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Presentation

Operator

Good morning, ladies and gentlemen, and welcome to the Alaska Air Group 2026 Second Quarter Earnings Call. [Operator Instructions] Today's call is being recorded and will be accessible for future playback at alaskaair.com. [Operator Instructions]

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

Vice President of Finance, Planning & Investor Relations

Thank you, operator, and good morning. Thanks for joining us today to discuss our second quarter 2026 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 others of our management team are also on the line to answer your questions during the Q&A portion of the call.

Air Group reported a second quarter GAAP net loss of \$76 million. Excluding special items, Air Group reported an adjusted net loss of \$102 million. 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.

Benito Minicucci

President, CEO & Director and CEO of Alaska Airlines

Thanks, Ryan, and good morning, everyone. Let me start by directly acknowledging our financial performance. While we beat our initial guidance for the second quarter, we still reported a loss and we're not satisfied with that outcome, especially in what should be one of our strongest quarters of the year. At the same time, it's important to recognize what this quarter represented for our company. It was one of the most consequential and strategically important quarters in our history.

We achieved the most complex technology milestone of our integration, successfully operated the largest summer schedule in our history, and launched our first-ever service to Europe, an investment that has exceeded our expectations right out of the gate. While these accomplishments don't change our financial results, they do reinforce our confidence in the future. The work we're doing today is strengthening our foundation, improving our competitiveness and positioning us to deliver meaningful long-term value.

Most importantly, none of this would have been possible without our people. I want to thank our more than 30,000 employees across Alaska, Hawaiian and Horizon. They delivered these milestones while continuing to provide outstanding care for our guests and their commitment has been the driving force behind everything we've accomplished this quarter.

While there was no way around the overwhelming fuel headwind, we saw an extremely positive earnings trajectory throughout the quarter that only deepens our confidence in our long-term strategy. The momentum we are seeing is clear. Unit revenues strengthened, unit cost improved and we returned to profitability in June with a double-digit pretax margin despite fuel prices up nearly 70% year-over-year. Absent the fuel spike, this would have been a solidly profitable quarter which underscores that our underlying business is running well and that Alaska Accelerate is working.

With significant commercial momentum, industry-leading operational performance and an integration that's paying off, combined with easing fuel prices, disciplined cost execution and demand holding firm were set up for a strong earnings inflection into the back half of the year.

Operationally, the second quarter was a strong continuation and expansion of the themes I highlighted last call. We led the industry in on-time performance year-to-date, up 5 points year-over-year in Q2. At the same time, our team successfully completed the most complex milestone of our integration, migrating to a single passenger service system and establishing the industry's first dual brand PSS platform, delivering industry-leading reliability while undertaking a transformation of this scale speaks to the strength of our operation and our people.

Our Net Promoter Scores continue to lead the industry, and our guest experience is only getting better. With the reservation cutover behind us, guest satisfaction has climbed 7 points since last quarter, led by Hawaii, which jumped 10 points. Our investment in Starlink WiFi is driving that experience further with guest satisfaction on Starlink-equipped flights 20% higher than non-equipped flights. The onboard portal is also allowing us to deepen loyalty with nearly 75% of nonmembers signing up for Atmos accounts to utilize this benefit. With 1/3 of our fleet now equipped and the remainder expected by 2027, we're excited to be delivering a best-in-class onboard experience.

On fleet, cabin retrofits across our 737s are now complete, adding 1.3 million incremental first and premium class seats and demand is absorbing them well with premium revenues up 15% in the quarter. Yesterday, we announced our plan to retire the 717 fleet beginning in 2028 and transition Neighbor Island flying to more modern, fuel-efficient Boeing 737s, bringing improved reliability, better economics and more cargo capability as we continue investing in Hawaii. Cargo remains an important strategic growth opportunity for us.

After restructuring our Amazon flying under a more profitable contract we're now moving into the next phase of growth, adding 4 additional 737-800 freighters deployed across Hawaii and Alaska. This further strengthens our position as the only U.S. airline with a dedicated cargo fleet, and as we scale the international operation and capture the benefits of these investments, cargo will become an increasingly meaningful contributor to the profitability of our airline.

Our international long-haul launches from Seattle are off to a strong start. Atmos members told us they were excited to fly internationally with us, and it's materializing. Our new Rome, London and Reykjavik routes are each carrying 50% or more Atmos members, an early signal of the loyalty demand behind this expansion. With every new long-haul route our global relevance and perception grows, and we move closer to becoming Seattle's largest international carrier.

And last but not least, our new premium summer card continues to perform well. Total account holders are nearly 50% above our expectation with over 60% of new accounts this quarter coming from outside the Pacific Northwest. Taken together, this quarter is proof that our plan is working. Even against a volatile backdrop and an outsized fuel headwind, we made real progress on every front that matters, building a business that can absorb short-term pressures and keep moving forward.

Heading into the second half, we're set up well. Demand is holding firm and our integration milestones are increasingly behind us. We look forward to continuing to deliver on the commitments we've made to our people, our guests and our owners as we build scale, relevance and loyalty for the long term.

Before I close, I want to touch on a recent leadership announcement. Shane Tackett was promoted to President of Alaska Airlines, taking on responsibility for the commercial organization while continuing as CFO. Shane is a 25-year veteran of the company and has been instrumental in guiding us through the Hawaiian acquisition and execution of Alaska Accelerate, and this expanded role reflects the breadth of his leadership as we move into the company's next chapter. More broadly, we have conviction in our business model and the initiatives we put in place. They're working and the results we're seeing only strengthen our confidence that we're building a business model that is structurally capable of producing the \$10 of earnings per share that we originally envisioned and laid out under our Alaska Accelerate plan. We'll discuss this and more about what's ahead for Air Group at our upcoming Investor Day on September 29 here in Seattle.

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

Andrew R. Harrison
Chief Commercial Officer & Executive VP

Thanks, Ben, and good morning, everyone. Today, I'll walk through our second quarter financial performance. Our perspective on the near-term demand and revenue environment and the step change in the results and performance of core levers that underpin Alaska Accelerate.

In the second quarter, revenue grew to \$4.1 billion, a 10% increase year-over-year on capacity that grew 1%. Unit revenues was up 8.6%, which includes a 3-point drag from the historic Hawaii rainstorms. The second quarter marked the beginning of what I would describe as the full commercial activation of Alaska Accelerate. And what I expect will be a strong ramping of revenue growth loyalty penetration and the elimination of integration friction from our industry-leading guest satisfaction. The foundation of this activation was the implementation of a single reservation system, launch of Europe service, along with our Asia service, strong adoption of Atmos Rewards and a solid operation that has led the industry as the #1 on-time airline in the United States year-to-date.

The full activation and achievement of these elements have resulted in an immediate step change in commercial results across Air Group. I want to spend some time unpacking the largest of these. Let's start with revenue. We had a material acceleration of unit

revenues across April, May and June at 5.5%, 8.8% and 11%, respectively, with total June revenues up 13.2%. This resulted in a double-digit pretax margin for June despite higher fuel prices, managed corporate revenues. We generated what we believe will be industry-leading revenue increases this quarter. The combination of a single PSS, single loyalty program and network growth has resulted in large share gains.

Portland and San Diego managed corporate share growth of 5 points and 4 points, respectively, with Portland reaching a historic milestone, exceeding 50% share of managed corporate revenues. Looking to Seattle, we have seen the percentage volume of managed corporate passenger exceeds system materially at 9% growth. This is driven by the unlock of new revenues from managed corporate accounts as we begin serving the largest international markets to Europe and Asia out of Seattle, namely London, Tokyo and Incheon as well as our continued growth in scale, relevance and loyalty in our Seattle hub.

Moving to loyalty. Co-brand remuneration reached \$663 million in the quarter. That's up 19% year-over-year. The unlock of Atmos rewards has been remarkable. Evidence of the loyalty flywheel and Atmos unlock can be seen across our ecosystem, including active Atmos members up 15%, with attrition down over 30% year-over-year as members engaged more broadly with the program.

Hawaii loyalty growth materially outpacing systems performance with a 73% uptick in new cardholders year-over-year and a 34% increase in members in our Huakai, by Hawaiian community. We saw a double-digit increase in top-tier activity and spend as members strive for the unique benefits offered by our titanium status, including access to same-day upgrades to our suites product, and an 8-point increase in redemption activity on the Air Group network as members shift their global travel activity to flights operated by Alaska. Our loyalty program performance is an undeniable marker that Alaska Accelerate is not only working but also just getting started given our foundational programs and technology are now in place.

Premium products. There is unquestionable demand for our premium products and service. Premium revenues grew 15% this quarter. In addition to our domestic product, premium demand for our newly launched international long-haul service from Seattle to Rome, London, Heathrow and Reykjavik, came out of the gate hard. We've already achieved our fair share in premium cabin in U.S. point of sale and across several corporate channels. And we see substantial opportunity to grow share internationally with our fair share in the premium cabin already improving after just recently turning on our ability to sell in the U.K.

Premium revenue now represents 35% of total revenue, up 1.5 points this quarter. We are far from done and have more room to optimize our premium product configuration. It's worth reiterating from a diversification perspective, which premium has helped fuel more than half of every revenue dollar we generate now comes from outside the main cabin, a mix that looks nothing like the airline of even a few years ago. And finally, Alaska Accelerate has launched us into meaningful cargo revenues, a source of durable diversified revenue. Our second quarter revenues were up 21% year-over-year, well above system revenue growth of approximately 10%.

As Ben mentioned, we announced the addition of 4 Boeing 737-800 freighters to be flown in Hawaii and Alaska, nearly doubling our dedicated 737 freighter fleet to 9 aircraft. We expect service to begin in early 2027, and these aircraft will not only strengthen our reliable service for the communities we serve, but also create new revenue opportunities. Now looking forward, we ended 2026 with one of the leanest growth plans in the industry, and we've continued to adjust as fuel prices remain elevated. -- pulling roughly 1 point of capacity out of both the third and fourth quarters.

We expect Q3 capacity to grow approximately 2% to 3%, the entirety of which is Intercontinental, with slightly lower sequential growth in Q4, this puts full year growth right around 2% year-over-year at the low end of our original guidance of 2% to 3%. Demand has proven durable even as fares moved higher. Bookings into the summer peak and early fall shoulder are pacing well with unit revenues running solidly in the mid-teens year-over-year. We're especially encouraged by the strength of higher-yielding demand. Forward corporate bookings are up 37%, 7 points higher than the 30% achieved in Q2, reinforcing the improved domestic and international relevance of our expanded network.

At the same time, our new long-haul international flying continues to gain share as premium demand builds out of Seattle. Hawaii is also getting back to strength. Loads are recovering and new bookings are coming in at system levels. The historic storms not only impacted spring break, but also peak summer bookings that occur in the second quarter. Summer revenue performance remains well under system, in part due to elevated industry capacity, which was up 7%, and we expect the third quarter to have a similar several point unit revenue headwind that we saw in the second quarter.

But encouragingly, as we move into the fall, on-hand bookings West Coast to Hawaii show demand returning to historical levels with September yields accelerating. Given these trends, we expect system unit revenue to improve sequentially from Q2 into the third quarter, reaching low double digits year-over-year. With roughly 65% of Q3 revenue and 15% of Q4 revenue booked, the balance of the back half will be shaped by close-in demand, but the trends we're seeing today give us confidence in healthy unit revenue

trajectory through the rest of the year. To wrap up, while the first half of the year was volatile, our June exit rate tells the real story, an inflection back to profitability and strong unit revenue growth.

Coupled with prudent capacity, the second half is shaping up well, and we've kept our focus on controlling what we can control while delivering results. Completing the single passenger service system cutover, and enhanced single loyalty program and the launch of a European and Asian network from Seattle was the unlock we've been building towards. It lets us finally deliver the full range of our product and services consistently across our global network.

As we move forward, we're focused on continuing to strengthen and diversify revenue across premium, loyalty, cargo and international to build more durable, resilient earnings power that compounds over time. And with that, I'll pass it over to Shane.

Shane R. Tackett
CFO & President of Alaska Airlines

Thanks, Andrew, and good morning, everyone. As Ben already indicated, we are not satisfied with losses this quarter, but it is important to also look through the result to the underlying business. Absent the added fuel costs, this was a fundamentally healthy quarter. Nonfuel cost performance and the trajectory of unit revenue through the quarter were both strong. As fuel normalizes, the timing of which is difficult to predict, we see a clear path toward meaningful earnings expansion back towards our goal of \$10 of earnings per share.

Also, with our customer-facing integration milestones now behind us, we are moving forward with strategic momentum as we move to full optimization and harvesting of value from our Alaska Accelerate initiatives. Regarding the balance sheet, we finished the quarter with \$3.8 billion in total liquidity after proactively raising \$1 billion of financing during the quarter, a \$500 million issue of senior unsecured notes, our first ever unsecured bond, alongside a \$500 million term loan. While this transaction was largely neutral from a net debt perspective, it was a deliberate choice to bolster liquidity toward the top end of our target range of 15% to 25% as we navigate an elevated and unpredictable fuel environment.

With all the challenges of the last 2 years, our balance sheet remains strong and is backed by roughly \$20 billion in unencumbered assets. However, given fuel cost impacted earnings, we closed the quarter with a debt-to-capitalization ratio of 65% and trailing 12-month adjusted net leverage of 4.8x. With normalized fuel prices and current demand trends, this could very quickly pivot back toward our long-term leverage goals. Our balance sheet has long been a strategic asset that underpins our agility and durability and restoring that strength will be a top priority.

As the environment further stabilizes and our earnings profile improves, we intend to put excess liquidity to work, paying down debt, reducing leverage and ultimately bringing liquidity back toward our target 20% level. Second quarter unit costs, excluding fuel, rose 6.5% year-over-year, a strong result compared against others who have reported. This result included some significant transitory costs, including above-normal crew training costs related to our 787 fleet ramp and employee recognition expense tied to completing our single passenger service system and material aircraft sale gains booked in 2025 we are comparing against.

Setting those aside, core cost growth was up low to mid-single digits on only 1% capacity growth. Moving into the back half of the year, our cost plan remains on track, and we expect nonfuel unit costs to step down to low to mid-single digits with closer-in capacity cuts versus our original plan providing slight pressure. Economic fuel cost averaged \$4.43 per gallon, slightly better than our \$4.50 guide.

While crude has remained volatile between \$70 and \$90 per barrel, refining margin volatility normalized throughout the quarter. We expect third quarter fuel price per gallon of \$3.75. This reflects expected July fuel cost of \$3.60 per gallon and \$3.85 for August and September, which is simply the recent average spot price we have seen. At this fuel price guidance range, we anticipate third quarter earnings between breakeven and \$1 per share. We expect our second half RASM to CASMex fuel spread to improve several points from our 2-point spread in the second quarter, evidence that Alaska Accelerate initiatives are working and the business is structurally strong.

Given we've seen recent volatility in fuel prices and further fare movement, we plan to provide an update on full year earnings guidance at our Investor Day in late September. This isn't the first half any of us drew up, but the demand backdrop and continued execution of our initiatives gives us confidence in where we're headed. With our big integration milestones behind us, our focus now is squarely on optimizing the airline, building strategic momentum and fortifying structural advantages, our scale, our relevance in the markets we serve and the strength of our loyalty franchise.

As premium loyalty, cargo and ancillary revenue take an ever larger share of the mix over time, our earnings will become more durable across cycles, underpinning our path to steady-state earnings power north of \$10 a share and double-digit margins. We'll lay

out the building blocks of this in more detail at our Investor Day on September 29, so we hope you can join us. With that, let's go to your questions.

Question and Answer

Operator

[Operator Instructions]

And our first question will come from Atul Maheswari with UBS Securities.

Atul Maheswari

UBS Investment Bank, Research Division

I know you're not providing fourth quarter revenue or RASM guidance, but your peers who have reported thus far seem to point to fourth quarter revenue being higher than third given the potential for a greater portion of fourth quarter coming in at higher fares. Are you able to confirm if we should expect the same for Alaska? And related to that, if you can also provide some puts and takes on the fourth quarter of RASM as it relates to sequential performance versus third quarter, that would be very helpful.

Shane R. Tackett

CFO & President of Alaska Airlines

Atul, thanks for the question. This is Shane. Yes, I think we'll steer clear of giving specific guidance on Q4. We were pretty deliberate in wanting to talk more about the full year at Investor Day once we had a chance to better understand both the revenue side of the equation given recent fair changes in the domestic market, which have been positive and obviously, the fuel price part of the equation.

So I think we don't see any change in demand into the fourth quarter. The advanced bookings look very strong at the same or better yields that we're seeing in the third quarter and that we saw at the end of the second quarter. So we don't have a difference in trend that we're seeing from those who have reported before us, but I think we'll stay away from commenting on the fourth quarter in a way that would infer guidance.

Atul Maheswari

UBS Investment Bank, Research Division

Okay. That's fair. And then as my follow-up, Shane, you did mentioned about the improvement in Hawaii for September. So as it relates to that, are you able to parse out that improvement between demand getting better versus an easing in competitive capacity pressure in this market in September? That would be helpful. And also related to that, it seems like capacity in Hawaii jumps again in the fourth quarter. So how do you feel about potential for continued improvement in Hawaii beyond just September?

Andrew R. Harrison

Chief Commercial Officer & Executive VP

Thanks, Atul. Maybe it's worth taking a quick step back just to really talk about Hawaii because it will be a theme, I think, number one, this was a \$1 billion franchise for us, and we knew that we needed scale, relevance and loyalty for an \$8 billion market, and we've achieved that now, especially with the -- now with a single passenger service system, it's integrated now into oneworld. We've talked about loyalty growth and all the rest of it. So we've seen really good strengthening and prospects for Hawaii.

Specifically to your question, as it relates to September, we're seeing even in the last week, incoming yields have been greater than system. And so we see strength returning for the reasons we talked about on the Kona storms. And to your question about capacity, you're right, it has been elevated. I think domestic has been about flat in the second quarter, going into the third, and it's up 8% -- 7% to 8%, but we also know that the schedules are not finalized by the industry for the fourth quarter as well. So we'll be watching that. But we feel good about the momentum we're seeing in Hawaii and all the key levers post PSS that are coming into play to strengthen our position and the economics of that franchise.

Operator

And our next question will come from Duane Pfennigwerth with Evercore ISI.

Duane Thomas Pfennigwerth

Evercore ISI Institutional Equities, Research Division

Just a couple for me. On cargo, can you speak to the mission of these 4 800s that you're adding? Are these your aircraft? And is this similar to what you do up and down the State of Alaska or are these in support of outsourced Amazon flying?

Shane R. Tackett*CFO & President of Alaska Airlines*

Got it. Thanks, Duane. Yes, these are going to be our aircraft. We're taking them from another carrier but there'll be ours. We're going to go and move them. So they're consistent with the rest of our freighter fleet. And they'll be deployed for our own flying. They're not in an arrangement that's a CMI or ACMI they'll be deployed under our brand, with our folks flying cargoes that we go out and ultimately market to customers to carry for them.

I think we said in the release, 2 of them will be in the State of Alaska, I think 2 of them will be in the State of Hawaii. There's a lot of opportunity for us to continue to build share in both of those states. We do that sort of small community cargo flying, I think, better than anybody else. And we're excited about cargo going forward. Also as part of the Alaska Accelerate, which we talked about in December of 2024 ultimately contributing an additional point of margin to the business, and we're well on our way down that path. So this was one of the specific ways we were going to go and unlock that we were excited to get to announce it yesterday.

Duane Thomas Pfennigwerth*Evercore ISI Institutional Equities, Research Division*

Okay. And apologies in advance for the minutia on my follow-up, but it's something we actually got wrong. So can you just speak to the drivers of variable incentive pay. Is there any relationship between the employee recognition expense and this variable incentive pay. And just how should we think about that line maybe in the back half, flat, up, down? Thank you for any help there?

Shane R. Tackett*CFO & President of Alaska Airlines*

Yes. If it's a geography question, I'm going to have Emily make sure that we get this clear. I think there's a tax component that goes into one of the lines, and then there's the actual employee recognition cost that goes into another part of the P&L.

Emily Halverson*VP of Finance and Treasury, Controller & Principal Accounting Officer of Alaska Airlines, Inc*

Yes. So Duane, the variable incentive pay is a combination of our performance-based pay program, which is the majority of that line, and then our operational performance reward programs. Typically, we see this skew a little bit higher in the back half of the year as we get better certainty about the overall performance of the business. But I think you're going to continue to see the trends that have manifested in the first half, showing up in the back half.

Duane Thomas Pfennigwerth*Evercore ISI Institutional Equities, Research Division*

Okay. Sorry, it was, I think, down year-over-year in 1Q, up year-over-year in 2Q. Just on a year-over-year basis, maybe flattish if we had to guess.

Emily Halverson*VP of Finance and Treasury, Controller & Principal Accounting Officer of Alaska Airlines, Inc*

Yes, probably flattish.

Operator

Our next question will come from Conor Cunningham with Melius Research.

Conor T. Cunningham*Melius Research LLC*

Congrats, Shane, on the promotion. Just, Andrew, maybe we can go back to Hawaii for a quick second. So I'm just trying to understand when you've studied recovery time lines when you have situations like this. When I look back at like the Maui fires, realize it's totally different. Like that recovery time line took a lot longer than I think anyone would have anticipated. So just how you compare this situation to that?

And then is there anything structural within the Hawaii market that may limit the opportunity to push fares that you've seen at other system levels? It's just so unique in the sense that like you're seeing the demand headwind time frame you're seeing competitors which supplies of -- yes, just any thoughts there.

Andrew R. Harrison*Chief Commercial Officer & Executive VP*

Yes. Thanks, Conor. I think a big picture for Hawaii over several years, Maui fires or other, is somewhat static and if not sort of growing a little bit since COVID. But again, it's a very sort of stable market. We serve -- we have over 40 nonstop routes across the entirety of the West Coast. And I think what I would say here is that certainly, there is ebbs and flows on the recovery. But I think what we have really focused on is all the tools that we have in our toolkit that will help us outperform the general market in Hawaii. And as we've shared earlier, things about loyalty, our loyalty growth, our connectivity and our ability to serve the right market with the right aircraft.

Again, I think as we look to Hawaii, we're very focused on the September and beyond. And what we are seeing right now is a recovery, and there is nothing that we see right now to give us a sense that this won't get back to strength in the coming quarters.

Benito Minicucci*President, CEO & Director and CEO of Alaska Airlines*

And Conor, it's Ben. Yes, I think maybe a couple of things on that. Remember, last year, Hawaii was 1 of our best geographies in our network. And to your point, it is different than the Maui fires. The Maui fires were catastrophic for Hawaii. And these were torrential rains. They were brutal. But the recovery is going to be different in our view than the Maui fires, just to answer it directly.

And just in terms of the strength and structure, I think Andrew was trying to get to it in Hawaiian there may be other questions. Look, this is an \$8 billion premium market where we had \$1 billion of it before the acquisition. Now we have about 50% of that premium market in Hawaii. And that was the whole thesis going in. Do we grow organically? Do we retreat or do we double down in Hawaii? And the thesis was double down in Hawaii. It is a premium leisure market where the pie is essentially finite, and we think it's a great market off the West Coast, and it fit our network.

And on top of it, it gave us access to international airplanes to build our Seattle hub, where it was the one arrow in our quiver that was missing, and you could see all the gains we had from international and premium, and you see all the increases and in those areas year-over-year. So I just wanted for you and for everyone else, the whole value of Hawaii, like we are so committed and these are blips, but over the long term, Hawaii is absolutely going to be a huge contributor for us.

Conor T. Cunningham*Melius Research LLC*

Awesome. Appreciate that detail. And then maybe I could speak to next year. And I know that you don't want to give a guide but or anything like that. But just -- when we think about controllable margin spread, I like that we're talking about that a lot more this quarter. But I think that the carriers that have reported as well would also call out a similar cost trajectory opportunity next year. In a reasonable growth environment. But there is obviously this debate around industry RASM, and that's obviously very difficult to pin down. But just there is a lot of opportunity just from the synergies, the tailwinds that you had just from Maui there.

So when we think about next year, like is the rational thought process that RASM will exceed CASM next year. And could you just speak to just any of the idiosyncratic levers that you've already identified that are already like in your playbook now from a revenue?

Shane R. Tackett*CFO & President of Alaska Airlines*

Yes. Thanks, Conor. Yes, broadly, like if you're asking about the 2027 setup, yes, we're really excited about it. We're confident in next year's opportunity to expand margins mostly through that the expansion of the RASM to CASMex, I think you just called it the controllable margin spread. We sort of can't wait to get there. We'd like fuel to calm down, and we'd like the economy to remain really strong, but we'll have a chance next year to obviously hopefully participate in a full year of the current demand and pricing environment. So it's really only been with us for half of this year.

We'll get to lap the first year of international, which there's always an opportunity to do better in the second year of these sorts of things. And I think we had a phenomenal first go around this summer, but it should be even better next year. And I'm sure we'll get questions on that, and Andrew can share more detail about that. We'll lap these headwinds in Hawaii that we're talking about and get back to what we believe will be the strength that we were seeing coming into this year from the Hawaii market set. We've got a full year of expanded premium cabins, the last retrofit of which I think we just got done sometime during this quarter.

We'll have 50% of the fleet with Starlink going to 100%. People love that product when they fly on it. And we've got the last tranche of synergies and initiatives to go and unlock. And some of that are sort of basics around running how we run RM. I think you guys

know we've talked about it. We're not on a network RM system. We will be on one next year. So others have done that recently and enjoyed really significant RASM improvements from those.

So I think our expectation is exactly what you said that we could achieve RASM growth ahead of CASM growth next year. And as fuel normalizes, go back to what I said in the script, I think the underlying structure of this business is really strong, and we should see and could see earnings expand quite rapidly.

Operator

Our next question will come from Savi Syth with Raymond James.

Savanthi Nipunika Prelis-Syth

Raymond James Ltd., Research Division

I was wondering if I could -- not necessarily looking for kind of numbers and magnitude, but just any early thoughts on how you're thinking about domestic versus international capacity growth in 4Q and 2027? And just tied to that, like have you gotten an indication from Boeing on kind of MAX 10 deliveries next year?

Shane R. Tackett

CFO & President of Alaska Airlines

Thanks, Savi. I think domestic in Q3 was roughly flat. I think it's similar in Q4. I think all of our growth, and we've been pretty deliberate and I think responsible with our growth, is international into the fourth quarter. We do take a significant number of airplanes next year. We're really excited about those. We do think that the MAX 10 will get certified here relatively soon. The first use of those aircraft will be to continue to build out our core cities like Seattle and continue to upgauge where we can. And also to retire an aged 737-700 fleet. And the economics of a MAX 10 versus older 737-700 are very, very compelling.

And so we've got really good plans to use the fleet that we're bringing in next year. We have a couple of 787s, that will help us continue to further international growth. It will maybe be a little more balanced in terms of domestic versus international next year. But we do intend for it to be responsible growth rates more than this year, but pretty similar to our target -- long-term target, which I think we've laid out around 4% or something like that.

Savanthi Nipunika Prelis-Syth

Raymond James Ltd., Research Division

That's helpful. And if I could just quickly follow up on Duane's question on the new cargo aircraft. Is it fair to assume that the freighter costs will step up ratably that the cargo revenue will take time to catch up as you kind of win contracts and use it for reliability? Or is that not a fair assumption given that you might be working on winning contracts with the new aircraft already?

Shane R. Tackett

CFO & President of Alaska Airlines

Yes. No, thanks, Savi. A lot of the aircraft, the incremental freighters will go into service early next year. So we've been contemplating this announcement, obviously, for a while. So we've got ideas and plans on how we're going to go fill those freighters up, there's an immediate need for incremental capacity in the state of Alaska and just better overall operational reliability.

The 700 NG freighter fleet that we have is also getting aged. And so they'll be put to good use right away. We're not going to fly empty cargo holes around. And I think there's a lot of opportunity and desire for us to provide service within the islands in the state of Hawaii. So I think this is going to be a quick ramp to accretive results from these 4 new freighters.

Operator

We'll move next to Brandon Oglenski with Barclays Capital.

Brandon Robert Oglenski

Barclays Bank PLC, Research Division

Andrew, I think you mentioned picking up corporate share across your hubs, and I think you specifically called out Portland, but maybe I heard that wrong. Can you speak to the momentum you're seeing there and how it's playing in with your premium mix as well?

Andrew R. Harrison

Executive VP & Chief Commercial Officer of Alaska Airlines Inc

Yes. Thanks, Brandon. We've been very excited about the results on the corporate side and the thesis. And I specifically called out, obviously, Portland and San Diego, where we've had capacity growth and our share of the market on the corporate side has followed even at a higher accelerated rate. And we've seen also in Seattle the same thing.

And I think we talked about 30% increase in revenues. I'll tell you right now sitting in July, our revenues are up over 40% for managed corporate travel. So the flywheel of growth and scale in our core hubs of our loyalty system. And then long haul, especially out of Seattle, have really helped fuel the ability to win share and obtain greater exposure to corporate traffic.

Brandon Robert Oglenski*Barclays Bank PLC, Research Division*

And then, Shane, I guess I don't want to push it too hard. But I guess longer term, you guys have been targeting, let's call it, low single-digit CASM-ex cost inflation with something like mid-single-digit capacity growth, I think that's right. Has anything changed there? And can you talk to the cost synergies on the Hawaiian side? Have those been achieved yet or now that you've rolled over to single PSS, is there more to come?

Shane R. Tackett*CFO & President of Alaska Airlines*

Yes. Thanks, Brandon. No update to that philosophy. I think our mindset is at middle to -- low to mid single-digit growth, we should have low single-digit CASM ex over the long term. The business, as you know, it tends to take in cost sometimes in a more lumpy way when we have to like build up a brand-new fleet type with crew, we're going to have costs that sort of come into the P&L stepwise, not linear, but that's our overall thinking.

We -- I was trying to think of the second part of your question. The thing that I would also mention in terms of synergies, that was the question. We've largely gotten most of the synergies that we could go get immediately on the technology side of the business, certainly on the overhead side of the business. So there's not a huge tranche of incremental synergies to come. There is the opportunity to do a lot more optimization. As we move forward, certainly, as we bring work groups together, we're anxious to get CBAs done. Those CBAs will come with incremental costs, of course, so there will be some additional costs that go into compensation for employees, which is great, but we will then have an opportunity to get more productive with all of those work groups as well, which will partially offset that.

So I think right now, we're sort of pivoting away from cost synergies and really focused on leaning out the overall business, both the back office and on the frontline productivity front. And that's what you'll hear us talk about going forward.

Operator

Our next question comes from Catherine O'Brien with Goldman Sachs.

Catherine Maureen O'Brien*Goldman Sachs Group, Inc., Research Division*

Congrats, Shane. I hope you don't mind, but I'll have to dig in a little bit more on Hawaii. Can you just maybe -- I think it would be helpful to understand like some color around when was the RASM drag at its maximum impact? And how do you expect the trajectory of the recovery to play out over 3Q, it sounds like maybe no impact in September or maybe I'm reading too much into your comments there?

And is there any way to just help parse out further, how much of the impact is tourists maybe booking away after the floods and how much is the ramp in seats to Hawaii from industry, maybe being a bit of a mismatch with the stable demand you talked about. I don't know if there's like information from the tourism board you'd compare to or anything. I'll stop there, a bit of a long one.

Andrew R. Harrison*Executive VP & Chief Commercial Officer of Alaska Airlines Inc*

Thanks, Katie. That's an insightful question. I think the peak of it was sort of when the storms really hit, I think from the top of my head, we might even had a negative booking day here or there with just refunds and all the things that were going on. So really sort of the March, April time frame sort of the spring break, was the real deep of the challenge.

I think then as you sort of moved into summer bookings, I think it caused some folks to consider, reconsider. But I do think, to your point, the acceleration or the increase in industry capacity, which has far outpaced anything else system-wide domestically. But we've seen that in Latin America and look at the adjustments the industry has made to capacity today from last year.

So I think as we move forward, I think as we find the right water level in the white line, and of course, we have a lot of things on this side, Katie, when we look at our network now, we look at both sides, we look at our loyalty program. We have a lot of levers to pull the marketing machine to continue to get back to strength. And I would say, again, early days, but we are seeing as we move into fall travel, a sort of change in the trajectory of bookings. July and August are going to be under system capacity, and we've shared there's going to be a couple plus point drag, but I think that's going to change as we move to the fourth quarter.

Catherine Maureen O'Brien

Goldman Sachs Group, Inc., Research Division

Okay. Got it. And then maybe one for Shane, on the balance sheet. Given the volatility and geopolitical uncertainty, makes sense, you raised some incremental capital there, the liquidity to the high end of your range. With the reemergence of geopolitical tensions over the last month, how do you think about when to start paying down debt? Like what are -- what's in the calculus there? And how do the coupons on the new debt compared to tranches you'd ultimately look to pay down.

Shane R. Tackett

CFO & President of Alaska Airlines

Thanks, Katie. And maybe Emily can help us with the sort of pricing. I just did want to mentioned, while we have the mic on balance sheet since you asked, it was pretty cool to go out to market and get our first unsecured bond. It had a lot of interest in it. I think it's traded around par, above par, I think a really good issuance. The team did a phenomenal job.

We're anxious to start paying down debt, but we're going to be pretty deliberate, a few weeks of stability is probably not long enough for us to call it, and we'd like to see it a quarter or 2 of really stable input prices and return to healthy cash flows. And then we would pretty aggressively start to pay down the debt. And we've got plenty of debt that's prepayable or expiring in the next little bit. So we won't have a problem finding ways to reduce liquidity when we're comfortable in doing so.

But maybe on the pricing, Emily?

Emily Halverson

VP of Finance and Treasury, Controller & Principal Accounting Officer of Alaska Airlines, Inc

Yes. Katie, we did see some modest increase in the coupon on this latest debt just with the interest rate environment. Overall, our weighted average debt interest rate is at about 5.3%. So that's up 0.4% from prior quarter, so a slight increase.

Operator

Our next question comes from Tom Fitzgerald with TD Cowen.

Thomas John Fitzgerald

TD Cowen, Research Division

Maybe just to stick with CASMex for a minute. Just a couple of finer points. Can you speak to how much stage length is maybe flatter in CASMex in the back half and if that's expected to continue into 2027? And as well, just -- in terms of your longer-term CASMex framework, how should we think about some of the pressures on the maintenance side, especially with the way that -- if your fleet profile changes in the coming years and then some of the real estate investments you guys are making?

Shane R. Tackett

CFO & President of Alaska Airlines

Yes, Tom, I think stage length is pretty stable, so it's not helping or hurting right now on the CASMex side. And I even think like aircraft density is not really doing much right now to CASMex. Maybe once these 10s really start to come in, we'll get a little bit of a tailwind from just gauge over the next couple of years.

Yes. I won't go into a lot of detail. You just named the 2 kind of areas where we've got to go work really hard to make sure that -- we're managing those 2 cost categories closely and also finding other areas of the company we can lean out and further optimize in order to support costs that we know we have to bring into the P&L over the next couple of years related to maintaining the LEAP

engine fleet, and that should start in earnest sometime next year. And then the airport story is a story I think that's very consistent with the entire industry, and we've been talking for a couple of years.

Most of the big, big programs are now finished. They're beautiful spaces, by the way, I think we have some of the best airport spaces in the country for our guests across all of our core hubs. And it's nice to see all of those walls opened up. Now we get to start paying for it. And that's going to be with us through the end of the decade here, and we've got good line of sight to it. And so I'd just go back and remind that we do have a job to go make sure we lean out other parts of the company to be able to bring these on in a way that keeps that CASM trajectory where we talked about it a couple of questions ago.

Benito Minicucci

President, CEO & Director and CEO of Alaska Airlines

And Tom, on the maintenance side, it's definitely going to help between 700 and someone says, what's that, about 30 airplanes.

Unknown Executive

Yeah.

Benito Minicucci

President, CEO & Director and CEO of Alaska Airlines

These are 30 airplanes, at least 25 years old, that will have a huge benefit in the next couple of years.

Unknown Executive

Offsetting the increase in the leases, it's a good point. Yes.

Thomas John Fitzgerald

TD Cowen, Research Division

Okay. That's really helpful. And then just as a follow-up, I was wondering if you'd mind just providing like a teaser trailer for Investor Day. Why now? Why is it the right time? And what should investors be thinking about? I mean, is it -- should we look for more like a mark-to-market report card on Alaska accelerate? Should we be thinking about new initiatives? And I think Ben used the phrasing, it structurally capable of producing \$10 in EPS, and I don't know if that's -- I'm reading too much into it or if that's any change in the verbiage. But thanks again for the time, look forward to Investor Day in September.

Benito Minicucci

President, CEO & Director and CEO of Alaska Airlines

No, Tom. No, thank you. We thought it was just time to bring everyone in to give you an update exactly on where we are with Alaska Accelerate. There's been a lot that's happened in the last 12 to 18 months. And I think it's time for us to show structurally where the company is, where we're going. There are going to be new initiatives. And everything that we've done to really position the company for stronger earnings in 2027 and beyond.

So we're excited to show it. And I think you'll see from the momentum we've seen in the second half of the year, I mean just to remind everyone, we've lost almost \$500 million in the first half of the year, which we don't like. But the second half of the year is going to be a complete mirror image of what's happened in the first half for us. We're going to pretty much reversed that loss and that momentum is going to continue into 2027.

And at Investor Day, we just want to bring all these things together to give you a view of what the future is going to look like because so many things have happened at Alaska in the last 2 years. So it's going to be exciting. It will be at our new global training center, which we're going to love to show off. But I think it's going to be a great day for everybody.

Operator

We'll move next to Michael Goldie with BMO Capital Markets.

Michael Goldie

BMO Capital Markets Equity Research

Can you walk us through how you think of the runway for Atmos and card penetration? Is there a natural share of passengers that you believe can become members versus today? and how you think about card penetration among your passengers and active members over the longer term?

Andrew R. Harrison

Executive VP & Chief Commercial Officer of Alaska Airlines Inc

Yes. Thanks, Michael. We see continued increased penetration in both loyalty members significantly, and I'll talk about that in a moment. And then obviously, the credit card, you heard Ben talk about the premium credit card, we have and we'll talk about things at Investor Day and next year. There's some exciting loyalty things we want to share. But with the Starlink and the power of that and the sign-up process, bringing on new members through that just like other carriers have done, we found that as an amazing fuel to help grow our loyalty program.

But in general, I think, as we talked about scale, relevance and loyalty in our hubs and in our international and especially Hawaii, and we're already seeing it. We continue to expect and believe that there will be increased penetration of loyalty members on our aircraft, and that's because of 2 things. Number one, the richness and the change in the program, which have been awesome. And then secondly, just the growing scale and relevance of our network to our customer base, both domestically and globally.

Michael Goldie

BMO Capital Markets Equity Research

And then can you -- you touched on it a bit at the top of the call, but can you give us an update on how the international routes are performing. But more broadly how you think of the margin contribution of these new routes as they ultimately start to mature and move past up the start-up phase?

Andrew R. Harrison

Executive VP & Chief Commercial Officer of Alaska Airlines Inc

Yes. I mean I'm not just saying this, but we have been very excited about the initial reception of our European launch. If there was any doubt that Alaska Airlines was going to be a relevant and powerful player in this market, there is no question from what we have seen from day 1. And I think even Rome and you put that down to normal fuel and all the rest of it would actually have been profitable.

The other thing I would share is that, we're sort of just in the first round, some of these new markets, especially London and Rome, others have been selling them 330, 340 days of the year, and we came in late in the piece there. And we're also seeing -- just to be honest, on the Incheon and Narita markets. What I'm seeing is year-over-year, significantly higher booked load factors year-over-year. So the international machine is just getting going, point of sale in the U.K. was turned on recently. So we're very excited about where we can take this and as we continue to grow it, quite frankly.

Operator

We'll move next to Scott Group with Wolfe Research.

Scott H. Group

Wolfe Research, LLC

So just curious where you think you're at in terms of revenue synergies this year and how you think that -- does that accelerate similar number next year. Ultimately, what I'm trying to figure out like we still have a few reports to go, we're towards -- it feels like we'll be towards the lower end of RASM growth with credit card and broader synergies, I think the hope was to be towards the better end, I just want to understand like Hawaii has gotten a lot of airtime, like is the entirety of like the delta you think Hawaii? Or is there anything sort of else going on?

Shane R. Tackett

CFO & President of Alaska Airlines

Yes, Scott, thanks. This is Shane. Well, one thing -- first of all, we scorecarded all the synergies, they'd be all green across the board just because the fare environment has gone up so much. And when you get the type of step change in the pricing backdrop that we've experienced and everybody else has experienced, you got to be careful to declare victory too early. So all of the categories that we had wanted to unlock in terms of synergies, that's what we've tried to speak to in the prepared remarks. That's what we've been trying to speak to in the Q&A. Those are all working really, really well and continue to be the areas of focus.

And so network connectivity, some of the scheduling things we did around banking. We're seeing great catchment area pull over Seattle into Asia. We talked about that at our Investor Day a couple of years ago. I can't remember the exact stat, 20% or 25% of our passengers are actually coming from the Midwest and locations that are not core in our network on the West Coast because Seattle is such a great place to transit -- to go to places like Asia.

Andrew just spoke to the success of international on a fuel normalized basis, we had strong margins in a couple of the new Europe markets. We had reported in the first quarter profitability in one of the Asian markets, the premium expansion that we've talked at length about the launch of a brand-new loyalty program, which is now just crossing over its first year with, I think, 3x as many premium credit cards in circulation as we expected. So like all of the areas on loyalty and premium and the network sort of value of this, we feel incredibly good about more confident in the future than we even did when we did the transaction.

Yes. So I think you're right, like our goal is to ultimately close our gap -- our RASM gap to the legacies, which means we need to beat them over time on a unit revenue basis. And we're focused on doing that. I think the areas we believe that they're outperforming us are premium and international, which is they've got 10, 15, 20 years of head start on us, and we're going to catch up and it's not going to take us 10 years to do that. And we're already seeing that happen today. And so we're excited about the rest of this year and certainly next year and the year after as we get to mature all of these investments and really start to harvest the value from them.

Scott H. Group

Wolfe Research, LLC

Okay. Helpful. And then just one more, just like really like quick short-term thing. Just -- you guys have more fuel volatility, I think, than just some of the others, like what do you like paying today on fuel, just as fuel has spiked. I just want to get some sort of sense.

Shane R. Tackett

CFO & President of Alaska Airlines

Thanks, Scott. More than yesterday, a little bit. I'm not exactly sure what it is today. I can tell you our last spot prices, like I think we said it in the prepared remarks, \$3.85. I think that was end of last week pricing. We were at for reference \$3.08 when we walked into this month, so less than 20 days ago. That's how quickly it's moved. And I think that's how quickly it could move back down. So anyhow, that's what we paid last week. And hopefully, it turns the corner here soon and goes back the way it was going before and that would make all of us extraordinarily happy.

Operator

We'll move next to Andrew Didora with Bank of America.

Andrew George Didora

BofA Securities, Research Division

Andrew, I think you said that your June RASM was up 11%. So when we think about the third quarter RASM guide of up low double digits when you factor in sort of the booking curve dynamics and kind of your September yield commentary, why wouldn't 3Q RASM be above June? Any headwinds we should think about there?

Andrew R. Harrison

Executive VP & Chief Commercial Officer of Alaska Airlines Inc

Yes. What I can tell you sitting here today, Andrew, is that the sequential year-over-year improvement in July and August and September continues on from what we saw in June and a little higher and continuing to grow. So we are in a good upward trajectory as we continue into the third quarter.

Shane R. Tackett

CFO & President of Alaska Airlines

Which is to say Q3 should be above June.

Andrew R. Harrison

Executive VP & Chief Commercial Officer of Alaska Airlines Inc

yes.

Shane R. Tackett

CFO & President of Alaska Airlines

That's our expectation.

Andrew George Didora

BofA Securities, Research Division

Okay. And then just curious, I know there were some questions with regards to the international route launches I think we see international growth at like 30% to 40% in the next several months. Just curious what that RASM kind of headwind would be because I know -- I guess, RASM headwind and CASM tailwind would be just because I know they come with lower on both.

Andrew R. Harrison

Executive VP & Chief Commercial Officer of Alaska Airlines Inc

Yes. I think just on a pure RASM basis, maybe it's a couple of points. So -- but to your point, it affects both sides of the equation. But as Shane has already shared, for the rest of the year, 100% of our growth is long-haul ASMs, which are going to sit around about 8% of our total capacity equation.

Shane R. Tackett

CFO & President of Alaska Airlines

I think there's probably a mismatch in timing though. I think on a normalized basis, yes, you run 5,000 mile stage lengths, you should get a help to CASM in sort of a small headwind to RASM. But we're in the build-up stage of this on both sides. So RASM should get better over time and CASM should improve over time. So my guess is we're upside down on that. Long-term equation, Andrew, as we sit here today, and it should improve as we move forward from here and certainly as we build more scale out into the international markets. So I think these just get better from here is my point on both sides.

Benito Minicucci

President, CEO & Director and CEO of Alaska Airlines

Thank you, Andrew, and thank you, everybody. We hope to see you in September at Investor Day. Thank you for joining us.

Operator

And this concludes today's conference call. Thank you for attending. Goodbye.

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