

Alaska Air Group, Inc. NYSE:ALK

Analyst/Investor Day

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Call Participants

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Presentation

Operator

Please welcome Ryan St. John.

Ryan St. John

Vice President of Finance, Planning & Investor Relations

Good afternoon, and welcome to Alaska Air Group's 2026 Investor Day. On behalf of everyone at Alaska, Hawaiian, Horizon Air and McGee Air Services, thank you for joining us today, whether you're here in Seattle or listening in on the webcast. The last time we spoke to you in 2024, we introduced Alaska Accelerate, a plan designed to restore our earnings power, strengthen our competitive position and unlock the full potential of our company following the acquisition of Hawaiian Airlines. We will provide you an update on where we are in that journey, but today is also about the next chapter.

This morning, we shared a series of announcements that represent the next phase of our transformation and position us for the years ahead. Throughout the presentation today, you'll hear directly from members of our executive leadership team as they discuss how we're creating durable earnings growth, strengthening our competitive advantages and building a company capable of generating sustained value for both guests and shareholders. We'll have approximately 75 minutes of prepared remarks, followed by a short break and then a question-and-answer session. For those via -- joining via the webcast, we'll continue broadcasting through Q&A, and a replay of today's event will be available afterwards on our Investor Relations website.

Now before we begin, I'd like to remind everyone that our comments today will include forward-looking statements regarding future performance, and actual results may differ materially. Information regarding risk factors is available in our SEC filings. We'll also discuss certain non-GAAP financial measures, reconciliations for which can be found in today's materials and our SEC filings.

And with that, let's begin.

[Presentation]

Operator

Please welcome Ben Minicucci.

Benito Minicucci

President, CEO & Director and CEO of Alaska Airlines

Good afternoon, everyone. Thank you for being here. Before we begin, let's acknowledge what many of you may be thinking. With fuel prices high and significant volatility in our industry, the idea might be this is not the best idea to have an Investor Day. That's maybe some of you are thinking that today. Well, we think it's the exact opposite because Investor Day shouldn't be about explaining the last quarter or even the next quarter. They should be about explaining the future. The environment we're operating today won't be the environment we're operating in a year from now or even 3 years from now. What matters is whether we're building a company that is stronger, more resilient and better positioned to create value through every cycle. That's why we believe this is exactly the right time to have this conversation.

Today is about who Alaska is becoming. The capabilities we've built, the opportunities ahead and why we're so confident in the future of our company. Over the next hour, you'll hear from our amazing leaders about how we're building Seattle to a global gateway, strengthening Atmos, expanding our cargo platform and creating new sources of earnings. But before we talk about where we're going, I want to spend a few minutes talking about how we got here because their future we're building didn't begin with Hawaiian Airlines, and it didn't begin with Alaska Accelerate.

It began years ago with a simple realization that in this industry, if you don't shape your future, someone else will shape it for you. And that's really the story we want to tell this afternoon. For decades, Alaska succeeded with a business model grounded in safe and reliable operations, remarkable care, structural cost advantages and balance sheet discipline. Those strengths made us one of the industry's most profitable airlines for much of the last 20 years, and they remain core of who we are today.

By almost every measure, we were winning. But we've learned something over the years. Success can be a dangerous thing. It can convince you that yesterday's model will win tomorrow's game. That's exactly the trap we wanted to avoid. Now some of our thinking began with Virgin America. In 2016, we acquired Virgin to strengthen our position in California and expand our presence across the

West Coast. The acquisition made us a strong airline but it also taught us important lessons about network breadth, brand strength and the power of customer loyalty.

Those lessons stayed with us. We completed the Virgin integration and we're beginning to regain our footing when the pandemic appended the entire industry. That disruption gave us an opportunity to step back and ask some fundamental questions. What continued to differentiate Alaska? Where was our model becoming more vulnerable? And what did we need to do to build to compete and win over the long term? And at the same time, the industry was evolving. Premium experiences mattered more. Global connectivity mattered more. Loyalty programs mattered more. And success was increasingly being driven by 3 things: scale, relevance and loyalty. Connecting guests to more places, delivering products and experiences that mattered more and turning loyalty into an even greater competitive advantage.

And we could see the limitations of our own position. We had a strong West Coast network, but our Seattle hub couldn't directly connect our guests to the world. We faced increasing competitive pressure in Hawaii, and the full potential of our loyalty platform was constrained by the reach of our network. So we had a choice. Continue doing what we had done historically or evolve. Our choice was simple, disrupt ourselves or wait for the industry to do it to us. So we chose to act. We acted because we could see where the industry was going. We knew what Alaska needed to become. That decision became Alaska Accelerate. As we developed Alaska Accelerate, we became very clear about what the future required, a broader network, a stronger commercial platform, deeper customer engagement and a more diversified earnings base. That's what led us to Hawaiian.

And we want to be very clear about something. Hawaiian did not create this new strategy. The strategy already existed, Hawaiian accelerated it. It strengthened our position in Hawaii. It expanded our network and international reach. It added wide-body capability. It strengthened our cargo platform, and it gave us the ability to build Seattle into a true global gateway much faster than we could have done organically.

The Virgin experience also influenced how we thought about brands. We learned that brands matter because customers build strong emotional connections with them. And when we looked at Hawaiian, we saw one of the strongest brands in aviation deeply rooted to Hawaii, its culture, its people, its residents and visitors. We wanted to preserve that and build on it. That led us to our dual-brand strategy, 2 powerful brands, 1 company, 1 connected network and 1 powerful loyalty ecosystem. And one of the biggest advantages of bringing these airlines together is Atmos.

Atmos has already established itself as an industry-leading loyalty program. It consistently punches above its weight and gives us a powerful platform to deepen engagement across both brands. Hawaiian makes that platform even stronger. We brought these companies together because we believe the combination could create something stronger than either airline could achieve on its own. And our conviction in that strategy continues to grow. Alaska Accelerate is built around 4 straightforward ambitions: connect our guests to the world, be Hawaii's trusted airline, deliver a remarkable travel experience and diversify our future. That framework hasn't changed. What has changed is the size of the opportunity in front of us, and the capabilities we now have to pursue it. We've got greater reach, stronger brands, more growth opportunities and more ways to create durable earnings over time. The goal is to build a stronger company.

Now here is the part we're most proud of. We did exactly what we said we were going to do. We created a transformational plan for our airline, and we delivered. We've completed some of the most complex operational work our industry undertakes. The kind of work that often only gets noticed when something goes wrong. And we've delivered those milestones seamlessly. And what I'm really proud of is on time and all the while, our industry-leading operational performance, as you know, my background in ops, we had industry-leading operational performance, strong guest satisfaction and record employee engagement. We've brought the airlines together, established one operating platform, unified loyalty and launched the global gateway. We're also roughly 2/3 of the way toward the \$1 billion of incremental profit we committed to and on track to remain the rest the full amount in 2027.

Now we know the question many of you are asking. If all this progress is real, why haven't the results fully reflected it yet? And it's a fair question. External headwinds have masked some of the underlying earnings power we're building. And candidly, the results haven't yet been where we want them to be. But the things we control are moving in the right direction. You'll see the evidence throughout today's presentation, and we're not asking you to believe in our PowerPoint strategy.

We're showing you the milestones we've delivered, the capabilities we've built and the commercial initiatives that are beginning to contribute. Today represents an important transition point. The first phase of Alaska Accelerate was about building the foundation. That work is complete. We're now entering the activation phase. This is where premium products contribute at scale, where international routes mature, where Atmos continues to grow, where cargo becomes more meaningful, and where our network, fleet and commercial investments increasingly show up in our results.

The heavy lifting is behind us. The value creation is in front of us. That first chapter was about building. This next chapter is about harvesting. And most importantly, we'll have multiple growth engines working together, reinforcing one another. That combination will expand our controllable margins, raise our earnings floor and create a more diversified stream of free cash flow across economic cycles. It's our path back to 11% to 13% pretax margins and sustained earnings power above \$10 per share.

We're building the company with more ways to win, more durable competitive advantages and greater resilience than Alaska has ever had. Everything you'll hear today connects back to decision we made years ago, a decision not to stand still, a decision not to protect the past, a decision to shape our future because the companies that win in this industry don't wait for change, they create it. We chose to evolve, we chose to transform and now we're entering the phase where we harvest the benefits of those decisions. That's the future of Alaska Air Group, and we couldn't be more excited about where we're headed. Thank you.

And with that, I'm going to hand it over to Shane.

Shane R. Tackett
CFO & President of Alaska Airlines

Thanks, Ben, and welcome, everyone, and thank you all for being here in Seattle with us today. You just heard from Ben, why we made the deliberate decision to evolve Alaska's business model. We know what a winning airline looks like today, and we've been proactively building towards it. While strategic changes of this scale in nature never happen overnight, we believe ours will be faster than others who have done this or may try it.

Let me provide additional context behind the strategic direction we are going. I've been in the industry for 25 years. And for, I would say, the first 20 of those, the winning airline playbook was high growth, lower unit costs every year and lower -- and fares that were also lower each year on a CPI adjusted basis. Airlines that won understood this and transform themselves to deliver on each of these. Arguably, Alaska ran that playbook better than anyone else. We delivered on that business model while maintaining a quality advantage in our products and delivering truly best-in-class service. Today, demand has become more diversified, with growth primarily driven by premium cabins and international travel. And we are as committed to transforming and being the best at delivering on this new model as we were in the past. While the profile of demand has shifted, our commitment to cost discipline has not.

We expect to continue to maintain stage length adjusted unit costs in the mid-teens below the legacy carriers, significantly lower than JetBlue and competitive with Southwest. It does mean, however, that we will invest in areas we believe are foundational to airline success into the future, having meaningful scale in our primary markets, high-quality premium experiences in our airports, lobbies, lounges and on board and having a full range of seat products and cabins in our fleet. Our mandate is to ensure we now close our RASM gap to legacies with this more diversified product and network mix. This next phase of our evolution is focused on increasing the share of revenue that comes from outside the main cabin, including more revenue from premium, from international, from loyalty and from cargo. These are higher-margin revenue streams that are less dependent on domestic fare levels and more resilient through cycles.

By 2030, we expect diversified revenue to approach 60% of total revenues up from our current mark of 53% as we continue to invest in the following areas. First, we are bringing international premium economy cabins to our wide bodies. Second, we will take delivery of a new premium-oriented 737 MAX narrow-body for transcontinental and other markets where there is strong demand fit. Third, we will complete our full Seattle international hub buildout to ensure we are maintaining and growing loyalty in our largest hub. Fourth, we will continue to drive double-digit annual growth in remuneration from Atmos Rewards.

And lastly, we will more than double the size of our cargo business. Increasing revenue diversity is entirely doable, and we are already well down this path. Prior to introducing Premium Class in 2016, main cabin accounted for approximately 75% of total revenues. Only 1/4 came from outside the main cabin. That number is now 53% with 15 points of growth since 2019 and 6 points of growth in the last 2 years alone. As we deliver on this goal, we'll be structurally improving our business model. Making it less sensitive to outside shocks and raising our expected earnings floor. We expect these initiatives to drive 2 to 3 points of margin in addition to the original \$1 billion of unlock from our 2024 Accelerate plan.

We have developed an order book and delivery stream to support this plan and expect to see CapEx average \$1.75 billion between now and 2030. While we expect to grow approximately 4% annually, an important note about our growth is that gauge will drive a meaningful amount of it for the foreseeable future. While international will be the other significant driver through 2030. Our goal is to smooth our delivery stream and create a predictable capital profile, allowing earnings and cash flow to grow faster. This will allow for stronger free cash flow conversion over time and support our long-standing practice of strong capital allocation to our shareholders. The strategic rationale behind Alaska Accelerate and our transformation are sound. But it is important to address where the business

stands today relative to the plans we laid out 2 years ago when we shared our goal and expectation of delivering \$10 of earnings per share.

At our 2024 Investor Day, we outlined a path to \$1 billion of incremental earnings unlock supported by both integration and commercial initiatives. These included combining the Alaska and Hawaiian networks, launching our Seattle international network, increasing the productivity of our fleets, adding premium seats, expanding our loyalty program and launching a premium credit card, growing the cargo business with wide-bodies and capturing cost synergies. Those are delivering. We have captured roughly 2/3 of the \$1 billion and expect to realize the remainder next year on schedule.

As I mentioned, revenue generated outside the main cabin has grown 6 points in just 2 years. This is the metric that we believe is driving airline profitability and success, and we are demonstrating meaningful progress in relying less on basic economy and main cabin fares as we build more diverse revenues. What we did not anticipate were the headwinds from domestic demand deterioration in 2025 and materially higher fuel prices this year. These factors have masked the earnings power we've been building with fuel remaining the largest near-term headwind to earnings. Now this slide should not be viewed as guidance for next year, but it is intended to share how we are thinking about our underlying earnings power.

If we marked the business to the same \$2.50 fuel assumption in our 2024 Investor Day framework with the current demand backdrop and assume completion of our remaining Accelerate value unlock, there's a clear path to \$10 of earnings per share. At a fuel price of \$3.25, we would produce earnings consistent with our original guidance this year. In short, our strategy is the correct one. And we are executing on a transformation that will drive our earnings power, the trajectory of which could change quickly. We expect ex-fuel earnings to grow between \$3 to \$4 per share next year as we execute the remaining portion of the 2024 plan. And if fuel normalizes, earnings will grow further. We continue to have absolute confidence in the long-term value of the company and are also confident the intrinsic value of our company is not fully reflected in our stock price today.

I believe you'll conclude from the balance of today that we have chosen the right strategy and that as these investments mature, the business we've built will achieve meaningfully higher earnings over time with a higher earnings floor. I do also want to briefly address how we're thinking about capital allocation and cash flows as earnings recover. Our first priority will be restoring balance sheet strength. We expect leverage to decline rapidly towards our long-term target, while also continuing to offset dilution. A healthy balance sheet has always been a core financial value of ours and is the primary reason we've been able to withstand the unpredictability and cycles of this industry while investing in a transformation. We continue to have a strong balance sheet and have -- sorry, and have \$20 billion of unencumbered assets, including our loyalty program, whose value we expect will continue to compound past its current \$16 billion valuation.

Ultimately, every action we discuss today is designed to improve earnings resilience for Air Group and our owners. While our strategy and commercial model continue to evolve, the long-term financial goals we are managing towards have not changed. We remain committed to generating 11% to 13% pretax margins over the cycle, more than \$10 of earnings per share, net leverage of approximately 1.5x, double-digit returns on invested capital and positive and growing free cash flow generation. What gives us confidence is the progress we've made against Alaska Accelerate to date and the additional earnings potential created by the initiatives we announced today. These investments will further diversify our revenue streams, strengthen margins and raise the long-term earnings power of Air Group. At the end of the day, we are building a company with more ways to win, a more durable revenue base and greater earnings power through the cycle.

Now I'll hand this over to Andrew to share actual details of the ultimate commercial model we are driving towards.

Andrew R. Harrison

Executive VP & Chief Commercial Officer of Alaska Airlines Inc

Thank you, Shane, and good afternoon, everyone, and thank you so much for being with us today. So as Shane just outlined, we're committed to our long-term financial targets. So what I want to show you today is the commercial engine behind them. You see the investments we've made across our network, loyalty platform, product portfolio, partnerships and most recently, Hawaii are expanding strengthening loyalty and ultimately driving the revenue, margins and earnings power needed to achieve those targets. And the formula is simple and is based on scale, relevance and loyalty. You see more scale and expansive products create greater relevance, greater relevance deepens customer loyalty and stronger loyalty improves the economics of the entire network.

So today, I'll show you how we're putting that formula to work. First, we're expanding the scale of our network and giving guests access to more destinations, more international opportunities and more ways to connect across the West Coast and the Pacific. Second, we're strengthening our product portfolio by launching key products and experiences that allow us to compete for a larger share of customer journeys. And that includes Aurora and Leihoku Suites, a true premium business class experience for long-haul travel. And

then there's Premium Reserve, our new premium economy offering and an enhanced premium experience on our future MAX 10 fleet for transcontinental routes. And then third, we're deepening loyalty by creating more opportunities to engage customers across their journeys and increasing the value of every customer relationship.

So let's start with the West Coast because that's where our scale advantage begins. This is a fantastic foundation from which to build, because the West Coast is roughly a \$5.9 trillion economy with about 57 million people. And as a country, it would rank third in the world. And over the last decade, we've built the leading airline franchise in this market, growing from the fourth latest carrier with just 13% gas share in 2014 to the #1 airline today with 21%. But the significance here is more than a ranking. We serve the largest share of West Coast demand of any carrier, more than 300,000 O&D markets, and that gives us a huge customer base, a broad network reach, deep loyalty penetration and a powerful platform to expand our network, increase our relevance and build a more diversified earnings stream.

I want to spend a moment on that leadership position because we're not just #1 on the West Coast by one measure. We're #1 across many of the attributes that matter most. We have the broadest footprint, serving 64 airports, more than 20 ahead of the next largest competitor. We offer the most daily seats with 169,000 across the region over 40,000 more than the Next airline, and we have the deepest premium offering with nearly 1/3 of our seats in premium cabins, and that's roughly 30% more than the next largest carrier. We know scale by itself doesn't create value. What creates value is the relevance that comes with it. Our network allows us to connect more communities, capture more flows and engage more guests than any competitor on the West Coast. And you see that relevance drives loyalty and strengthens our competitive position, creating a competitive advantage that becomes increasingly difficult to replicate.

So let's break that West Coast leadership down. I want to start with the Pacific Northwest, where our position is unrivaled. The Pacific Northwest matters enormously to us. It represents approximately 57% of our capacity and 59% of our revenue. The real story is our position within the region. If you take Seattle, Portland and Alaska, they represent 85% of Pacific Northwest passengers, and we are the clear leader in each with gas share approaching 50% or more. That's a very different position than what you see in other major West Coast markets where leadership tends to be far more fragmented. So in Seattle, our 53% share translates into twice the daily seats of the next largest carrier, significantly greater infrastructure and over 40 more destinations. And in Portland, our 47% share translates into 4x the daily seats of our closest competitor over 50 more destinations. And then of course, in Alaska, we're at 66% share with 10x the seats of the next largest carrier and more than 30 additional destinations, providing a unique lifeline service to communities across the state.

This isn't a simple airport-by-airport advantage. This is a regional structural and system advantage. You see the scale we've built across the Pacific Northwest gives us more opportunities to serve local demand, efficiently connect traffic and offer touch points to build long-term guest loyalty. And because these markets work together as a system, every new destination, customer and loyalty member makes the network more relevant and more valuable over time. Of course, Seattle is the cornerstone of the network representing 41% of Alaska's capacity. Now if we've proven anything over the last decade, it's that we have built a deep moat around Seattle. Notwithstanding that one of the largest airlines in the world has undergone a decade-long attempt to unseat our position, we have not only not given an inch, but used that challenge to grow, diversify and unlock large and previously untapped revenue streams.

And often overlook fact is that Seattle is actually the largest airline hub for any carrier on the West Coast and located in a region where the GDP is growing roughly twice as fast as the rest of the country. And our North America seat base in Seattle is larger than any of the #1 hub carrier operations in either San Francisco or Los Angeles. But the real advantage is the breadth behind it. You see we serve 110 destinations. That's nearly twice as many as the next largest competitor, and our North American network utility is 17 points higher. Approximately 46% of the Seattle Metro population actively participates in Atmos Rewards. That combination of scale network breadth, loyalty penetration is difficult to replicate. It gives guests more reasons to choose Alaska, corporate customers more reasons to partner with us and Atmos members more reasons to consolidate their travel with us. Seattle is already a powerful hub, but we're nowhere near done unlocking its full potential.

So going forward, you may ask, will we see 5 important levers, and what's really important here is several are unique to Alaska that can further strengthen and grow our Seattle position. The first is gauge. As we add MAX 10s and 787-10s, we retire older aircraft and continue to replace regional flying with larger aircraft, seats per departure will increase meaningfully over time. In fact, next year marks the first step with gauge growth alone creating the equivalent of 4 additional daily departures, but that's only the beginning. Now the second is frequency. As I've shared, we have substantial infrastructure in place today with room to add flying during shoulder periods as well as seasonally where customers value additional choice and scheduled depth.

Now the third, especially from in the East Coast, you may not be aware, it's Paine Field, and we are actively growing now. It's located just 25 miles north of Seattle, and it gives us a unique opportunity to capture local North Puget Sound demand with a convenient premium experience that no other carrier can match. We go into 16 daily departures next summer, and we'll continue to grow from

there as additional gates come online. Now the fourth is unique and powerful lever, optimizing Seattle and Portland as a system. You see by routing the right connecting traffic through Portland, we can preserve valuable capacity in Seattle for the local customers who generate the highest long-term revenue and loyalty value.

And of course, our fifth is our intercontinental unlock, which represents roughly 30% of Seattle's market revenue and opens an entirely new product pool of local, corporate, premium and connecting demand for us. So together, these levers create a runway to gross share from an already strong base for years to come. And now turning to Intercontinental service from Seattle. The strength of our Seattle hub gives us a large and loyal customer base, extensive domestic connectivity and a powerful foundation for growth. You see, historically, long-haul international was the largest untapped opportunity within our Seattle franchise.

But today, that's changing. We're leveraging our West Coast leadership positioned to build a global gateway, expanding our relevance to customers and increasing our exposure to an attractive source of future revenue growth. We've already shown you we command the #1 share of the Seattle domestic market and the lion's share of the Pacific Northwest.

Then let's layer on international. Directly serving this market opens up an entirely new pool of demand in our home market. And as we discussed at our last Investor Day, this demand was always there. Seattle-based companies were already spending significant travel budgets internationally. And our premium leisure guests were already traveling around the world, and many of our most valuable customers were earning loyalty with us domestically before redeeming internationally on other carriers. Historically, we handed that customer off. But now we can keep more of that journey within the Alaska ecosystem, and that's what makes this so powerful. International service makes the entire Seattle franchise stronger, deepens our relevance to guests, corporate customers and for Atmos members alike. And through oneworld, the value extends even further. We bring customers to their gateway and then our partners connect them to the rest of the world.

Now as you've probably seen, we have moved quickly to build an international franchise from Seattle. Today, we serve 7 international destinations, and we expect that to grow to 10 by 2028 and 15 by 2030. But more importantly, we are rapidly closing the utility gap with Delta. In 2024, we had essentially 0 ability to serve Seattle's long-haul international demand on our own metal. But just 2 years later, we built a network that closes most of that gap. And by 2030, we expect to be the #1 international carrier in Seattle. As the Seattle Gateway scales and as we optimize Honolulu, long haul will become a larger part of Air Group, nearly doubling from 8% of our capacity today to 15% by 2030. And this is a meaningful shift in our business mix because international is one of the most attractive segments of the industry today, where unit revenue growth has outpaced domestic by 9 points since 2019. Every destination we add makes our network more relevant, strengthens Atmos Rewards, improves partner connectivity and further increases the value of Seattle as a global hub.

So with the launch of 5 intercontinental markets in the last 16 months, we are already seeing evidence that our strategy is working. Just focusing on our long-haul service, our managed corporate share is more than 2 points above fair market share. And about 30% of our leisure guests are actually new to Alaska. Additionally, half of our intercontinental guests are Atmos members and approximately 1/4 of travelers are carrying an Atmos co-brand card. These are very strong initial results, and it just validates our thesis that our international service is increasing relevance with corporates, premium-leisure travelers and existing Atmos members all at the same time. And this is the flywheel in action. And we have exceptional confidence in our path from here. We have 4 levers within our international expansion that these will include product improvements, participating in joint business, growing efficient Seattle 787 base and implementing network-wide revenue-management tools that will deliver greater unit revenue from our combined network.

So taken together, these provide a path to long-haul profitability and support our long-term goal of achieving system-level margins. Our international product investments are a prime example of how we're optimizing our product to the routes. We're flying and the customers we're serving. Aurora and Leihoku, our new flagship experience for Alaska and Hawaiian, they offer a full range of premium experience. The new lie-flat suites will be featured on all of our 787s and 330s for long-haul flying. As you can see, we're also introducing Premium Reserve at a new premium cabin for us, economy class, on the long hauls for both Alaska and Hawaiian. But importantly, this product feels a gap in our international offering and gives us access to one of the most attractive and profitable parts of the cabin that previously we just couldn't serve. And we're optimizing the fleet around that opportunity.

As additional 787s enter service and the MAX 10 joins the fleet, we're not just adding seats, we're adding more of the seats customers value the most. And now we can take guests where they want to go with the experience that they want. And premium does not stop at the aircraft door. We are building end-to-end experiences, a new premium check-in for our suites and titanium members and a new 41,000-square-foot lounge with approximately 14,000 square feet dedicated to an international experience. So our total Seattle lounge footprint will be over 73,000 square feet by 2030 across 5 lounges. And these are the types of investments that allow us to keep scaling Seattle in a meaningful way. And the goal is simple. When a premium customer chooses Alaska, every part of the journey should reinforce that choice.

I'd like to spend a minute on our partnerships because they are a critical part of this strategy. And we have an outstanding partners today, but we plan to take these partnerships to a new level. And as many of you know, a critically important partner of ours is American Airlines, our primary partner, we've built long-standing strategic relationships with them, and it's only getting stronger. We are renewing and enhancing our existing agreement with American to provide even greater code share and loyalty benefits to our guests.

And on top of that, we intend to file an application to join the oneworld Atlantic and Pacific Joint Businesses. See, Seattle's geographic location makes it a natural gateway to Asia. And with real opportunity for oneworld to grow share, we are uniquely positioned to help lead that growth. The result is a more valuable network for customers with more destinations, better schedule, seamless travel experience while further strengthening our relevance with corporate travelers.

So for us, filing our DOT application is just the next step in establishing Seattle as a leading global gateway and extending the reach and our earnings potential of our franchise. And the last 2 levers further optimize the profit outlook with our revenue management tools on track to unlock greater revenue potential in '27 beyond as well as efficiencies and productivity gains as we move past the initial start-up costs of launching our international flying. Our second largest Pacific Northwest hub is Portland, and it plays a critical role in the broader system.

You see Portland is a substantial local market in its own right. It is the 8th largest market on the West Coast and a top 25 metro economy with a globally relevant corporate base. We already hold approximately 44% of the local market, 56% of the daily seats and provide strong North America utility at 80%. So we have a deep and active Atmos population equal to roughly 36% of the metro area. So over the past few years, we've worked hard to build Portland and it's paying off. Since the first half of 2023, we've grown domestic seats by about 30%.

Flow traffic is up fivefold over that same period. And local share is up 5 points. Active Atmos membership is up 12% versus 2024. And we did that without giving up profitability. You see margins have improved relative to the system. Portland is a story of focused smart growth that improves utility, strengthens the local franchise and captures the right traffic flows. And just as importantly, it proves that Seattle and Portland are stronger together allowing us to serve more customers connect more traffic and improve the efficiency of our Pacific Northwest network.

And we still see significant opportunity ahead as we're building the infrastructure to keep growing. Through our long-standing partnership with the Port of Seattle, the airport has completed what I believe is the most stunning terminal modernization projects in recent history. Between that, the new terminal, a new lounge, gates, we're creating the kind of experience that supports both our premium strategy and continued growth in the market.

And behind the scenes, our new 3-bay hangar with capability to accommodate 2 wide-body aircraft is expected to be completed by June of '28. We'll further strengthen our Portland's role in our network. So with additional gates coming online this fall, we have meaningful room to add flying, while international remains largely untapped, another future unlock for us. We've built a strong franchise in Portland, but the best chapters of that story are still ahead of us. And while Portland can often be viewed as the supporting act for Seattle, it's a strong hub that can grow profitably on its own. And more importantly, when we optimize Seattle and Portland as a system, the entire Pacific Northwest network becomes more efficient, more relevant and more valuable.

So taking a step back, when Seattle and Portland are taken together, this creates a regional advantage that no competitor can match. Seattle gives us the scale, local penetration and global reach. Portland gives us a meaningful local franchise and a more efficient way to serve connecting demand. And our broader Pacific Northwest network extend our presence into communities where the relationship with our brand runs deep. Our path forward is to keep using the hubs as a system, scale each where the economics are the strongest, deepen premium and loyalty penetration and build more robust domestic and global utility across the region.

Okay. So now before we move into California and Hawaii, I want to spend a few minutes on how we're strengthening our product offering to increase our relevance across the entire West Coast. So to be relevant here, you need to win with premium travelers. The West Coast is one of the largest and most economically productive regions in the world, home to companies like Amazon, Microsoft, Google and Boeing and a deep pool of premium leisure and managed business demand. And as I've already shown, we have a commanding position serving those customers, but it's not just who we serve, it's also how they travel.

Across the West Coast, travel often means longer distances, which makes premium products even more important as our friends from New York who flew all the way out here and thank you for that kind of test. We have the longest average stage length in North America at approximately 1,078 miles. I'm not sure if you're aware, but that's 35% longer than the big 4s average. Roughly 70% of our capacity is in markets longer than 1,500 miles and 1/4 of our flights are over 4 hours. So when people spend more time on the

airplane, then we'll likely to value a better experience. And that's true across the industry, but it's especially true for Alaska given our long stage length.

So with a network that spans Hawaii, Alaska and increasingly the world, our guests consistently show a willingness to pay for more comfort, privacy, space and service. We already have the scale and customer base. What we're doing now is making sure we have the right product for every trip they take. Now speaking of long stage length, one of the last meaningful gaps in our West Coast franchise has been premium transcontinental service. And today, we are closing that gap. Let us show you what that looks like.

[Presentation]

Andrew R. Harrison

Executive VP & Chief Commercial Officer of Alaska Airlines Inc

All right. Well, I hope you enjoyed that as much as I did for the nth time. I love that video. I'm not getting bored with it at all. New York is one of the largest premium markets in the country. There is no disputing that. And despite operating 24 daily [departures], our performance has lagged competitors because we lacked the right product. And this new Boeing narrow-body product will be a dedicated 4 cabin configuration on a MAX 10 aircraft with at least 45% of the seats in premium cabins, including 12 lie-flat suites. It brings the lie-flat experience to premium transcontinental customers while maintaining a full range of choice across every customer segment. And this product will launch across a fleet of at least 25 MAX 10 aircraft to start. And this isn't just a New York strategy. We're deploying this product across a broader set of premium, high business demand markets. We'll be the first airline to roll out this at scale across the West Coast.

And importantly, this closes a key product gap for us, especially in California and Seattle, while increasing relevance, deepening loyalty and strengthening network economics.

So let's turn our attention to the great state of California, which, by the way, 28 years ago, I both met and married in the same year my wife. So that's part of what I love about California. But over the last decade, we've built a very solid foundation in the largest California markets, and we are well positioned to grow over time. Its economy would rank fourth largest of any nation and is powered by global leadership in technology, entertainment, trade and agriculture. That economic backdrop provides significant air travel opportunity for Alaska. We serve 18 airports across the state from small spokes to secondary and major airports in the Bay and the basin.

You might be interested to learn that 28% of our Atmos members reside in California as well as 22% of cardholders. We have strong position in flows where our network is most relevant. Similar to how we've grown our position across the West Coast, we focused on deepening our relevance in large markets like intra-California and connecting both Northern and Southern California. But in aggregate, we have grown our intra-California utility from 15% in 2016 to 55% today. We are very committed to both Los Angeles and San Francisco. These are cornerstones of any California presence. We've built significant infrastructure at both these airports, which includes lobby, gates and lounges. We see real growth opportunity in these important California airports over time. But that said, we've been focusing our growth in measured steps, including California to the Pacific Northwest, California to Hawaii and transcontinental service.

And our current phase of California growth is focused on San Diego, which has become our largest hub in California. We've built a network with roughly 120 daily departures serving 50 destinations. We lead in network utility and offer more than twice as many front cabin seats as the next competitor. San Diego is also the ideal market for our premium offering. You see median household is approximately 34% above the U.S. average and customers value a network and experience designed around long-distance travel. So we already hold a meaningful position in San Diego, and now we're positioned to become the premium carrier of choice. Our investments in product, brand and experience are clearly paying off in San Diego, a bellwether measure of our ability to grow our brand and presence in California over the long term.

Active Atmos members are up 28% since 2024. Cardholders are up 15%, and we now have above fair market revenue share with managed corporate accounts up nearly 5 points from 20% to 25%. Our new markets are also following a similar pattern. As they mature, we're seeing real improvement in unit revenue in just their second year. And this is the playbook working the way it's supposed to. We build out the network that earns us more relevance with corporate customers and more engagement from our loyalty base, and that demand is what makes the economics of these routes better over time, which then allows us to continue to grow. San Diego is a great example of why the product must match the market. We've built a highly relevant network, and now we're investing behind it. That includes more premium seating, a new lounge opening in 2028 and the recently approved \$1 billion terminal redevelopment project so that the facilities we operate out of will be the best-in-class and serve our guests for generations to come.

And we are also the main connection for oneworld in San Diego. Our partners bring international customers into the market, and we provide the domestic connectivity that extends the value of those partnerships across the broader network. So you look at that combination of network, premium products and experience and a growing Atmos base, and there is a lot here that makes Alaska the winning choice. We have a clear path to continue growing San Diego through 2030. We will upgrade, upgauge more of the regional flying in that market, which today represents 57% of our departures. We're going to add depth where demand supports it, take advantage of the infrastructure investments that are now in place and improve connectivity across the network and through oneworld and continue growing our premium and loyalty franchises. We are not trying to serve every market in California equally, but we are focused on the places where we have a strong base and a competitive advantage. San Diego is one of those places, and we believe there is still meaningful room to grow.

And this is really the broader theme of everything I've talked about today. We've built scale across the West Coast, and we're using that scale to become more relevant to our guests through international growth, premium products, loyalty and partnerships, we're filling in the missing pieces of our commercial strategy and serving a larger share of our customers' journeys. The result is a business with more ways to win, a more global network, a more complete premium proposition, deeper customer engagement and more diversified revenue base. And we're already seeing evidence that it's working.

So with that, I would like to invite my long-time colleague, Diana, the CEO of Hawaiian Airlines, to talk about Hawaii franchise, a huge market and one that is a crown jewel of our West Coast strategy and specifically our California expansion. Diana, come on now.

Diana Birkett-Rakow

Executive VP of Alaska Airlines, Inc. & CEO of Hawaiian Airlines

You made it. Thanks, Andrew, and Aloha to all of you. Prior to the combination, Alaska Airlines and Hawaiian Airlines could each serve a part of travelers' needs to, from and within Hawaii. Today, we can do it all. We've worked hard to optimize the network since coming together. And today, that shows up clearly in the numbers. We're #1 in guest share to and from the entire U.S. continent, #1 in the neighbor islands and #3 internationally, but #1 internationally with oneworld. And importantly, we've increased share between Hawaii and the Western U.S. by 3 points. And we're seeing the benefits of building a truly integrated Hawaii franchise. One-stop utility is now in the 90% to 94% range across our hubs and double digit -- up double digits versus pre-acquisition, all while aircraft utilization continues to improve across the A321, A330 and the 787 fleets.

Now just 5 months ago, we cleared a major hurdle, operating as one airline for our guests with a seamless experience across brands, a unified loyalty proposition and the benefits of oneworld. This was really the start of our value creation journey. Now if you're not from the area, you may wonder why we're so passionate about Hawaii. I grew up in Boston and many years went to Florida for spring break, often driving. And when I moved to the West Coast, I realized that people out here think of Hawaii with the same frequency and proximity. And of course, they fly. Hawaii is one of the largest leisure markets in the world. It's beautiful, safe and the only truly tropical destination within our 50 states. And it's really multiple destinations in one stunning geography. From Honolulu's food scene or spectacular hiking and world-renowned surfing just a short drive up to O'ahu whose North Shore to Hawaii's dramatic natural beauty, Maui's stunning beaches, Hawaii's volcanos and local fashion, you'll find remarkable people, culture and a feeling that stays with you.

Hawaii hosts between 9.5 million and 10 million visitors annually, a constraint that allows us to ensure that every visit is as special as it should be, and many return year after year after year. Hawaii residents also depend heavily on air travel, flying about 30% more than the U.S. average to connect between islands to the continent and internationally. Now this year, we faced headwinds, including storms from the strongest El Nino in living memory, and we've been deeply involved in our communities following each storm. But as we've seen for years, this market is truly unique, valuable and resilient for the long term, and we're here for all of it. So let me make these market dynamics just a little bit more concrete.

Our opportunity is serving 2 distinct groups of travelers, the 9.6 million visitors that travel to Hawaii each year and the 1.4 million residents who depend on air travel for everyday life. They create an important balance. Visitors bring premium demand and long-term growth potential, while residents bring year-round frequency and deep loyalty. And most of the traffic is between Hawaii and the Western U.S., with 75% of that originating on the West Coast.

So first, let's dig into the visitor segment. The West Coast is the largest market in the world to Hawaii, contributing well over 40% of total Hawaii demand. And we know these guests are highly valuable to our business with higher travel budgets from higher incomes and more flying, more spending and more loyalty invested in our airline. We give these guests something no one else can, a uniquely Hawaiian experience that begins the moment they step on board. We fly nonstop from 19 airports across the Continental U.S., nearly twice as many as any other carrier, including from all of our West Coast hubs, primary and secondary markets. And beyond those routes, connecting traffic from other parts of our network to Hawaii is up by double digits, leveraging every one of our West Coast

hubs. And then there's brand love. In each of our hubs, consumers prefer Hawaiian Airlines brand as their top choice for travel to Hawaii by at least a factor of 2.

The brand also has high equity in Asia and the South Pacific, and we're now a better option in these markets. With oneworld, partner airline loyalty members can now earn points and have their loyalty status recognized on the brand that truly represents Hawaii, another reason to choose us. Our network can adapt as international visitor traffic recovers and the joint business that Andrew mentioned earlier will bring even greater reach and value to our guests. So what's our next step? Our next step is investing to create a market-leading experience for every class of traveler with the #1 premium product. This year, we elevated onboard food and beverage with new local chef partners, high-quality meal offerings and more onboard product partners rooted in Hawaii. And over the next 2 years, we'll bring to life modern, elevated airport lobbies, gate areas and refurbish the interior of every A330 aircraft for a fantastic experience from main cabin through the front of the plane.

Now earlier, Andrew highlighted that our network over-indexes on longer stage lengths, and that's true. But think about Hawaii. When it comes to Hawaii, every flight beyond the islands is over 4 hours. With the A330 retrofit and the introduction of premium reserve, we will have the only 4-class offering at scale between North America and Hawaii, a premier domestic first and international business class with new Leihoku suites and 40% premium capacity on this fleet. In 2027, we'll debut a dedicated priority check-in and security access experience for our Titanium elites and suites guests traveling out of Honolulu. And in early 2028, we'll open a flagship 13,000 square foot Honolulu lounge. Now we've talked about visitors, but these investments are also a game changer for how we serve local people and businesses, a core part of who we are. From daily commutes, family or doctors' visits through the Neighbor Island network to transporting daily essentials via our cargo operation.

We're integrated into life in Hawaii in a way that no other airline can be. It's one of the reasons that Hawaiian Airlines remains the #1 trusted airline brand in Hawaii, and we've added much greater scale and relevance. Our combined network can now take local residents to 4x as many places, twice as many destinations as any other competitor and even further with oneworld. Specific to our Neighbor Island network, we carry roughly 3x as many guests as our nearest competitor on 140 or so flights a day. Now just to give you a sense of just how much flying that is, the total volume of Neighbor Island flying annually is 15% more than the entire Boston, New York, D.C. shuttle triangle. And many of you, including myself, I know, have been on many of those shuttle flights. It's a lot of flying. Our transition to larger 737 aircraft will bring more capacity and a better experience and let us continue increasing our share of this essential service.

On the loyalty front, 70% of all Hawaii residents are now Atmos Rewards members with strong engagement in Huaka'i by Hawaiian, our program with special benefits for locals. Status holder concentration rivals our strongest markets, and our cardholder numbers and spend are above goal, and we're just getting started. The bottom line is that Hawaii is more than a destination, and we are far more than a participant in this market. The combination of enduring visitor appeal and essential local travel makes this market distinctive, valuable and resilient and no other airline is better positioned to serve it. We fly for Hawaii. We have the largest, most relevant network, 2 strong and beloved brands that work together with our loyalty program to deepen traveler value, and we're bringing to life a truly differentiated experience to match the authentic Hawaiian hospitality of our teams and to serve more visitors and more residents on our airline. That's why we continue to invest. That's why Hawaii will remain an enduring source of growth, loyalty and value for our company.

Thank you, Mahalo. And I will now turn it over to Brett to unpack our loyalty engine.

Brett Catlin

Senior Vice President of Network, Partnerships & Loyalty

Thank you, Diana, and good afternoon, everyone. Almost 2 years ago, we shared with you a plan to combine Mileage Plan and HawaiianMiles into a new platform that would take our program growth from the mid-single digits to a much higher sustained growth rate. The combination of Alaska and Hawaiian presented us with a unique opportunity to leverage loyalty as a gateway to Air Group and our portfolio of premium brands and global partners, including oneworld. With this in mind, we launched Atmos Rewards in August 2025 with a market positioning that anchored the platform to being generous, global and aspirational. Just over a year in, we're very encouraged by how our guests and the industry pundits I see a few of you there in the back of the audience have received our integrated offering.

Over the next few minutes, I'll walk you through how we've quickly amplified growth and what we're doing to sustain our momentum out through 2030 and beyond. At the core of our growth strategy is building a loyalty offering for all types of travelers. Over the last decade, rewards programs have increasingly been retuned to focus on one consumer, the guest spending tens of thousands of dollars a year on travel and even more on their premium credit card. This guest matters enormously to us, and we're increasingly relevant to them. At the same time, we wanted to build Atmos to engage the whole of the travel pyramid, the family that flies to Maui once a

year, the 25-year-old booking her first trip to Tokyo and the Bethel resident who has relied on Alaska for decades for the dozens of essential trips they take within the state of Alaska every year.

How we achieve this objective comes from 3 innovative guest-facing offerings that we believe will also propel growth. The first is choice accrual that lets every member decide how they earn. This is an industry-first benefit that ensures our core program proposition is tailored to the unique needs of each traveler. Many next-gen and premium travelers expect to be rewarded for what they spend, while our long-time loyalists love earning by distance. Now each gets the construct they want. Communities gives every guest, not just status holders, extra perks in a way to make the program theirs. Think free bags in the state of Hawaii for those in our Huaka'i community or discounted award tickets for children for those in our families on the Go community. Importantly, this offering lets us engage members more deeply while sharpening what we put in front of them with a specific focus on the most leveraged growth segments and geographies.

And coming to Unlocked, along with our monthly Atmos Members Day, this allows us to offer unique activation and engagement opportunities for our growing portfolio of lifestyle partnerships. To give you a sense of what's on offer, today, we announced we're adding 3 new partners to the portfolio, Alterra Mountain Company, Nordstrom and Pebble Beach, and we have many more in the pipeline. These tie-ups deliver some really cool benefits for our members. I'm personally excited about Atmos Members' Day coming to Crystal Mountain just down the road every month this winter season and for our members to be able to use their points on an Ikon Pass. Now getting back to the numbers I know many of you are a bit more interested in.

The ethos of building a program for all travelers is already starting to rev member growth. From 2019 through 2024, active membership in the program grew about 3% annually. Since we launched Atmos, we're compounding at 13%, more than fourfold the prior pace. Three things are bringing new members in. First, the brand positioning is landing with travelers, particularly the next-gen cohort that is core to our future. In only a couple of years, our average member has dropped by 2 years and now sits below 40. We're also finding that our new members are highly engaged with more than 50% of new status members hailing from Gen Z. Second is the global network Andrew just described. As we scale the franchise to points across Europe, Asia and the Pacific, we're attracting new members that are more likely to take a long-haul trip.

These members are also much younger, 5 years on average than what we historically saw across our domestic network. And third is the rollout of free ultrafast Wi-Fi in partnership with T-Mobile. Since July, our 100-plus Starlink equipped aircraft have required Atmos to access the service. And we've tuned the offering to automatically enroll people into our marketing channels such that we can drive engagement that's commensurate with what we see across the broader program population. As an aside, I know many of you traveled in today, the Starlink product is amazing. And when you experience it onboard one of our flights, I believe you'll see the power that this has to drive growth for years to come.

Now moving on to our card portfolio. This part of our business has grown in tandem with the program. Since 2024, we've welcomed nearly 1 million new cardholders to the platform. This growth is helping to propel core program economics with cardholder spend up an impressive 13% and program remuneration running up well over 20% since 2024. The composition of our cardholders is also emblematic of the direction Air Group is headed and speak to the power of the Atmos platform. Today, roughly 30% of our new cardholders come from outside our core. And like our program, they are, on average, 4 years younger. As we've quickly scaled our cardholder base, we're also seeing a significant uptick in the type of spend that reflects our younger, more affluent base with international spend since we launched Atmos up 30%.

Moving on to the translation of program and card growth to cash remuneration. On the heels of our strong post-Atmos performance and our extended agreement with Bank of America, we've upped our 2027 cash remuneration target to \$3.1 billion versus the \$2.9 billion we shared with you all in New York back in late 2024. A notable driver of this stepped-up growth over the past year has been our expansion of the premium market with the launch of our new Summit card. This offering quickly scaled, and there are now well over 100,000 cards in circulation. Importantly, these cardholders are spending more than double our Ascent cardholders. And for those that are upgrading from Ascent to the Summit product, their spend is up 75% as we capture meaningfully more share of wallet. Putting the growth of Atmos and our card portfolio into context, today, Atmos is one of the largest co-brand programs in the country.

Looking at estimated purchase volume, we stack up with global brands like Marriott and Hilton, while punching well above our weight as compared to the large U.S. carriers. In fact, adjusting for size, our purchase volumes runs roughly 1.5x that of our larger competitors. How we got here reflects decades of compounding and the deep loyalty that we have across our heritage markets. As just one example, in our hometown of Seattle, 1 in 5 adults holds an Atmos co-brand card, 1 in 5 adults. It's remarkable. The loss of Atmos builds on this legacy. And today, our members' wallets are more concentrated with us than any other airline, which we see as both a structural enablement to network growth and a durable driver of our financial performance into the future. As we look to sustaining this growth, we have an opportunity to lean further into white space that exists across our card portfolio. A critical ingredient to what's possible is our unique relationship with Bank of America, which we extended well into the 2030s.

This long-standing partnership is among Air Group's most strategically and financially important. Spending a moment on the 2 growth vectors that we're focused on. The first is building deeper, more integrated financial partner relationships, including with Bank of America here in the U.S. This will initially come in the form of points transfers and Atmos from the bank's large book of proprietary cards. This is a feature our competitors have benefited from for years, and we're super excited to roll it out with Bank of America next year. Second, on the heels of our successful Summit card launch, we're further expanding our suite of card offerings to ensure that we have a card product for every type of consumer, including the coming launch of both the debit and a no annual fee credit card. These product categories represent 75% of cards in circulation today, which we'll soon be able to tap into.

Across our existing portfolio, we also continue to see a penetration opportunity afforded by Air Group's global growth, premium positioning and the successful launch of Atmos. To that end, you'll see us refresh our small business offering in early November with an up-level proposition. Now spending just a minute on our new debit product, if you'll allow me. In keeping with our philosophy of building a rewards program for all types of travelers, we see debit as a uniquely compelling opportunity to meet the needs of both next-gen and new-to-country travelers who may not have access to credit or simply prefer not to use credit-based products. This product category represents more than 40% of all U.S. card spend, and we intend to bring to market a compelling offering in keeping with the rich value proposition offered by Atmos.

Cardholders can expect features rarely, if ever offered by a debit product, including free point sharing, travel credits and waive foreign transaction fees. We're fortunate to have a terrific partner in fintech Alviere, and we're eager to bring this product to market in early 2027. Now looking at the translation into run rate economics. This slate of added initiatives, we anticipate will deliver \$400 million in incremental cash remuneration by 2030. These initiatives begin to ramp next year, and we expect at least \$60 million of incremental cash in the year as we work towards run rate later this decade. Bringing it all together, our existing and newly announced initiatives position us well to drive both program and card growth well into the future. By 2030, we're targeting 25 million active members, more than doubling our active member count versus 2024. We fully expect this level of growth to drive a corresponding uplift in program cash as we convert interest into engagement and ultimately, card spend and growth.

Next year, we'll eclipse \$3 billion of cash remuneration. And as previously noted, we expect to outpace our Alaska Accelerate targets by roughly \$200 million as we harvest gains from the Hawaiian combination, the bank deal extension and the many initiatives we've delivered over the past 2 years. Looking to the future and consistent with Shane's earlier commentary, we expect Atmos to be a meaningful driver of Air Group's revenue diversification strategy as we approach \$4 billion in loyalty cash remuneration by 2030. Perhaps more importantly, these results are underpinned by our strong belief that building a program for all types of travelers will be a unique contributor to Air Group's economic moat, allowing us to deepen brand loyalty across the portfolio while also revving the Atmos P&L engine.

With that, I'm going to hand it over to Ian to chat cargo.

Ian Morgan

Good afternoon. Thank you, Brett. Great to be here. Thank you for joining us. Throughout Alaska Accelerate, you've heard us talk about unlocking the full value of Air Group. Cargo is a perfect example of that strategy in action. Historically, cargo has been a strong contributor to Alaska's performance. With the combination of Alaska and Hawaiian, we have something unique among U.S. airlines, a differentiated cargo platform spanning the entire U.S. with dedicated freighters, wide-bodied international belling capacity and ACMI operations. More importantly, cargo allows us to fully monetize our assets across the network. As we grow internationally, optimize fleet deployment and leverage a combined Alaska and Hawaiian footprint, cargo becomes an increasingly meaningful contributor to both revenue growth and margin expansion.

Our strategy begins from a position of strength. Built over decades, our State of Alaska cargo franchise operates 5 dedicated freighters, complemented by a robust belly capacity to, from and within the state. What makes this important from an enterprise perspective is that the infrastructure, relationships and operational expertise we've developed in Alaska provide a proven blueprint that we can now replicate and scale elsewhere in the network. When airlines think about ancillary revenue streams, cargo can be easily overlooked. For Alaska, cargo contributes a greater share of revenue than many of our industry peers. More importantly, our growth trajectory significantly outpaces the industry. Since 2024, cargo revenue has grown 60%, roughly double the next fastest major carrier and approximately 3x the average industry growth rate.

Why does that matter? Because it demonstrates that cargo is not yet a fully mature business for us. It's a growth engine. It strengthens diversification, helps monetize network assets and creates incremental revenue streams that are less dependent on passenger demand cycles. Cargo is about diversification and scale. We have a clear path to \$750 million in revenue by 2030, yet it's not dependent on any single market or vertical. It's supported by 6 complementary growth levers. As Alaska expands internationally, cargo becomes a powerful value multiplier. Our international routes create access to some of the highest value cargo flows in the world. Through

Seattle and Honolulu, we can connect Asia with North America using capacity that is already flying in support of our passenger strategy. We've already seen early indications of strong demand on routes such as Seoul and Tokyo.

Cargo contributes as much as 20% of flight revenue on transpacific routes, creating meaningful revenue enhancement without additional aircraft. Collectively, these businesses produce margins that are twice the system average, making cargo an important contributor to our long-term financial targets under Alaska Accelerate. One of the most compelling opportunities in front of us is Hawaii. In Alaska, we have built a market-leading cargo franchise with a path towards 50% market share as we introduce additional 737-800 freighters to the state. Hawaii today presents a similar opportunity, but from a much smaller base. Today, we hold only 6% share of interisland cargo by adding dedicated freighter service, leveraging Hawaiian's brand, loyal customer base and applying the operating model we have refined in Alaska, we see a path towards 50% share. This is a perfect example of Alaska Accelerate. We're not creating demand that doesn't exist. We're leveraging assets, capabilities, expertise we already possess and applying them to an underpenetrated market with significant growth potential.

And now I'll invite Shane back for some closing remarks. Thank you.

Shane R. Tackett

CFO & President of Alaska Airlines

Thank you, Ian, and thank you all again for spending the afternoon with us. If there's one thing we hope you take away today, it's that we made the deliberate choice to transform Air Group into a fundamentally stronger company built to compete and win well into the future. We have greater scale, more relevance with our guests and a more powerful loyalty platform. We have multiple avenues to expand our earnings potential and make the business more resilient as we diversify our revenue streams while maintaining our cost discipline. The foundation is now in place and the strategy is working. And while not all of that value is yet reflected in our results or our share price today, we have tremendous conviction in what this company can deliver. So thanks again for being here today.

And with that, Ryan is going to come up and share just a few things on logistics before we go into Q&A.

Ryan St. John

Vice President of Finance, Planning & Investor Relations

All right. Thank you, everybody. That concludes our prepared remarks today. We're going to move to Q&A, but we're first going to take a very, very quick 5-minute break. So for those of you watching on the webcast, please stay with us, and we'll be right back.

[Break]

Question and Answer

Ryan St. John

Vice President of Finance, Planning & Investor Relations

[Abrupt Start] to Conor because he had the courage to sit right upfront and center. So take it away, Conor.

Benito Minicucci

President, CEO & Director and CEO of Alaska Airlines

Conor, you did at school that you're worried -- the student in the front row seat.

Conor T. Cunningham

Melius Research LLC

I'm not trying to be front and center but Duane took my spot. Well, okay, maybe I have a bunch, but maybe I'll start with the codesharing that we kind of glossed over really quickly and then maybe the JV potential in general. One, maybe in the weeds type of comment but like I think back in Virgin America, you weren't allowed to codeshare -- part of that agreement, you weren't allowed to codeshare with American in a lot of their markets. Is that part of the extension now? And then if you could just talk about the JV potential and the codesharing in general and what that means to the load factors and the profitability, I think, internationally, I think that would be super helpful.

Benito Minicucci

President, CEO & Director and CEO of Alaska Airlines

Well, just let me start at least on the JVs. I mean what we're doing on JVs is nothing different than what all the major carriers have today with whether it's Sky, whether it's Star. So we just want to be on an equal level playing field. So the application will go in, in the next couple of months, and we believe that we'll have the same immunized status as everyone else. But when I say that, Conor, the international strategy works as a stand-alone. It will only be so much better supported with the JVs, and it will be much more successful with those JVs. And that complemented with our relationship with American on the WCIA, that all comes together just to build just a broader, stronger network domestically and internationally. And that's what I see. It's just -- it makes our plan just more robust and more realizable over time.

Andrew R. Harrison

Executive VP & Chief Commercial Officer of Alaska Airlines Inc

Yes. The only other thing I would add there is, as you alluded to, we had certain restrictions on us since 2016 on the Virgin America acquisition, and I believe they fall away at the end of, I think, next year -- summer of '27. And L.A. was obviously an area that hub has been -- and L.A. was a big area of restrictions. So that will be removed. And I'll also say just -- we've been busy, they've been busy, but we've just had a renewed energy around serving our joint guests across the country beyond each other's hubs. Loyalty is part of Oneworld. And then the joint business, as Ben said, these immunized joint ventures are going to really open up opportunity on so many levels for us and our guests.

Ryan St. John

Vice President of Finance, Planning & Investor Relations

I'm going to fan out, Ravi next.

Ravi Shanker

Morgan Stanley, Research Division

Ravi Shanker from Morgan Stanley. A question for Diana. Obviously, the Hawaii market is an incredible end market, but has had its share of challenges in the last few years. So 2 questions for you. One is, has anything changed with what you see as the structural earnings power of that market since you made the Hawaii acquisition? And if not, what is the path that you see today to get back to normal?

Diana Birkett-Rakow

Executive VP of Alaska Airlines, Inc. & CEO of Hawaiian Airlines

Yes. Thanks for the question. So I would say the answer to the first one is no. The fundamentals are clear. And just sort of to reiterate, it's an \$8 billion market, about 10 million visitors, 1.4 million residents who fly 30% more than the U.S. average. So you've got a valuable population to serve from coming into Hawaii as well as from Hawaii outbound. Hawaii is also incredibly resilient. I mean we see that in our teams just in terms of a storm comes through and they navigate in the operation and are back at it. And the truth is -- and we're working to support communities after a storm, but the truth is that the day after a storm comes through, it's gorgeous. And honestly, I mean, the storms have been in the news. I'll get text from friends and they'll say, are you okay? And I'll say, yes, we're at the beach. It's an incredible place to be.

The underlying job that we have to do in addition to navigating the storms is unlock the economics of the business that I walked through. So leveraging the greater connectivity, the fleet, the loyalty, the new premium product, which has real opportunity to come and the cargo opportunity that Ian walked through. And it's our job to bring those to life. We are seeing competitive capacity moderate for next year, and that also gives us another opportunity.

Benito Minicucci

President, CEO & Director and CEO of Alaska Airlines

And Ravi, just to put in context, '25 was a fantastic year for the West Coast Hawaii franchise. So this is not something that's been there -- that's been a drag for several years. This is storm related. And a lot of people -- Diana had the math there. I mean Hawaii is a big area, like you got the big island, that takes usually the brunt of the storms. That's why some of the other islands don't get hit. So you really have to know Hawaii. So even if the storm is going in Hawaii, you can actually -- people know how to fly there. They're not as impacted.

So it's kind of like when storms hit the East Coast, right? In Florida, it depends if you're hitting the West side, the East side. So I am as convinced as day 1 that this acquisition was the best thing for Air Group as we're building this future a stronger, more resilient company long term, and Hawaii will be fantastic for us long term.

Diana Birkett-Rakow

Executive VP of Alaska Airlines, Inc. & CEO of Hawaiian Airlines

The one thing I'll add is Aaron Sala, who is the CEO for the Hawaii Convention and Visitors Bureau is actually with us today, and we work in lockstep with them to shape the tourism market to do marketing, that's going to continue. That's just part of the underlying strength and opportunity.

Ryan St. John

Vice President of Finance, Planning & Investor Relations

We'll go back across to Duane.

Duane Thomas Pfennigwerth

Evercore ISI Institutional Equities, Research Division

Duane Pfennigwerth with Evercore ISI. Just with respect to the illustrative 2027, I thought that was a helpful sensitivity. Could you speak to some of the other assumptions maybe at the -- these are my words, not yours -- at the base case of 5% to in the bull case of 10% plus. What's the revenue assumption underlying that? And can you help us think about what the ex-fuel unit cost looks like?

Shane R. Tackett

CFO & President of Alaska Airlines

Yes, Duane, I will -- I'll give it in like broad strokes and not specifics because we're staying away from guidance or anything that could be construed as guidance. But we have another 1/3 of the original 2024 Accelerate value to unlock. We do believe that the current demand and fare environment wasn't fully reflected in revenues for the entirety of this year. So we think some of that will annualize into next year. And then we do think that there was a portion of revenues, a significant portion of revenues missing because of some of the weather-related things in the state of Hawaii.

If you ladder those up, you put some of the new initiatives on it, not any of the things we announced today, but just other things we've been at work on our own on the commercial side of the business. And we see a path, and we try to give like this range of like at \$3.25, if that's where fuel was next year, an amount of earnings that was similar to what we had guided to this year. And just to say that it was \$5 this year. And so that's just pure math.

We have a good sense of where the cost structure of the company is going to be next year. We don't have a good sense of where fuel is going to be next year. And I think we're getting increasing confidence around the revenue model for next year, again, assuming that the demand and fare environment does hold and annualize into next year. So that's like the basic way we've done the math to get there.

If we mark back to \$2.50, and the whole point was if we were at \$2.50 and we did everything I just said to you, the earnings are at \$10 a share again. And that's the underlying power that we've built in the business. It is being masked right now. We want to see it unlock. We all want to see it unlock. But I think it will be highly levered against fuel prices next year, most likely.

Scott H. Group
Wolfe Research, LLC

It's Scott Group from Wolfe. So Shane, you said, I think there's -- ex-fuel earnings are going to grow \$3 to \$4 next year. I think you just talked through some of the pieces. But is there any way to think about how much of that \$3 to \$4 is Alaska specific versus just that like annualizing the industry pricing? And then that, again, at \$2 jet, the \$10 of earnings, I think there's an assumption there that we -- you, the industry hold on to this 6, 7 months of like phenomenal pricing? Like is that a realistic achievable sort of outcome?

Shane R. Tackett
CFO & President of Alaska Airlines

Yes. So a good chunk of it is our own stuff. It is the rest of the value unlock from the initiatives. Some of it is recovery of markets that had material impacts this year. And then there is some that is the annualization of this fare environment. Look, I think all else equal, if the economy is hanging on, I don't see any reason demand is not going to be durable. We've seen durable demand, I think, 5 or 6 years running, really coming out of COVID. Even airfares today on a price-adjusted basis are well below what they would have been if they just followed inflation for 25 years. Yet the incomes of the people who are traveling for the most part, have well exceeded inflation.

So we look at our own information. We hear and read surveys that are done with others. More people want to travel, more people want to travel internationally, and they're giving more of their sort of overall discretionary wallet to travel, and most of that shows up in the experience, the premium experience demand that we see. I think once people take trips and they take them in a way that allows them to have a more premium experience, they tend not to want to go backwards as it were in terms of their experience on the next trip. So there's a lot of reasons to think as long as the economy is strong, there's going to be durable, strong demand that supports the current revenue environment that we're seeing today.

Thomas John Fitzgerald
TD Cowen, Research Division

Tom Fitzgerald from TD Cowen. I wanted to double-click on the premium products. How should investors think about the time line for those to mature from a commercial perspective and commercial optimization? And then just as an adjacent follow-up, thinking about the market share gains you guys are targeting by 2030, what do you view as the biggest risk factors if you were to not achieve those targets?

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

So on the first part, I think -- and we saw this when we launched premium class. Shane and I did that together back in 2016 or something. There was already a market, there was already a demand. So we -- and even as we've been seeing with the growth of the 787, we've just seen a natural growth towards that. And again, as we shared in our prepared remarks, this is just an untapped pool of demand that absolutely exists today that we do not participate in. The second was -- you're referring to the bank? I missed that first part. Are you talking about the...

Shane R. Tackett
CFO & President of Alaska Airlines

The market share.

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

Market share, sorry, I misheard that. And what was your question on that again, sorry? I see. I got you. I think for us, it's just purposely -- and again, we laid out very clearly the levers that we have at our disposal. I think we are very committed to making sure we serve the local population, which comprises the spending, which requires -- it's our loyalty base. You could have a city that has 100% connecting traffic over it. And that does nothing for the local and the loyalty base.

So I think our biggest constraint was making sure that we were able to provide the seats and the lift for the local passenger to get that share. And as I shared in my prepared remarks, I feel very confident that not only are we able to use the Pacific Northwest network to do it there, but also especially in California, bringing in new products that have not been there before and then, of course, our partnerships as well. So we feel really good about that levers.

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

I think it's true, Andrew, in Seattle, certainly in Portland and in San Diego, we've actually been building share for 10 years now or more. So this is not new. As we put the seats in, as we put the products in as we built the network out, the share comes, and we then have to earn that loyalty, deliver amazing service through the front lines, which our people do, I think, better than anybody. And so I think we got to go execute on the things we said, and we have a reason to have confidence that we can attract more people in, and we can keep them once there.

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

Yes. And our history, is -- not that I want to belabor it, but the MAX 10 airplanes really the higher gauge airplane at the same level of cost to operate the airplane is a huge enabler. We've seen in our history. You start with a 7, you put an 8, you put a 9, you put a 10, it automatically creates goodness. And so that's -- so it's low-risk growth, same thing going from a 9% to a 10%. And I think we do really have to emphasize in Seattle, like we did not participate in 30% of the revenues that are generated at Sea-Tac in terms of international revenue. So again, a low risk for us where we're going to participate in 30% of international revenues where we have the largest domestic network to go capture that, the largest loyalty to go capture it. So in our view, these are all low-risk bets to get huge gains.

Ryan St. John*Vice President of Finance, Planning & Investor Relations*

We go to Brandon next.

Brandon Robert Oglenski*Barclays Bank PLC, Research Division*

Brandon Oglenski from Barclays. Maybe it's a good follow-up to that, too, because I think, Andrew, in your prepared remarks, you said international getting to system average margins. So can you speak to maybe some of the start-up costs there and then some of this goodness that you can tap into when you go from 8% of your network to 15% in the future?

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

Yes. I think -- so a couple of things. Obviously, with the Seattle crew base getting built up and we're growing the 787s and then the efficiency there. But I think really, when you really take a step back, the largest levers for our international franchise getting to system level, which we believe operates above system level growth just international alone is the product. We're putting -- with the -10, 787s, we're going to go to 40 seats. We're going to have 35 premium reserve seats that do not exist today with the network and a big one for us is network revenue management.

We do not -- we basically look at our network on a segment basis, and we're going to be able to have a much better ability to segment the demand through this large connecting complex and also what we do with international. And of course, as I shared, the joint business is going to be significant. If you think about getting access to all the sales professionals, the corporate accounts, the distribution channels and just the harmonization over in -- whether it's in Japan or in Europe, it's just going to be huge for us. And so we have a lot of confidence that we'll do well there.

Ryan St. John*Vice President of Finance, Planning & Investor Relations*

Before I circle back. Mike, did you have a question?

Michael John Linenberg*Deutsche Bank AG, Research Division*

So suppose jet fuel doesn't break, it stays at \$4 or higher. There are some of your competitors that -- some of your fierce competitors seem to be generating a decent return, not as much as they would expect, given the higher fuel prices, but they're making money, they're generating free cash flow. What is the response of Alaska, do you have to go back and rethink 11% to 13% pretax margin? Or maybe the \$4 or higher jet fuel opens up other opportunities because there are other carriers that will definitely not make it at those price points. Your thoughts on that.

Benito Minicucci

President, CEO & Director and CEO of Alaska Airlines

Mike, it's a super good question. I think if I polled everyone in the room and who thinks it is a stay over \$4, I think in the high \$3s and mid-\$3s and low \$3s, we'd all have a different answer. The thing is nobody knows. And our view is what we try to do today is say, let's put fuel aside because it's -- if you're trying to create a business to manage the volatility of fuel, you're going to miss. So you say, look, fuel, we know even in the country with a high diesel fleet, it has to normalize. We cannot operate as a country with this level of fuel and the impact to inflation. You know it has to come to a normalized level. So you make that assumption as well, it's going to happen with jet fuel as well.

So if you put jet fuel aside, you say, what is the best strategy, even if jet fuel goes up and stays up in the fore to insulate yourself as best as possible. When you look at the carriers that are successful is they have mature products with global networks and premium products and scale up the hubs and large loyalty programs. It's things that we have, but now we're just building out more. So what I would say to that is yes, it could be up to \$4. Is it going to change our strategy? No, because we know over the long term, these are the winning ingredients to build an airline over the cycle that you guys can believe in our investors can believe in and say, this is a company I'm going to put my money behind because they're committed, they'll run it well.

And the other thing I'll say as well, you guys know as we try to say, you guys have been following us a long time. Us 3, we've been at the company for over 20 years. It was burned in our brain, low fare, low cost, high productivity, high utilization. We operate like machines. And you guys know that, right? For us to say, all right, you know what, the world is changing ahead of us. And the airlines that actually have high cost structures are the ones making the highest margins. And so you have to see -- and this is why I said like we looked at ourselves, hey, we need to pivot. We need to pivot.

And it's hard for us to pivot because that's how ingrained our philosophy was, but it's like being ambidextrous with the right hand and left hand. That's what we did. But we believe right now that, that is a strategy to best insulate yourself against -- it could be fuel like it was macro tariffs in '25, it's fueled -- I don't know what it's going to be in '27. There could be something else, but we're going to be ready for it.

Ryan St. John

Vice President of Finance, Planning & Investor Relations

Andrew.

Andrew George Didora

BofA Securities, Research Division

And Andrew Didora with Bank of America. Maybe Ben, sticking on the fuel topic, right? It's obviously a massive portion of your cost structure. And Shane, I think in the past, you've spoken about ways to maybe diversify away from West Coast crack spreads. I think there was a small footnote in the presentation that talked a little bit about that. But can you maybe give some thoughts around the opportunity there, options at your disposal? And then I know this is a very easy question to ask in times like this, but you used to hedge. Do you ever think about going back to that?

Benito Minicucci

President, CEO & Director and CEO of Alaska Airlines

Andrew read your footnote.

Shane R. Tackett

CFO & President of Alaska Airlines

I was going to see a Gold Star Award for reading the entire or he had an agent, oh, yes, okay. Okay, so. No, look, I think a couple of years ago, we started to see this sort of normalized difference in fuel price on the West Coast begin to look different than it had for 20 years. And we're kind of like well, that's got to sort of figure out how to behave itself and go back to normal. I think at this point, we've decided like we're not going to just let it continue to be outside of our control. So finding a way to structurally improve fuel

supply is not something that happens quickly. We've had to become much smarter about how these markets work and how the West Coast versus Gulf Coast versus Singapore or MOPS index work.

I think we are getting a lot smarter. I think there's an opportunity to diversify the fuel supply into Seattle. I think we're building a base of support around that idea with lots of other folks who would have to come along with us. And that will give us the opportunity if we need to, to bring in what typically has been the best priced jet A fuel in the world, which comes out of Singapore and off the MOPS index and to take it in. And that's what we intend to do. We've been talking about that idea for a couple of years. Wish we could be here announcing that we're not at that point of clarity yet or fidelity.

But I think we're gaining in confidence that we can ultimately find a path towards that would be super helpful. It's more medium-term-ish. It's not short-term-ish. We'll continue to think about how we diversify the supply along the West Coast as we'd like to also bring better priced fuel into California as well. It's interesting as we sit here today, and I kind of hope it stays this way for the next 15 years, but spot prices of jet fuel are higher on the East Coast barely than they are over the West Coast today, which I haven't really seen that. So it's upside down.

The only thing I'll say about the last part of your question, Andrew, is my boss and good friend over here, Ben, was the principal driver of us getting out of the hedging program and is now the principal driver of us thinking about a hedging program in the future again. So it's absolutely something we're talking to ourselves about.

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

Because we want to close the gap. Why wouldn't we have a 20 -- like in normal times, there's \$0.20 gap?

Shane R. Tackett
CFO & President of Alaska Airlines

It was \$0.10 and then it's moved to \$0.20. So we got to figure out a way to do that. Nothing imminent. We've got a good balance sheet. We won't be -- we'll be very smart about it. And it probably wouldn't look like our old hedging programs. But the idea that we'd never hedge again, I wouldn't take off the table.

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

Andrew, I'm just a frugal Italian. That's how I was raised. So I don't like giving easy money away and \$0.10 is, for us, it's \$120 million.

Shane R. Tackett
CFO & President of Alaska Airlines

Ben's family always bought the apples early. First harvest, get them all in.

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

Exactly. So that is a big opportunity for us that we're going to work hard, yes.

Ryan St. John
Vice President of Finance, Planning & Investor Relations

We'll go to Catie next.

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

Catie O'Brien from Goldman Sachs. A bit of a follow-up on the market share gains. How have you factored the competition into those gains? For example, San Diego seeing some of the most growth in the country right now. Of course, your own growth is a big part of that, but you're also seeing elevated growth from the competition. So just wondering, one, how the competition has factored into that view? And two, how does the market share gains factor into some of the other revenue improvements you're seeing on loyalty and premium if it does?

Andrew R. Harrison

Executive VP & Chief Commercial Officer of Alaska Airlines Inc

I think maybe I'll start and Shane, if you want to talk more on financials. But I would say the whole market share, we've obviously look at and understand that industries will change and grow. And I think what we are saying really is that we are looking to make step change gains in market share. How do you do that? Well, number one, you've got a step change in your network and your size. But I think San Diego is really important example is -- but then the other things need to follow. The corporates need to come. The loyalty needs to show up. The cards needs to. And we have seen that as we've grown.

And I think especially in Seattle, sometimes we just basically choke out our own local demand because our planes are full or at the peak period and because we're carrying passengers from Anchorage or Boise or Spokane or Walla Walla, Wenatchee, you name it, and we can flow those over Portland and create room. So we have a high level of confidence because we've never been that purposeful before. And I think that's the biggest change here and the change in Atmos Rewards.

And then I think the last thing, and of course, the state of Hawaii and what we've done there is Exhibit A. When we put together the networks and we watch the share, we watched the one-stop share, that just continued to get better and better. So across all of our products, across our network configuration and the way we're going to manage demand, we have a good confidence that what's in our control, we can move the dial.

Shane R. Tackett
CFO & President of Alaska Airlines

The only thing I would add is there is like -- we understand where we weren't serving the market. And so there is some math behind it. We're not going to pull the spreadsheet out. But I also think it's what we all -- like we believe we are offering the best product set and the best loyalty program to the communities we serve. And the more we believe that, the more our employees believe that, the more they'll penetrate those customer bases with that belief. And this is an airline that still is sort of rooted and Diana spoke about this in community and what we do every day. We -- I don't know, we want to be there for our guests and our employees want to be there for our guests. And again, I just go back to we have seen share shift over the last 10 years. So why wouldn't we continue to expect that we can earn more of it?

Ryan St. John
Vice President of Finance, Planning & Investor Relations

Atul next.

Atul Maheswari
UBS Investment Bank, Research Division

So circling back on the \$3 to \$4 in earnings growth ex fuel, what portion of that is contingent upon the timely delivery of the MAX 10 aircraft? So I'm just trying to gauge what portion might be -- what portion of the 2027 earnings or the medium-term earnings might be at risk should there be any meaningful delivery delays there? And then just as a quick second one, no fourth quarter guidance today. So any thoughts on current demand trends and what you're seeing out there in some of your key markets, that would be helpful.

Shane R. Tackett
CFO & President of Alaska Airlines

Sure. Yes, we won't guide to Q4 in any way, but you can talk about demand trends and advanced bookings a bit. I don't think we would say that a lot of that number is levered to the timing of MAX 10 deliveries. It's definitely an aircraft that for a long time, we've been talking about. We really are excited to get it into the fleet. I think the first deliveries are meant to come in just before summer, April-ish, and then there's like they're sort of spread out throughout the year. So they don't become a big part of the fleet for another year or 2. So I'm not -- I wouldn't discount the 3, 4 earnings expansion based on that delivery timing. And you can speak to...

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

Yes. Again, and Shane elbowed me would not to give guidance. But I would just say, in general, the demand environment continues to be very robust. Just looking at advances 21 days out of what came in, in the last week, again, very, very solid yields. And I would include Hawaii in that. As I look out in Hawaii in 21-plus days, we're seeing some real traction there on the unit revenues. I think on the international -- we continue to make strides there. I think we've seen some really exciting changes in Honolulu on some of our long haul with very significant double-digit unit revenue increases.

So overall, I think as we move into the end of this year and into the next year, we are very focused on optimizing the machine that we've built because I will tell you, this integration like all of them are very hard, very painful, very distracting, especially on the commercial team and then on the guests as well with the bringing together loyalty programs, single PSS, single operating certificate. So we have huge confidence in that what we've already built without the distraction of separate systems and operating systems and employee and guest-facing systems that next year will be a huge year of optimization and seeing the machine really start to hum.

Ryan St. John

Vice President of Finance, Planning & Investor Relations

Savi.

Savanthi Nipunika Prelis-Syth

CGS International

Okay. Maybe a bit more of a question for Shane or the group. But we've had macro shocks for a few years running now. And if next year is another macro shock, I understand the focus here is on doing the right thing for the long term. But what's the kind of the flexibility to make sure you don't keep digging yourself into a balance sheet hole while you wait for things to settle out or kind of rightsize? And just along with that, in a recessionary environment now that you have more premium, is the assumption that the kind of the VFR leisure premium is stable like you've seen in past downturns in VFR leisure and it's corporate that goes away. And so it's there is no risk with kind of having all this premium coming on that versus kind of the past how premium has performed.

Shane R. Tackett

CFO & President of Alaska Airlines

Right. Yes. Well, first, on the premium, and I like -- I think it's well understood, Savi, and I know you've written about it. The majority of all of the revenue growth in the industry has been in premium cabins over the last several years, not just in the last year or 2. So again, unless we believe everybody is going to trade backwards and experience, which we haven't seen in any of the sort of little blips to demand even last year with domestic demand deterioration. It was primarily a main cabin issue. It wasn't a premium cabin issue. We still have premium cabin revenue growth year-over-year, both PRASM and absolute dollars. So I think it's durable. I think we're going to continue to believe it's durable until we see evidence that it's not durable. We're fully appreciative of the history of the industry.

The other thing that I think often sometimes gets overlooked, these planes are getting bigger. So you still have pretty sizable main cabin seat counts in these larger planes. And proportionately, having 30% or 32% of your narrow-body as premium feels right, and you still have a lot of seats for main cabin and non-premium guests. So I think that feels very good to us. You mentioned this was 7 years of shocks to the macro shock. I think it's been 7 years of macro shocks.

Look, we have flexibility ultimately primarily through our delivery stream. And they are phenomenal partners of ours in Boeing. And if we really felt like there was an issue we needed to manage through that was acute, just like we have in other instances like that, we would sit down and talk about the CapEx profile of the company. That's the quickest and easiest way to change the cash flow trajectory of the company.

Ryan St. John

Vice President of Finance, Planning & Investor Relations

We'll jump across Michael and then John.

Michael Goldie

BMO Capital Markets Equity Research

Michael, BMO Capital Markets. Is there a way to quantify what the CASMex impact has been in recent years from international start-up costs? And then going back to the maturation curve of international routes, do those start-up costs and maturation time lines get shorter as your international franchise gets stronger and more well known?

Shane R. Tackett

CFO & President of Alaska Airlines

Yes. I don't know, Ryan, if we've published like or talked about specifics. I mean you're going to be held to it.

Ryan St. John

Vice President of Finance, Planning & Investor Relations

Yes. So I mean it was at least a point in the second quarter. So it's not like over a long time horizon, it starts -- it's starting to work itself out as we keep going forward, every new plane we take on. So at least short term, it's usually acute in Q1 and Q2 because that's when we're doing a ton of pilot training to build up for the summer and then it tapers off until you go back through that again. But again, every single year, it should mitigate a little bit more and more as the fleet grows.

Shane R. Tackett
CFO & President of Alaska Airlines

Proportionately worth less. So the impact goes down over time for sure. I think we just -- and Andrew alluded to it, we probably haven't spoke a lot about it. We moved to the left, the opening of the Seattle crew base to crew the 787 international hub. And we did that early. We were going to do that late this year or next year. We decided to do it earlier this year. It's the right decision, but it did bring some of that buildup cost forward. I think once you get to 6, 7, 8 airplanes, you're sort of getting to scale with that fleet. So I don't think it's a major contributor over time.

John David Godyn
Citigroup Inc., Research Division

John Godyn at Citi. I wanted to just go back to international, becoming the #1 international airline in Seattle and the commentary around market share. You guys have competed with Delta for a very long time. Obviously, to leapfrog them in international over many years is a tall order. I just wanted to hopefully get you to elaborate on how you see that playing out. Market share-driven competition in Chicago is not really working for others. What's the vision here with Seattle as we target that kind of market share?

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

John, it's a great question. I think Chicago and Seattle totally different. Like what I will say is, yes, it's been a long time. I think we've proven that, look, this -- you guys are in Seattle. This is our hometown. We grew up here. Our kids went to school here. We're part of the community here. This is not somewhere we're going to try and take over. So we're going to protect Seattle fiercely. And I think we've done a good job of it, I think we've demonstrated that we can defend it and we're making our intentions very, very clear. Like we have the largest -- Andrew in his presentation said, look, our domestic network is 2x.

Brett showed you the strength of our loyalty program. Our loyalty base here is phenomenal. And so when we say we're going from 5, we'll have 7 international routes going to 15, it's simply predicated on the number of 787s that we have. So we'll have 787s by 2031, '32, roughly. That's what it's predicated on. So these are coming at roughly 2 departures, 2, 3 departures a year. And we believe as this thing grows and matures, and we believe we can win in this market, along with our OneWorld partnerships, along with assuming that the JV would be in place by then. This is how we believe we're going to win. And we believe we have, again, the domestic breadth and we have the loyalty to make that work.

Ryan St. John
Vice President of Finance, Planning & Investor Relations

Dan?

Daniel J. McKenzie
Seaport Research Partners

Congratulations on what you have done over the last 20-plus years. It's just amazing to see where Alaska has come to. I was hoping, Shane, you could speak a little bit more to the balance sheet. You guys did a great job of giving the presentation through 2028, '29, 2030, except the balance sheet stops at 2027. So the question is, how are you thinking about the leverage targets in 2030? What kind of cash flow from operations filters through to get you to that leverage target?

Shane R. Tackett
CFO & President of Alaska Airlines

Yes. All right. Second award for detail. That was not intentional, Dan, but...

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

I thought you had '28 to '30 or something in that.

Shane R. Tackett

CFO & President of Alaska Airlines

I think at the very last slide, we had sort of cash flow conversions over time. Yes. So we talked about \$1.75 billion of CapEx on average between now and the end of the decade. That's largely the fleet and delivery plan and then some of the investments we need to go to remodel the A330s and 787s. It's almost all around delivering on this strategy. There's not a lot of extraneous things in that plan at all. And then what I was trying to say, and I know we were going quick through prepared remarks is we want that to be as level as possible. We've had a very volatile delivery stream over the last few years for various reasons. We want that to level out, so everybody knows what it's going to be. And then as earnings go across it, the free cash flow will ratably go above it as we unlock the earnings power of the company.

And so I think what we said at the very last slide on our long-term financial targets is something greater than 60% of free cash flow conversion. And that typically, the way we've allocated that is strongly in favor of bias towards shareholders. And there's no change to that philosophy. I think just in terms of me, like the leverage number is so levered to like the short-term earnings profile of the company, which is largely impacted by fuel. It's important to us. We got to get it down to within 2 and then ultimately within 1.5. That could happen in a couple of year period if the earnings trajectory turns around.

And then debt to cap, we're the last to talk about it. I think it's a really important concept on the balance sheet, that tells you how much runway is left. We're going to manage that back down to around 50% to 60%. We have a great balance sheet, all things considered today, and we want to get it again, healthier as we move forward. And then not for nothing, we do have \$20 billion of unencumbered assets. So we have a very, very large base of assets we could use if we needed to. That gives us a lot of confidence in the ability to manage through this period and whatever comes at us next.

Ryan St. John

Vice President of Finance, Planning & Investor Relations

We're running short on time. I want to make sure we get to at least 2 more questions. I think James, I mean where is Chris? Is Chris in the room? No. We'll go to James.

James Kirby

James Kirby with JPMorgan. Just on Shane, for the 2 questions on the loyalty program. One, actually a good segue. The \$20 billion unencumbered with \$16 billion being loyalty, is that a net debt capacity because you do have outstanding loyalty debt. So is that \$16 billion included of that? And then secondly, our neighbors up North recently did a transaction, equitizing their loyalty program. Is that something Alaska could ever do? Is there something that's preventing that? And just general thoughts really on the transaction given the valuation disconnect?

Shane R. Tackett

CFO & President of Alaska Airlines

Great. First question, it's not net, it's gross. We do have a little debt issued against that loyalty program. I'm guessing the loyalty program may be worth a little more than that. That was the last time we marked it. We've got \$5 billion of unencumbered aircraft and other assets, spare engines, buildings, stuff like that, slots gates and routes, which is small for us. And then we've got 14.5 or something 14 unencumbered on the loyalty program. Yes, that was an interesting transaction for sure. We never create like an immediate view on things like this. We want to go understand it. We've known there's been demand and desire from financial sponsors to buy equity in loyalty cash flows.

They're very, very attractive cash flows. They're stable, they're strong. They're growing. Ours are certainly growing. We have an ambitious plan for the next couple of years. We happen to know some about that transaction. We're looking further at it. We'll do what's best ultimately for this company and its shareholders if we felt like that was a tool that made a lot of sense, then we would think about it. There's nothing imminent. We're not talking to people. I can tell you that absolutely, we are not taking meetings with financial sponsors or anything like that. But we're going to go get educated on it, and I don't think we would take it off the table either.

Ryan St. John

Vice President of Finance, Planning & Investor Relations

Okay. I think David in the middle? That will be the last question.

David Scott Vernon

Bernstein Institutional Services LLC, Research Division

David Vernon from Bernstein. So I think the last time we were together, you guys talked about not doing hockey sticks in guidance. And it does seem like the setup if we're talking about \$3 to \$4 for next year is a bit of a hockey stick. So I guess, how do we think about what 2027 might look like? If fuel just stayed where it was and you delivered everything you were going to deliver, can you kind of ring-fence what an earnings number could look like for us? And then as you think about that 11% to 13% target being a longer-term undated target, how long does it take from fuel normalizing to get to that target? Is it really quick? Or does it take a little bit more time?

Shane R. Tackett
CFO & President of Alaska Airlines

Yes. Yes. And we are -- we don't like hockey sticks. We don't put them in financial projections internally. The problem is like we have an inverse hockey stick because of the outside reality, right? So fuel took all of the earnings power away overnight, and it could give us a lot of the earnings power back overnight. So that's all we were doing with that slide.

I think the \$3 to \$4 of ex-fuel earnings, that's what we would tell you to expect next year based on all the other things and sort of the initial questions that we had. And then you guys can pick your own fuel price from the rest of this year and into next year to decide where you think the ultimate company lands. It's pretty easy to do that math just based on our fuel consumption. What was the -- I just want to make sure I captured last.

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

The time does it come back. Yes, I think what Shane was trying to say, look, if fuel is well north of \$4, what is it? \$4.25, somewhere around there. Yes. I mean if fuel drops quickly to \$3.25, I mean \$1 for us is \$1.2 billion, just to give you a sense of what that means. And I think if it drops fast, yes, I think you could see a sharp recovery pretty quickly.

Shane R. Tackett
CFO & President of Alaska Airlines

And it has, that's the thing. I mean we did this in '08, '09. It went down faster than it went up. I'm not saying that's going to happen this time. It's just -- it's a super volatile input cost to the company structure. So yes, anyhow, I think that's how we would think about describing next year's earnings sort of trajectory ex fuel is really that \$3 to \$4 that we -- and just to be clear, had we achieved \$5 this year, which we could have had fuel behaved itself, another \$3 or \$4 plus would have put us into that \$10 range. So it wouldn't have been this hockey stick that you first mentioned.

Ryan St. John
Vice President of Finance, Planning & Investor Relations

All right. Okay. That concludes. Thank you all for joining us, and we'll chat with you on our third quarter earnings.

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