



# Investor Day 2014



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Lavanya Sareen – Managing Director, Investor Relations

## Safe Harbor

This presentation contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are based on, and include statements about, the Company's estimates, expectations, beliefs, intentions, and strategies for the future, and are not guarantees of future performance. Forward-looking statements involve risks, uncertainties, assumptions, and other factors that are difficult to predict and that could cause actual results to vary materially from those expressed in or indicated by them. Please refer to the risk factors described in Company's filings with the Securities and Exchange Commission, including the detailed factors discussed under "Risk Factors" in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013.



“HIGHEST IN CUSTOMER SATISFACTION  
AMONG TRADITIONAL CARRIERS IN NORTH AMERICA,  
SEVEN YEARS IN A ROW”

FORTUNE

500

READY  
SAFE  
GO

*Alaska Airlines*



N471AS

900ER

# FitchRatings



# GEAR UP

The logo for "GEAR UP" features the words "GEAR" and "UP" in a bold, blue, sans-serif font. The letter "O" in "GEAR" is replaced by a green gear with a white airplane silhouette in the center. The gear and airplane are set within a circular frame that has a gradient from light to dark blue.



SUPPORTING EDUCATION.  
HELPING DREAMS SOAR.



N403AS

SKA

WELCOME HOME,  
RAISBECK AVIATION HIGH SCHOOL!  
THE SKY IS NOT THE LIMIT!



Thank you  
Alaska. We are  
flying high  
because of  
you!  
You are heroes!

Crystal Flath became the first woman driver to win a classification since 2008, while Cody Jones shows off his

# Thank You

Thank You  
Alaska Airlines  
for your  
Humanitarian Flights Out  
of Cabo San Lucas During  
Hurricane Odile!



Your employees were great  
in helping out in every way.







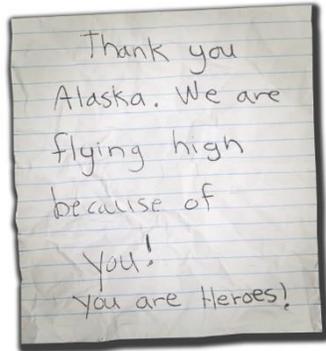


"HIGHEST IN CUSTOMER SATISFACTION  
AMONG TRADITIONAL CARRIERS IN NORTH AMERICA,  
SEVEN YEARS IN A ROW"

# FORTUNE 500



# FitchRatings





# Investor Day 2014

Brad Tilden – Chief Executive Officer

## 5 Focus Areas define our strategy



# 2015 Plan is focused on execution and delivering noticeable changes

## 2015 Plan

# Overview of the day



## A Great Place to Work

Tammy Young – Vice President, Human Resources



## Building Customer Loyalty

Curtis Kopf – Vice President, Customer Innovation



## The “60 Second” Airline

Ben Minicucci – Chief Operating Officer



## Grow Our Airline and Strengthen The Network

Andrew Harrison – Senior Vice President Planning & Revenue Management



## Create Long-Term Value

Brandon Pedersen – Chief Financial Officer



# A Great Place to Work

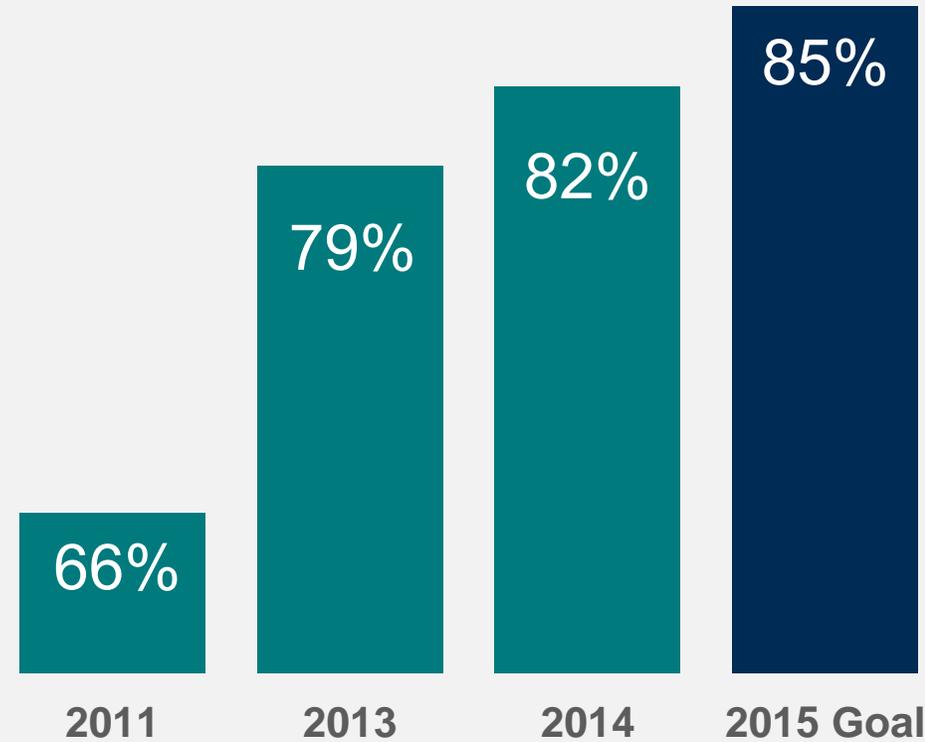
Tammy Young – Vice President, Human Resources

*Alaska*

# Higher employee engagement drives higher productivity, superior execution, and better customer service



## ALASKA AIR GROUP EMPLOYEE ENGAGEMENT



# Leaders throughout the organization are the drivers of sustained success



Impactful Leaders  
Create Alignment

“Gear-up” – Leadership Training



Employee  
Engagement



Productivity



Excellent  
Customer Service

# In 2015, we are making two major investments in our employees



2012 - 2013



2015 – Signature Service Training



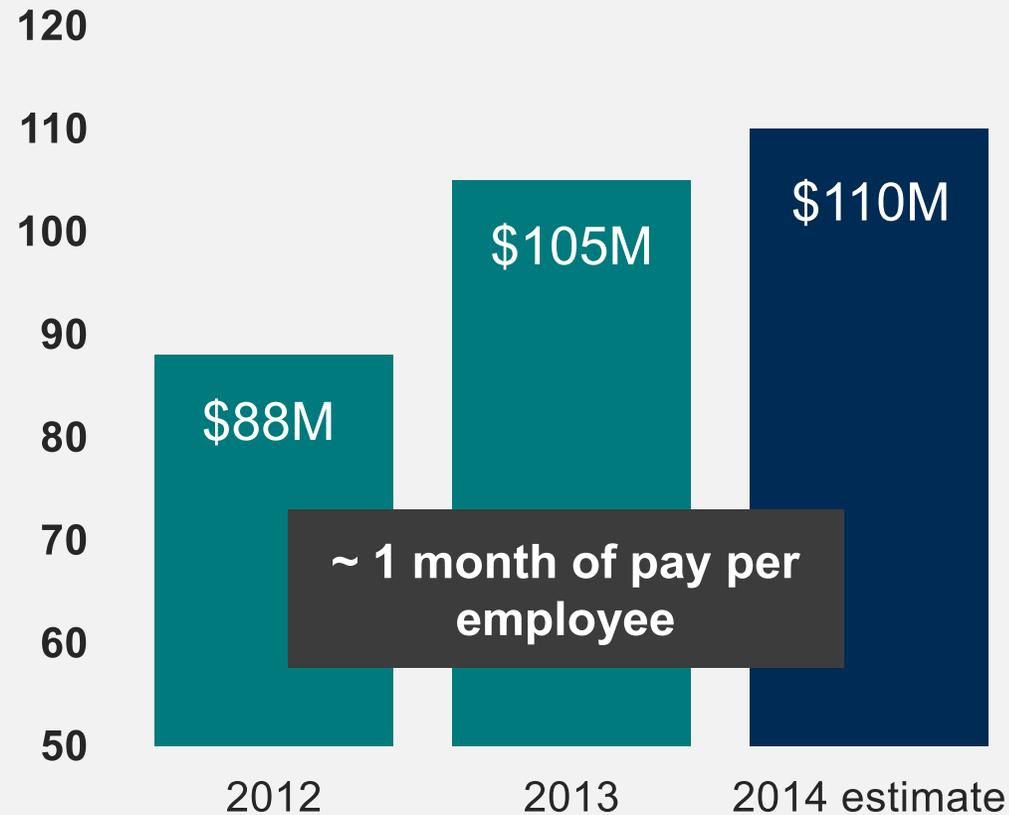
2014



2015

# When the company does well, our people do well

## COMBINED INCENTIVE PAY



## PERFORMANCE BASED PAY

- 70% Profit
- 10% Cost Ex-fuel
- 10% Customer Satisfaction
- 10% Safety

## OPERATIONAL PERFORMANCE REWARDS

- On-time Performance
- Customer Satisfaction Goals

# 2015 People Goals



1. Employee engagement 85% or better
2. Raise leadership impact through “Gear Up 2”
3. Meet or exceed incentive pay targets
4. Maintain fully funded pension plan

# 2015 People Goals



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2. Raise leadership impact through “Gear Up 2”
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# Building Customer Loyalty

Curtis Kopf – Vice President, Customer Innovation

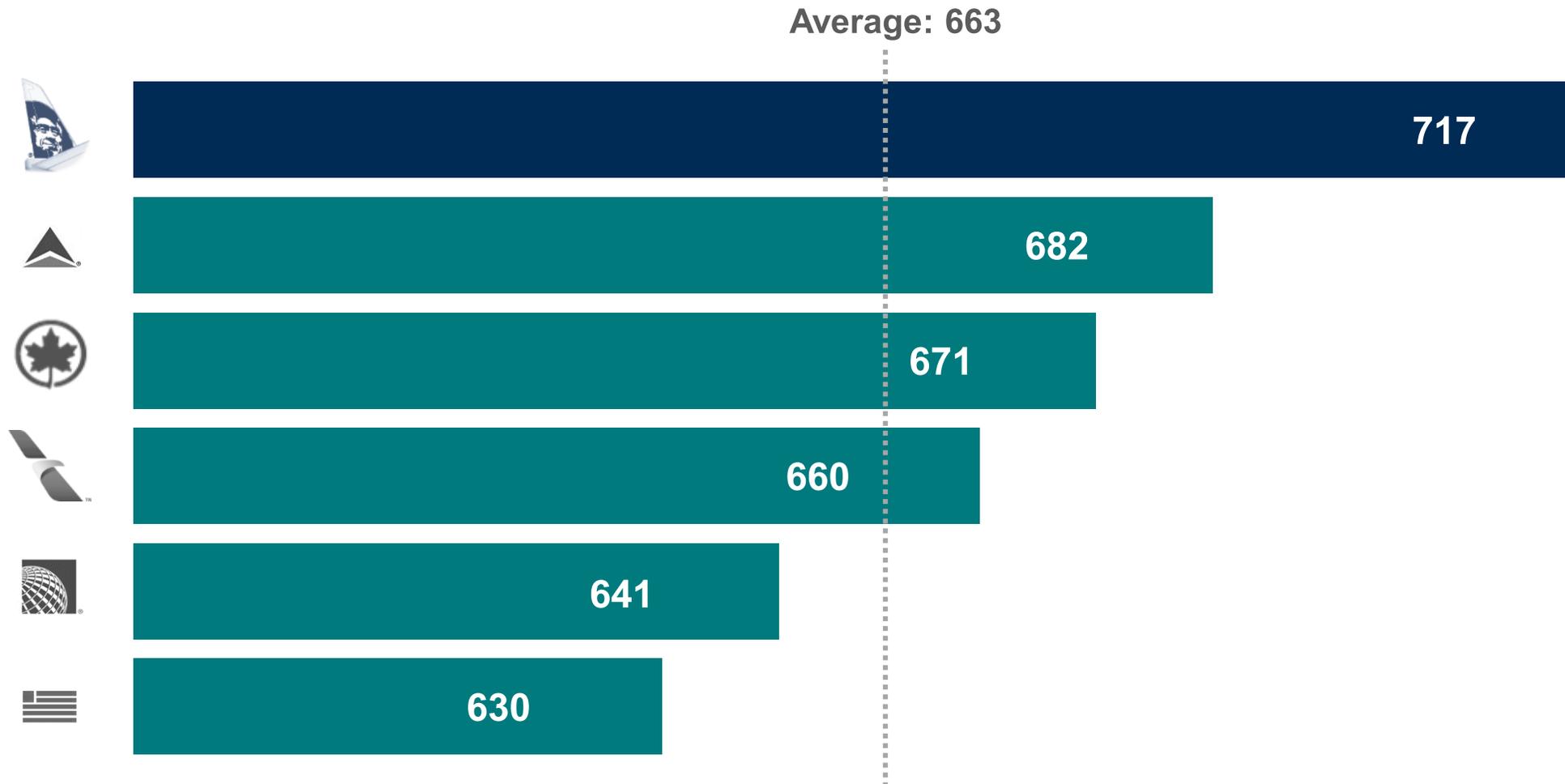


# We were ranked #1 in customer satisfaction by J.D. Power for the 7<sup>th</sup> Year in a Row...



“HIGHEST IN CUSTOMER SATISFACTION  
AMONG TRADITIONAL CARRIERS IN NORTH AMERICA,  
SEVEN YEARS IN A ROW”

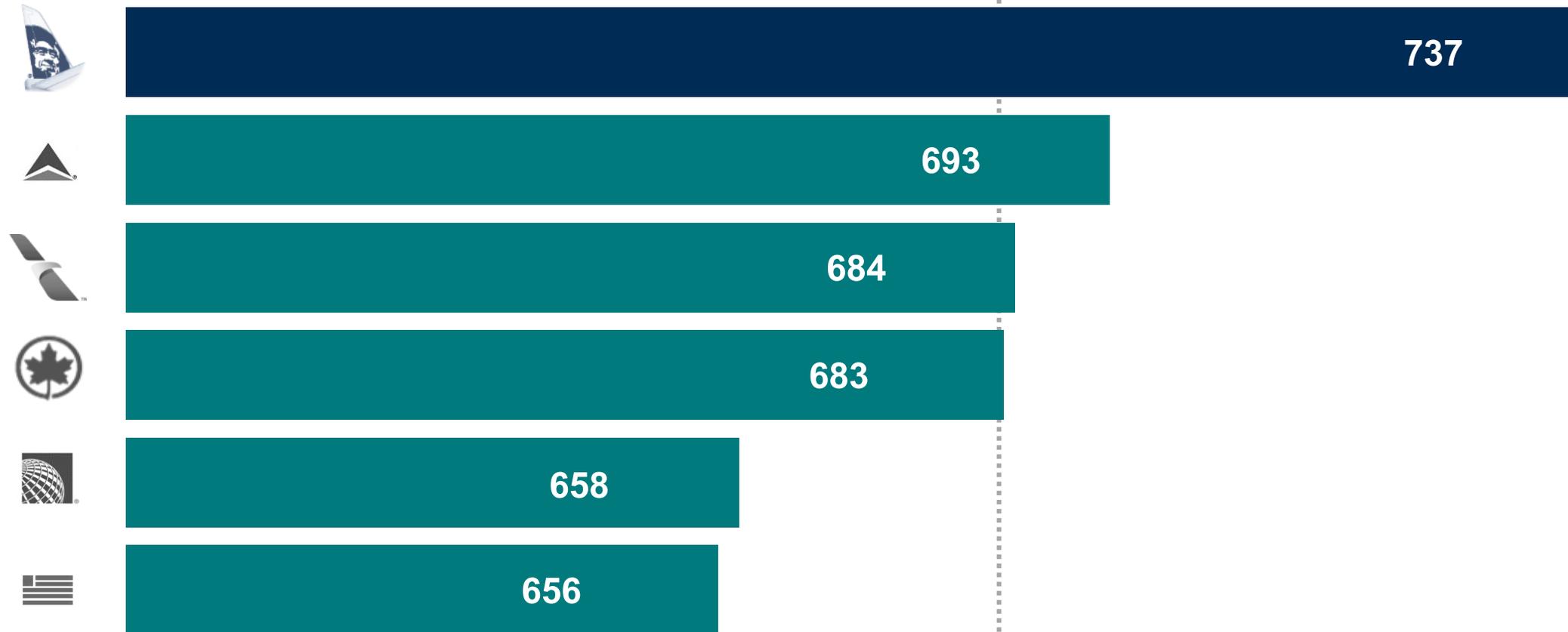
# We were ranked #1 in customer satisfaction by J.D. Power for the 7<sup>th</sup> year in a row...



# ...And we increased our gap vs. our closest competitor



Average: 683



# We will strengthen our customer loyalty further through innovative products, differentiated onboard experience, and excellent service



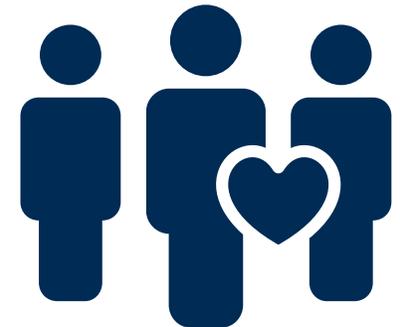
Customer Service



Onboard Experience



Hassle Free Self-service

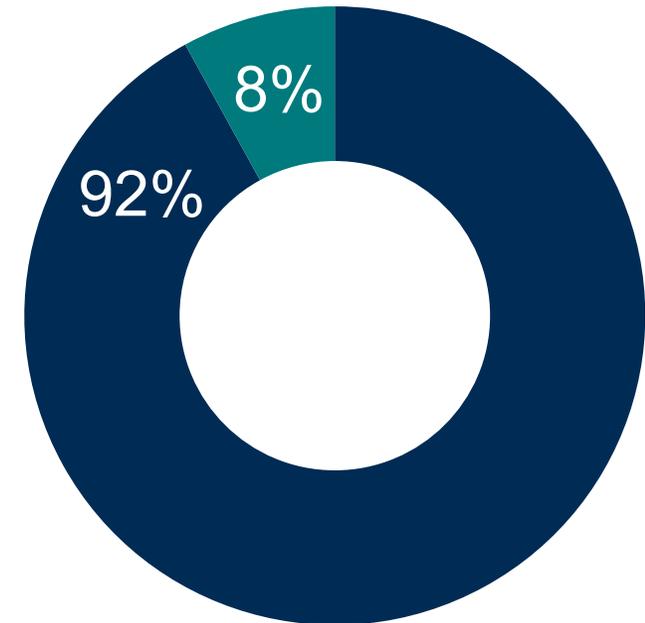


Loyal Customers



Innovation

# We launched Alaska Listens to gather and respond to customer feedback quickly



■ Positive Feedback ■ Red Flags

**Respond to concerns within 72 Hours**

In 2015, we are making another major investment in our frontline employees...



...And equipping them with tools to better serve our customers and improve productivity

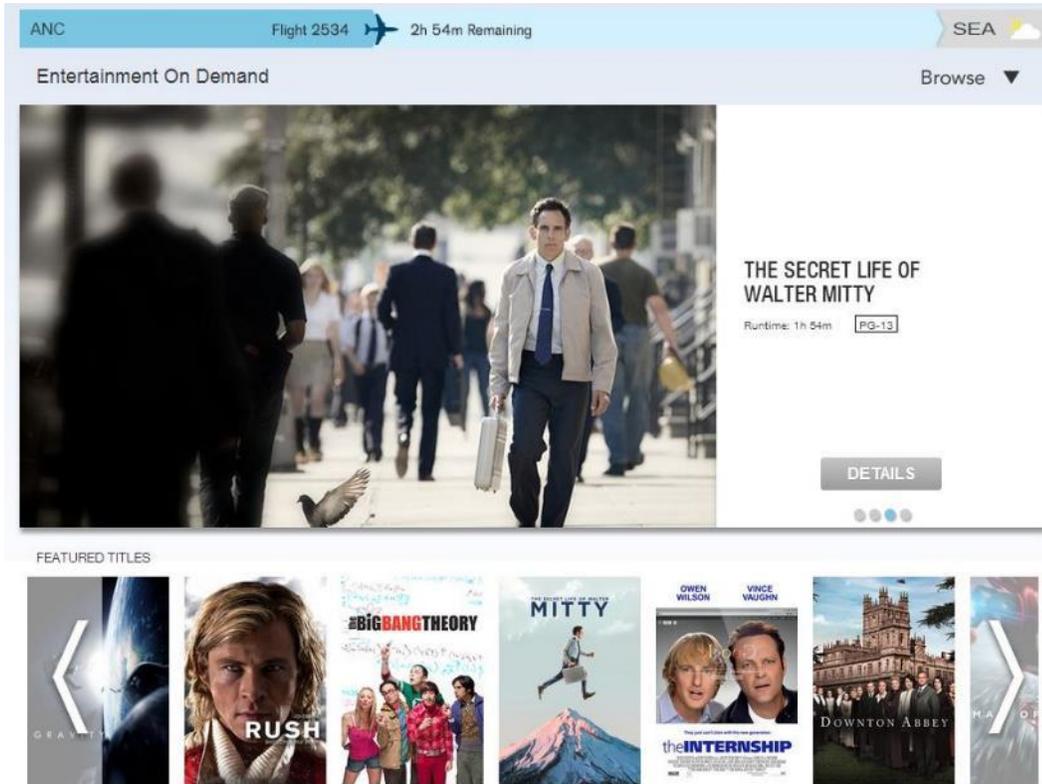


**AIRPORT AGENT AND FLIGHT ATTENDANT MOBILE DEVICES**



# We are rolling out new in-flight entertainment options...

Streaming IFE, FREE BRANDED CONTENT



## WIRELESS SERVICE

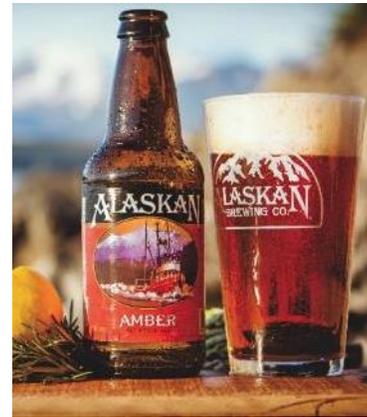
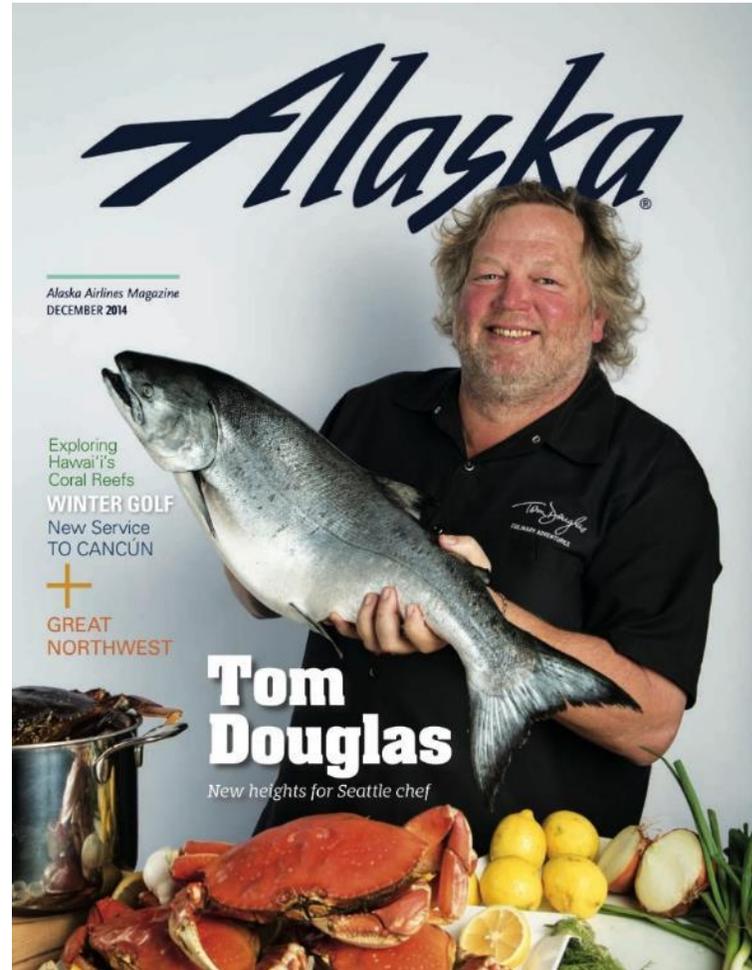
To personal devices



## ALASKA TABLETS

Replacing digEplayers

# ...and increasing Pacific Northwest loyalty with premium locally sourced onboard products



# Consistent brand experience will improve brand recognition



# Our mobile tools are making travel interactions hassle free for our customers...



## 1. A great use of location services

★★★★★ seatx - Oct 8, 2014

Every now and then, a company will come up with a decent use of location based services. Most just want to force feed you advertising. But using these services to figure out that you have arrived at an airport, and then further trying to figure out if you might be able to get on an earlier flight .. well that's just awesome. Proof will be in the execution, but definitely the sort of forward thinking that makes a difference!

## 56. The Best!

★★★★★ db forever - Nov 8, 2014

By far the best app and airlines in the US! Please keep it AK Airlines!

## 8. Best airline app

★★★★★ Jdub22cb - Nov 6, 2014

I travel every week for work. This is my first time traveling on Alaska air and I must say it is by far the best airline app I've used. Better than american, United, southwest, delta, and all the others....

Big fan!

## 37. A great app by a great airline

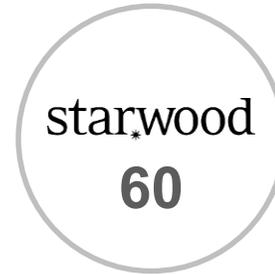
★★★★★ FujitaGoro - Nov 1, 2014

This latest version is even easier to use than the earlier ones. What can I say? Thanks a bunch, Alaska Air for listening to your customers, and making the flight experience even that much more painless and convenient. Cheers!



# ...and we are leading the travel industry in mobile innovation

## TRAVEL PULSE MOBILE APP QUALITY INDEX



Industry  
Avg.  
Score



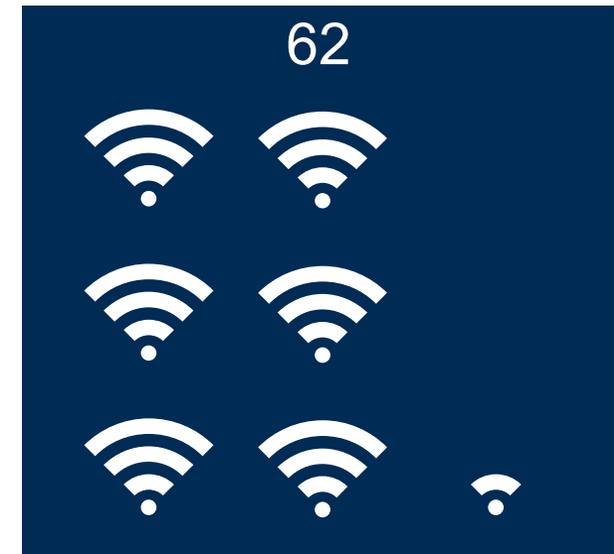
Airlines\*



Rental Cars

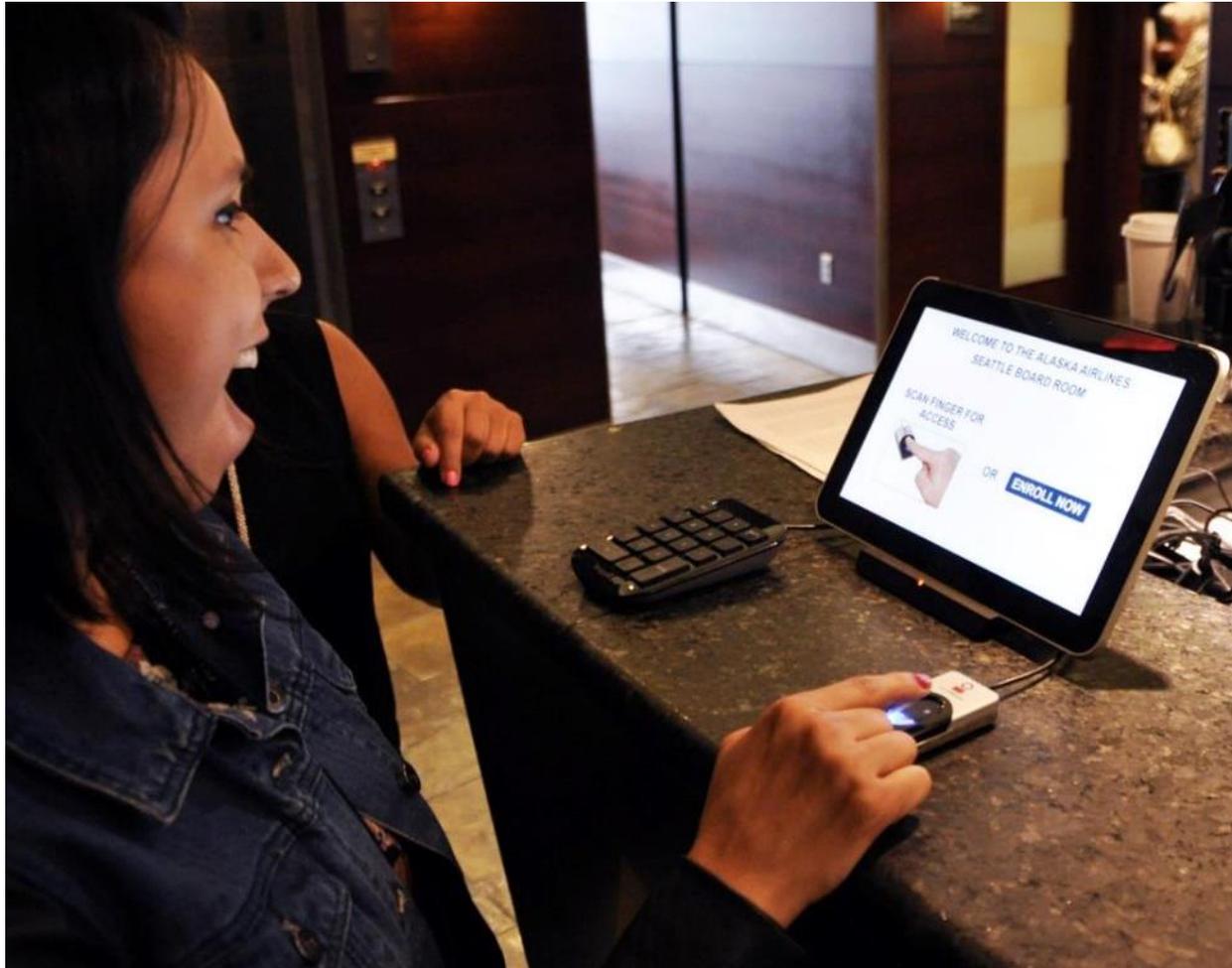


Hotel Industry



Online Booking

# Nimble innovation is reducing our time to market...considerably



“Forget E-Tickets, Alaska Air Mulling E-Thumb for Boarding.”  
– Bloomberg

“Alaska Airlines pushes for fingerprint scanning at check-in.”  
– USA Today

**Concept to Execution in  
8 Weeks**

# We are reinforcing brand affinity in core markets and increasing awareness in growth markets with advertising

**The Seattle Times**  
 Publication Date: 01/26/2014  
 This electronic document is provided as proof that the ad appeared in The Seattle Times.

ops algebra II ruling

**DONATE YOUR CAR**  
 #Wish For #Wishes  
**MAKE A WISH**  
 Make a wish for a child with a life-threatening illness. Make a wish for a child with a life-threatening illness. Make a wish for a child with a life-threatening illness.

WHEN YOU'RE FROM SEATTLE,

INNOVATIVE TECHNOLOGY IS A GIVEN.

#iFlyAlaska Alaska Airlines

**THE MOST NONSTOPS**  
 TO THE MOST CITIES FROM SEATTLE.

#iFlyAlaska Alaska Airlines

**LOCAL FLAVORS FROM YOUR LOCAL AIRLINE** [LEARN MORE](#)

#iFlyAlaska Alaska Airlines



**Connected in the Community**

SEATTLE CHOCOLATES  
 The happiness tastes like All Natural

**SEATTLE HAS A FLAVOR ALL ITS OWN. SHOULDN'T ITS AIRLINE?**

#iFlyAlaska Alaska Airlines



## 2015 Customer Goals



1. Complete customer service workshops for more than 8,000 employees
2. New inflight entertainment system
3. Improve the onboard food and beverage offering
4. Become the easiest airline to fly by 2017
5. Win 8<sup>th</sup> J.D. Power award for customer service



# The “60 Second” Airline

Ben Minicucci – Chief Operating Officer

*Alaska*<sup>®</sup>

# We are operating reliably and driving costs down



Engaged Employees



Clear Metrics/Measurement



Strong Operational Systems



Reliable  
Operation



Lower Costs



**Safety is foundational and non-negotiable**

60 Seconds...



# Every second...matters!



=



**3 mins./Dep.**

**25 hrs./day**



# We have led the industry in on-time performance over the last 4 years ...

2010



FLIGHTSTATS

2011



FLIGHTSTATS

2012



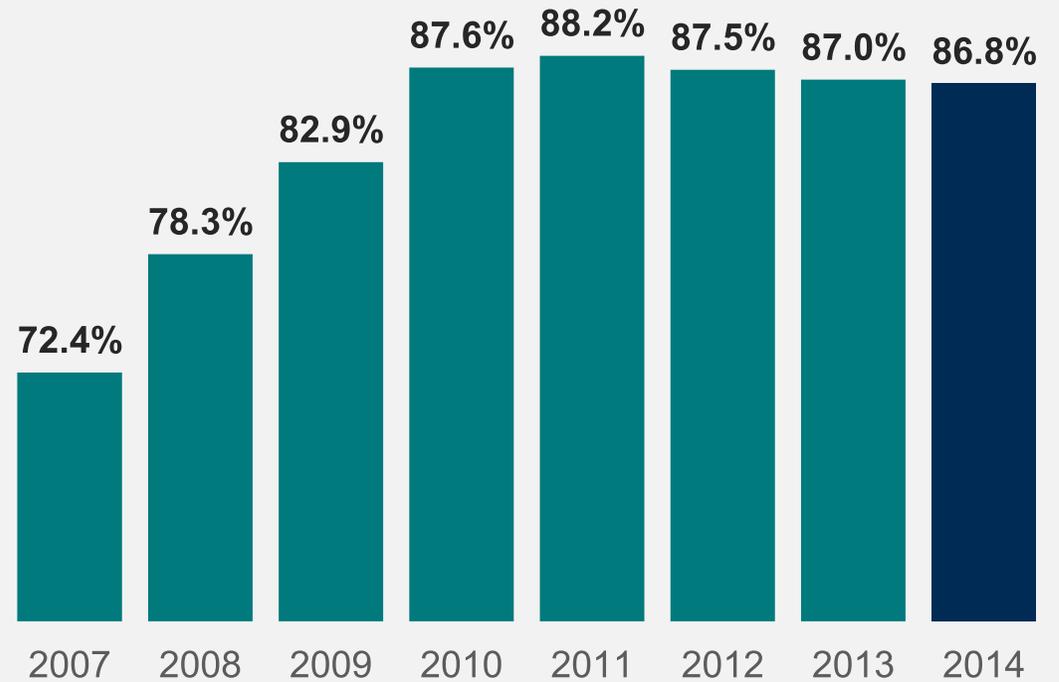
FLIGHTSTATS

2013



FLIGHTSTATS

## CONSISTENT HIGH ON-TIME PERFORMANCE



...and we are on-track for the 5<sup>th</sup> year of #1 on-time performance

2010



FLIGHTSTATS

2011



FLIGHTSTATS

2012



FLIGHTSTATS

2013



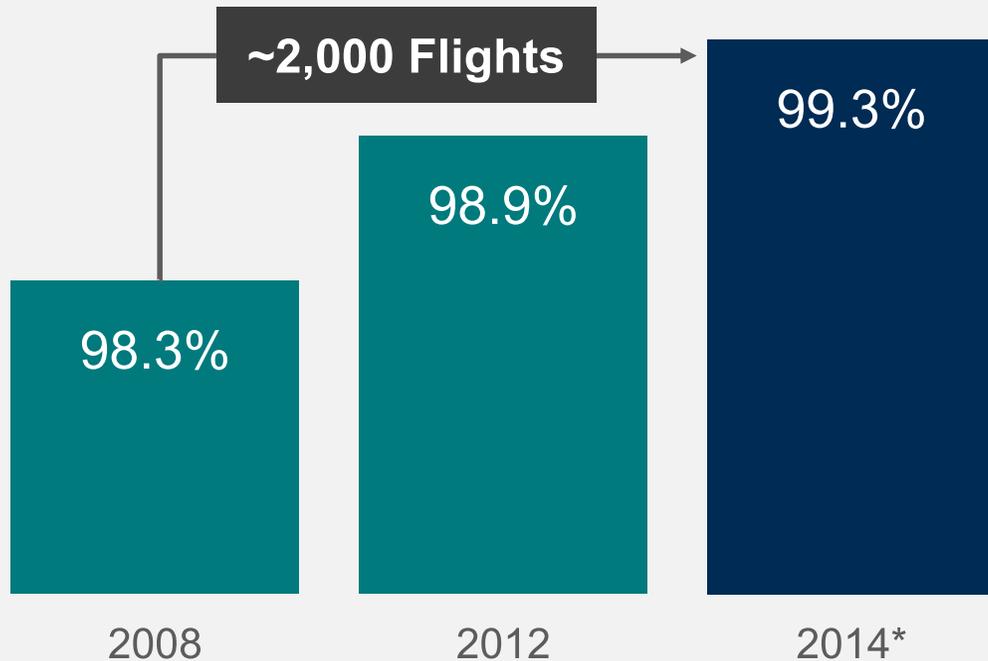
FLIGHTSTATS

ON-TRACK FOR 5<sup>TH</sup> YEAR OF  
#1 ON-TIME PERFORMANCE



# ...and greatly improved performance across several key operational metrics

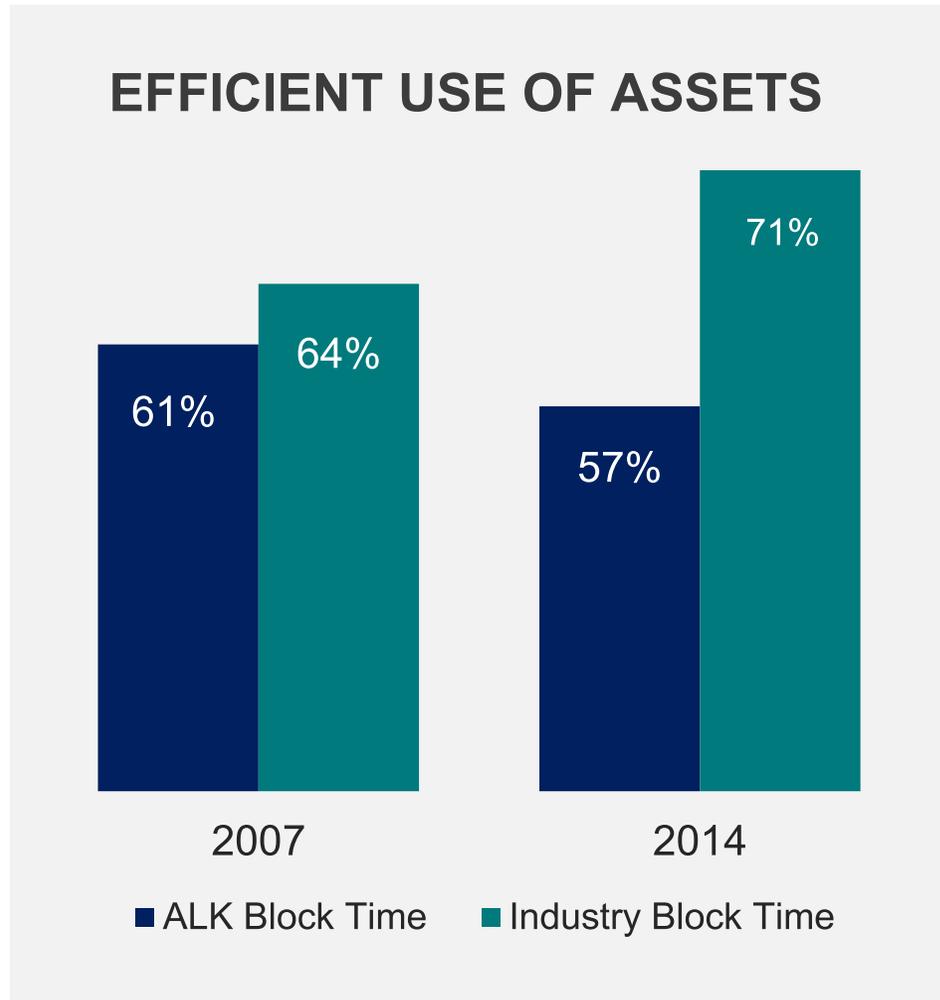
## INDUSTRY-LEADING COMPLETION RATE



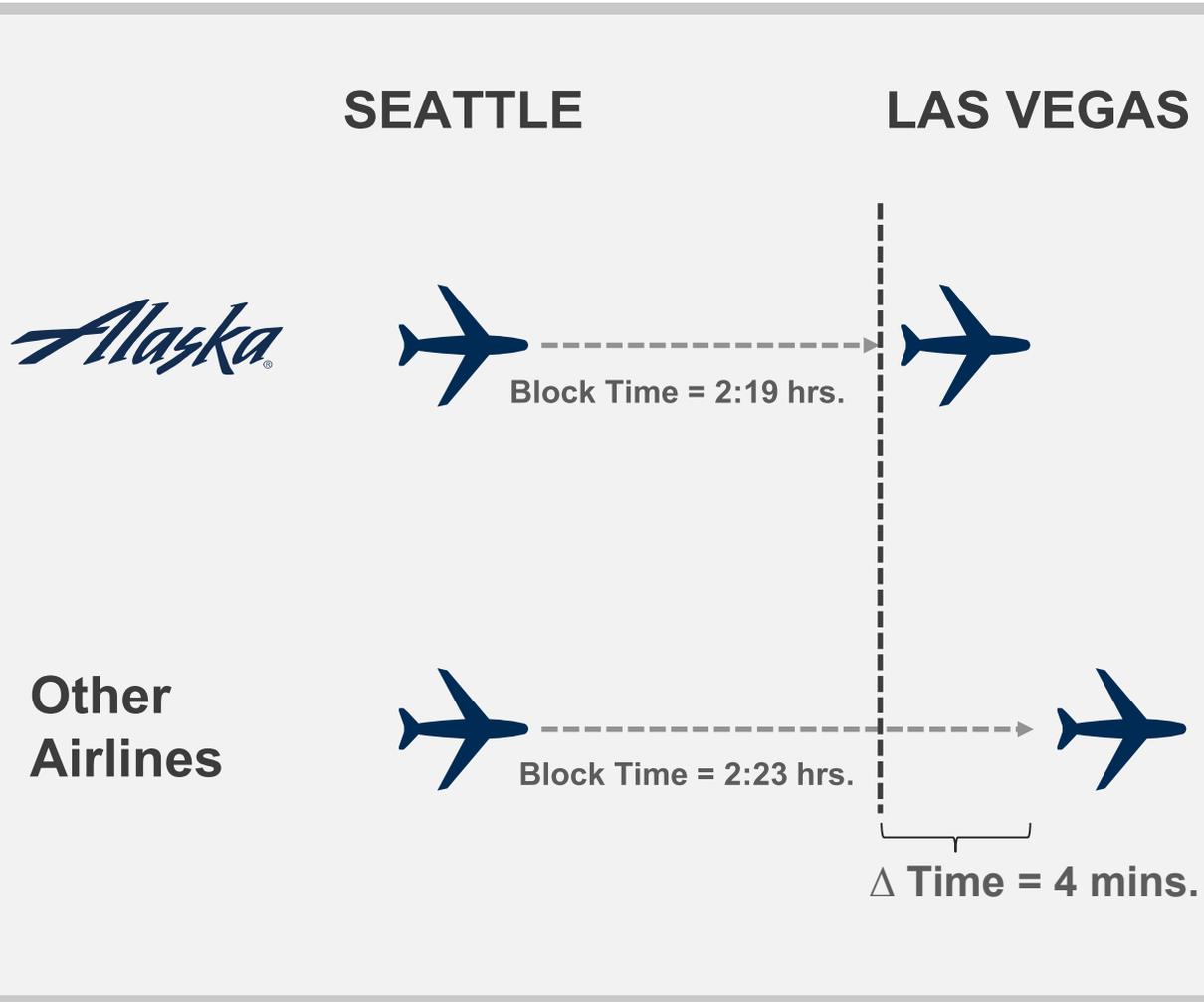
## ONLY AIRLINE WITH A 20 MINUTE BAG GUARANTEE



# We have earned this through higher efficiency...not expensive block time



# We have earned this through higher efficiency...not expensive block time



~ 2.5 AIRCRAFT

~\$50M



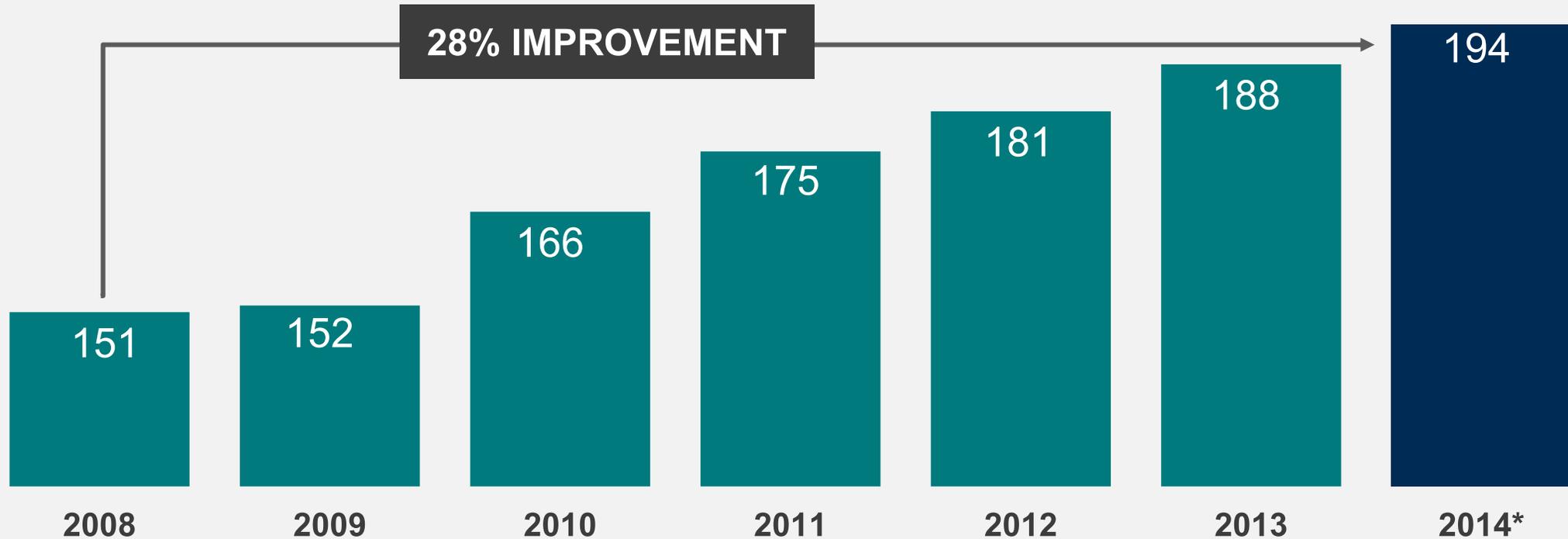
27 PILOTS



60 FA'S

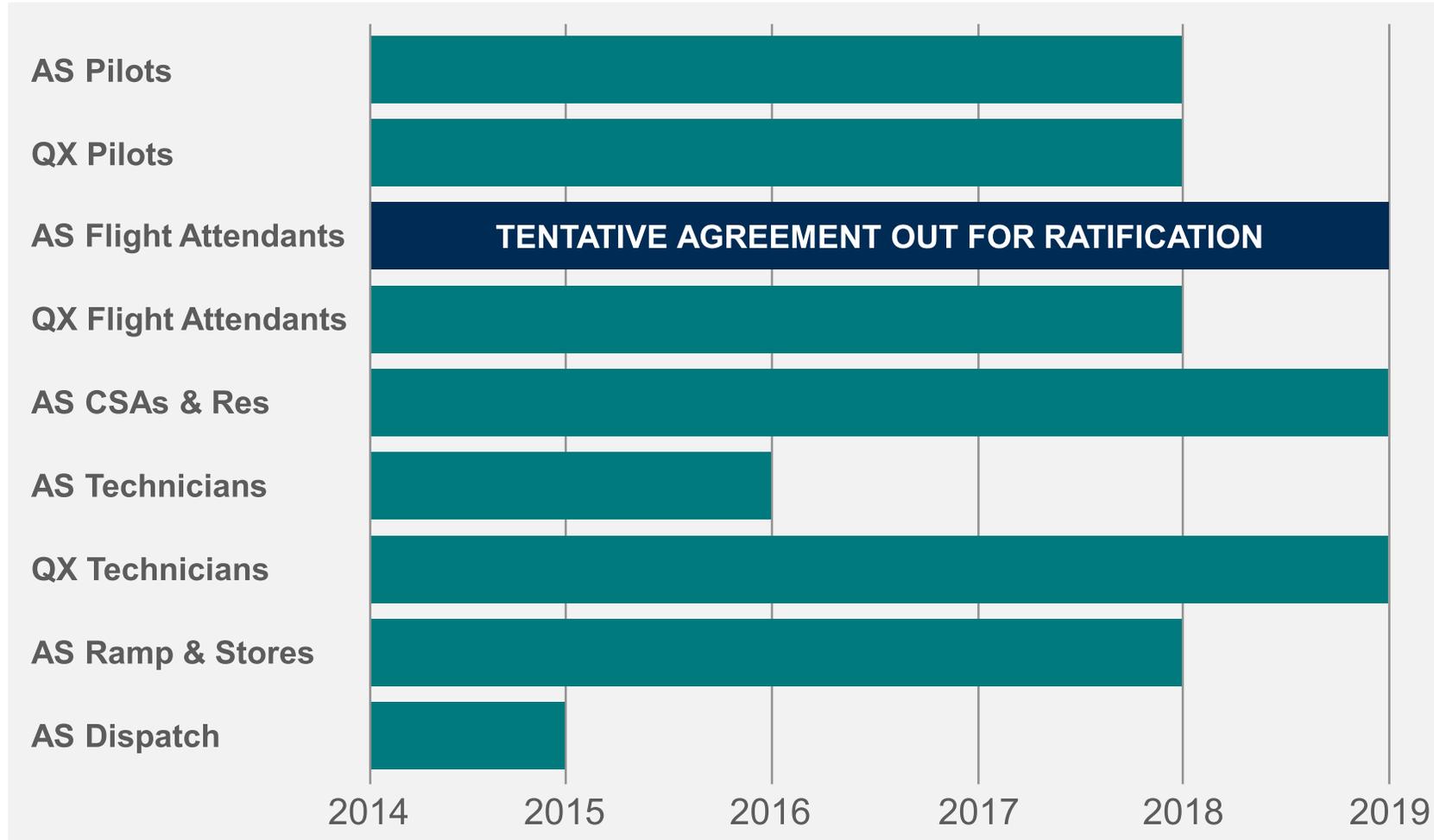
# Our employees understand that higher productivity means lower costs

## PRODUCTIVITY – PAX/FTE



**Every 1% Improvement in Productivity = ~\$11M Annually**

# Our long term labor contracts provide stability to our employees and investors



## 2015 Operational Goals



1. Complete customer service workshops for more than 8,000 employees
2. Shorten the bag drop process to improve productivity and save passengers time
3. Maintain #1 on-time position
4. Completion Rate >99%
5. Productivity target of 200 Pax/FTE

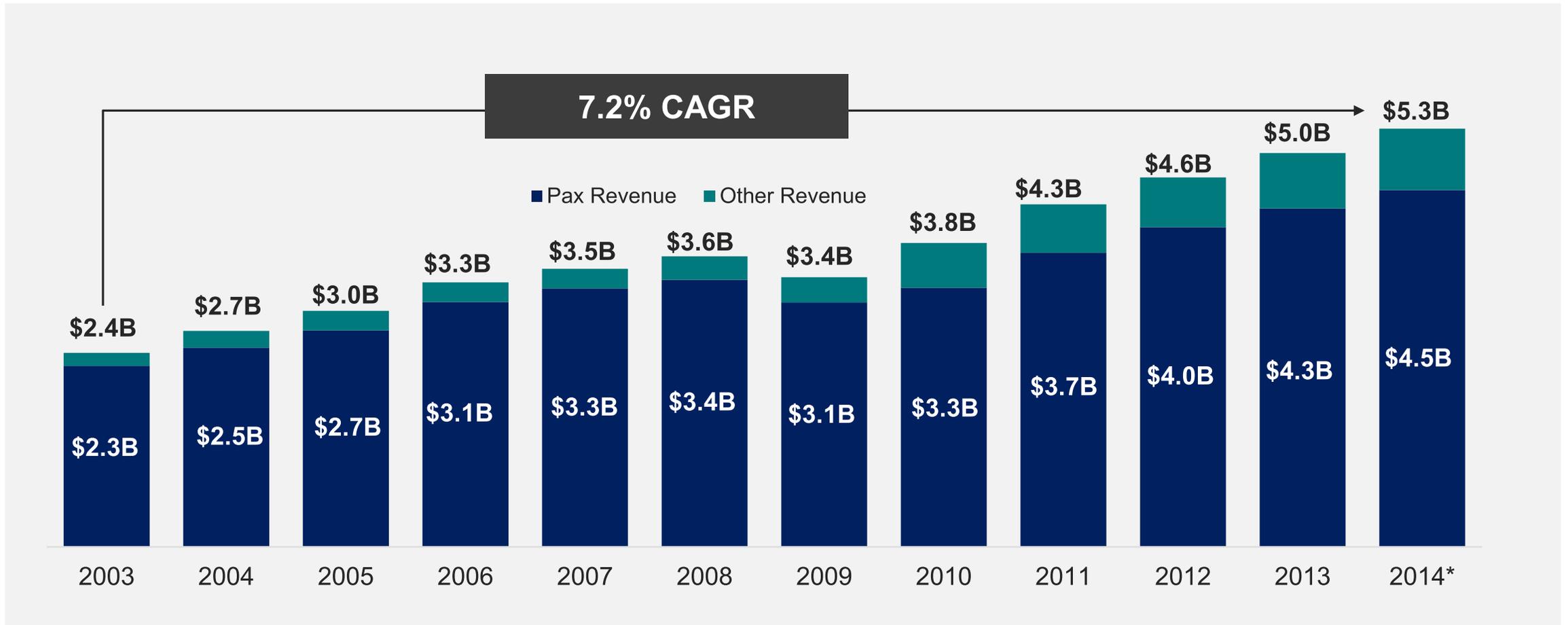


# Grow Revenue and Strengthen Network

Andrew Harrison – Senior Vice President Planning & Revenue Management

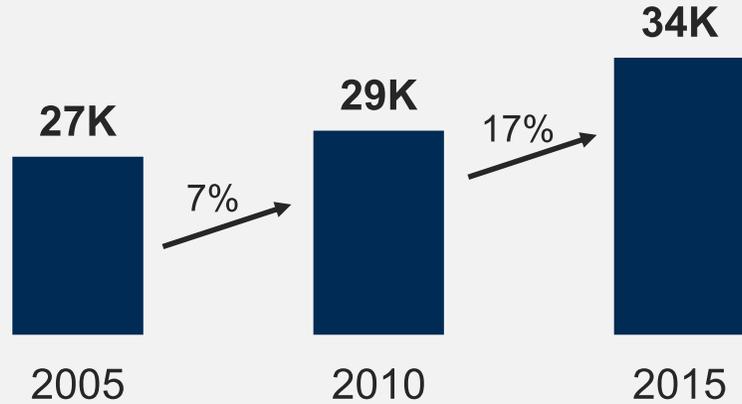
*Alaska*<sup>®</sup>

# Alaska's revenue has more than doubled over the last 12 years...

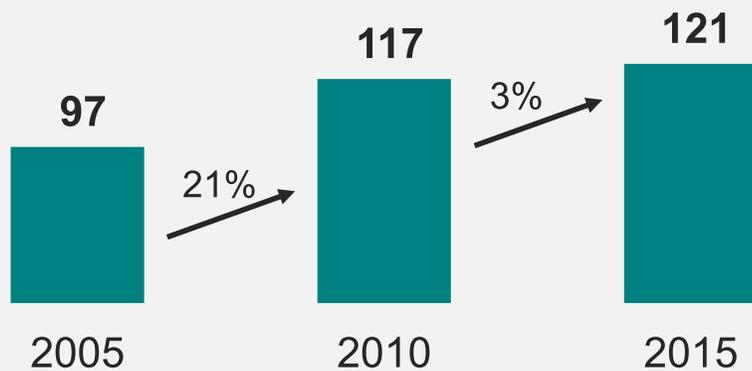


# ...and we continue to grow and diversify

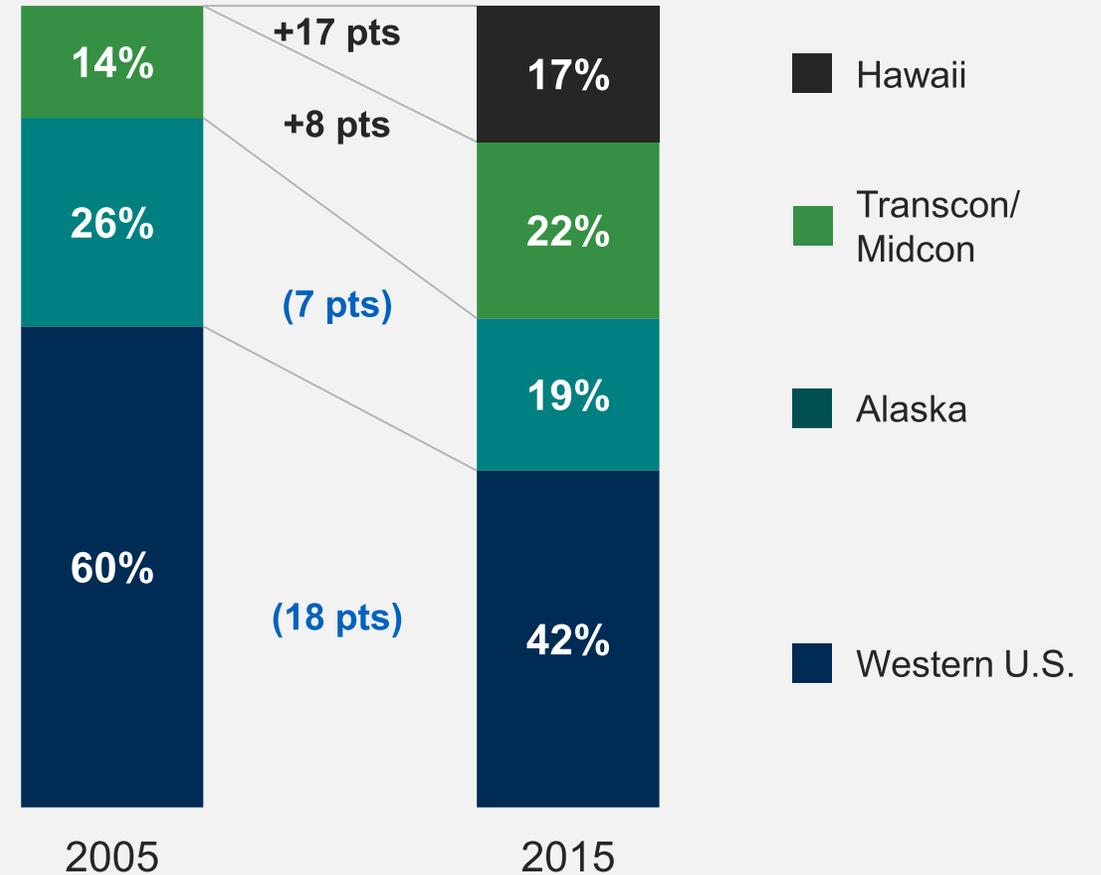
## DAILY SEATS FROM SEATTLE



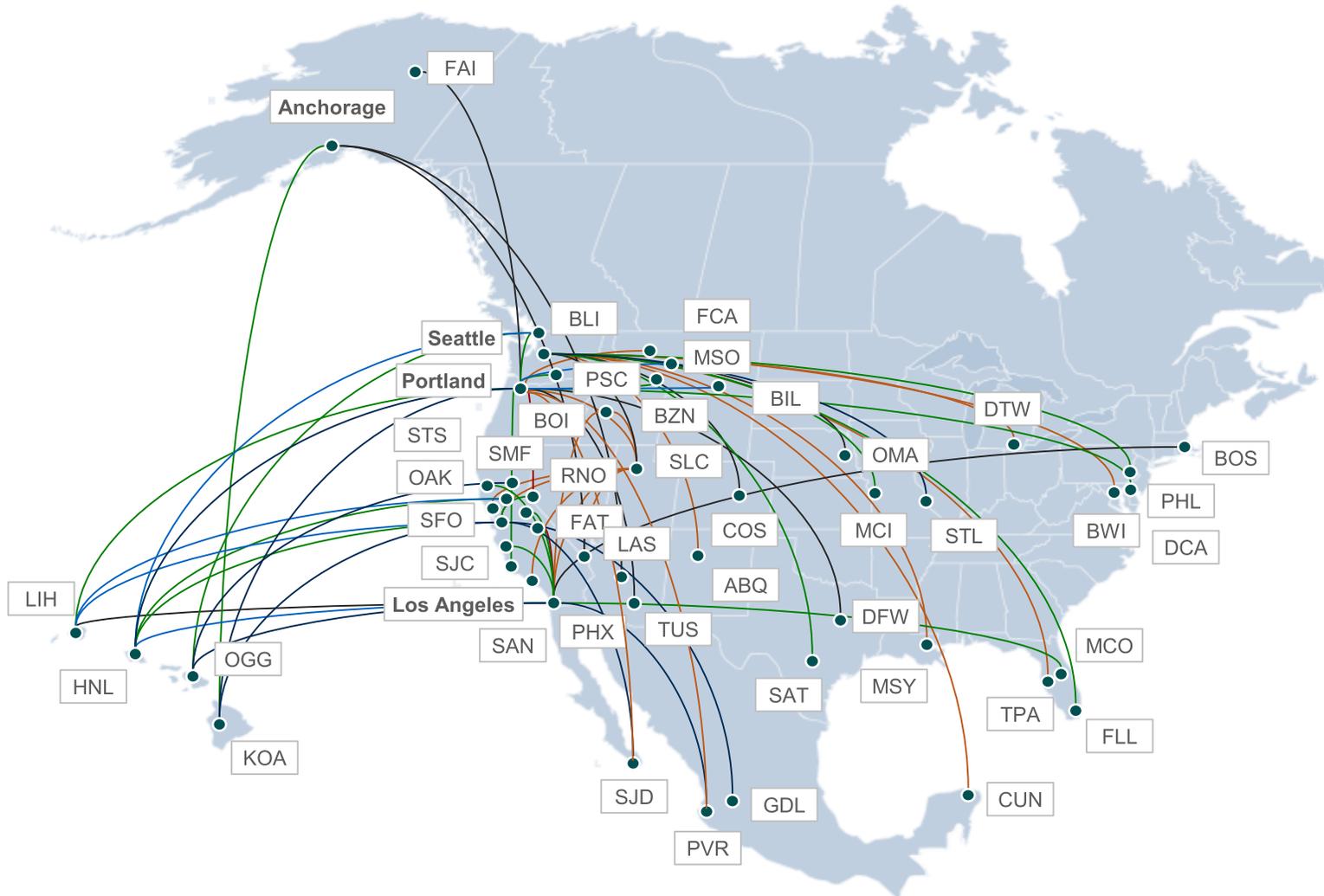
## SEATS PER DEPARTURE



## CAPACITY DIVERSIFICATION



# We have entered 63 new markets since 2010...



**9** New Markets in 2010

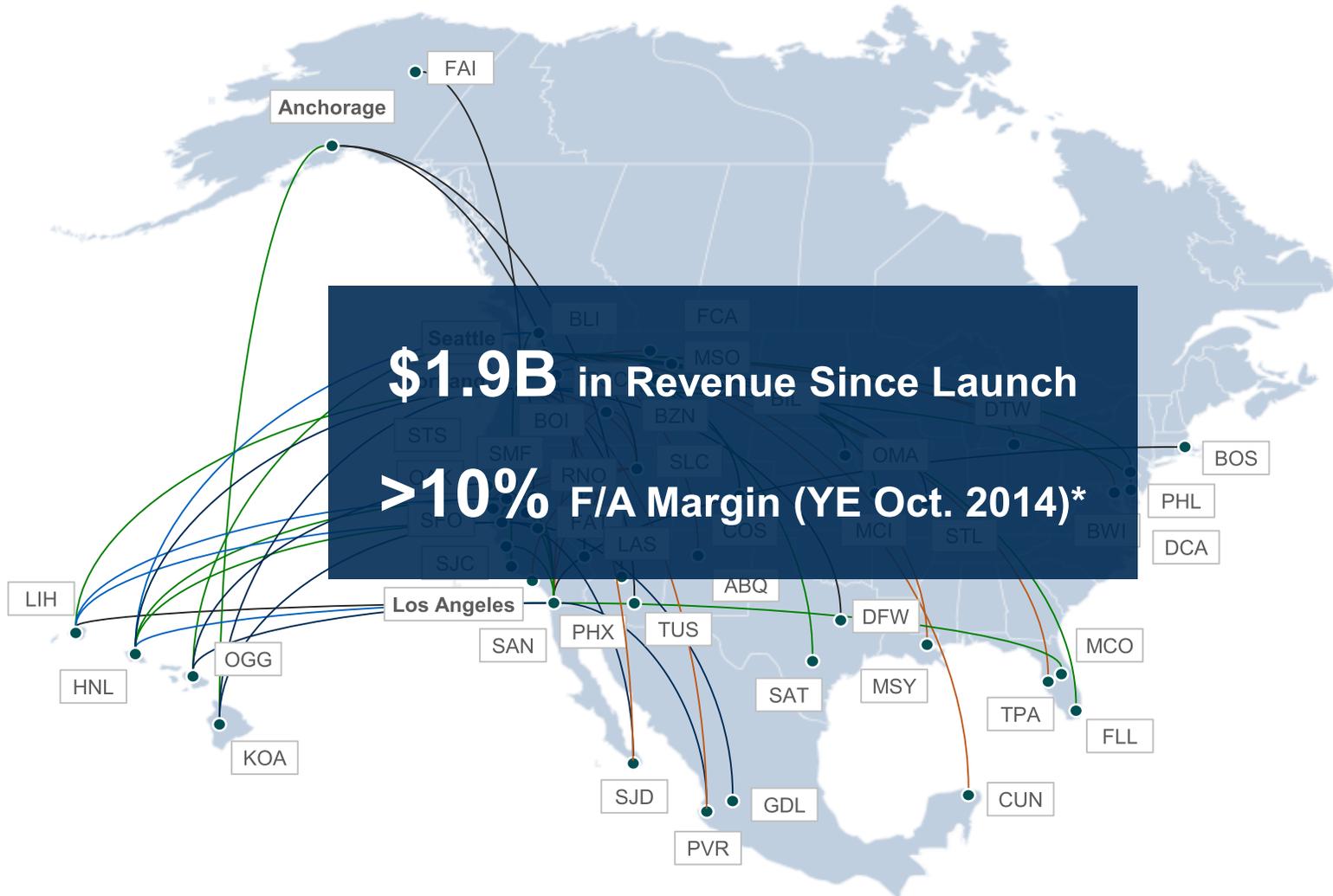
**6** New Markets in 2011

**19** New Markets in 2012

**13** New Markets in 2013

**16** New Markets in 2014

# ...helping grow and diversify our revenues



**9** New Markets in 2010

**6** New Markets in 2011

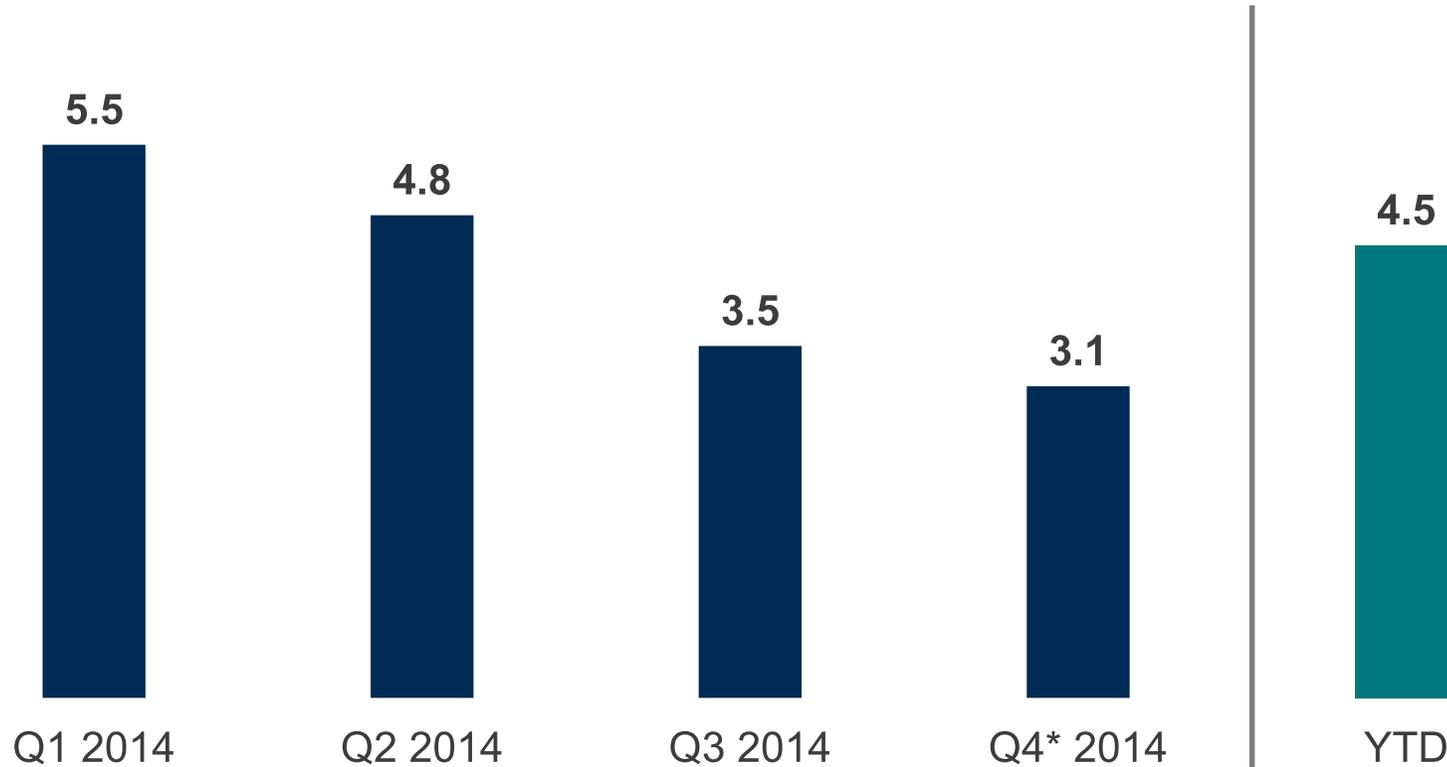
**19** New Markets in 2012

**13** New Markets in 2013

**16** New Markets in 2014

# Our margins have expanded despite competitive capacity growth

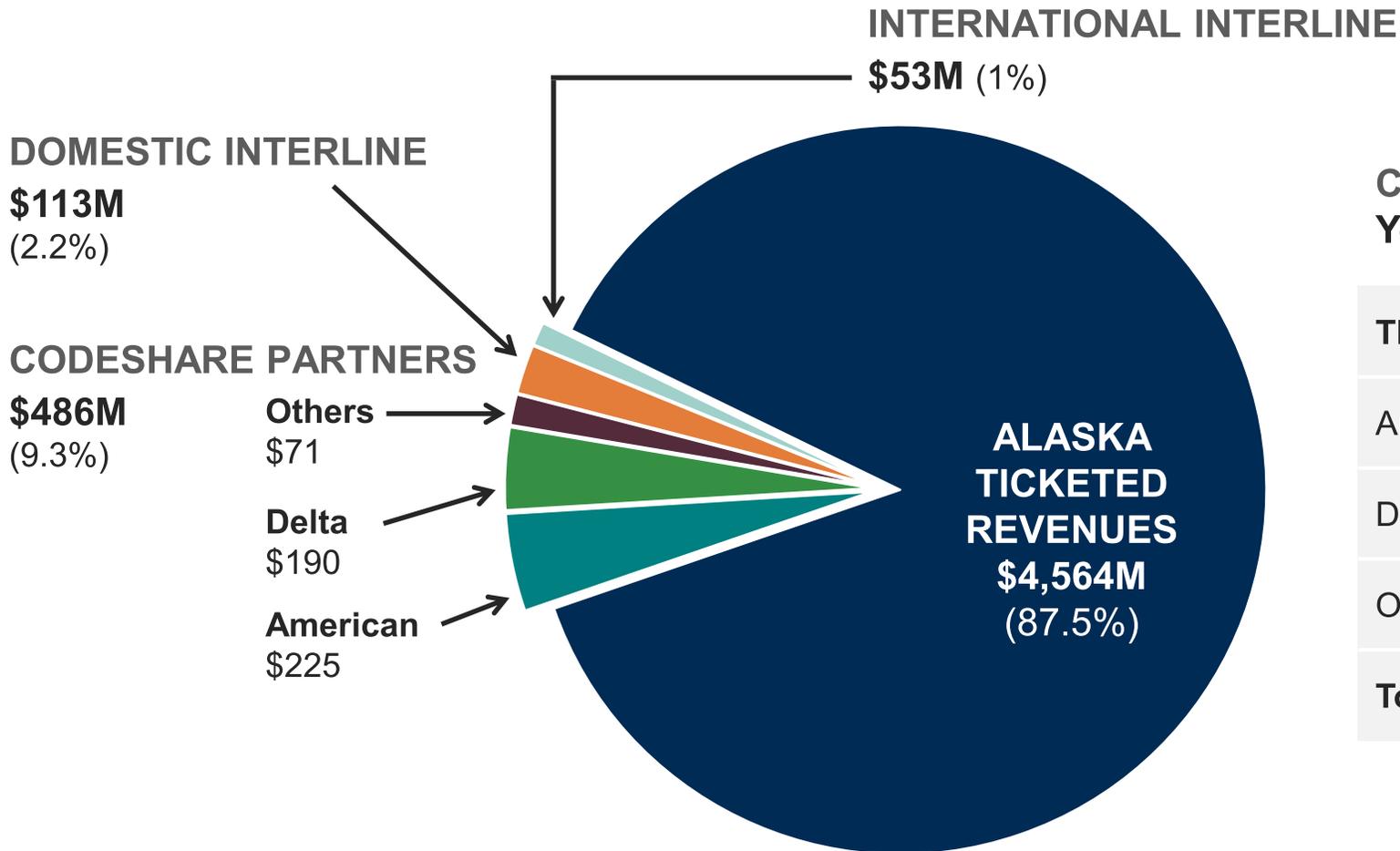
## 2014 MARGIN YOY GROWTH



## COMPETITIVE CAPACITY YOY



# Majority of revenue is AAG generated, despite changes in mix of alliance revenues

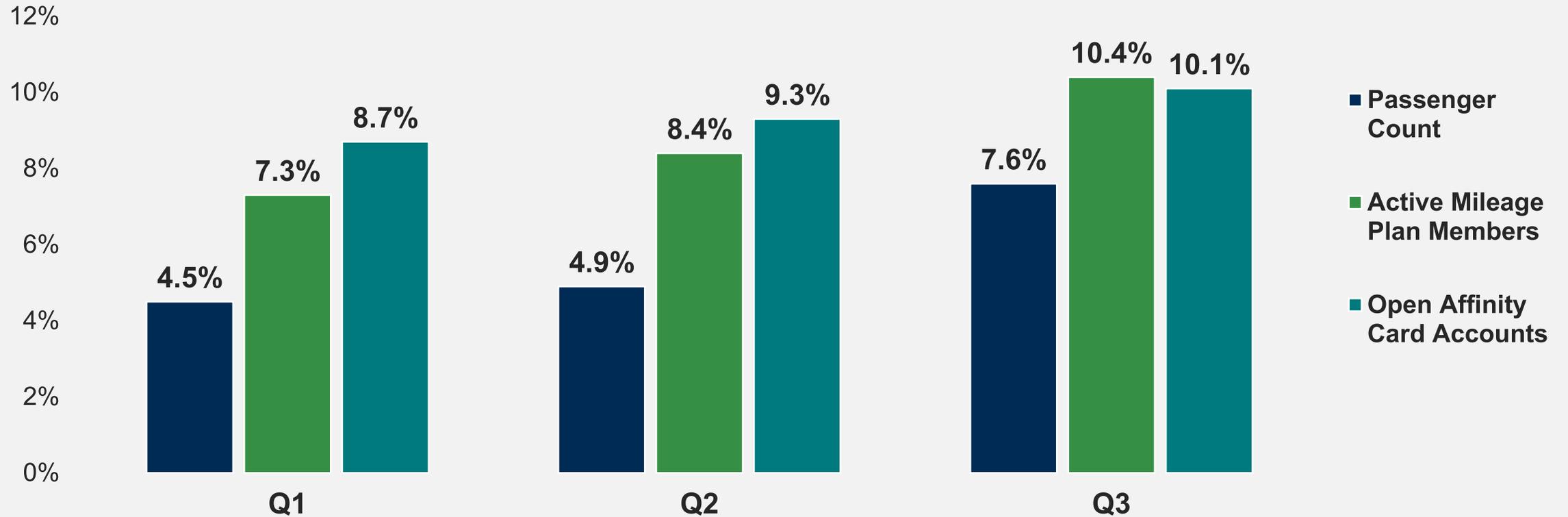


## CODESHARE PARTNERS YoY Rev. Change

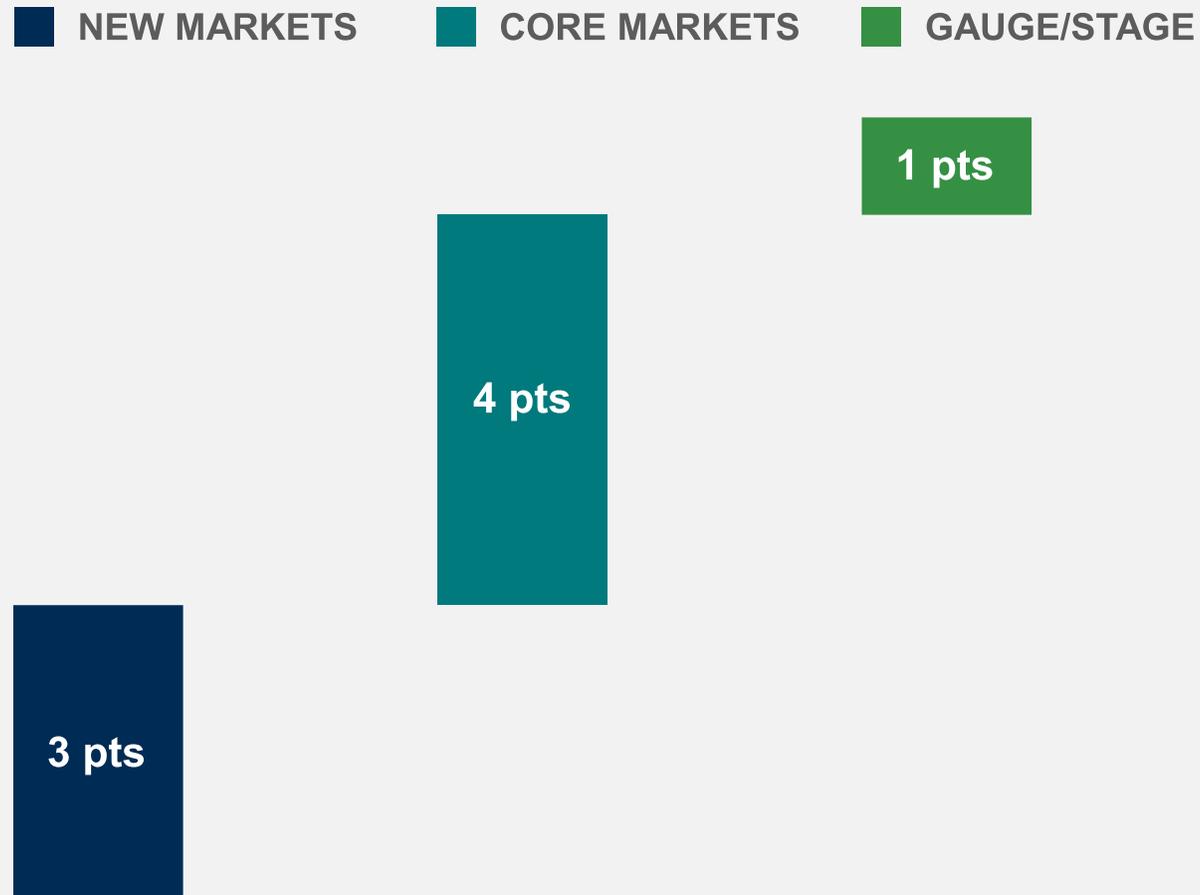
TRAFFIC TYPE	REV (\$M)	PT Δ
American	\$39.3	+0.5
Delta	(\$44.2)	(1.1)
Others	\$13.7	+0.2
<b>Total</b>	<b>\$8.8</b>	<b>(0.4)</b>

# Record growth in loyalty and bank card memberships have outpaced passenger growth

YOY % CHANGE



# We are adding capacity to strong core markets and creating new revenue sources



YE 2015 Estimate



# We have a track record of taking capacity out of under-performing and over-saturated markets and we will continue that in 2015



MARKETS EXITS	CAPACITY REDUCTIONS
LAX-SJC	ANC-PDX
ANC-DEN	BLI-LAS
LGB-PDX	BLI-HNL
ATL-PDX	GDL-LAX
PSP-SMF	LAX-MEX
LGB-SEA	LAX-YVR
	PDX-SJC
	SAN-SEA
	SEA-ONT

# Industry transition to a revenue-based loyalty program provides opportunity in the near term for Alaska

## ENHANCEMENTS EFFECTIVE 1/1/15

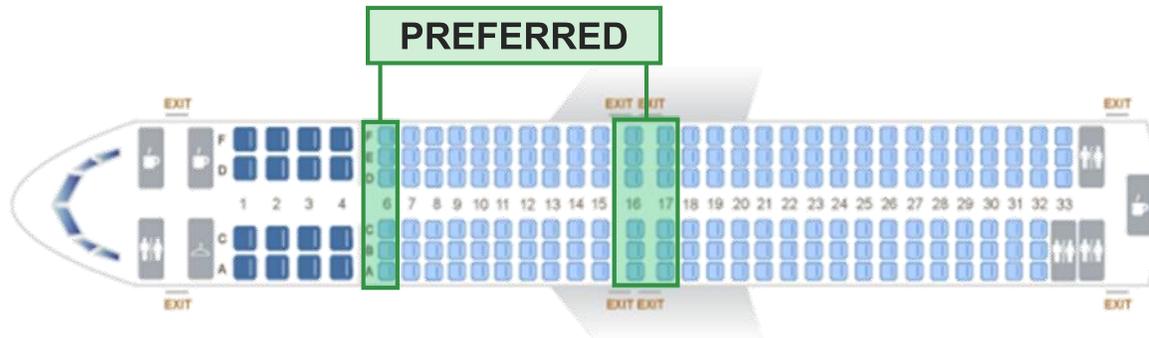
	Booking Class	Previous Bonus	New Bonus
Premium	F	50%	75%
	P	50%	75%
High Yield	Y	25%	50%
	S	0%	50%
	B	0%	25%
Low Yield	M	0%	25%
	H-R	0%	0%
Elites	MVP	50%	50%
	Gold	100%	100%
	75K	100%	125%



## COMPARISON OF MILEAGE PLAN VS. REVENUE PLAN

Passenger Segment	% Members*
<b>At Risk</b> (10 to 20% less earn)	5%
<b>Neutral</b> (-10 to 10% more earn)	16%
<b>Slightly Better</b> (10 to 20% more earn)	6%
<b>Significantly Better</b> (20%+ more earn)	73%
<b>Total Members</b>	<b>100%</b>

# We are introducing preferred seating in Q1/Q2 of 2015 with an initial expected annual benefit of ~\$15M



## PREFERRED SEATING – AMENITIES

Extra Leg Room (7–9" extra seat pitch)

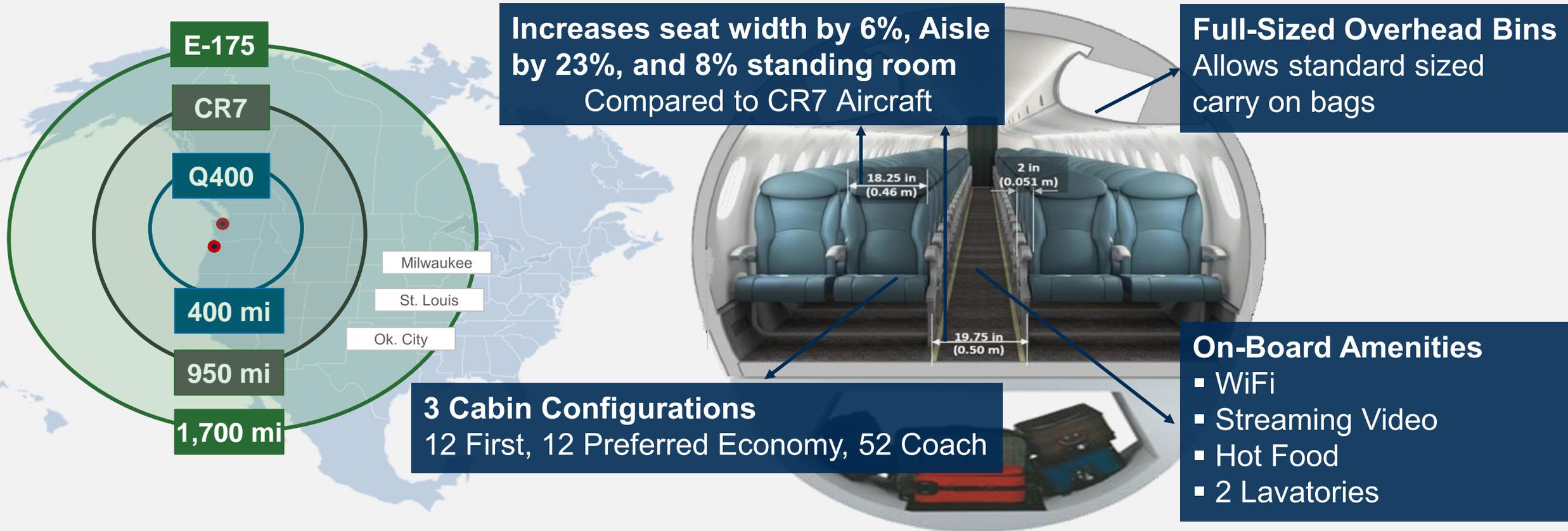
Free Drink

Priority Boarding

## PREFERRED SEATING – PRICING

Up to 1,250 miles	+ \$15
1,251–2,000 miles	+ \$30
>2,000 miles	+ \$50

# SkyWest E-175's open up new routes and revenue opportunities



Three to enter service July 2015, four in late Q1,16

# Impact of Revenue Initiatives



1.	Annualization of 2014 initiatives	~\$30M
2.	Preferred Seating (1Q/2Q Launch)	~\$15M
3.	Revenue Initiatives (Revenue management system, class of service etc.)	~\$50M
	<b>Total</b>	<b>~100M</b>

# 2015 Revenue Goals



1. Remain #1 carrier in Seattle through low fares, best network utility, and preferred loyalty program
2. Reduce and reallocate capacity in under-performing and non-strategic markets
3. Enhance and grow our loyalty program
4. Grow ancillary revenues through preferred seating and other initiatives
5. Add new regional aircraft to grow revenue and presence in long/thin markets



# Create Long-Term Value

Brandon Pedersen – Chief Financial Officer

# We are well positioned to create long term value for our shareholders

#1

Leading Margin Performance



Improving Cost Profile



Strong Balance Sheet

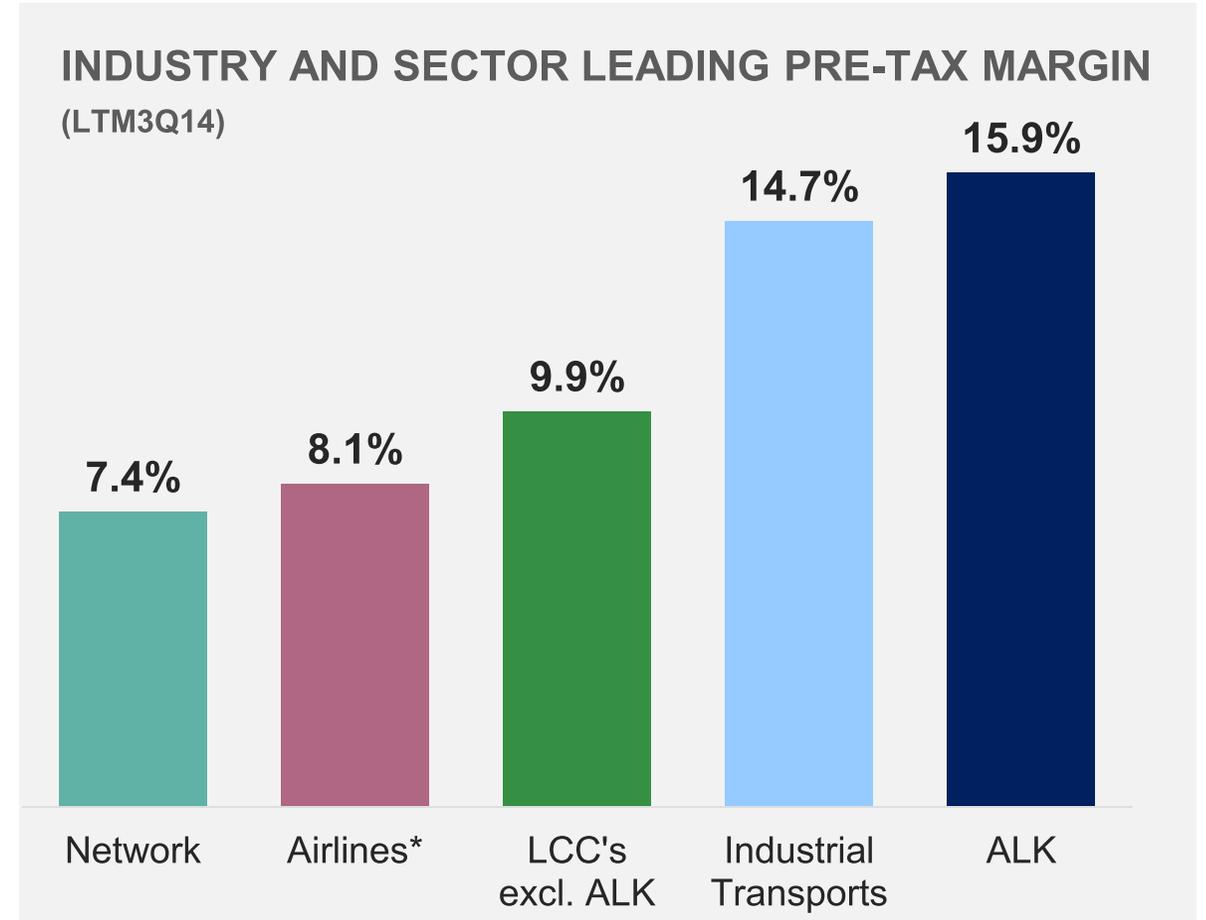
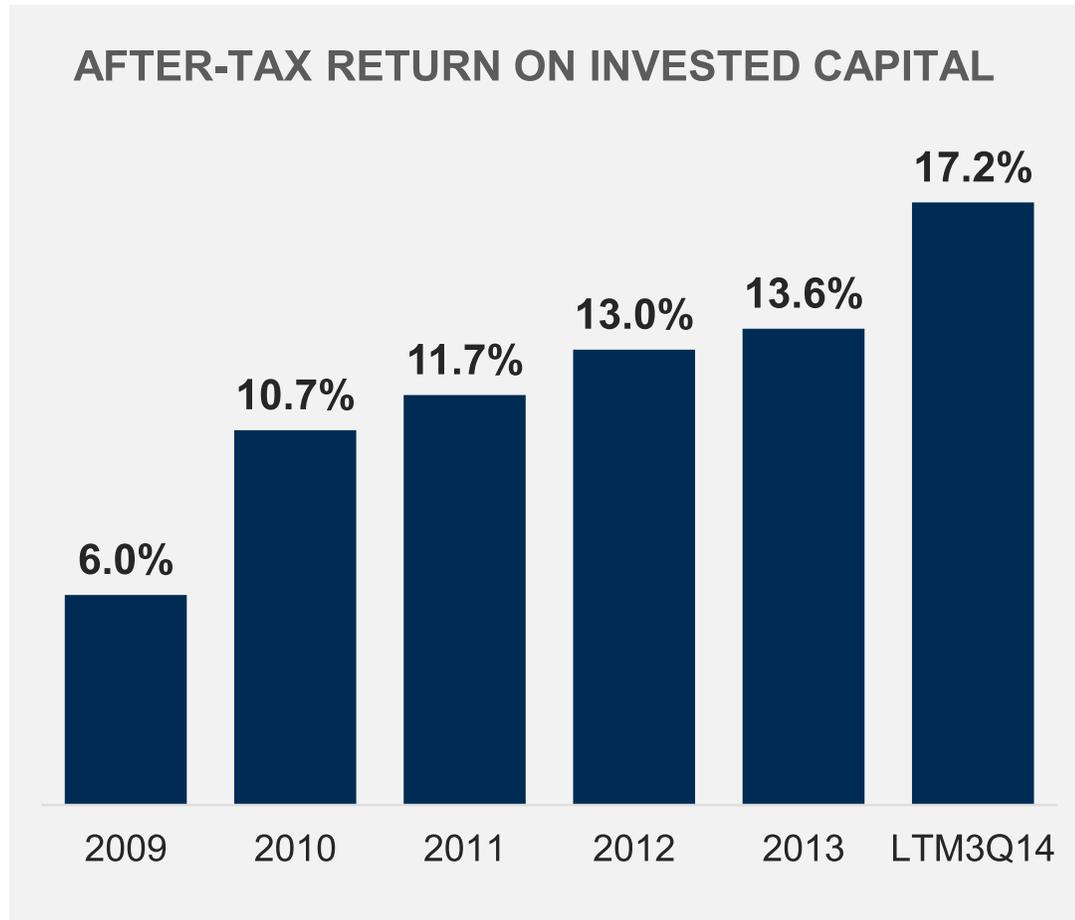


Balanced Capital Allocation



Incremental Returns to Shareholders

# We are earning our cost of capital consistently and generating returns in line with high quality industrial transportation companies

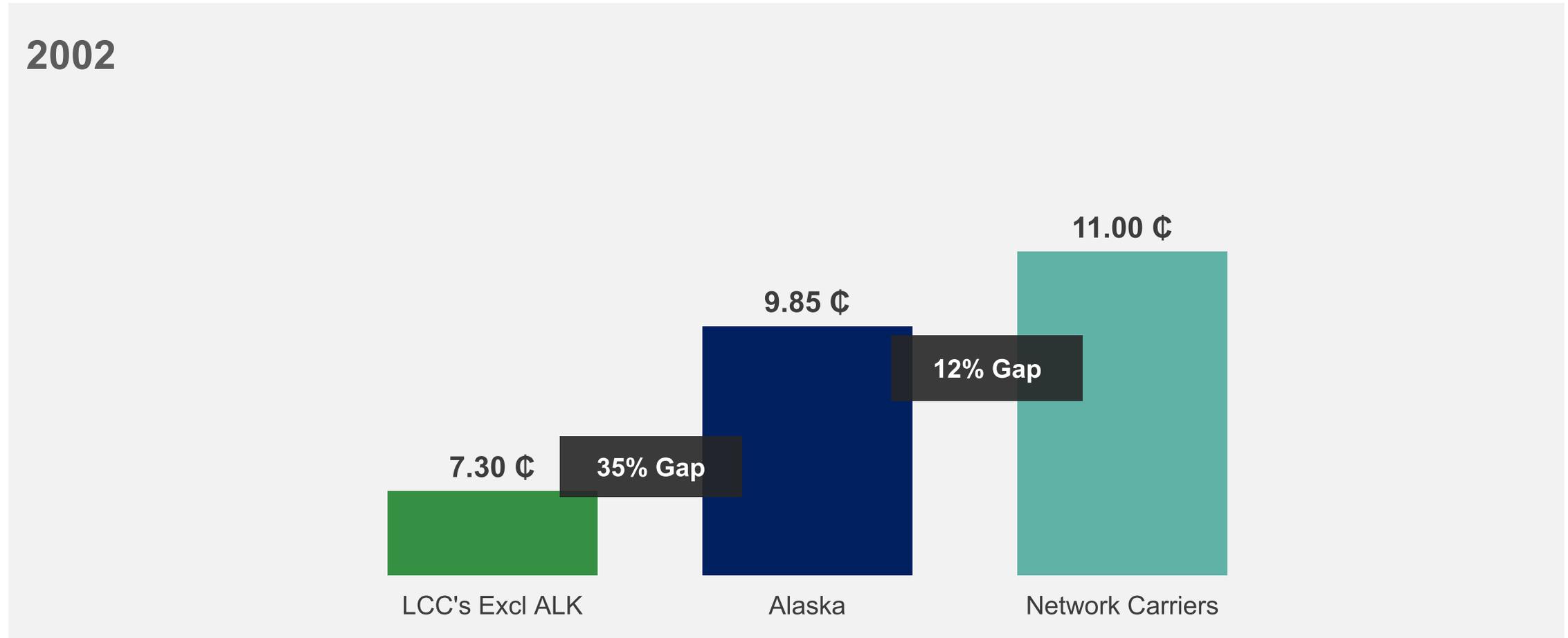


Network: AAL, DAL, UAL. LCC's excl ALK: LUV, HA, JBLU, SAVE, and ALGT

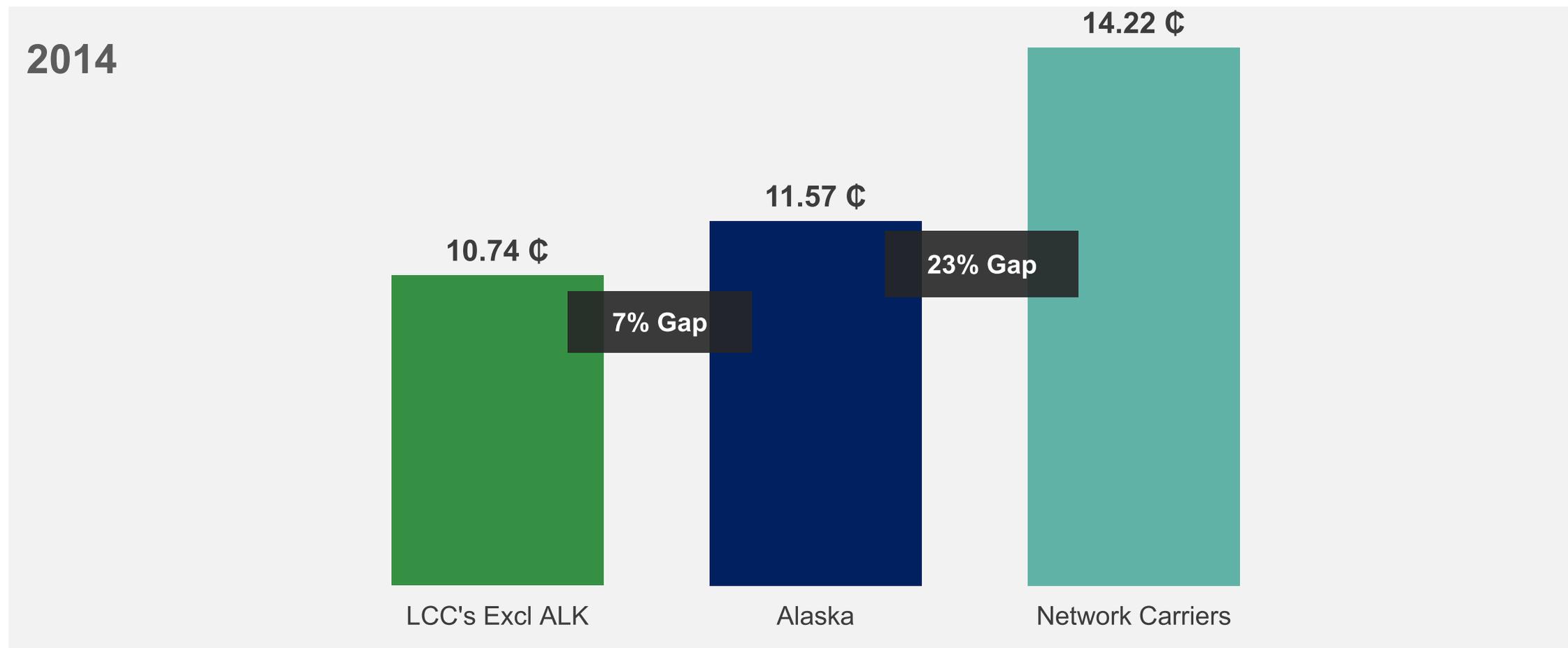
Airlines\* include legacy and low cost carriers but exclude ALK

Industrial Transport companies include the rail, parcel, truckload, intermodal, forwarders/brokers and LTL companies

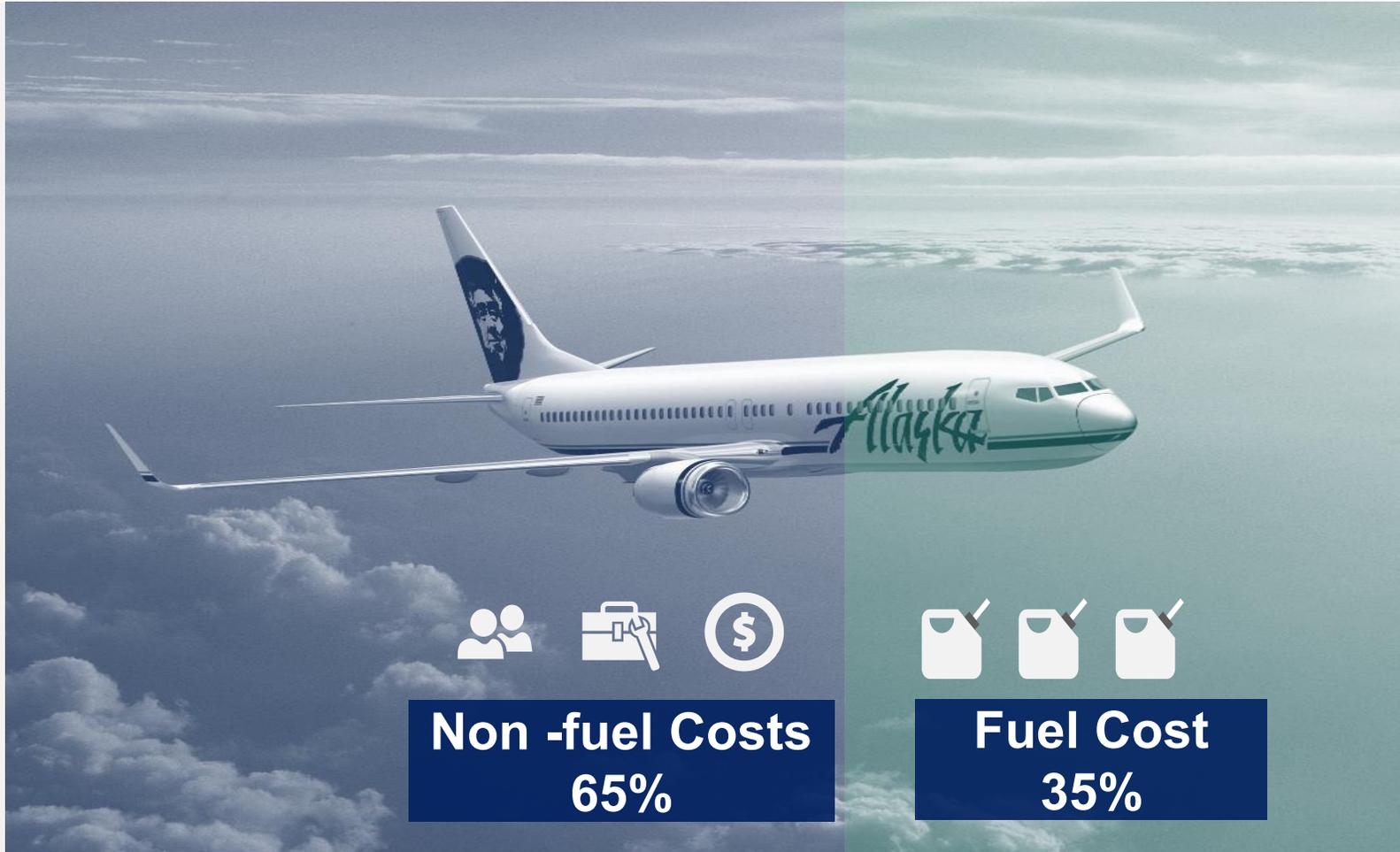
# We have reduced our costs...



# ...and today our cost structure resembles LCC's and provides a sustainable advantage against network carriers



# Productivity remains an important lever to reduce costs



## Catalysts provide further runway to lower costs...

Fleet Renewal  
737-400 Replacement

Upgauging 737-800/900

Increase Productivity

Increase Fuel Efficiency

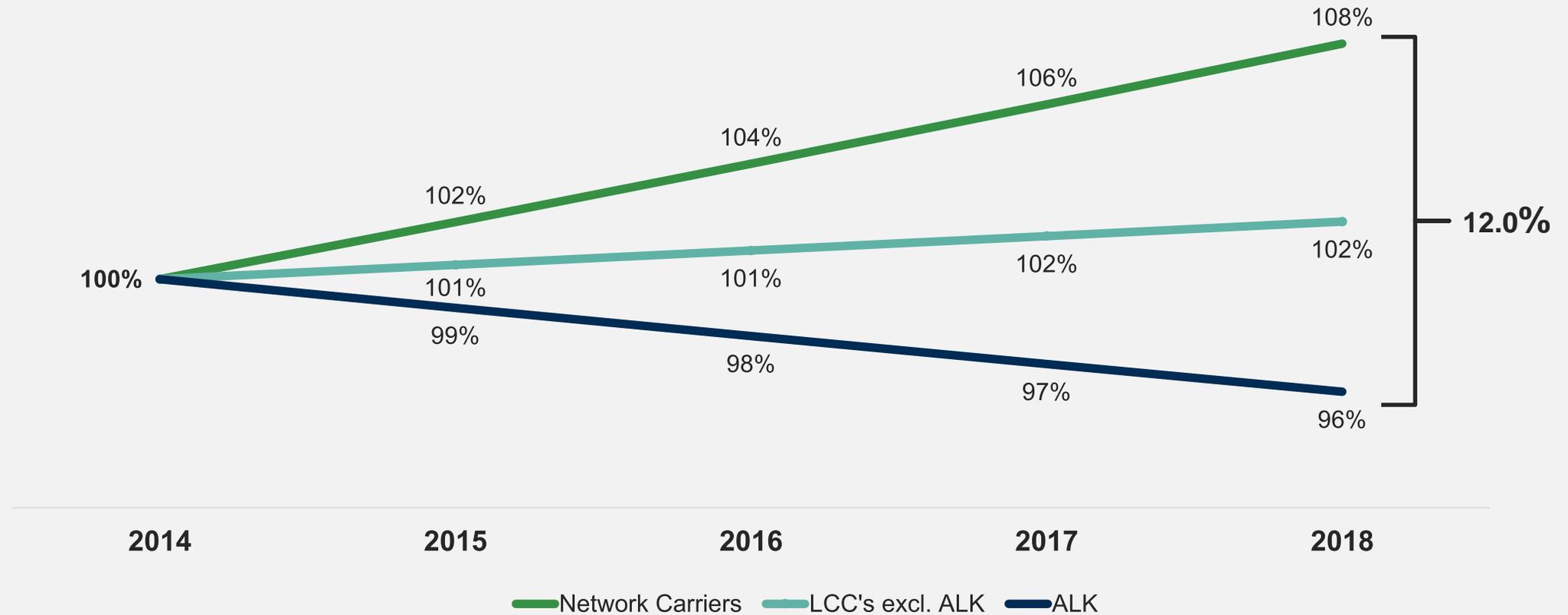
Reduce Fuel Price Gap



Improving Cost Profile

# ...and further strengthen our competitive position

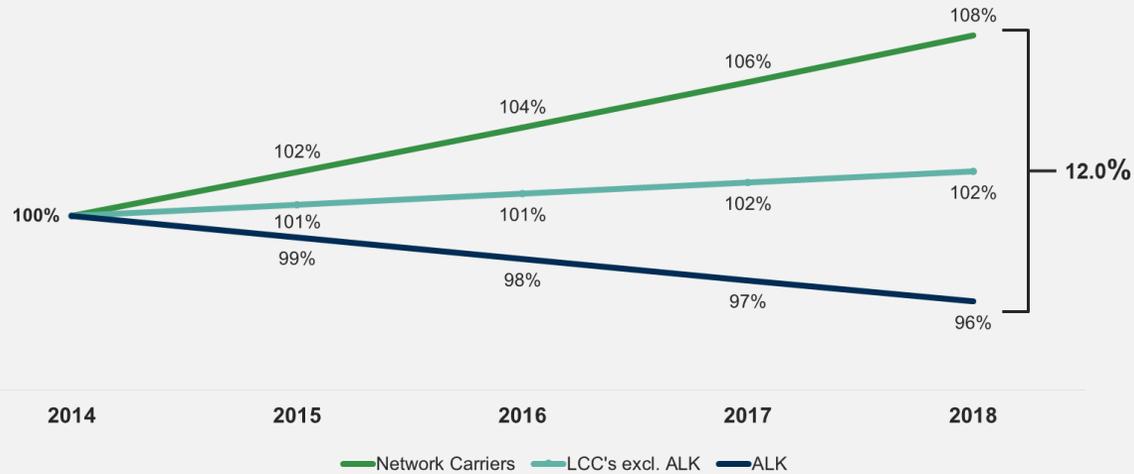
## COST PROFILE EXCLUDING FUEL



Network costs expected to grow ~2%/year, LCC costs increase ~0.5% per year and ALK costs go down ~1% per year

# ...and further strengthen our competitive position

## COST PROFILE EXCLUDING FUEL



**2015 CASM Ex-Fuel,  
Ex FA Contract**

**(1.0%) – (1.5%)**

**2015 CASM Ex-Fuel**

**~ (0.5%)**

Network costs expected to grow ~2%/year, LCC costs increase ~0.5% per year and ALK costs go down ~1% per year

# Our fuel efficiency has improved 22% since 2004...



Fleet Transition

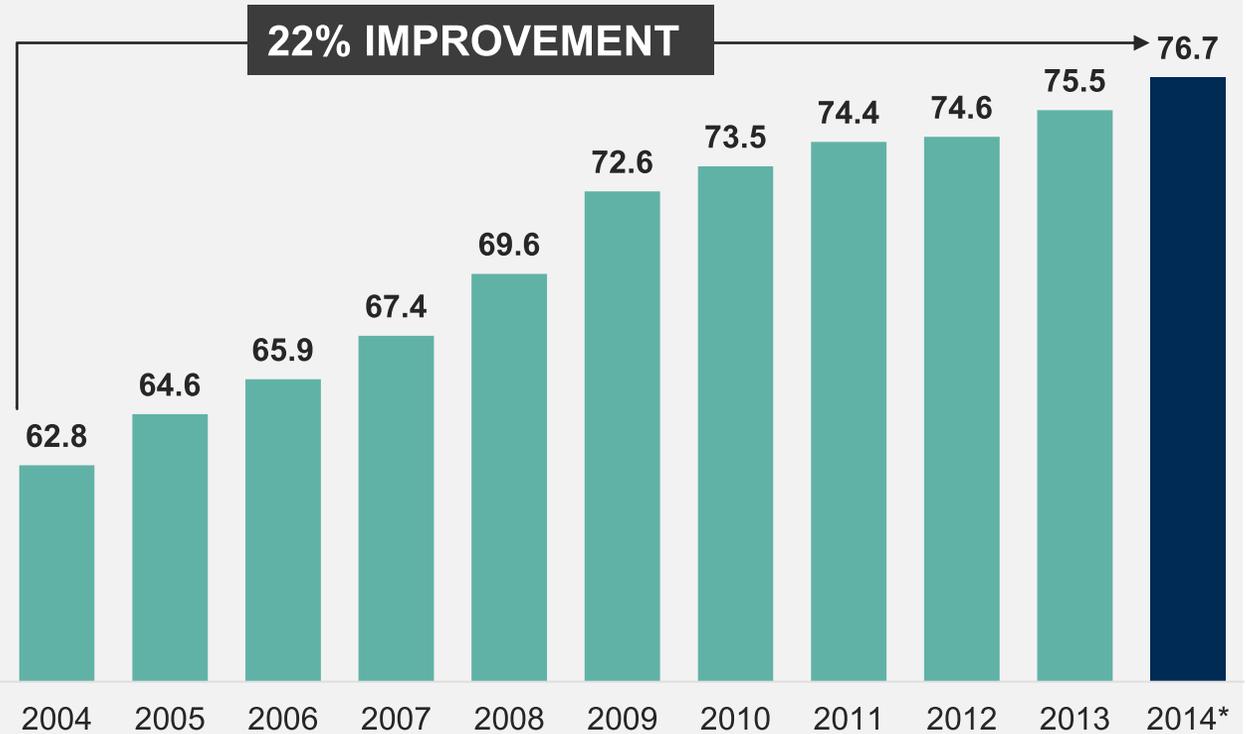


Navigation (RNP)



Process Improvements

FUEL EFFICIENCY – ASM's/Gallon



~\$300M Savings @ \$3/Gallon

...and is now among the best in the industry...



**737-400  
Replacements**

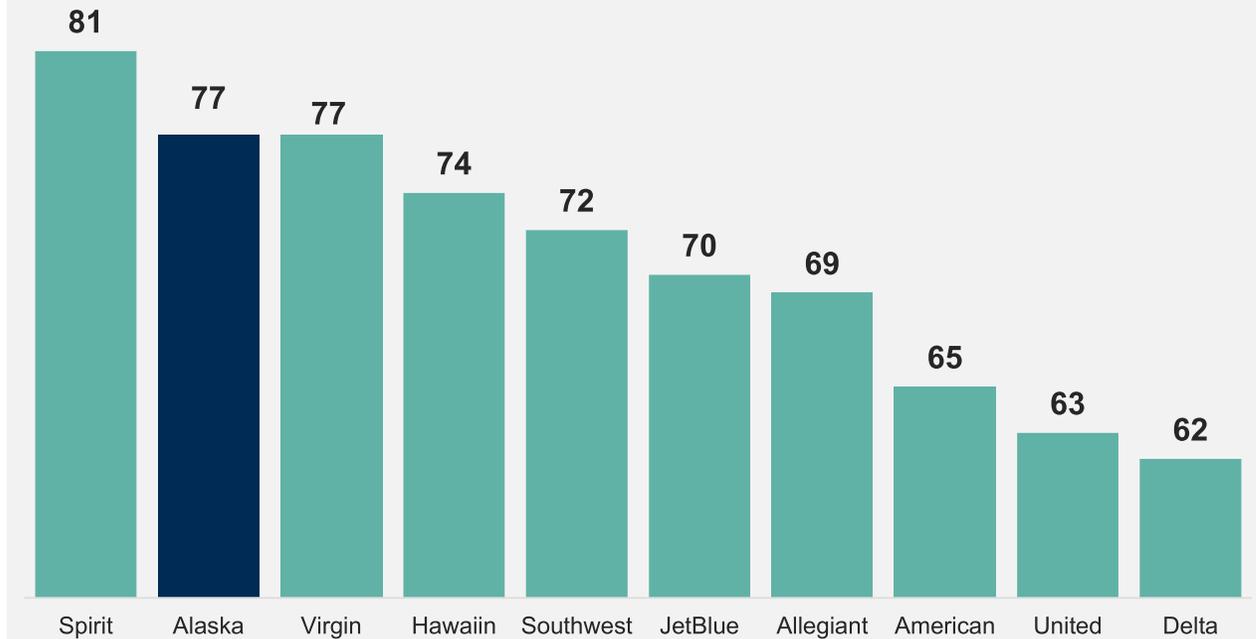


**Split Scimitar  
Winglets**



**Operational  
Efficiency**

**FUEL EFFICIENCY – ASM's/GALLON**



# ...and should continue to get better



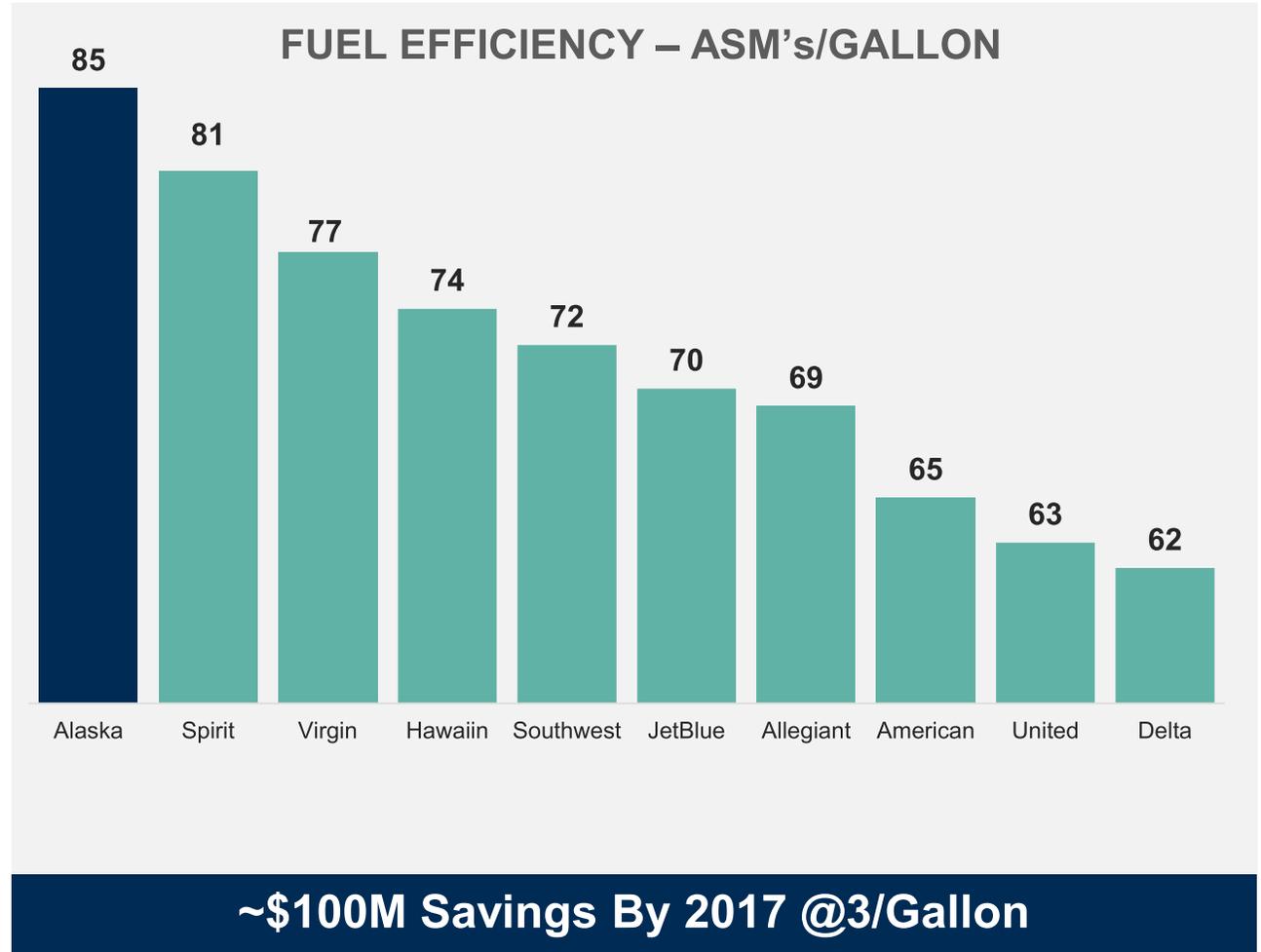
737-400  
Replacements



Split Scimitar  
Winglets

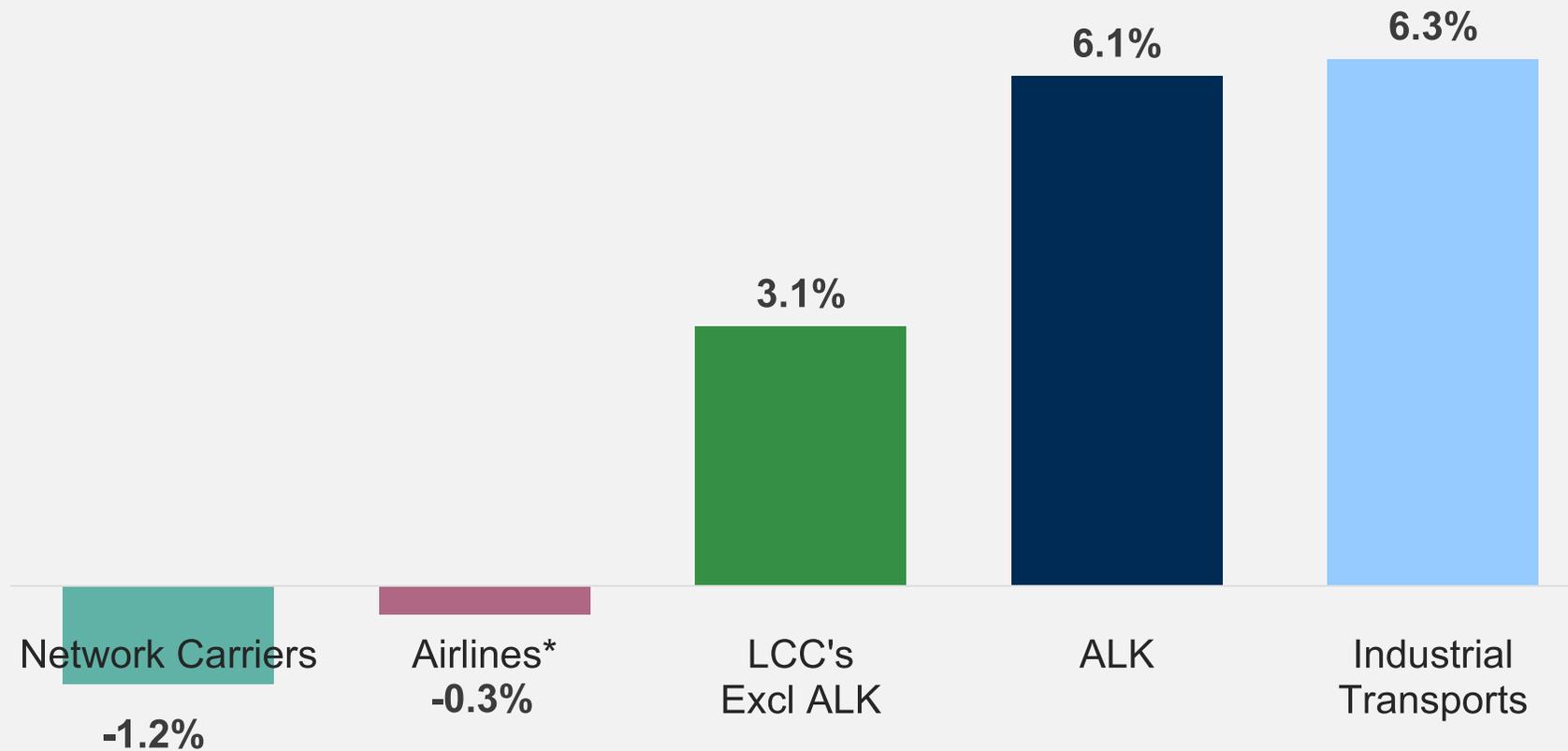


Operational  
Efficiency



# Our cash flow generation is best in class and comparable to high quality industrial transports

## LTM 3Q14 – FCF AS A % REVENUE



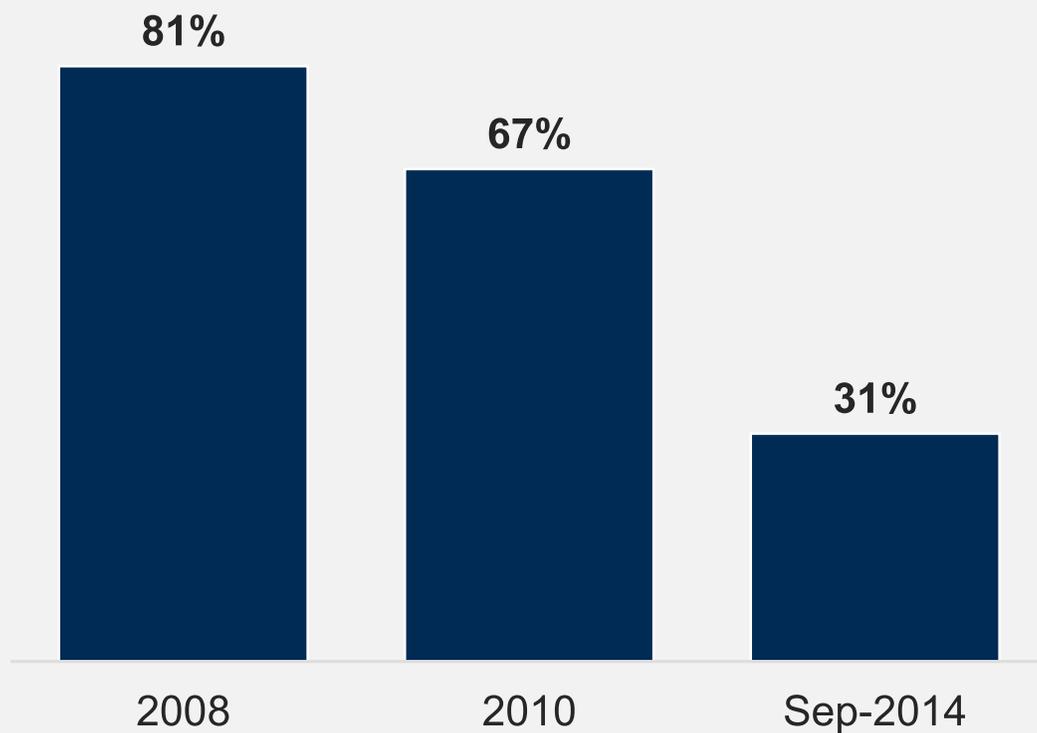
Legacies: AAL, DAL, UAL. LCC's: LUV, HA, JBLU, SAVE, and ALGT

\*Airlines include legacy and low cost carriers but excludes ALK

Industrial Transport companies include the rail, parcel, truckload, intermodal, forwarders/brokers and LTL companies

# And our investment grade balance sheet de-risks the cash flow to shareholders

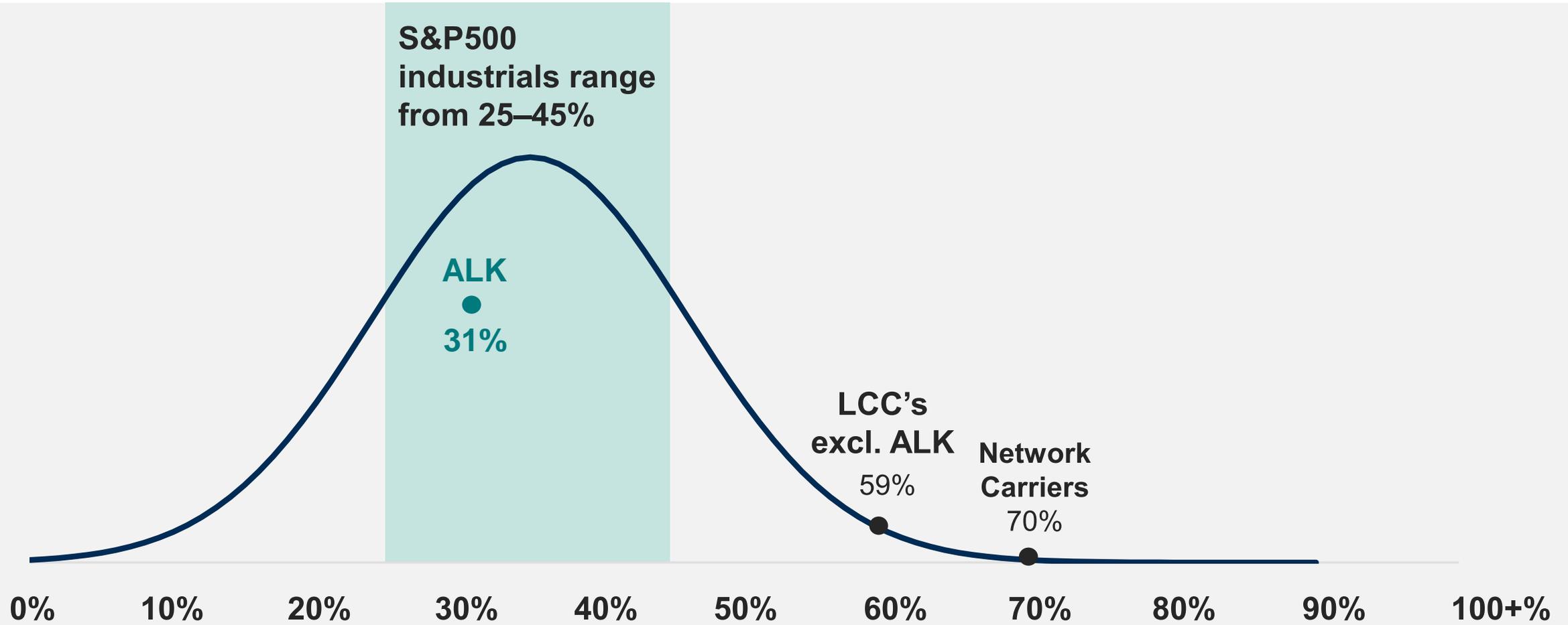
## DEBT TO CAP



Airline Credit Rating		
	S&P	Fitch
BBB+		
BBB	 SOUTHWEST	 SOUTHWEST +
BBB-	 Alaska	 Alaska
BB+		
BB	 +	 +
BB-	 allegiant air	
B+	 +	
B	 jetBlue +	 + jetBlue
B-		

Investment Grade

# Our capital structure is consistent with S&P 500 industrials



# Capex and other obligations are manageable...

Capex  
~\$650M Annually



Debt Obligations  
~\$100M Annually

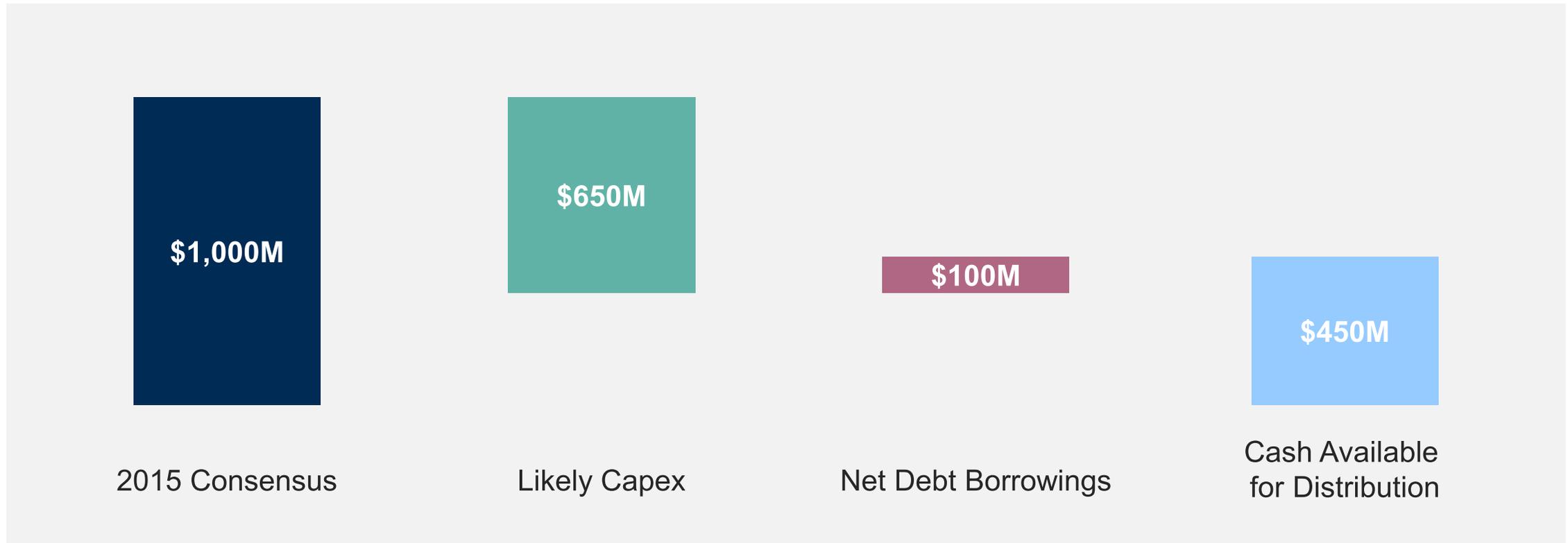


Fully Funded Pension\*  
No Required Funding



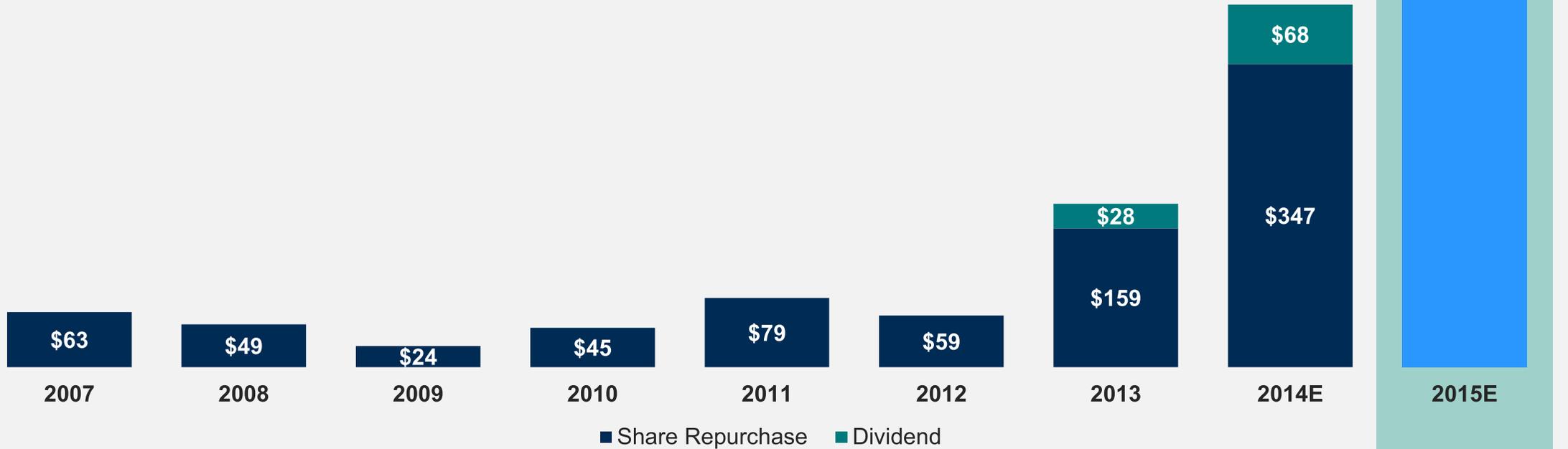
Total Net Obligations  
~\$750M  
Run Rate

## ...resulting in another year of strong capital returns



# We plan to return more cash to our shareholder in 2015 than this year

ANNUAL RETURN OF CAPITAL (\$ IN MILLIONS)



**2015 plan far exceeds cumulative capital returned from 2007–2012**

## 2015 Goals

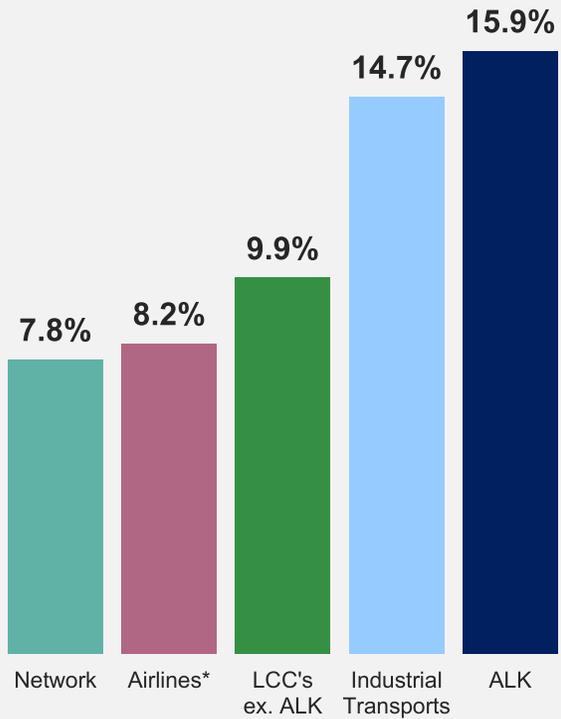


1. Meet our 2015 profit budget
2. Hit our cost plan, reduce non-fuel costs by ~0.5%
3. Narrow fuel price differential versus industry

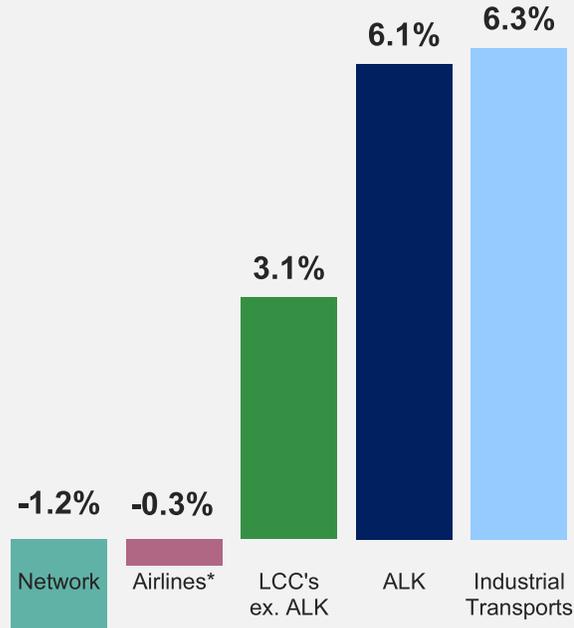
**Return more capital to  
shareholders in 2015 than 2014**

# Trivia Question

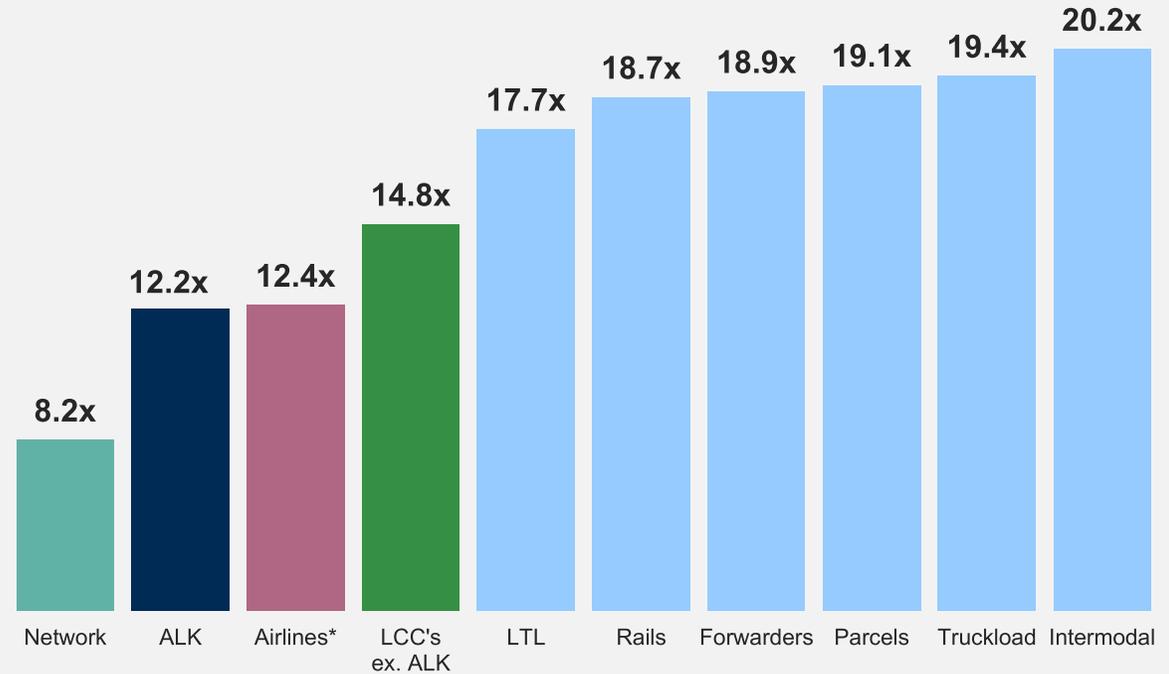
?



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Legacies: AAL, DAL, UAL. LCC's: LUV, HA, JBLU, SAVE, and ALGT

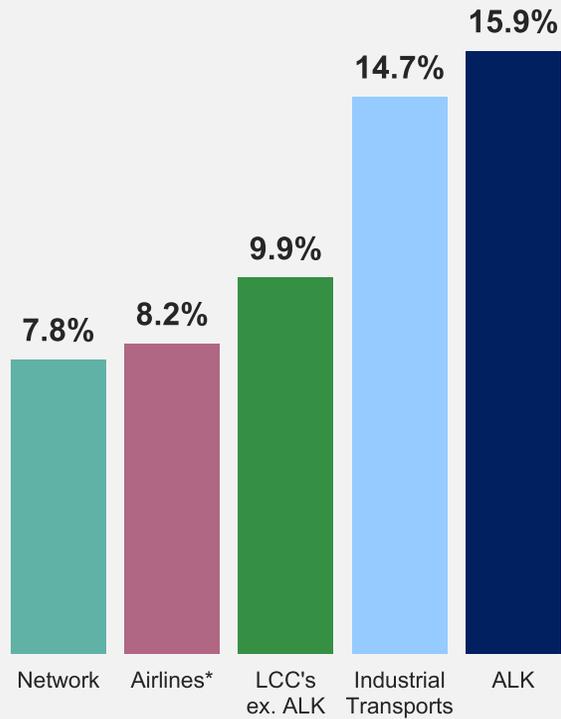
Airlines include legacy and low cost carriers but excludes ALK

Industrial Transport companies include the rail, parcel, truckload, intermodal, forwarders/brokers and LTL companies

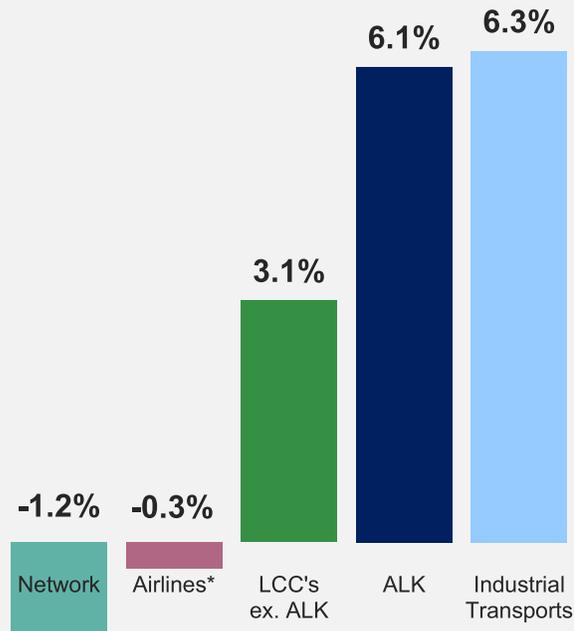


# Trivia Question

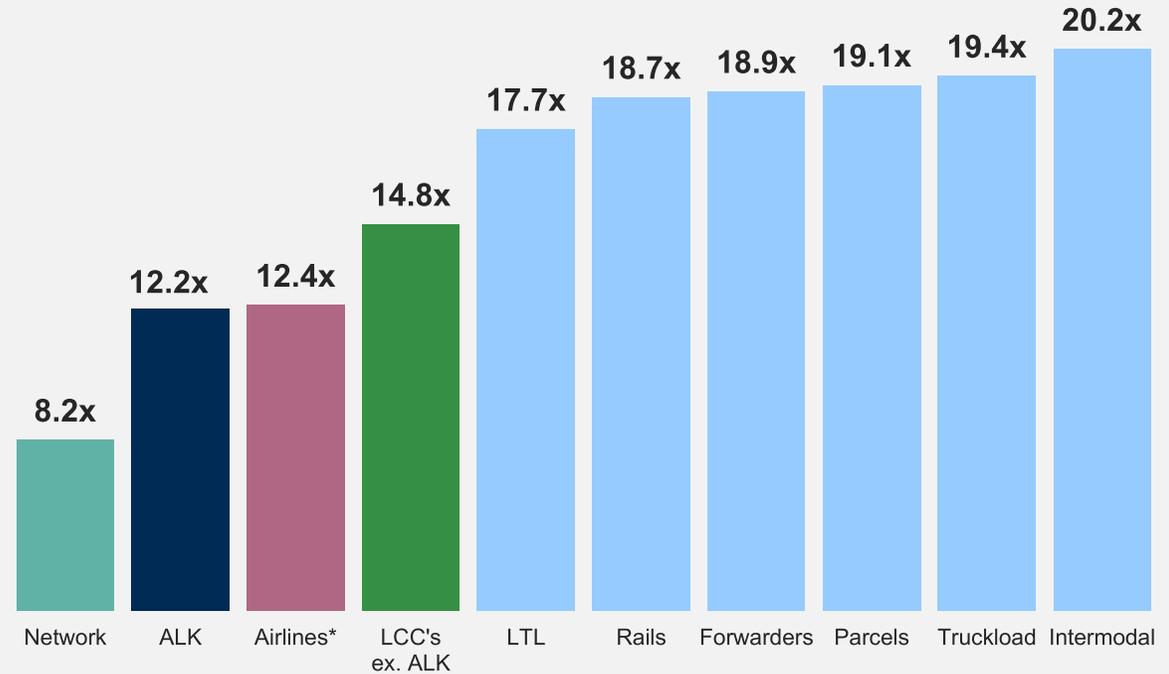
## Pre-Tax Margin



## FCF As a % of Revenue



## P/E Multiples



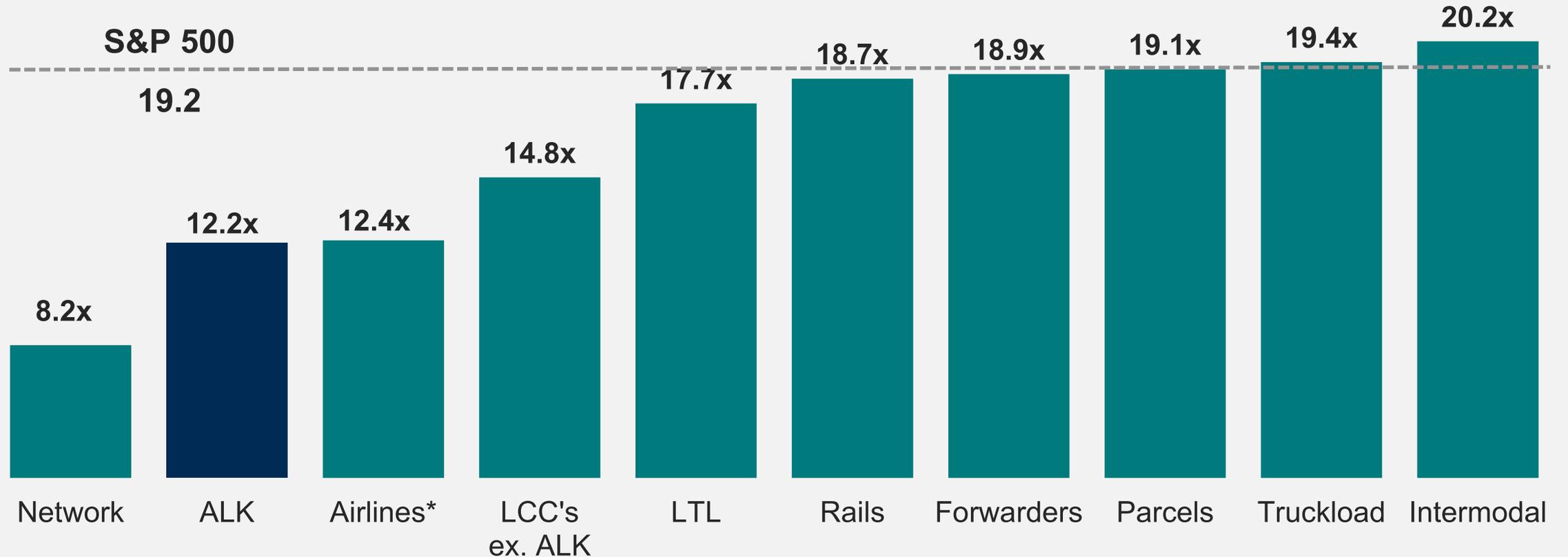
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Airlines include legacy and low cost carriers but excludes ALK

Industrial Transport companies include the rail, parcel, truckload, intermodal, forwarders/brokers and LTL companies

# ALK earnings multiple still lags comparable companies

## 2015 P/E RATIO



Legacies: AAL, DAL, UAL. LCC's: LUV, HA, JBLU, SAVE, and ALGT

Airlines include legacy and low cost carriers but excludes ALK

90 HQIT: High Quality Industrial Transport companies include the rail, parcel, truckload, intermodal, forwarders/brokers and LTL companies



# ALK – Top 10 List

1. Award winning service
2. Industry leading on-time performance
3. Loyal customers
4. Low costs...and getting lower
5. One of the most fuel efficient fleets...and getting better
6. Growing ancillary revenues
7. Industry leading margins in-line with high quality industrials
8. Investment grade credit
9. Record returns to shareholders in 2014...and more in 2015
10. Team of 13,000 employees aligned and executing for visible results



**Thank you.**