachs Group Inc - Analyst

That makes sense and feels prudent. Maybe just one more quick one on loyalty. I know you referenced that some of the initiatives are running ahead. It feels like that \$150 million loyalty might be conservative just given the success of the joint program, a new loyalty card or is your new credit card.

I guess like, is that what you're seeing? And relatedly, of the 60% of new premium card sign-ups outside of the Pacific Northwest, understand a decent amount of that was in California, but where is the rest.

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

Catie, yeah, from where I sit today and what we're seeing, I do believe that there is a lot of opportunity here. I just, this is just a throw anecdote, but just our million miler base in the last 12 months has increased over 30%. You only get that from flying on our aircraft.

We're just seeing across the board a step change. And the other thing I'll add is that Bank of America have been an amazing partner. They understand that we need to grow.

They have leaned in with us and leveraging the depth and the breadth of their brand and their network, along with our increased brand and network. It's just a fantastic result. So I look for good things this year.

Operator

Savi Syth from Raymond James.

Savanthi Syth - Raymond James Holdings (Canada) Inc - Equity Analyst

Shane, may try to bring everything together on the cost discussion that's been done so far on the call. And just trying to understand very simplistically.

Historically, you've talked about growing 5% to keep unit costs flat this year, you have kind of some headwinds and tailwinds kind of in terms of just initiatives or kind of merger synergies coming online, but then also dissynergies coming online.

How should we think about that relationship this year? And like when do you kind of, do we get back to that historical relationship? Or is there something in the environment that's changed that doesn't get us there?

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

Yeah, Savi, to make sure I fully understand it, but the relationship of needing to grow roughly 4% to 5% to fully offset sort of core inflation in the business. That's the essential question. Are we going to get back to that relationship?

Savanthi Syth - Raymond James Holdings (Canada) Inc - Equity Analyst

That's correct.

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

Yeah. No, I think we will. I think we will. And, that is what our business model is built on. That's how we think about projecting what we need to do longer term in terms of cost performance or incremental revenue to offset the inflation in the business.

Look, we're merging two airlines. We're making a lot of investments in the business. We're making a lot of investments in airports. And so it is a little more volatile around that relationship for the next, for last year and this year that it will be going forward.

Once we stabilize all of this, which I think we're well on our way to doing, we fully expect to get back to offsetting unit costs, having flattish or marginally up unit cost with 4%-ish growth. And it will be good to get back there.

I think our teams are really capable of delivering on that. And I don't know that it's exactly going to happen in '27, but in the next 24 months-ish. I think that's what you'll start to see as we get through the last of the integration milestones and really get to focus on running a productive airline again.

Savanthi Syth - Raymond James Holdings (Canada) Inc - Equity Analyst

That's helpful. And if I might, on the cargo side, I think all the aircraft that you, the freighter aircraft that you're planning are in and you're not getting a lot of extra net aircraft growth this year, but you're also doing international flying. Curious how you're thinking about what cargo can do this year.

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

Savi, we're going to have Jason Berry, our Chief Operating Officer, to answer that.

Jason Berry - Alaska Air Group Inc - Chief Operating Officer

Savi, this is Jason. Good question. We're continuing to, as we brought these two airlines together, we saw a lot of synergies and opportunities, and those are happening. And the top end revenue and the margin is really good coming in on the cargo side. We're seeing good momentum on all sites.

We just actually got to a single selling platform earlier this month, and that's really actually helping us unlock and make it a lot simpler for our customers on the cargo side to book with us. So we expect to continue to see positive growth on that as we bring in the new wide-bodies and continue to just work the network.

Ben Minicucci - *Alaska Air Group Inc - Chief Executive Officer, President*

And Savi, I think if you're asking about, we have 10 Amazon airplanes, freighters. And right now, that's where we're at, that number is not going up.

Savanthi Syth - *Raymond James Holdings (Canada) Inc - Equity Analyst*

So maybe cargo growing faster than you would normally expect on a in the kind of the Alaska, Hawaii system.

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

Yeah. I think that's totally true. And our goal is to have Jason talk to you a lot more about as it does that and expands. He's got a big lift to go and fill these planes up and they're doing a nice job out of the gate, especially internationally to Asia, and we're excited about the future of cargo.

Operator

Ravi Shanker from Morgan Stanley.

Ravi Shanker - *Morgan Stanley - Analyst*

And I apologize for asking you another 2026 guidance EBITDA question. But to the point of the high end of the guide points to current trends continuing I think there's broad consensus that US domestic continues to remain well short of normal strength.

So is that guidance baking in the current level of US domestic. So if US domestic does normalize to the year, is that upside to the high end of your guidance?

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

Yeah, Ravi, I think, yes, current trends are sort of how we, and I think I did just mention this, like if they flatten out from here, we're still feeling very good about the midpoint or better. If they continued to improve and backfill the amount of missing revenue from last year fully, then you get to the high end of the range.

And I do think domestic for us was, I think we believe it was a better story in Q4 than the other airlines. If you just look at some of the main cabin results that have been released by others relative to ours. We actually, I think, had the best relative quarter in Q4 in the main cabin and also in our basic economy, what we call Saver Fare category in the fourth quarter.

So that actually saw a nice bump as well. And Andrew mentioned this in a prior answer and also in the prepared remarks, we've really seen the improvement in the demand profile across every segment of the business.

But certainly, premium and loyalty are the biggest drivers of that. But I think we actually like the trends we're seeing in Main Cabin right now.

Ravi Shanker - *Morgan Stanley - Analyst*

Understood. And maybe on the IT side, I know you guys mentioned that you're pretty confident in '26, and there's no incremental cost. But you can actually share some of the key takeaways from the IT audit and kind of what some of the issues were and kind of what actions you guys are taking to ensure that this won't happen again?

Ben Minicucci - *Alaska Air Group Inc - Chief Executive Officer, President*

Yeah, Ravi, it's Ben. Look, the IT outages were very painful, as I said. And what I will frame it as, it's not for a lack of investment. We were investing in IT, I think it was more of a configuration. We had hardware failures.

We had backup systems and triple redundancies that didn't kick in, and so experts came in, they're still helping us really understand how to take this investment we're making, and we'll add to it to really address the configuration of our infrastructure, so that we stay resilient to a really high degree.

And that's really why we're not saying we're going to have this extremely onerous cost in IT because we already invested a lot in IT. It's just getting experts here, really helping us configure it.

And long term, if there is migration to the cloud and stuff, we'll get you guys up to speed on what we're doing. But in the short term, we're putting a lot of mitigation in place.

And like Shane said, that spending is already in our budget.

Ravi Shanker - *Morgan Stanley - Analyst*

Thank you.

Ben Minicucci - *Alaska Air Group Inc - Chief Executive Officer, President*

All right, everyone. Thanks for joining. And I'm sure you'll have a lot of follow-up with Ryan and team. Thank you so much.

Operator

This concludes today's conference call. Thank you for attending. You may now disconnect.

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