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Alaska Air Group Inc

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Jamie: I apologize for being a couple of minutes late. The five minutes between sessions is just not working with the bathrooms here. I was thinking, actually, Dennis Tager suggested this, I really need a flight attendant to follow me with a galley cart...

[laughter]

Jamie: when I go into the...and block it out. I'm kind of one of the pilots of this event. I'd like to be able to use the facilities.

[crosstalk]

Jamie: Yeah, I shouldn't start out with, let's talk about the bathrooms. Ben, it's great to see you. Thank you so much for making the trip. You're certainly no stranger to the J.P. Morgan Industrials Conference. It's great to have you back.

We've gotten several updates from your competitors this morning. The narrative is pretty good. In fairness, the first quarter really didn't have that given the refining lag, not that many days of really elevated fuel, but that's clearly been a challenge for Alaska in the past. How should we be thinking about the first quarter in light of everything going on in the world right now?

Ben: Well, thanks for having me, Jamie. Great to be here with everybody. At this point in time, we're not going to change our Q1 guidance. Just to give you some context, if not for the conflict in the last few weeks, we would have been better than our midpoint on our Q1 guidance.

Jamie: Good.

Ben: I would say consistent with the commentary of others, demand is the bright spot and it continues to be for Alaska, but let's talk about fuel for us. You know what, fuel we're a little disadvantaged on the West Coast because of refinery margins.

I'm frustrated in California, two refining margins closed in the last six months, one recently in San Francisco, one in LA, which really drives that volatility for us having fuel, maybe 20 cents a gallon more than everyone else.

The bright spot was, we got the acquisition of Hawaiian. We got fuel from Singapore and we pay less per gallon for Hawaii fuel getting tankered there than we do on the West Coast. If you just pause that, you say like, how could that be? That's just to give you the context of the disparity.

That's where we're with fuel. But a few things that we're going to do on fuel is, prior to Hawaiian, 65 percent of our fuel came from West Coast. Post Hawaiian, it's 56 percent, and now we've got an initiative over the next two years to take that reliance down to somewhere in the low to mid-40s.

How we're going to do that is tanker fuel from Singapore to the Pacific Northwest, to Seattle. Right now, we're working with some partners to build the infrastructure to how to tanker fuel, to bring that reliance down and reduce our gap, what we pay per gallon, down from the rest of the industry.

It's an audacious plan that we're working on, but we could see somewhere in the order of hopefully a \$.10 impact per gallon within two years if it works. We'll keep you guys posted. What we have to do is really try and mitigate this disadvantage that we have.

Jamie: Is there any expectation that West Coast refining spreads would just normalize on their own as more production comes online, or is it better to plan the business around the assumption that you're always going to be paying something of a penalty out there?

Ben: I wish there were more production coming online. At this point, that's nothing that we see with refinery margins coming in line with the rest of the country. We hope. Hope is not a strategy, unfortunately, so that's why we're taking issues in our own hands. We'll see it stabilize, but at this point, we don't see it going lower than the rest of the country.

It's something we said, look, it's going to be part of our business model, but how do we reduce that risk? This is what we're going to do, is we're going to try and build up some capacity for tankering from Singapore. Right now, Singapore fuel is higher than West Coast fuel. That'll normalize as well.

Jamie: Remind me, did you disclose what your embedded fuel price assumptions or range of

assumptions were, as part of the full year guide, \$3.50 to \$6.50?

Ben: As we exited '25 and January '26, we were in the \$2.50s, somewhere in the \$2.50 range, \$2.50-ish. That's basically midpoint of the guide, would assume like a \$2.50-ish cost per gallon. We'll see where it lands right now. The good thing is, as you know, there's been a couple of fare increases that have stuck.

The fun math...I always like keeping airline economics math simple when we talk in the boardroom about stuff. We spend about 100 million gallons of fuel a month, 1.2 billion gallons a year, so 100 million gallons of fuel a month. If it goes up \$1, it's \$100 million of extra additional cost. It's a massive amount.

When you balance that with the coupon revenue is we produce about a billion dollars of coupon revenue a month, so roughly \$12 billion excluding loyalty, cargo, and everything else. To offset \$100 million of fuel cost on a billion dollars of coupon revenue, it's essentially 10 percent increase in coupon revenue. That 10 percent on average is...

Jamie: It's sort of a big number.

Ben: It's a big number. On average fare of \$200, it's \$20. Now some people might say, \$20 is nothing, especially when you consider what people spend on an airport, can take on to an airplane, their Starbucks, and a muffin. I'm sure it's \$20. You would say, that's nothing, but \$20 unfair.

The question is right now it's sticking, and you could see and say going forward, we're not touching guys. Look, right now it's sticking, and there's a possibility of offsetting, even if it's \$1 per gallon at the worst case, but it would have to stick. That's the question. Fares have to go up to offset fuel, and we've been pleased that we've been able to get people to buy at the higher level so far.

Jamie: A question that I've asked others at the conference. Are consumers purchasing tickets any differently, given the reality of higher fuel? Is there a run-in the bank? That wouldn't really be the right term.

Are people pulling forward their decisions because they have come to the conclusion that the longer they wait, the more expensive it becomes, or is that just giving the US consumer a little bit too much credit? I'm not trying to discredit them by that, but I just don't know how the average

person thinks in this regard.

Ben: It's an intuitive comment. When prices did spike, we did see a spike in demand. Maybe some folks were saying, look, we're going to go on vacation anyway. Spring break is coming. For Q2, we saw some likely accelerated bookings.

They've leveled off now, but people got this initial, "Wow. If this thing is going to go crazy, I better book my fare now before fares go up." We did see a little bit of that, just to be honest.

Jamie: You have a very small international footprint at this point, but are those flights subject? Domestic fuel surcharges aren't permitted internationally. They exist, particularly across the North Atlantic. Is your handful of international capacity right now subject to that? Is that helping accelerate the recapture because of the formulaic nature?

Ben: It is subject to that. We have seen higher fares, quality fares from our international, the flights that we do have. I will say, I am pleased with our international, now you mentioned it. We launched out of Seattle, Tokyo, and Seoul last year. Less than a year for the spring breaks, we're seeing load factors into the 90s.

We're super excited about that, and even more excited that the cabinet isn't even ideal right now. We've got a lifeline cabinet, but there's not a premium economy yet in the 787s, which we're working on in the next two years, which will be further tailwinds for us. We're seeing strong international demand.

Rome launches in five weeks. You guessed it last time we met when I was trying to be cagey in Minnie Cucci. Where does Minnie Cucci want to fly out of Seattle?

Jamie: It was funny. We had an event out in Seattle, and I was like, "Oh, I bet the next market is in Rome," and Penn wouldn't look me in the eye. That's when I knew I might be right.

Ben: Shane, my CFO, was giving me the little, "Don't do it. Don't fall for it." No. We're excited. Rome's booking fantastic. We're seeing a ton of fantastic redemptions on it. Look, this was our thesis going in. We have massive loyalty in the Pacific Northwest. We were part of one world, but this is just an application of that where we're putting our own metal.

People love us, and they're excited. Every time I meet people in the Seattle community, that's the first thing they tell me, "Hey, I booked a flight to London. I booked a flight to Rome. I'm on

Keflavik, I'm going to Tokyo, Seoul." We're excited.

We're just in the initial stages of this. My view is that this is where the big carriers have made money leaning into premium and international in the last few years. We saw premium, we're well ahead of premium.

Our premium story is strong, but international for me is something we're building from the foundation. We'll have over 12 flights a day. We'll have like 40 wide bodies at Alaska into early 2030.

We've got 30 wide bodies today building up to 40, a fleet of 787s and 330s that will be super well configured and help again, diversify our revenue streams going forward. Feel really good about the strategy.

Jamie: I guess you don't really have a baseline to compare it to. I mean, you flew to Russia, what, 35, 40 years ago.

Ben: Something like that.

Jamie: I would think that given the advent of loyalty, that the international markets would ramp more quickly than they otherwise would, because presumably, to your point, a measurable percentage of your passenger base is already going to London. They've just not been doing it on you, and now they have that option.

Is that the way as we think about the ramp of each international spoke you add from Seattle, is that how we should be thinking about it sort of an accelerated timeline? Or is that reading too much into the lower timeline?

Ben: No. I think it's exactly how you should be reading it is, look, I always tell people, and this is why our employees, 3,000, are so excited about what we're doing about our strategy. We have the highest engagement scores.

The community is excited every time I go out is, we have the loyalty and right now when they go international, they're giving the loyalty to someone else.

Jamie: Somebody else.

Ben: Just to give you a sense, out the Seattle hub and not even from Portland and all the small communities we fly to, is we have 2X the domestic capacity than any competitor there. They're flying us domestically, and they're loyalty members, and they're gaining all these domestic miles.

They're going to redeem those, going international. Then, what we're seeing from corporate side, the corporate side is building as well because now they're saying, "OK. Alaska flies to Tokyo and they fly to Seoul, they're going to London. With our One World partnership, the connections through London, through different through cities that we can fly from there."

It's just building and growing which makes this super, super exciting for us. The one thing I tell people, what makes you so excited? It's rare that you have and we have 30,000 people.

We're the fifth largest airline, but it's still pretty big, 15 billion in revenue. I can tell you every time I fly, I can't tell you how engaged our people are. They want to make this thing work. They're saying, "What can I do to help them make this work?"

They're excited about the vision, but they know that it's going to take work. When you don't do anything bold and audacious, we're not saying it's going to take work to build this international muscle, this international know how, but everyone has rolled up their sleeves. They're with us.

We have, if not the highest Net Promoter Scores in the industry. We've had them for 15 years. We've had the best operations industry overall in the last 15 years. We've had strong financial performance. We have a fantastic balance sheet. Everything is in our favor to go make this thing work, so I feel really good about it.

Jamie: Actually, building on that and your observations about the workforce, something that has come up at today's event. Delta for years has talked about the moats around their business, largely non-union workforce, employment costs in Atlanta, the MRI.

There are things that make that franchise different. United has begun discussing that in recent years. What do you think are the moats around Alaska that differentiate the franchise from your competitors?

Ben: One, and I know everyone says this. One, definitely our people and our culture. I think when people fly us, I get it over and over again, we feel a difference. I just got an email from a customer who was loyal to another airline and said, "I flew you guys a few times and the culture and the service is palpable on your airline."

He says people are nice. I don't take that lightly. It's nice is a nice statement, but one of our core values is be kind and caring. We hire for that. The interview process is made to look at a person's core DNA to say, is this person at the end of the day kind and caring, and do they really want to be in the customer service business? If we don't, we don't hire that person.

Sometimes we miss, people get through, but having that kind and caring culture engenders loyalty. That's a big part of it. A big part is, we know that having scale, relevance and loyalty matter. We focused on the West Coast.

The Pacific Northwest, we have that moat. We've been going toe to toe with the largest competitor in the whole world for the last 10 years, protecting what we say is our home. That's our hometown, and we will never give it up, and we've done it.

We have 2X domestic capacity. We've continued to build loyalty. We've launched a new loyalty program called Atmos Rewards, which, at the launch of a premium credit card, we already have 90,000 sign ups on a premium credit card that is doing fantastic for us.

Loyalty is the other big moat for us in the geographies we fly. The acquisition of Hawaiian. We had a billion-dollar franchise and said, "Look, this is a fantastic franchise that we can build." It went from a billion-dollar franchise to a four-billion-dollar franchise.

This is a premium leisure market where we fly 60 times a day from the West Coast from our hubs, all our hubs from Seattle, Portland, SFO-LAX, San Diego, 60 times a day to Hawaii, owning that West Coast traffic.

Then again, now with this introduction of international and now bringing some of those business and corporate travelers that maybe we lost because we didn't have that international, that mode continues to widen.

We feel like we're making that moat deeper and wider. It was deep and wide, but we're making it deeper and wider with the things that we've done and continue to lean in on what we've always done well, but actually adding new elements to our product and to our brand.

Jamie: All right. Let's talk about the path to \$10. It's off on a rocky start given last...

[laughter]

Jamie: year, given what's happening with oil prices right now. When I think back to when you first articulated that target, I'm trying to think about, at the industry level and specific to Alaska, what's gotten better, what's gotten worse, what perhaps hasn't changed at all.

I would think that corporate momentum may be in excess of what you embedded in your forecast. I put corporate into the good category. Domestic capacity has only tightened since the time you articulated that. Again, I don't know what your underlying assumption was from the outset, but I would put the domestic capacity environment into the good category.

I think that labor rate escalation is probably in the neutral to bad category. I'd be interested in particularly some of the work rule challenges that you're going to be facing with the flight attendants. Of course, the buyback was not, at least publicly articulated, might have been in the internal plan. What are the other buckets in getting the \$10 that fall into those two categories, better and worse?

Ben: It's a great question. What I will say is, when we put Alaska Accelerator into place, what got us there was a billion dollars of additional pretax profit that was going to be generated through synergies, revenue initiatives, and cost savings, and roughly a third, a third, a third by year. We are on track, or better on that.

What I would say is the Hawaiian acquisition is doing extremely well for us. If not for that, we'd be in a worse position for that. It's doing extremely well. What's changed in our assumption is the macro. Last year, from the industry backed up, the macro was a \$500 million to \$600 million headwind for us.

For that macro, we would have been right on track. Now, the assumption to '26 is we're going to recover maybe not all of that macro, that \$600 million plus what it would have been going forward.

Jamie: Why wouldn't you recover? Sorry to interrupt.

Ben: It was just an assumption in terms of our guide, that we recover a portion of it. Our guide would say, look, if you get all the macro and plus, of course, you get to the right side of the guide. The midpoint of the guide would have been an assumption that you recover some portion of that macro.

If the macro recovers and fuel stays relatively on the exit rate of the \$2.50 to \$2.60 range, and we continue to execute on our initiatives, and with the buyback on top of it, the math just falls into place and says you should get to a \$10 EPS. Now the reality is the reality. We're facing, right now, \$3.5 a gallon fuel, not for the fare increases. We'll see how that pans out.

The macro again is on target, I think. The macro, we feel pretty good about so far. The reason we had our range as wide as we did, we said, look there's just a lot of volatility. We don't know, so we wanted to give ourselves some leeway to be in that range. We are still resolute on the \$10 VPS, and we're going to do everything we can control to go get that billion dollar of pretax.

On the share buyback, we did \$570 million last year. We're \$100 million into this year. Going do up to \$250 million this year by midyear. We'll have \$750 million out of the one billion dollars done. We'll see where the economic picture looks like by the second quarter where fuel is at, if we want to continue to accelerate in 2026 or do something different.

What I would say...and you talked about labor. Let me talk about the integration. We have one major big integration milestone coming up. This is the one where you integrate both reservation systems from both airlines. That's happening in April 22nd, so a big, big milestone. Three big integration milestones will be done.

We'll have done single operating certificate. We'll have done single loyalty, single reservation system. The last one, which is always a big one, is joint collective. It's one that's tough. It's joint collective bargaining agreements. Each union moves at a different pace depending where they are.

Again, we're the only airline that's done the last two acquisitions. It's Alaska. We know what we're doing. We're good at it. Discussions are all in progress with our unions, and they'll take from 12 to 36 months to get done. Our view with labor is, look, we're going to pay...we're a global airline now. We're a large domestic airline.

We're going to pay competitively with the big four. We're not going be at a disadvantage from a labor, but not like we were 15 years ago. We had an advantage, but now, look, we realize we're a big player and we got to pay our employees competitively.

Jamie: If I'm not mistaken, the wage differential between Alaska and Hawaiian in the cockpit is not particularly material. You'll still have to work out seniority integration, what have you, and that can always be time-consuming, but there are some fairly material differences in flight attendant

work roles.

Ben: On our flight attendant work roles, the big difference is at Alaska, we pay by trip versus by hour, traditionally. Hawaiian has what everyone does, and our contract pays by trip, just like Southwest does, and that's a legacy thing from a long, long time ago. That's going to take time to merge.

That's the one that's probably going to take the longest, but we'll get there. We have a great group of people talking about it. The good part is people want to go execute this vision to go international. They realize that we're not reinventing the rules on how flight attendants have to run internationally.

There are big airlines doing it out there, so there's a template. We just have to figure out how the new combined airline needs to work within that template.

Jamie: Excellent. Mark Streeter, you got a question?

Mark Streeter: Yes, I do. Ben, you mentioned that Alaska has had success consolidating the industry. When you look at the Hawaiians going well, you obviously have the Virgin acquisition before that, and so forth. How should we think about the future for further US industry consolidation?

When would Alaska...is there a green light that turns on in the Executive Suite that says we're ready to consider a new deal because we've reached these...

Ben: The consolidation light?

Mark: The consolidation light turns green...

Ben: I love it.

Mark: because you've further integrated Hawaiian, or you've reached your milestones. How should we think about that?

Ben: There's a button under my table just where I sit. There's a green light, red light.

Jamie: We're going to send you a lamp, just so you understand why.

Ben: Mark, you just gave me a beautiful visual. Look. I'll share it with my team when I see them this week. Look, I'll say a couple of things on that. Number one, we're focused on Alaska accelerating and at \$10 of EPS. We've got to complete this integration. We're not going to get distracted. That is first and foremost what we're going to do.

The second thing I'll say is, and this is the discussion we have at our board meetings, Alaska, for as long as I've been there, for over 20 years, is we've always done what's best. No matter what goes on in the industry, we said, what is best for all the stakeholders of Alaska, shareholders, employees, customers, and the communities we serve?

We're a little unique there because state of Alaska. That's why we did so well with the acquisition of Hawaiian. We understood how unique and special Hawaiian was, but we will always do what's in the best interest of all our stakeholders as this industry, whether it changes it evolves, we're going to look at it and say what is best for all the stakeholders for Alaska.

Jamie: Great. Let me ask one follow-up because you led me there with the discussion of the share repurchase program and the \$1.750 billion, and so forth. When you, and Shane, and the board sit down and talk about the long-term balance sheet goal to be investment grade or not, we've got a very binary camp, right?

We've got United, we want it, we're going forward, we're trying to grab that investment-grade ring. You've made comments in the past like being investment grade would be great, but clearly, you've chosen in the near term to buy back more stock rather than push for upgrades. What's the debate like in the boardroom about this?

Ben: I think the question is both. We definitely within...by the time we achieve the Alaska Accelerator 2027, we want to be at..we're a notch below with two agencies for investment grade. The goal is to get to investment grade. With a \$10 BPS with strong cash flows, paying that debt, and reducing our net leverage is what we're going to be focused on going to next couple of years.

Right now, the balance sheet is strong. I would say whatever happens, we've got \$3 billion in liquidity, we've got \$18 billion of unencumbered assets between over 100 airplanes and our loyalty program, which was actually priced at before Hawaiian. You could say that value is even higher.

We feel like we're in a great financial position and we're just sequencing what we want to do.

Given where the stock price is at, when we go back in history, some of the regrets we've had is we should have taken advantage of the lows.

What we're doing now is we're taking advantage of the lows, knowing that the long-term goal is to get to investment grade. As the plan continues to execute, that's the goal, is to get there.

Jamie: A follow-up on that, your share price has lost more than 30 percent in fewer than 30 trading days, which historically is a buy signal for most airline stocks. On the other hand, there's a fuel problem at the industry level right now. Should you be leaning into the buyback more aggressively in light of the chart, or does fuel temper your desire or willingness, I should say?

Ben: We're going to do 250 this year. Given the price, you'll probably see us do it a little quicker than we thought.

Jamie: Two months ago, you placed your largest aircraft order in history. We don't have good line of sight into retirements and/or...Well, you don't have a lot of leased aircraft. We don't have good line of sight into retirements. What should we think about a longer-term capacity CAGR? What internal measures do you look at before deciding to grow the franchise?

Ben: I'm really pleased with the last big order we put with Boeing. With all the lack of slots available from the OEMs, we wanted to tie in the next 10 years. This last order gave us 10 years. We go from 400 airplanes to 500 airplanes over 10 years. 41 of those wide bodies and the rest narrow bodies. That gives us a four percent growth rate per year, including somewhere in the order of 75 retirements.

That's how you should think about it. We have the capacity to grow four percent. Now we can modulate that quicker or slower depending what's going on from a cash perspective. The idea is, we wanted to level set \$1.5 billion CapEx a year, give or take, as we go through. Now there's renewals of fleets.

We've got an older 717 fleet that we have to address in the state of Hawaii that does inter island flying. It's funny, when you join the airline, you're like, gosh, I remember bringing that airplane in when I was in maintenance and pretty soon, I'm going have to retire that airplane. It's sobering. It's like, I've been here a long time.

Some of those older airplanes are going away. We got rid of our 900s. Some of the 800s are getting older. We have a really good narrow body fleet renewal program. The wide bodies are

coming in exactly when we want them to come in. It all makes sense in terms of how we're going to manage cash flows and CapEx over the next 10 years.

Jamie: Since you brought up the 717, Mark and I were recently skiing with a former Hawaiian executive, and we were talking about the 717s. This individual's view was that the optimal aircraft was a 145-seat turboprop. Of course, that aircraft doesn't exist. That's going to be a long wait for that airplane. In light of that reality, good to see you, Charles, what do you think is the most logical replacement for the E2?

Ben: I'm sorry. No. No. Listen. Listen.

[laughter]

Jamie: Damn it.

Ben: I've been clear with my people. I'm a maintenance and engineering guy from training. I said the one thing I care about as you guys are getting options, I want an engine that can last. That thing does a ton of cycles, it's got to be a bulletproof engine and not an engine that's going to cost us a fortune, that's not reliable. As we know, the new engines of today, they save a lot of gas.

We'll see what the maintenance costs on those engines from a life cycle perspective. I want a bulletproof engine. That is my number one requirement, bulletproof engine. It's got to serve the needs of the residents of Hawaii in terms of seats and frequencies. It needs to fall into our cost profile of the overall Alaska.

I built the box and I said go solve the problem. Their job is to come back to me here in the next 12 months. I think we have a little time on the 717s, but not that much time to figure out what our options are going forward.

Jamie: I'll lead the witness one last time if there are no hands going up in the audience. Hopefully, you'll join us again next year. I'm going to ask you next year what role, what influence AI had since you and I last sat here, which is now, what do you think your answer will be next year? It may not be my opening question.

Ben: You know what? And I hope to be here next year.

Jamie: I'll start with the guide as we do. Know your audience.

Ben: Look, I'm super excited what we're doing with AI. A couple of things when you're an airline, you're so busy running an airline that it's hard to devote a lot of resources to AI. We've partnered with a company called UpLabs. They're a company that creates companies to go solve problems for the industry or for a certain company.

For me, we're focused on a few parts of the business. One, safety, operational efficiency, the guest experience, back office and the commercial side of our business. There's seven mini companies that we've started that are focused on those five areas right there. They're all in different phases of where they are.

I'm super excited on the safety one, for example. This is how people report, how the data gets analyzed, how the data predicts where some of your safety issues are going to be. That's just one example that's close to launch in the next six months. I hope to say, look, this is a tool. We've got a few more that are making a ton of progress. I hope to say, look, these were seven projects.

I know not all of them are going to work. I'm just saying if I do seven and three work and three end up bringing \$100 million of benefit to the bottom line, which is not contemplated in the long term goal, but I do believe AI is going to bring savings. That's what I'm looking for. I'm super excited about this. We've got a dedicated team, small team working with this UpLabs.

I'm saying, look, let's not distract us running what we have to do, but let's work this in parallel and integrate it with the airline as it comes in. I'll give you an update in 12 months.

Jamie: We'll see you then. I'm sure I'll talk to you before then, but thank you, Ben. Really appreciate it. Thanks, everybody.

[applause]



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