

Alaska Air Group (ALK)

TD Cowen 10th Annual Future of the Consumer Conference

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Thomas Fitzgerald, Analyst, TD Cowen

All right. Awesome. Good morning, everybody. Continuing with airlines here at Day 2 of TD Cowen's 10th Annual Future of the Consumer. We're delighted to be joined today by Shane Tackett, Chief Financial Officer for Alaska Air Group. Shane, thanks so much for being here with us. Before we get into the conversation, any opening remarks you'd like to make?

Shane Tackett, Executive Vice President, Finance, and Chief Financial Officer

Oh, my gosh, just excited to be here with you guys this year and looking forward to a nice little Q&A session this morning. Can't wait to talk about the company, how we're doing now, and how excited we are about the future as well.

Thomas Fitzgerald, Analyst, TD Cowen

Awesome. Let's get into it. Maybe before we dive into some of the long-term stuff, just to get some of the near-term questions out of the way. Investors are obviously very focused on how travel demand is holding up in the face of higher fuel. You gave an encouraging 2Q unit revenue outlook underpinned by strong domestic yields, accelerating corporate travel, your growing international franchise, and robust loyalty engagement. How has the quarter been tracking since April?

Shane Tackett, Executive Vice President, Finance, and Chief Financial Officer

Yeah, pretty much in line. All of those things you just mentioned — we're continuing to see good trends on each one. Tom, we had this transitory issue with the state of Hawaii. They had storms that were probably the worst they've had in 30 years, some flooding, and that had a significant impact on spring break travel in late Q1 and early Q2. It did make its way into April and a little bit of May.

But we looked closely at how we're doing versus everybody else, and if you take Hawaii out of the mix — and it is starting to recover — we look to be on trend or even in some cases better than the rest of what we're seeing in the industry. We've seen advances for corporate travel be very, very strong. I think the next 90 days are plus 25% to 30% year-over-year. And I'll probably get into more of what we're seeing on the loyalty side and the international

launch side of the business. I'll find a question that you ask so that I can weave in some of that detail into as well, but those trends you mentioned are all in play still, and the summer is going to be a strong summer.

Thomas Fitzgerald, Analyst, TD Cowen

Okay. That's great to hear. Is corporate broad-based, or have you seen it in particular industries — tech or aerospace?

Shane Tackett, Executive Vice President, Finance, and Chief Financial Officer

Yeah, it's relatively broad-based. There is always some hiring and some layoff activity in the tech industry up and down the West Coast that continues. But we've seen good returns to travel from tech, from Boeing, from other large Seattle-based companies, really across all of the businesses that we cover.

Thomas Fitzgerald, Analyst, TD Cowen

That's awesome. So unit costs have been a little more elevated in the first half of the year, but there are a lot of transitory factors. I think it's about three to four points of headwind in the second quarter. Are you still feeling pretty good about CASMex decelerating into the back half of the year?

Shane Tackett, Executive Vice President, Finance, and Chief Financial Officer

Yeah, for sure. Our cost profile — and we spent some time on the call talking about this — is very much in line with what we anticipated. We don't give the same level of detail as we used to on guidance, and so some of the folks who model us had a slightly different number in there, but our costs are performing as we expected them to.

We had some things in the first half of the year, like needing to ramp up our crew complements for all of the international flying we were launching out of Seattle this summer, which has now launched. Those are costs that will be in the base and with us the whole time, but we'll have the benefit of the flying as well.

We're also crossing over in the second quarter the sale of a bunch of airplanes last year, which gave us one-time gains into the P&L. So there are things that are not core or structural that are giving us a year-over-year percentage challenge, but the core cost structure of the company, I believe, remains 12% to 13% better than those of the legacy carriers. That's, give or take, our target.

So we'll close the RASM gap to them, but we'll maintain a really strong cost advantage structurally over time against the legacy folks, and I think that's the way the business is performing. We expect a nice exit rate through the year, which we saw last year. Folks were

skeptical last year, but we delivered what we said we were going to deliver, and we'll see that again this year.

Thomas Fitzgerald, Analyst, TD Cowen

No, that's great to hear. Fuel has obviously been a rollercoaster this year. Any comments on fuel and some of your key benchmarks quarter-to-date, and then maybe just remind us on some of your longer-term initiatives on building more infrastructure and storage solutions out west.

Shane Tackett, Executive Vice President, Finance, and Chief Financial Officer

Sure. Did you want to use the rest of the 30 minutes on this topic, or do you want the three-minute version? Yeah, it's been really volatile, obviously, not only on the price side, but just the supply side — making sure that we didn't feel like there would be any shortages. And it's, I think, as stable as it has been since mid-February, early March, as we sit here today.

Spot prices, which we're not seeing in the P&L yet — there is a lag — are sub-\$3.80 as we sit here today, and coming off the highs of \$5. They were pretty sticky at \$4.50, \$4.60, \$4.70 through the latter half of the first quarter and first half of the second quarter. So that's good. We're seeing the pricing start to abate. That's really not on the crude side. Crude is still relatively elevated. As you guys know, I think it's up a bit this week.

But the refining margins have come way back down to what we would consider more normalized. We were seeing \$3 refining margins in Singapore. We were seeing almost that pricing in Gulf Coast and West Coast. I think the last thing I saw, Singapore is \$0.90, and Gulf Coast is right around there, and West Coast is a little bit higher than that, but I think all-in, \$3.80, \$3.85 today. For the quarter, we had guided to \$4.50.

We'd need to see the current pricing stay where it's at or get better to be able to hit the \$4.50. Mathematically, there is a chance, but we're certainly in the books in April and May over that number today, just because it's taken a little longer for the price to abate. But I think it is feeling stable and trending in the right direction, subject to whatever happens geopolitically. For what it's worth — and you're probably going to ask me, and we can talk more — I think the tickets we're selling today are probably covering the spot price of fuel in their entirety...

Thomas Fitzgerald, Analyst, TD Cowen

Oh, that's great.

Shane Tackett, Executive Vice President, Finance, and Chief Financial Officer

...as we sit here today. In terms of supply, longer term — and we wish this weren't the case — it remains likely that the lowest-cost source of Jet A for us is shipping it in from Singapore to the West Coast. We certainly supply Hawaii from Singapore, and have done that for a long time, and they've enjoyed a \$0.25 to \$0.30 pricing advantage for doing that.

As long as that holds, we'll look to do more of that type of supply. We would love it if the price of our oil produced in the U.S. was below that of what's produced in Singapore and in Asia. The big hope that we have over time is to be able to supply the Seattle station differently than we do today, but this stuff takes years to get in place. But there is a growing consortium of folks who are interested in working with us on getting more supply into Seattle.

Thomas Fitzgerald, Analyst, TD Cowen

Oh, that's great. More good things to come. So you've completed most of the integration milestones related to the Hawaiian acquisition. I know it's probably hard to quantify, but how should investors think about the benefit of management's strategic focus going fully back to the day-to-day business?

Shane Tackett, Executive Vice President, Finance, and Chief Financial Officer

Yeah. I don't think Ryan puts any of this in his spreadsheet, but I can tell you — having done this twice now — what we believe we're really good at is running an airline. We understand how to create optimal outcomes from an operational perspective, balance that with the cost side of the business, and I think we've been pretty responsive to the desires and tastes of our guests over time.

That's really what we want to be working on. We knew we were undertaking a lot of additional work with the integration; we knew those playbooks. We've gotten through single operating certificate, single loyalty, single selling, and now PSS. That's the big one — that's the one that gets all of the friction out of the way from consumers. We talk about this internally: we're moving from peak friction to peak execution.

Give us a quarter or two. We'll get back into full execution mode. We expect to optimize the business further, to lean out the cost structure further, to go get the value from the investments we've made on the premium side of the business, and to really enjoy the combined company, the two brands, and the success, I think, that lies ahead for the companies.

Thomas Fitzgerald, Analyst, TD Cowen

I think that's a good segue into maybe more strategic long-term questions. The airline industry is notoriously difficult to survive in, but Alaska recently celebrated its 94th

birthday. Congratulations. Scale, relevance, and loyalty played a big part in your success over almost a century. Can you talk about how the Hawaiian acquisition enables you to deepen scale, widen your relevance, and drive accretive growth and loyalty?

Shane Tackett, Executive Vice President, Finance, and Chief Financial Officer

Yeah, for sure. I appreciate the question, too, because it's more longer-term focused and strategic over a number of years. One thing — I won't belabor this, and I'm going to get the stat wrong — our prior CEO, Brad Tilden, often talked about that when he started, I think we were the 27th largest airline in the country, and we're the fifth now. And at the time, I don't think we had actually leapfrogged anybody. They just went away. And so that was the history of the industry. Heads down, run a good business, understand what drives the economics and consumer choice, and focus on that.

The industry, as it's situated today, is as competitive as ever. But it's also in a phase of being able to invest in its product in a way that wasn't the case when I started in the industry in the 2000s, when product was being taken off planes. That's what's been so exciting about the last several years for many of us in the industry. We get to go reinvest in experiences for our guests across all of our customer segments, in every seat in the aircraft. The Hawaiian acquisition and bringing the Hawaiian brand into the family just made all the sense in the world to us.

We needed more scale. Scale is going to be an important feature of successful airlines over the next 10, 15, 20 years. It was in a geography where we had more than 10 years of experience serving. We understood our guests' desires to vacation in Hawaii, and that had been a strong source of durable profitability for the company for a long time.

That was impaired a bit when some others chose to come into the market, and it gave us a chance to become the carrier of choice — not only into Hawaii off the West Coast, which we are, but also amongst resident Hawaiians in all of their flying. There's quite a bit of flying they do. Anywhere they go, they have to get off the island, whether it's between islands or back here to the continental 48.

And we're starting to see that. We're starting to see the loyalty accrue back over to the Hawaiian Airlines brand and the Alaska Air Group network. This is pretty simple airline economics: if you were flying off the islands before the acquisition, you were terminating at whatever place you landed. You had no chance to continue on, and we can now connect folks.

People who were vacationing to Hawaii on Hawaiian out of California — we were flying somebody else for all of the rest of their trips. There is a huge opportunity for us to go get all of that flying into our network now, given not only our network in the lower 48, but the

American Airlines partnership we have, which is really a strong partnership with great connectivity around the country.

So those two things — entry into the WCIA with American, the acquisition of Hawaiian, the connecting of these two networks — it's a premium market, a premium-oriented market. It fit everything that we felt you'd need to credibly have a viable business model in the future of the industry: scale, premium orientation, and the ability to get people off of other airlines and onto you for flights they're already taking.

That was the thesis of the acquisition, and honestly, we don't have time to go through all the math; it's proven out as we look at the post-audit on all of this stuff. It's working really well.

Thomas Fitzgerald, Analyst, TD Cowen

Yeah. So at Investor Day, there was a lot of various initiatives that got outlined. I think the team targets about \$400 million in incremental profits on the network side, about \$175 million of those from acquisition synergies. Would you dig into the network flywheel the deal creates — whether it's opening up long-haul out of Seattle, Portland becoming more of a connecting hub, enabling some growth in San Diego, and then adding the premium market in Hawaii? I would imagine it's a big redemption market for some of the West Coast travelers.

Shane Tackett, Executive Vice President, Finance, and Chief Financial Officer

For sure. Well, you sort of named them, Tom, but I'll repeat kind of what you said. Let's start with Portland. Portland is an amazing market for us. I think we've been the largest carrier there for the entire time I've been at the company. We want to grow Portland further; we're going to grow Portland further. We just opened a brand-new lounge down there this week — it's amazing. They did a big overhaul of the lobby experience and the gate experience at Portland. It's one of the nicer airports you could possibly go through.

It's also really good for connecting traffic just operationally. It's less constrained than Seattle. Our Portland connections are double today versus last year, which is probably faster than we had anticipated. That just says we need to put more nonstop flights in and then bring more connecting traffic through.

The big unlock with that — it's a better customer experience if you're coming out of Boise, say. It doesn't matter if you go to Seattle or Portland; it's a great airport, really quick connections. But that allows us to open up space in Seattle, which is more constrained, to take connections for international flying. We've been really amazed at the amount of connectivity that we've drawn through the middle of the country through Seattle to Asia, for

instance, and then to recapture local customers who are probably spilling to competitors today.

The growing thesis is that's what we need to do. We need to up-gauge Seattle, get more of the local folks back. Every time we go supply the market with more seats, we see people come back to us that we were probably spilling to others, and we've got to keep those connections open to fill the widebody aircraft. So that network thesis is working really, really well.

San Diego — we saw an opportunity to go into a market that looks like a market that would really appreciate what we have to offer and what the Northwest brings. The demographics — they just feel a lot like the type of guests that are naturally attracted to us. It's been really fun to watch. We've put more capacity in there more quickly than I think we've put anywhere in the recent history of the company, and it's doing quite well.

It's going to take time to mature, but if you just ran the math of this much capacity versus what it should do to unit revenues, you would have thought it would have done appreciably worse. It's actually holding its own.

So I think the products, the brands, what we're bringing to the market, the loyalty programs — it's the fastest-growth market for loyalty and credit card signups that we have in the network today, and we're excited about what we can do with it in the future.

The only other thing I'll say — where you really want to see the benefit of network effects is loyalty and loyalty cash remuneration, even before the new bank deal. Volume growth in both membership and credit cards is 12%, 14%, 15% year-over-year. We're going to continue to look to have double-digit growth rates as we go forward. There is a lot of remaining opportunity in the new loyalty platform, which we've named Atmos.

Thomas Fitzgerald, Analyst, TD Cowen

Would you remind us where you see Seattle going in terms of being a global hub by the end of the decade, and just your 787 order early in the year?

Shane Tackett, Executive Vice President, Finance, and Chief Financial Officer

Yeah. Very early on, we put a bold vision out there: 12 cities served by 2030. We have a line of sight to 17 787 aircraft by 2035. Great order book with Boeing. Hopefully, all of those aircraft are Seattle-originating. There could be uses for those aircraft out of Honolulu as well. Yeah, 12 cities — it's going to be the places people want to go. If you look at our initial composition of traffic, it's pretty remarkable, Tom. London is 70% loyalty members out of the gate; Rome is 65% or 70% loyalty members out of the gate; Reykjavik is 55% or 60%; Asia is 30% or 40%.

I actually think those numbers are interesting. On the one hand, it tells us we're making the right choices — this is where people wanted to go, and they were going to go on somebody else because we didn't have a way of serving them. But it also says there's a huge opportunity to go get new customers into the fold. I actually would like to see those numbers a little bit lower, because I want new people who don't know us coming in — and they are. It's just that so many of our members want to take these flights now.

So I think it's been encouraging. The Asia stuff I mentioned before — the connectivity we're seeing out of the middle of the country through Seattle. We've long talked about it being the least circuitous route into Asia over Seattle. We have an opportunity to continue to attract folks into the loyalty program and really earn their loyalty over a long period of time. We're in the midst of rolling out Starlink on every one of our flights. It will be free, but you will have to become a member of Atmos to get it for free. So that will be a nice new hook to get on the loyalty journey with folks who aren't with us today.

Thomas Fitzgerald, Analyst, TD Cowen

Yes. It's a nice carrot and stick. Looking forward to it — still haven't been on Starlink in-flight, but looking forward to it.

Shane Tackett, Executive Vice President, Finance, and Chief Financial Officer

You've never taken one?

Thomas Fitzgerald, Analyst, TD Cowen

No, not on Starlink. No, not yet.

Shane Tackett, Executive Vice President, Finance, and Chief Financial Officer

You should go find one. Find a plane with it and do it. You'll love it.

Thomas Fitzgerald, Analyst, TD Cowen

Yeah. Put it on the docket. So loyalty was another big component of Investor Day, and you raised the bar on your targets recently with the new credit card agreement. It delivers an incremental \$1 billion in remuneration by the end of the decade. Could you walk us through some of the drivers of upside in loyalty — whether it's a single program with Hawaiian, in-group scale, the new economics on the agreement you just announced, things like a new premium credit card, and so on?

Shane Tackett, Executive Vice President, Finance, and Chief Financial Officer

Yeah. There's really significant upside. In fact, we're going to have an Investor Day in September — I think we announced that. This should be one of the clear focus areas that

we take you through. If you recall, when we announced the synergies with respect to the acquisition, we sort of backdated a lot of loyalty. Loyalty actually wasn't that large. There were some initial benefits of bringing the two programs together. But now that we have the single loyalty platform, we've got the premium credit card out in the market, and we've got the new bank deal in hand — now we can really start going and growing the platform at the rates and with the value that we think are available to us.

We are seeing — and we would love to see more — the credit card move towards top of wallet in some of the key markets that are new to our network in terms of the depth that we have there, like San Diego. Certainly in the state of Hawaii, I believe 70% of the adults are now members of our program, and many of them have the credit card. The credit card represents 6% of the local GDP in Hawaii. There's an opportunity to continue to grow how much folks are using our credit card.

We're convicted about this. We routinely receive recognition for being the best loyalty program — the most value back to consumers and guests across the industry. That's happened multiple years in a row. And the Atmos program was recognized the same way when we launched it. We'll continue to invest in things that are good for guests and then watch the value accrue over a period of time with respect to loyalty. We expect further penetration just in terms of growth of loyalty folks. We know those folks are more likely to fly with us and give us all of their flying or most of their flying. And obviously, the credit card is a huge, exponential growth driver in terms of the economics that come from the loyalty program.

The new deal with the bank, I think for the first time, really puts new incentives in for us to jointly grow the program together. Bank of America has been a phenomenal partner. One of their strategic imperatives that they announced at their Investor Day is loan balance growth, which is going to require them to be working with us to grow our part of that pie as well, since we are their number one co-brand partner by a wide, wide margin. There are a lot of incentives that are now completely aligned between the two companies to drive this.

The last thing I'll say — there are other areas, like we would love ultimately for the proprietary cards that our bank partner provides to be able to convert to points and redeem. I think those types of things are all opportunities for us under the new contract.

Thomas Fitzgerald, Analyst, TD Cowen

That's really exciting. That's a fascinating stat on being 6% of Hawaii — I think it's like \$125 billion.

Shane Tackett, Executive Vice President, Finance, and Chief Financial Officer

Yeah. Yeah. Yeah.

Thomas Fitzgerald, Analyst, TD Cowen

How do you think about designing the program to widen appeal beyond some of your core strongholds in the Pacific Northwest, especially given some of the geographic advantages that channel has as a connecting market?

Shane Tackett, Executive Vice President, Finance, and Chief Financial Officer

Yeah. I love this topic. We have 12 minutes — I'll spend like 30 seconds or a minute on this one, just because we need a little time to really build this out. But what your question speaks to is we have an underlying belief that if we build the Atmos platform the right way, we can attract other partners from non-air parts of the travel ribbon that would be very compelling to a broadened customer base that doesn't have to geographically reside in our core markets.

It's not completely uncharted territory. Maybe it is a little bit for airlines, but we've specifically designed this in a way to give ourselves the flexibility to go partner with, say, a cruise line, to give folks more redemption opportunities and broaden the appeal of just joining the program as well. We've toyed with ideas like — could Atmos be the currency for smaller partner airlines' loyalty programs as well? These are all sort of ideas on the whiteboard that we haven't had a chance to execute on or really go and look at too closely, but it's now what we're starting to think about since we're past PSS and able to focus on the future more.

We won't talk a lot about this until we feel like it has real value coming into the P&L, but we're certainly going to go explore those opportunities. We're relatively optimistic that there are going to be value drivers that we can do with those types of partnerships.

Thomas Fitzgerald, Analyst, TD Cowen

Yeah. No, for sure, it seems like a lot of white space there for you guys. I think loyalty dovetails really well with the secular strength the industry has seen in premium demand coming out of the pandemic. Correct me if I'm wrong, but you've grown premium revenue from 27% prior to COVID, to 33% before the Hawaiian deal — and now I think it's around 36%. Maybe just walk the audience through your longer-term premium strategy and how things like your stage length and your geographic core strongholds really help you lean into that.

Shane Tackett, Executive Vice President, Finance, and Chief Financial Officer

Yeah. You help me by giving all the stats. I don't have to remember them. Look, I think it's broader than airlines. Airlines, it gets talked about a lot, but the consumer move towards premium experience is beyond just the airline experience alone. We're following a very broad and durable — and we believe long-term — trend of consumers wanting better experiences. We started this journey with premium economy. We've always had first class — that's always been part of our product set. It was mostly an upgrade product. And then we put premium economy in, which we call Premium Class, 10 or 11 years ago, something like that.

I may have that slightly wrong. But we were more focused on just delivering a really consistent experience across the entire aircraft, and we weren't investing more of the experience into those cabins. That's what we have started to do, and we've started to see it really provide strong returns for us. All of the revenue growth on a year-over-two and year-over-three basis has really come out of the premium end of the airplane. That's where most of the new demand is coming. Existing demand plus a lot of new demand is to be in premium economy or first class or lie-flats on international products.

So we've improved food and beverage. We've improved the soft product. We've expanded first class on our -800 fleet. We've expanded premium economy on our -900 fleet. We have begun to sell our exit rows as a premium economy seat product. And we will remodel the A330s and the 787s in the next few years to get a traditional international premium economy section into those, and the A330s need more modern suites up front as well.

Thomas Fitzgerald, Analyst, TD Cowen

Yeah.

Shane Tackett, Executive Vice President, Finance, and Chief Financial Officer

I think 33%, 34%, 35% of the seats for us will be First Class or Premium Economy or Lie-Flat. That seems to be what we believe the sweet spot for us will be. I know some are slightly over that, some a little bit under, but that's the target we're headed towards. Much like some of the stronger airlines you're seeing right now, the share of revenue that's outside of main cabin — I think we're over 50%, and we'll be moving towards 60% over the next couple of years.

That's going to be the largest underlying margin expansion driver that we can unlock, and we're well underway executing initiatives to do that. And then the last thing is just we've done a ton of work on the airport experience as well. Seattle is now starting to pull construction walls down. It's a beautiful, remodeled lobby that we have. We have a suites check-in area that is as good as any you can find in the industry — private for folks who are flying international Lie-Flat or who are Titanium on us.

We've got a new lounge that's going to open next summer that's going to be world-class as well. This end of the market is one that we're going to pay a lot of attention to, but not forget about the entirety of our customer set and making sure that there's a good experience for everybody.

Thomas Fitzgerald, Analyst, TD Cowen

How do you think about that from a capital allocation standpoint — balancing it's obviously very capital-intensive with the fleet, but also the importance of the non-aircraft side, whether it's in the lounges or technology or cabin retrofits?

Shane Tackett, Executive Vice President, Finance, and Chief Financial Officer

Yeah, it's a good question. Look, the lounge experience is as important as — I mean, the flight experience on a long-haul international flight is really important. But what we tend to see is folks who are going on those flights start their trip in the lounge. They're there a couple of hours early. They like to relax, get in the mindset of going away to Europe or wherever.

They're becoming more choiceful about what types of lounge environments they want to be in. We are clear-eyed about that, and that's why we've been going through a series of remodels of our lounges, where we've completely overhauled our food and beverage offering. We've brought in outside partners who do this really well — we've just started in Anchorage, and we're going to bring them through the rest of our lounges.

That cannot any longer just be a space that's away from the hold rooms, where people just go and sit in a generic environment. They really want it to feel nice and comfortable and premium. So that's the type of experience that we're going to give them. And then I think, Thomas, it's more important for us to be able to deliver on the premium experiences in the airport and have a good experience for all of our guests — and certainly in Premium Economy and First Class domestically — if we're going to capture the folks who are buying Lie-Flat tickets to Europe. Once you buy a Lie-Flat ticket to Europe, you're likely to give all of the rest of your flying to that same airline.

Thomas Fitzgerald, Analyst, TD Cowen

Yeah.

Shane Tackett, Executive Vice President, Finance, and Chief Financial Officer

Just because of the loyalty effects for status and for accruals, it's so large on those tickets. So it all fits together is my point. We had to do all of this end-to-end in order to make international work as well as we need it to work.

Thomas Fitzgerald, Analyst, TD Cowen

Yeah. And then you mentioned the retrofits on the A330s at some point. You've been, I believe, also on the 737 fleet. Would you remind us how that's going and the benefit?

Shane Tackett, Executive Vice President, Finance, and Chief Financial Officer

Done. 737's done. I'm not allowed to say completely done — there are a few aircraft that are going to go after the summer, but we're 99% done. So again, expanded First Class by four seats to 16 on the -800s and expanded Premium Economy by one row on the -900s to 30 seats now, and then we added selling the exit rows as Premium Economy. That's all complete. And then the A330s and 787s — those would be like 2028 type of items.

Thomas Fitzgerald, Analyst, TD Cowen

Okay. There's been a lot of noise outside of your control this year or last year that has impacted the results. You've been going through the integration process, but it just seems like there's a lot of leverage in the model that can be unleashed if some of the events — some of the macro and the fuel stuff — normalize, and then you start to harvest the benefits from the acquisition. Would you walk us through how investors should think about that over the long term?

Shane Tackett, Executive Vice President, Finance, and Chief Financial Officer

Yeah. One thing I would share is when you get these types of unexpected but very material shocks to your business, you sit down and look at all of the strategies that you've adopted, invested in, and been convicted on, and just make sure those are the right strategies. It's incumbent on us to do that, and we got a chance to do that leading up to a board meeting we had here in May.

I'll tell you, we came out more convicted, perhaps, than we were even six months ago, that all of the things you would say you need to be doing to build a long-term, durable, strong financial model at an airline are the things that we're doing. We couldn't be happier with the timing of the Hawaii acquisition and the results that we're seeing, notwithstanding this 30-year storm pattern that they got.

All of the loyalty and network effects we've already talked about — and while we're in the middle of delivering on it, we got going on the need to put more premium into the market a few years ago. So we'll get through that quicker than others who are now trying to play catch-up. We'll be through it. With PSS behind us, if we can get the world to settle down a little bit and we get to focus on really optimizing this airline and running at peak execution, the underlying earnings power is there. All the right strategies have been deployed, and

execution is now getting closer to the end than the beginning. So we're excited about a period of stability.

And look — others have said it, like any of us who've been in this industry a long time, what we're seeing is durable demand as long as the economy holds. People want to travel, and they want good experiences when they travel. That's been super clear since the revenge travel out of COVID, and it hasn't abated. There's no reason to think it will unnaturally abate with a strong economy behind us.

So I think there's a really good chance that input costs normalize and we have a really strong revenue environment, and there's a very, very healthy business there if that's what prevails in the next quarters or so.

Thomas Fitzgerald, Analyst, TD Cowen

Absolutely. We're almost up on time here, Shane. We really appreciate you being here with us. Any closing remarks you'd like to make in the closing seconds?

Shane Tackett, Executive Vice President, Finance, and Chief Financial Officer

Yeah, Tom, I appreciate the question set. It's easy and normal for us to get very hyper-focused on the news of the day — and there's always so much news of the day. You'll see us continue to talk about the investments we're making in the future, and the future is not 10 years away. It's within line of sight. It's going to be here relatively soon. Everything we laid out at our Investor Day — Alaska Accelerate — those are the right strategies. You're going to hear us increasingly be convicted that we are doing the right things, we're executing those things well, and they are going to show up in financial results sooner rather than later.

Thomas Fitzgerald, Analyst, TD Cowen

Awesome. Well, Shane, thanks so much for being here. We really appreciate it.

Shane Tackett, Executive Vice President, Finance, and Chief Financial Officer

All right. Thanks, Tom.

Thomas Fitzgerald, Analyst, TD Cowen

Shane Tackett, CFO of Alaska Air Group. Thanks very much.