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ALK - Q1 2018 Alaska Air Group Inc Earnings Call

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OVERVIEW:

Co. reported 1Q18 revenues of \$1.8b, GAAP net income of \$4m, adjusted net profit of \$18m and adjusted EPS of \$0.14.



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PRESENTATION

Operator

Good morning. My name is Jesse, and I'll be your conference operator today.

At this time, I would like to welcome everyone to the Alaska Air Group First Quarter Earnings Release Conference Call.

Today's call is being recorded and will be accessible for future playback at www.alaskaair.com. (Operator Instructions)

I would now like to turn the call over to Alaska Air Group's Director of Investor Relations, Matt Grady.

Matt Grady

Thanks, Jesse. Good morning, everyone, and thank you for joining us for our first quarter 2018 earnings call.



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On the call today, our CEO, Brad Tilden, will provide an overview of the business; Andrew Harrison, our Chief Commercial Officer, will share an update on our revenue results and outlook; and our CFO, Brandon Pedersen, will discuss our cost performance and cash flow.

Several other members of our senior management team are also on hand to help answer your questions.

Earlier this morning, Alaska Air Group reported first quarter GAAP net income of \$4 million. Excluding merger-related costs, mark-to-market fuel hedging adjustments and other special items, Air Group reported adjusted net income \$18 million and adjusted earnings per share of \$0.14, ahead of the First Call consensus.

As a reminder, our comments today will include forward-looking statements regarding our future expectations, which may differ significantly from actual results. Information on risk factors that could affect our business can be found in our SEC filings.

On today's call, we will refer to certain non-GAAP financial measures, such as adjusted earnings and unit costs, excluding fuel. And as usual, we've provided a reconciliation between the most directly comparable GAAP and non-GAAP measures in our earnings release.

And now, I will turn the call over to Brad.

Bradley D. Tilden - Alaska Air Group, Inc. - Chairman, CEO & President

Thanks, Matt, and good morning, everyone.

This is a very important time for Alaska, as we're getting through the most intense part of the merger and looking forward, in the near-term, to shifting our focus from executing the merger to realizing the value of it.

I think it's well known to most of you that the integration is reaching a crescendo tomorrow night when we transition to a single passenger service system, or PSS.

As we sit here today, we're encouraged by what we see. We're just 16 months into the merger. And while there is always something for us to learn and improve upon, we see a tremendous amount of strength and momentum. We have a single operating certificate and a single loyalty plan. We've integrated operational control of the Boeing and Airbus fleets in Seattle, and we have new market-based agreements in place for 80% of our collectively bargained payroll.

We've also put in place new engine services agreements and other long-term contracts that we will leverage across our flying as we move forward.

We have an incredible team that's executing our cutover to a single PSS. And when that is done, the majority of our systems integration work will be behind us, enabling us to realize the benefits of this new and expanded platform.

We are encouraged by the strength we see in our core markets. Same-store RASM, including legacy Airbus markets, is positive versus being negative last quarter. And we see positive signs in the vast majority of our new markets.

When we look at new store RASM, as a percentage of same-store RASM, we see sequential improvement.

In those markets where we don't see adequate improvement, our team is tuning and refining the network, adjusting frequencies, departure times, block times and day of week patterns.

Mileage Plan revenues exceeded plan by a substantial amount this quarter. The higher network relevance we now offer has made our loyalty program more attractive. And we were pleased to see the rapid growth of this program become a tailwind to our first quarter results.



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Guest loyalty is a key driver of synergies and, we believe we're still in the early stages of harvesting the full potential of our combined loyalty program.

As we complete our most important integration milestones during the first half of the year, the future is bright.

Our platform, which is 33% bigger than it was just 16 months ago and 100% bigger than it was 5 years ago, maintains the same competitive advantages it always has.

We maintain an 18% cost advantage against the legacy airlines. And if you look at the data, our fares are now, and historically have been, on par with the majority of the LCC seats in the market.

We offer our first class product with the industry's best pitch, a great premium cabin experience and a loyalty program that our customers love and that was recently ranked #1 in the industry by U.S. News & World Report.

Our people have been impacted by this merger, but they are resilient and they care about the company and our future. They're running a great operation and providing outstanding service to our guests, as evidenced by them recently winning the #1 position in Airline Quality Ratings.

As you know, this rating is based on on-time performance, completion rate, baggage handling and customer complaints.

At Horizon, our operation is fully stabilized. The new leadership team, led by Gary Beck, hit the ground running and they have not had a single pilot staffing related cancellation in the last 6 months.

Air Group's leadership team is simply the best in the business. They've been working their tails off and I want to publicly thank them now for the amazing things they've accomplished in 16 months.

As we optimize our combined operation and realize the natural synergies that exist, we will continue to leverage our advantages to ensure we deliver strong returns to shareholders for the New Alaska, regardless of the economic or competitive environment.

As I mentioned, our entire organization has been preparing for months to ensure that our transition to a single PSS goes smoothly tomorrow night. This event will mark our shift to a single brand and customer experience everywhere our guests interact with us.

In addition, all Virgin America stations will transition to Alaska branding, procedures and processes.

Many of you have asked how we're preparing for this event and what the risks are. One example of our preparation is the unique approach we designed for the cutover.

Beginning last October, we required all reservations for travel after April 25 to be booked in the Alaska Reservation System. This allowed us to bleed down the reservations in the Virgin America system, and this simple step results in us having no actual conversion of customer reservations tomorrow night.

Our cutover is really more focused on training our employees and operating the Alaska system throughout our expanded network.

Shane Tackett and others who are leading this effort are here this morning and happy to address your questions during the Q&A.

PSS is the most critical milestone in our integration and it will be a key achievement for our team. I want to thank the hundreds of employees throughout our operation who are working tirelessly to get this done, especially Sandy Stelling, Rosalie Hallenbeck, Toni Freeberg and Jill Chin.

With respect to revenue, Andrew will discuss a host of new initiatives that we're working on, that will be rolling out over the remainder of the year.



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In addition to the network and schedule changes I mentioned earlier, we also plan to roll out a fare segmentation platform in the late fall, which is essentially Alaska's response to the industry's basic economy fares, which are now prevalent.

We're also working on a number of other initiatives which Andrew will cover.

With regard to costs, as we get through the merger, we're reenergizing our focus on productivity and frugal overhead management to ensure that the higher revenues we expect from new revenue initiatives and deal synergies flow to the bottom line. Brandon will provide more details on the cost front in a moment.

In summary, our team is executing well against the plan we laid out on last quarter's call. Our capacity will grow just 4% in 2019 to 2020 as we continue to leverage our substantial growth of the last 5 years.

In addition, we expect that our new revenue initiatives and deal synergies combined will produce an incremental \$280 million of revenue in 2019.

We are absorbing substantially all of the merger-related cost increases this year.

With these profitability initiatives and with our new capital spending budget of \$750 million for 2019 and 2020, we expect to produce substantial free cash flow in the next couple of years.

As I close, I'd like to again thank our employees and our leaders for doing a great job in the midst of a complex merger and for moving our integration along in record time.

I could not be more excited about our future.

With that, I'll turn the call over to Andrew.

Andrew R. Harrison - Alaska Airlines, Inc. - Chief Revenue Officer, Chief Commercial Officer and EVP

Thanks, Brad and good morning, everyone.

Total revenues for the first quarter rose 5.3% to \$1.8 billion on capacity growth of 7.5%.

Though our RASM declined 2.1%, this result was 2 points better than our fourth quarter performance and nearly 2 points better than the midpoint of our Q1 guidance.

Despite significant competitive capacity in our markets, our business showed resilience.

Our outperformance, relative to guidance, was primarily driven by 3 things: network adjustments, growth in loyalty revenues and long hours by our talented revenue management teams.

None of our outperformance came from any external industry dynamic or overly conservative estimates. Rather, it was solid execution and good old-fashioned hard work.

I also want to acknowledge our frontline teams who took care of a record 10.5 million guests this quarter.

Our overall first quarter RASM performance can be categorized as follows.

First, same-store RASM. That's RASM for all markets in operation greater than 12 months. This was up 0.5% year-over-year. This compares to same-store RASM in the fourth quarter of 2017 that was down 1.5 points. The sequential improvement came from solid demand, which was



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supported by a more aggressive approach to seasonal cuts, particularly in the weaker January and February period, and further fueled by growth in our loyalty program.

Mileage Plan membership and Affinity Credit Card sign-ups are tracking ahead of robust internal targets and credit card commission revenues in particular outperformed plan.

The second category, new markets or markets in operation less than 1 year. These markets did create a headwind, as we expected, especially during the tough winter season.

New markets, which accounted for approximately 9% of our capacity in Q1, fully accounted for our 2 point RASM decline. We expect these markets to perform better as we enter the seasonally strong demand periods of Q2 and Q3 and as they continue to mature.

Since we started only a handful of new markets this year, the percentage of our capacity represented by new markets is set to decline to just 3% of ASMs by Q4.

We estimate that Easter benefited Q1 results by about 1 point of RASM, and we factored that into our Q1 guidance, and that Q2 will be impacted by a similar amount.

Given this, and the fact that both Alaska's and industry capacity growth will peak this quarter, we are guiding to a second quarter RASM range of down 2.75% to 3.75%.

As we committed at the time of our last earnings call, we've undertaken significant steps to optimize our business model to ensure we generate strong returns on invested capital, irrespective of the economic and/or competitive environment.

In fact, the current competitive landscape has only fueled a deeper conviction to make the necessary changes that are within our control to generate higher unit revenues.

So let's start with the network, as the capacity planning team has been hard at work to optimize our combined platform.

Starting with Q1. We became more proactive in dealing with the increase in seasonality in our network since acquiring Virgin America through day of week adjustments and fringing on lower-demand days. We also repurposed capacity that had been allocated to slot-controlled markets, namely Havana and Mexico City.

We've exited Havana and returned 2 of our 4 Mexico City slots, freeing up aircraft for more productive uses.

And we've also made several adjustments to the legacy Virgin America network.

First, we're announcing this morning that we've received approval from the Department of Justice and have executed an agreement with Southwest, under which Southwest will lease our 12 within perimeter slots at LaGuardia and our 8 within perimeter slots at DCA.

The lease, which commences this October, enables us to monetize these valuable slots, while reallocating our flying from DCA and LaGuardia to Love Field to more strategic and profitable opportunities off the West Coast.

The lease runs through 2028, at which point we have the right to reassume flying using these slots, should we choose to do so.

Second, we reallocated 2 of our JFK slots, 1 each to Seattle and San Jose, while continuing to maintain robust JFK schedules from LA and San Francisco.

And finally, we discontinued a couple of long haul, low yield markets, such as Los Angeles and San Francisco to Cancún, and Los Angeles to Orlando.



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The point is we are making leverage network adjustments that ensure we maintain our West Coast utility while driving improvement in both our unit revenues and pretax margins.

As we move into the second half of 2018, our capacity growth moderates. We now expect to grow 6.5% this year. That's 1 point lower than our previous guidance.

Looking ahead to 2019, our growth rate should settle in at about 4% and become more consistent quarter-to-quarter.

We also look forward to the opening of the expanded and modernized north satellite terminal, here at Sea-Tac airport, a terminal which will be exclusive to Alaska and will house our new 15,000 square-foot rooftop lounge.

We are the only domestic airline that provides paid, first-class guests complimentary access to our lounges. So this will be very well received by our premium travelers.

We also expect to open our new lounge at JFK in Terminal 7 at the end of the month.

We discussed last quarter how our transition to a single passenger service system will unlock our ability to begin capturing merger synergies.

With the PSS transition happening tomorrow night, we now find ourselves on the threshold of this major inflection point in our integration, and one that will support meaningful improvements to our revenues.

And speaking of revenue improvements, and the ones that Brad alluded to, we've been evaluating changes to our revenue model, and I'm excited to give you more definition around these.

This fall, we will introduce a new option for our guests called the Saver Fare. This low priced product will be limited to seats assigned at the rear of the aircraft and guests will board last.

Upgrades for Elites will not be permitted and the ticket will not be changeable or cancelable.

We believe this new offering will generate \$100 million in annual revenues for 2019 and is incremental to merger synergies.

In addition, we are implementing a series of revenue products and policy changes, effective now through June, that collectively, we expect to drive another \$50 million in annual revenues for the full year of 2019.

These include offering exit rows for sale, introducing dynamic pricing for our 6 million Premium Class seats per year, leveraging new technology to better manage revenue post-sale, and eliminating fee waivers for changes made outside of 60 days. We believe these changes provide guests with more options and reflect the significant increase in the value of our expanded network and product.

While these initiatives will not hit their full run rate until next year, we do expect them to contribute approximately \$20 million in revenue over the back half of this year.

Our entire commercial organization is lined up to deliver on these initiatives as well as unlocking the substantial synergies from the combination of Alaska and Virgin.

With that, I'll turn the call over to Brandon.

Brandon S. Pedersen - Alaska Air Group, Inc. - CFO & Executive VP of Finance

Thanks, Andrew. Good morning, everyone.

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Mentioned earlier, Air Group posted their first quarter adjusted net profit of \$18 million or \$0.14 a share.

Our near breakeven results came during a time of merger integration activities, significant new market development, rising fuel prices, new labor agreements and continuing the areas of competitive pressure in our network.

I want to underscore the very important message you heard in Brad's and Andrew's remarks. That is, we're not happy with our results and we're taking a number of meaningful steps to improve the profitability of our business.

Q1 CASMex, fuel rose 5% near the low end of our initial guidance. Our initial guidance, however, did not include the \$9 million impact of the new agreement with our flight attendants. Though we did see some costs that we initially expected in Q1 shift into future quarters that basically offset it. The impact to the flight attendant contract and the pilot contract that took effect in Q4, accounted for 2/3 of the 5% increase.

Our flight attendant merger agreement/contract extension is another important step toward completing the full integration of our work groups. The contract aligns compensation for all of our fabulous flight attendants and gives us clean line of sight to achieving an integrated seniority list later this year.

It also sharpens our labor cost visibility. As Brad mentioned, we now have 80% of our payroll that is represented by a CBA under contract through April of 2020.

We now expect our full year unit cost to be up about 3.5%. The increase versus prior guidance is largely explained by the roughly \$30 million impact of the new flight attendant deal.

The 1% reduction in capacity growth announced today does put upward pressure on costs, but our FP&A team has done a good job of identifying volume-related costs and pulling those out of divisional budgets. And we should be able to absorb a portion of the fixed costs by creating favorable variances elsewhere.

For example, we accelerated planned post-PSS headcount reductions from the end of this year to July 31. As a result, we only have 0.2 points of additional CASM pressure on 1 full percentage point of capacity reduction.

In general, I'm seeing examples of great back-to-basics cost management across much of the company. The credit goes not only to our leaders, but also to our frontline employees for embracing the need for productivity gains.

Our airports and maintenance teams both get a shout out, both are tracking very well on productivity metrics year-to-date.

We expect Q2 non-fuel cost to be up 4.5% on 8.5% growth. The new market-based contracts with pilots and flight attendants and higher maintenance costs arising from the power by the hour deal we signed last fall are large drivers of the increase.

Touching on fuel. Per gallon costs were up 20% and total economic fuel expense rose 29%, or \$93 million, representing a significant margin headwind. Our fuel-efficient fleet is saving us money. Our mainline fuel efficiency, defined as ASMs per gallon, increased 1.5% this quarter over Q1 of last year.

If we had last year's fuel efficiency producing current ASMs, our Q1 mainline fuel costs would have been \$5 million higher.

In addition, our WTI call options reduced our economic fuel cost by another \$5 million this quarter. With WTI crude now at \$68 / barrel, we're fortunate to have hedges in place covering 47% of planned consumption for the remainder of the year, with an average strike price of \$64 a barrel.

Turning to the balance sheet. We ended the quarter with \$1.5 billion of cash.

Total cash flow from operations was \$315 million, ex merger-related costs, which are actually pretty modest at this point.

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Andrew mentioned the strength of our loyalty program and Affinity Card and we're seeing it in cash flows as well. Our Q1 Affinity Card cash inflows nicely beat both Q1 of last year and our budget.

Meanwhile, net CapEx for the quarter was \$230 million, resulting in about \$75 million of free cash flow, again, ex-integration costs.

Improving our free cash flow generation was a major reason we reduced planned CapEx to \$1 billion this year, and \$750 million in each 2019 and 2020.

To accomplish our CapEx objectives, our fleet team restructured our 3-year delivery skyline during the quarter. Kudos to them, and a big thanks to Boeing and our other partners for working with us.

Our balance sheet continues to get stronger, with total on-balance sheet debt declining another \$120 million since year-end.

With leases, our quarter-end adjusted debt-to-cap stands at 53%, flat with year-end after adjusting for the book equity impact of adopting the new revenue accounting standard.

We still expect to reduce on-balance-sheet debt further over the course of the year and for debt-to-cap to improve to 50% by year-end.

We remain committed to further improving our conservative, investment-grade balance sheet.

During Q1, we returned \$51 million to shareholders via \$39 million in dividends and \$12 million in share repurchases. We still expect to repurchase \$50 million of our stock this year, which, when combined with the dividend, will result in about \$200 million returned to shareholders.

We have a lot of work to do to improve our profitability. Today you've heard about important revenue initiatives that should boost our top line. The imminent PSS cutover will unlock revenue synergies. We're refining the network and have a multi-year capacity plan that makes sense for our larger platform. We're going to aggressively control costs and we've lowered capital spending.

This won't be easy - few things in this industry are - but if we deliver on these plans, we'll generate much higher free cash flow in 2019 and 2020 and should have the ability to return cash to shareholders in amounts that approach levels not seen since 2015.

And with that, let's go to your questions, and then on to PSS cutover.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from Jamie Baker of JP Morgan.

Jamie Nathaniel Baker - *JP Morgan Chase & Co, Research Division - U.S. Airline and Aircraft Leasing Equity Analyst*

We're having a lot of trouble with our phones here. Can you hear me?

Bradley D. Tilden - *Alaska Air Group, Inc. - Chairman, CEO & President*

Yes.



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Jamie Nathaniel Baker - JP Morgan Chase & Co, Research Division - U.S. Airline and Aircraft Leasing Equity Analyst

What do you think is driving the momentum in loyalty? I mean you mentioned that it came in ahead of our expectations. I'm curious if that speaks merely to having a conservative forecast or, I don't know, do you have an estimate as to how many Virgin frequent flyer members have signed up for Alaska cards? I'm just trying to gauge whether we're closer to the start or the finish in terms of current loyalty momentum. Any more color on that?

Andrew R. Harrison - Alaska Airlines, Inc. - Chief Revenue Officer, Chief Commercial Officer and EVP

Jamie. Hi, it's Andrew. Yes. I think the best way to answer that question (really without going into too much detail) is, what we're seeing and what we're sensing is that what we believed from Day 1 is that the new combined network, our product, our fare structure, our people, everything about us that makes us so strong in the Pacific Northwest, we're seeing that the same people in California are very much sensing that and seeing that. And this is something different, something new for them. And it's very exciting. My personal belief is that this is just going to continue to get stronger and stronger as we continue to roll out our product.

Jamie Nathaniel Baker - JP Morgan Chase & Co, Research Division - U.S. Airline and Aircraft Leasing Equity Analyst

Okay. Appreciate that. And second, on Saver Fares, I guess, this is a small point. But it sounds like basic economy to me. And I think consumers increasingly know what basic economy means. I'm just curious about the logic behind not calling it what most people are used to. Is there a trademark issue or something?

Andrew R. Harrison - Alaska Airlines, Inc. - Chief Revenue Officer, Chief Commercial Officer and EVP

I don't know. I mean basic economy -- I mean, I will tell you one thing that is very significantly different, which is really in the core of our brand, is when you book on Alaska Airlines, you get a seat assignment. But when you book the Saver Fare, you will get a seat assignment. I think that's extremely important to people. It's very important to our guests. And if you look across the structure of Basic, Jamie, people have different rules and policies around it. And I think our structure here is one that I think meets the middle ground.

Operator

Your next question comes from Savi Syth with Raymond James.

Savanthi Nipunika Syth - Raymond James & Associates, Inc., Research Division - Airlines Analyst

Just on the -- obviously, a lot going on yet even after it comes to PSS and cutover. Could you remind me again about the integration synergy, the timing of the rollout of those synergies, and when we will start to kind of see them as you go through this year and next year?

Shane Tackett - Alaska Airlines, Inc. - SVP of Revenue Management & e-commerce

Yes. Hi, Savi. This is Shane Tackett. Yes, this is by the numbers. We had -- in 2017, I think we quoted \$35 million of synergies. In 2018, we've had \$65 million. By 2019, we've go to \$195 million. And then they ramp from there is to \$300 million at the end of 2021. And we're basically on track for all of those. Most of these are actually trackable. They are either costs or things that have to do with cross-fleeting or the interior configuration of the Airbus cabins, loyalty growth, cargo revenues. We can track all of those pretty closely. And we're feeling good about where all of that is right now. And sort of unlocking this stuff now that PSS is almost behind us.



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Savanthi Nipunika Syth - *Raymond James & Associates, Inc., Research Division - Airlines Analyst*

Got it. And then just with the new, if I might follow up kind of a bit of Jamie's question. On the new product, is that coming out in fall? Just any color around the rollout. If there is -- just how the rollout might happen. I'm guessing if it comes out in the fall, it starts showing up 2 months later in the fare environment. Is that ...

Andrew R. Harrison - *Alaska Airlines, Inc. - Chief Revenue Officer, Chief Commercial Officer and EVP*

That's correct, Savi. Essentially, we'll start roll out in the fall. We'll be smart about it. And then sort of really beginning in January. And Shane and the team are working right now on the whole distribution and e-commerce side, which I'm actually really excited about. I think the industry has been working on this for a few years. And the beauty is we have hindsight here and looking at how everyone has done it and deciding on how we want to do it.

Operator

Your next question comes from Mike Linenberg with Deutsche Bank.

Michael John Linenberg - *Deutsche Bank AG, Research Division - MD and Senior Company Research Analyst*

Just couple of questions here. Andrew, you were talking about the leasing of the gates to southwest at LaGuardia and DCA, and you threw Love Field into that. And I guess what -- is it just from those 2 airports today, you fly only nonstop to Love Field? Is that what that is? Is that what you're referencing?

Andrew R. Harrison - *Alaska Airlines, Inc. - Chief Revenue Officer, Chief Commercial Officer and EVP*

That's right, Mike. Both of those sort of within primitive slots, if you will. So we can only really fly as far as sort of Love Field or that part of the geography. So that's where we fly that today. And of course, we'll be discontinuing that come October.

Michael John Linenberg - *Deutsche Bank AG, Research Division - MD and Senior Company Research Analyst*

The money that you'll get from Southwest from -- on the lease of the, I guess, the gates and the slots. Is that more of a rounding error or is that something like \$5 million, \$10 million per year? I'm not -- how should we think about it?

Andrew R. Harrison - *Alaska Airlines, Inc. - Chief Revenue Officer, Chief Commercial Officer and EVP*

You know, obviously, I can't comment on the magnitude. That's all privy to Southwest and Alaska. But what I will tell you is that being able to monetize important slots and move flying around and maintain our asset base for the future is really important for us.

Bradley D. Tilden - *Alaska Air Group, Inc. - Chairman, CEO & President*

And, Mike, probably more important than the lease payments is just getting our network configured the way we want to have it configured. Our whole idea was to -- is to build pockets of strength. You hear us talk about loyalty all the time and we have fantastic loyalty in the Northwest and we want to push this into California and then fly spokes out of those cities. Flying from Dallas Love Field to both LaGuardia and Reagan National at this point in the company's history was not strategic. And so we're happy to do this transaction, so that we can line up our aircraft and our assets with our strategies.



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Michael John Linenberg - *Deutsche Bank AG, Research Division - MD and Senior Company Research Analyst*

And then, just, Brad, on that line about getting the network right, I mean you did mention earlier on the call that it -- with Horizon, the pilot situation is now under control. And yet when I look at some of the route cancellations over the last like 3 to 6 months, there have been a lot of E175, longer-haul routes out of Seattle and Portland that have been cut. Is that -- when I saw that, I thought that was a combination of pilots and underperformance. But it sounds like it's not pilots at all. It's more about performance and getting the network right. Is that the right interpretation of those cuts?

Andrew R. Harrison - *Alaska Airlines, Inc. - Chief Revenue Officer, Chief Commercial Officer and EVP*

Yes, Mike. This is Andrew. That's exactly right. I think we've had a lot of midcontinent routes, stuff out of Portland. And --as we've looked at that, and with rising fuel, we've decided to make changes.

Operator

Your next question comes from Darryl Genovesi with UBS.

Darryl Genovesi - *UBS Investment Bank, Research Division - Director and Equity Research Analyst*

Andrew, you gave us some color on the evolution of the revenue model. I guess, I was wondering more about this year. I think back at your Investor Day, the last one that you had referred to, I think, of incremental \$35 million or so. That was supposed to come through from the new premium brought up. Are you currently realizing that? Is that something that ramps up more in the second half? I think the product is fully available. We're just wondering how the revenue generation is going.

Andrew R. Harrison - *Alaska Airlines, Inc. - Chief Revenue Officer, Chief Commercial Officer and EVP*

That's correct. Shane is the mastermind here. I'll let him give you some color on that.

Shane Tackett - *Alaska Airlines, Inc. - SVP of Revenue Management & e-commerce*

Darryl. I think you're referring to Premium Class, which we've finally got fully rolled out with all of our Boeing fleet reconfigured earlier this year. It's been phenomenal. We started with kind of a 3 -- an easy sort of price strategy, just 3 or 4 prices for the entire country. We're now moving price around based on demand and we're well ahead of all of our internal sort of expectations around this. It's been a phenomenal product for us.

Unidentified Analyst

So you're ahead relative to the \$35 million number?

Shane Tackett - *Alaska Airlines, Inc. - SVP of Revenue Management & e-commerce*

Yes.

Darryl Genovesi - *UBS Investment Bank, Research Division - Director and Equity Research Analyst*

Well, and then, Brandon, on the non-op. I don't think you guided it for the full year. But you're about \$40 million in the first half. Should we think about the second half as being a similar number?



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Brandon S. Pedersen - Alaska Air Group, Inc. - CFO & Executive VP of Finance

I think about that as being slightly less than that. We're probably tracking to be, if I have to guess, at this point, probably \$16 million a quarter in Q3, Q4.

Operator

Your next question comes from Dan McKenzie with Buckingham Research.

Daniel J. McKenzie - The Buckingham Research Group Incorporated - Research Analyst

Andrew, I believe the statistic is that 20% of the revenue is tied to business travel spend. And so first, what does an average business fare look like on Alaska? And how much has it deteriorated following the introduction of basic economy by the big 3? I'm just trying to get some perspective on how this is going to reconcile with the \$100 million estimate that you've given for Saver Fares and the premium economy?

Andrew R. Harrison - Alaska Airlines, Inc. - Chief Revenue Officer, Chief Commercial Officer and EVP

So, Dan, I might -- if Shane has any commentary on close-in. Here's what I would say and I'm going to probably provide more color. As you may have heard, we have a new Vice President of Sales, David Oppenheim. And it's been amazing working with him and looking at our sales structure, where it's all coming from, our contracts and, of course, from the new network. What I will basically say is that, I am very optimistic about where we can go with sales. Specifically to your question, I'll let Shane comment on some of the close-in stuff. But I just see upside on the sales side.

Shane Tackett - Alaska Airlines, Inc. - SVP of Revenue Management & e-commerce

On closing fares, I think, we've been watching these for the last several quarters. There are some that they're sort of oddly low, just relative to what you would expect. We've had really good demand generally across the network. I think everybody's kind of seen that we've had really good demand across all APs. There's been no fall off on the business side. So we would anticipate some of the fares on the low today to get to more normalized levels over time. But the real focus we've had is on things that we can control. And that's why it's more important to us to really focus on these new revenue initiatives that sort of don't depend on the economic or competitive backdrop.

Daniel J. McKenzie - The Buckingham Research Group Incorporated - Research Analyst

Got it. And then the down 25% to 30% in intra-California and Transcon, how is that trending? Just relative to the question?

Brandon S. Pedersen - Alaska Air Group, Inc. - CFO & Executive VP of Finance

Sorry, Dan. Just what's the -- the 25% to 30% is from...

Daniel J. McKenzie - The Buckingham Research Group Incorporated - Research Analyst

Yes. You had mentioned in the last earnings call that intra-California and transcon, walkup fares were down 25% to 30%. I'm just trying to get some perspective on how those have inflected? Or how they are inflecting?



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Brandon S. Pedersen - Alaska Air Group, Inc. - CFO & Executive VP of Finance

Yes, it's moving around quite a bit, honestly, market by market. And I don't recall the specific markets we were quoting before. But there are some that are still depressed in California and transcon. Others that have sort of rebounded and come back. So it's pretty dynamic on the West Coast, just from a pricing standpoint today.

Andrew R. Harrison - Alaska Airlines, Inc. - Chief Revenue Officer, Chief Commercial Officer and EVP

But I would say that, it's basically not any worse. If anything, it's actually better than when we spoke in the last quarter. And again, as we move into the second and third quarter, in the stronger demand periods, I think we'll continue to see the dynamic evolve one way or the other.

Daniel J. McKenzie - The Buckingham Research Group Incorporated - Research Analyst

Okay, got it. And then just a quick second housecleaning question here. Where are we in terms of reconfiguring the Airbus fleet? When -- how many planes do you expect to have done in the second quarter and the third quarter? What's the pace of that rollout?

Shane Tackett - Alaska Airlines, Inc. - SVP of Revenue Management & e-commerce

Yes, Dan. This is Shane again. We start in September of 2018, we'll get our first aircraft reconfigured. And we're going to produce at something like 5 per month. Although, some are 3, some are 7. So we'll have about 1/2 the fleet done by the summer of 2019. We'll have the whole fleet done by end of year 2019. It's pretty ratable how we get through them. There is 70 aircraft to go through. So once we get going, it's about 5 a month.

Operator

Your next question comes from Rajeev Lalwani with Morgan Stanley.

Rajeev Lalwani - Morgan Stanley, Research Division - Executive Director

Brad, actually a question for you. On the last call and this call too, you talked about just responding to the challenges associated with the Virgin deal and operations overall. Do you feel like you've made significant progress and have line of sight that this stuff is behind you? And that you can maybe start beating some of the targets that you've got laid out ahead of you here?

Bradley D. Tilden - Alaska Air Group, Inc. - Chairman, CEO & President

Thanks for the question, Rajeev. And I certainly do. I will say that mergers are big deals. And it's -- you bite off a lot. And I think anyone that's been through a merger would tell you that. But if you look at us today, we're 16 months into it. The labor, the cultural side of it is very, very important. And we've got more work to do. But we do have 80% of our collectively bargained payroll that's got new market-based agreements. And that's a great accomplishment. It sets up -- sets us up to get integrated seniority lists, which sets us up to sort of get the cultural stuff settled and moving forward.

Systems, tomorrow night is a huge night. As you know, many, many systems cut over at the beginning of the year. But with PSS behind us, that's a huge accomplishment. The loyalty stuff, all of the decisions with outside deliveries of airplanes, seating, brand, onboard service, all of that stuff is done. And we're now really in a position to begin to leverage it. So I think the fares we've shared are the -- as of this moment, we think we're 65% or 70% of the way through the merger. By the end of this quarter, by June 30, we think we'll be 85% of our way through the merger. And last, just to really focus on taking advantage of this incredible network and incredible product that we do have. So, yes. I think we are in a really good position today. I appreciate the question.



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Rajeev Lalwani - *Morgan Stanley, Research Division - Executive Director*

Yes, got it. And then, Andrew, Shane, a question for you. Just on the competitive headwinds that you've been seeing on capacity or pricing, what are you embedding in your 2Q RASM as far as the hit associated with it? Obviously, I'm just trying to get a sense of what the tailwind could be as we move forward. And then just on the tailwind in some of the development markets you were talking about, as far as how that's improving. What's the opportunity there from a RASM perspective? If you can hopefully provide it.

Bradley D. Tilden - *Alaska Air Group, Inc. - Chairman, CEO & President*

Yes, Rajeev. I'll take a crack at this. Just, as these were noted on the script, and I'll get to the pricing question that the entire reduction in unit revenues for Q1 really was from new markets. So I think the same stores have been very strong and resilient and I just want to remind folks of that. I think the real question, and I don't know that we do have a view on how much sort of the net total of competition and growth and pricing is impacting us. I don't know that I'll break all of that down. But the real question for Q2 for us will be close-in pricing. I think that's what makes some of these quarters hard to call because we don't know until we get there. But right now, as we look at Q2, we see fares that are sort of what we would expect them to be. And especially, as we get into June and higher demand months, they look to be holding up right now.

Andrew R. Harrison - *Alaska Airlines, Inc. - Chief Revenue Officer, Chief Commercial Officer and EVP*

The other thing I will add is, as I shared in my prepared remarks, is that the second quarter looks to be the high watermark obviously of our growth but also industry capacity growth. And I think as we moved into Q3 and 4, unless the world changes dramatically, you're going to see it declining or a tailwind, if you will, as it relates to those 2 key factors.

Rajeev Lalwani - *Morgan Stanley, Research Division - Executive Director*

Sorry, on the development markets, can you guys provide a number as to what the hit was in 1Q? Or what you're expecting in 2Q?

Shane Tackett - *Alaska Airlines, Inc. - SVP of Revenue Management & e-commerce*

I think, Andrew had mentioned this in the script. He quoted the entire 2.1%. Unit revenue reduction in Q1 was really the new market impact.

Operator

Your next question comes from Hunter Keay with Wolfe Research.

Hunter Kent Keay - *Wolfe Research, LLC - MD and Senior Analyst of Airlines, Aerospace & Defense*

I'm sorry, can you just tell us the Southwest deal again? Just lay it out for me 1 more time. I want to make sure I get it right. And then does it require regulatory approval, particularly given what the DoJ said about Love Field when they approved your merger?

Bradley D. Tilden - *Alaska Air Group, Inc. - Chairman, CEO & President*

So Hunter, it does require regulatory approval and we have that. So we did have to take this justice department and we do have that approval. It is a done deal. It's 20 slots from Dallas, Love Field to both LaGuardia and Reagan National Airport. And they're 10-year leases. It's 2018, they go through 2028, at which point they come back to Alaska. There is a provision with a couple of the pairs, that if they were to become outside of perimeter slots during this 10-year period, they could come back. Alaska could get those slots back. So those are the basic provisions.



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Hunter Kent Keay - *Wolfe Research, LLC - MD and Senior Analyst of Airlines, Aerospace & Defense*

Okay, cool. And then as you consider Andrew, I think you are the one that mention your work around with Shane and some distribution stuff and e-commerce, but as you consider the new product segments here with Sabre -- Saver -- Sabre. Well, actually this is a Sabre question. With Saver, are you going to be in a position to where you might be able to push for a partial content agreement the next time your GDS contract is up to really drive home some customization and some ability to keep some of your content into the channels that you think is best for Alaska going forward?

Shane Tackett - *Alaska Airlines, Inc. - SVP of Revenue Management & e-commerce*

That's an excellent question. It's not honestly one we've really spent a lot of time on just with everything else going on. Content, obviously, is a big, big deal to us. And so the GDS, I imagine, will be front and center and sort of future negotiations with them. Just so you know, we've got a pretty long term agreement with most of our GDS providers as we sit here today. So this would be a little outside of a couple years in the future, if we were able to do anything there.

Operator

Your next question comes from Helane Becker of Cowen.

Helane Renee Becker - *Cowen and Company, LLC, Research Division - MD and Senior Research Analyst*

So my first question is as you think about the capacity adjustments that you made this year, when you go forward into fourth quarter and first quarter of next year, can we expect that there would be more seasonality in the route network and therefore, more seasonality or more adjustments in capacity? Or are you happy with kind of the changes you made this year?

Andrew R. Harrison - *Alaska Airlines, Inc. - Chief Revenue Officer, Chief Commercial Officer and EVP*

It's Andrew. I think we're still working through the seasonality. We're currently working on the fall schedule and were making additional adjustments there. And probably some final refinements. So I think sort of over the back half and into early '19. The other thing I will share with is Ben Minicucci, our president, and myself and our team is working extremely closely together to align our capacity adjustments with their staffing and how they work with us to make sure that this is a very efficient and highly productive adjustment to our network.

Bradley D. Tilden - *Alaska Air Group, Inc. - Chairman, CEO & President*

Helane, I do think we're in a world where getting that capacity exactly right is as important as it's ever been. So the stuff that we've mentioned about the day of week adjustments, the last flight on a Wednesday night or the last flight was on Saturday night -- making those refinements is as important today in this revenue environment than it's ever been and it's something where we are spending a lot of energy on going forward.

Helane Renee Becker - *Cowen and Company, LLC, Research Division - MD and Senior Research Analyst*

Okay. And then just as my follow-up question, last time you talked a little bit about construction and at Sea-Tac and the limitations at the airport there because of congestion. Can you just update us on how that's going? And if capacity has been kind of adjusted so that you don't have the delays that you've had in the past and what's going on with costs associated with that airport?

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Benito Minicucci - Alaska Air Group, Inc. - President & COO of Alaska Airlines Inc and CEO of Virgin America Inc

Helane, it's Ben. Yes, Seattle -- I would say Seattle is full. We've got gate constraints. We've got air space constraints. I will tell you it's not uncommon to see 20 airplanes lined up for takeoff at peak times of the day. So taxi times have gone up. So costs at Sea-Tac to operate have gone up. Sea-Tac is full. There is construction to create hardstand positions to help improve the gate situation. But there's no doubt costs are going up to operate at this airport.

Helane Renee Becker - Cowen and Company, LLC, Research Division - MD and Senior Research Analyst

Right. But what are you doing to mitigate that, I guess this is really my question.

Benito Minicucci - Alaska Air Group, Inc. - President & COO of Alaska Airlines Inc and CEO of Virgin America Inc

In terms of cost or operations?

Helane Renee Becker - Cowen and Company, LLC, Research Division - MD and Senior Research Analyst

Well maybe both, Ben.

Benito Minicucci - Alaska Air Group, Inc. - President & COO of Alaska Airlines Inc and CEO of Virgin America Inc

On the operating side, so with taxi times going up 60%, 70%, the costs go up, because they're now part of block time. So you've got to add that time at the block time. So as you increase block times, the cost to operate that market goes up. So what you see is, the adjustments on block times and ground times naturally go up. And of course, investments that you make in the airport get translated in rates and charges. So.

Andrew R. Harrison - Alaska Airlines, Inc. - Chief Revenue Officer, Chief Commercial Officer and EVP

Helane, this is Andrew. Since the last quarter, we now have at lease Sea-Tac, which was a big deal, 5-year term. In that lease, it's very clear on how many common use gates the port will be taking back over each of the next 5 years, which didn't exist before. So we have real solid line of sight to the infrastructure and where this is all going and again, to Ben's comments, it gives us a better ability to manage our operation going forward and be increasingly efficient over time.

Operator

Your next question comes from Duane Pfennigwerth with Evercore.

Duane Thomas Pfennigwerth - Evercore ISI, Research Division - Senior MD & Fundamental Research Analyst

Andrew, as you've had more time to study the Virgin network from an optimization perspective, what were some of the things they did from a planning perspective, specifically with respect to seasonality that you see room to continue to improve from here?

Andrew R. Harrison - Alaska Airlines, Inc. - Chief Revenue Officer, Chief Commercial Officer and EVP

You've got to give Virgin America a lot of credit, just given their size and the markets they were in they really didn't have a lot of opportunity to do any seasonality quite frankly. I mean they ran 6 flights JFK-Los Angeles, a lot of the year, so I think with the permutations and combinations of our



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network and connecting and our new markets, even connections beyond -- pardon, the hubs, I think there's a real opportunity to reduce the seasonality going forward. And that's what we're doing. You see that with moving slots around and we are doing that currently.

Duane Thomas Pfennigwerth - *Evercore ISI, Research Division - Senior MD & Fundamental Research Analyst*

And just to stay with you for the respect to the series of revenue initiatives that you talked about, Axl Rose, dynamic pricing, fee waivers, et cetera. I think you threw out a \$20 million number for the back half. But obviously not all of those things get switched on day one. So how would you think about those combined on an annual basis?

Andrew R. Harrison - *Alaska Airlines, Inc. - Chief Revenue Officer, Chief Commercial Officer and EVP*

Again, on an annual run rate, '19, the Saver Fare was about \$100 million and the ones that you just mentioned, we put out about \$50 million run rate for 2019.

Operator

Your next question comes from Joseph DeNardi with Stifel.

Joseph William DeNardi - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Airline Analyst*

Brandon or Andrew, I think, you guys made a change to the revenue side of your income statement. I'm wondering if you could just spend a minute or two just talking about what is in Mileage Plan Other revenue? What it represents? And then why you chose to break that out? Why do you think it's important?

Brandon S. Pedersen - *Alaska Air Group, Inc. - CFO & Executive VP of Finance*

It's Brandon. I'll take that one. So the Mileage Plan Other line has 2 things basically. One is the commission revenue that we earn when we sell miles through the bank, some might call it the marketing element, which is actually most of what's in that line. And then the other is the net benefit if you will of having our members earn -- excuse me -- redeem for travel on other airlines minus the settlement cost that we paid to those other airlines. That's what's in there. In terms of the presentation, I would love to take more credit but probably don't actually deserve that much. We had always talked about that number in the footnotes and what we did, Chris and his team, decided to move that to the face of the income statement. I think that makes sense, as you've been pointing out, it's a very important part of the business and we wanted to give it a little more visibility given its magnitude.

Joseph William DeNardi - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Airline Analyst*

Okay. And then Brandon, another one for you on CASMex next year. Can you just remind us what the goal is with the 4% capacity growth? Is it down? Is it flat? And kind of how realistic are those targets at this point?

Brandon S. Pedersen - *Alaska Air Group, Inc. - CFO & Executive VP of Finance*

Yes, I think if you go back to last quarter's call, we said we had a planning mindset of costs having to come -- or be flat to slightly down. It wasn't guidance but it was directionally where we thought we needed to go. I think if you look at our cost over the last couple of years, there's been some step changes in the cost structure. As we look at it, we have, I think, a lot of opportunities to do things with the cost structure. We are actively working 2018 also, we haven't even gotten to a point of thinking about '19 budget but what I will tell you is that there's been a fair amount of energy already thinking about initiatives that we're going to undertake this year so that we can really make sure to keep costs in focus going into



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next. And for us, we are mindful of the fact that costs have been a really big part of this company's success and we are focused not only on the year-over-year change but on the absolute advantage we continue to maintain against our legacy competitors.

Operator

Your next question comes from Kevin Crissey with Citi.

Kevin William Crissey - Citigroup Inc, Research Division - Director and Senior Analyst

Maybe for Andrew, I wanted to talk about the \$100 million Saver Fare contribution. And maybe what assumptions go in there. I know you probably have limitations as to how you can describe it. But working in a general sense then maybe what assumptions get you to the \$100 million, percent of markets that is rolled out, how competition responds to it. Generally, I think the numbers that have been thrown out by other airlines haven't remotely been achieved, at least in my opinion. So I want to understand what assumptions you've made in your \$100 million?

Shane Tackett - Alaska Airlines, Inc. - SVP of Revenue Management & e-commerce

Yes. Thanks, Kevin. This is Shane. Yes. I might not get into all of the specifics but I think you've got the variables right. We're sort of assuming a large percentage of the network and a good number of the fare classes would have this product attached to it. We probably wouldn't -- just if -- I don't know what other people are seeing in terms of actual sell up rates. We know the numbers that are quoted. We're probably less than that because we don't have as much business exposure. So we haven't assumed a level that we've sort of heard others quote.

Bradley D. Tilden - Alaska Air Group, Inc. - Chairman, CEO & President

It's fair to say competitively, this is in the marketplace today. So I don't think we expect a lot of incremental reaction to this. This is actually in the market place today and we're coming up with a product that is competitive with what others are offering already.

Shane Tackett - Alaska Airlines, Inc. - SVP of Revenue Management & e-commerce

Yes, that's entirely correct. Yes.

Kevin William Crissey - Citigroup Inc, Research Division - Director and Senior Analyst

Okay. And what was your capacity growth in those same-store markets if your RASM was up 0.5%? What capacity growth was in those same-store markets?

Andrew R. Harrison - Alaska Airlines, Inc. - Chief Revenue Officer, Chief Commercial Officer and EVP

I think same-store was, I think, down slightly.

Shane Tackett - Alaska Airlines, Inc. - SVP of Revenue Management & e-commerce

Basically flat. Our growth is entirely new markets.

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Kevin William Crissey - Citigroup Inc, Research Division - Director and Senior Analyst

Okay, yes. I am just trying to reconcile flat capacity and 0.5% RASM as strong demand. That's kind of where that comes from.

Andrew R. Harrison - Alaska Airlines, Inc. - Chief Revenue Officer, Chief Commercial Officer and EVP

Can you repeat that?

Kevin William Crissey - Citigroup Inc, Research Division - Director and Senior Analyst

You've indicated that you have strong demand in your quarter, kind of, same-store and that the weakness comes from the growth markets but if you've got flat capacity and just 0.5% RASM in those markets, that doesn't reconcile terribly well.

Andrew R. Harrison - Alaska Airlines, Inc. - Chief Revenue Officer, Chief Commercial Officer and EVP

I mean our -- the number -- the flat is really the Alaska capacity growth. We did have, as you know, significant competitive capacity at many of those markets. And that peaks in Q2 and then it starts to abate as we get to the second half of the year.

Operator

Your next question comes from Susan Donofrio with Macquarie Capital.

Susan Marie Donofrio - Macquarie Research - Senior Analyst

Question on sales by channel. Looks like there's been a nice ramp-up, if you look at direct to customer, 55% to 62% year-end '17. I'm assuming given the strength of loyalty program, you could increase that even more and I'm just wondering if you're seeing that still and is there kind of a target that you're thinking of?

Shane Tackett - Alaska Airlines, Inc. - SVP of Revenue Management & e-commerce

Susan, this is Shane. Yes. We've actually been very happy with the direct sales that we've had through mostly alaskaair.com and certainly our mobile app as well. I think also just given that we were starting to migrate reservations off of the virginamerica.com website onto ours we didn't know exactly how we would do getting all of those over, but we basically increased our direct share down in California as well. So we're feeling super good about it. 60% to 65%, we see our numbers in that range pretty typically. It's a little hard to (inaudible) just because of how business folks by their fares through agencies. But we continue to see opportunity as Meta's come in and most of the Meta booking has ultimately ended up as direct bookings on alaskaair.com. So it certainly could go up from here. And that's what we're ultimately focused on driving, if we can.

Operator

Your next question comes from Brandon Oglenski with Barclays.

Brandon Robert Oglenski - Barclays Bank PLC, Research Division - VP and Senior Equity Analyst

So, Brad, if I could just ask, I mean on prior quarters, I think the perception was that the core Virgin network was, maybe facing some commercial challenges and now that you're saying that same-store sales are seeing positive inflection on unit revenue, can you just talk about what has maybe changed since 1 quarter or 2 ago? Is it demand, competition or internal merger-related activities that you guys are managing better?



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Bradley D. Tilden - Alaska Air Group, Inc. - Chairman, CEO & President

Brandon, I just think markets are dynamic. The stuff is moving around. I think when Alaska bought Virgin America and then followed up with 44 new routes or something like that in 2017. Lots of others added a lot of capacity as well. I do think the capacity is getting to a more appropriate level, given the amount of demand that's in the market. I also think as Andrews talked about, I think the reaction to what Alaska brings, has been extraordinary. We bring a fantastic loyalty program, amazing operational performance, great folks and we bring low fares. We've got a differentiated experience with fares that match, basically, they match the majority of the LCC seats in the market. So I think if marketplaces move around a little bit and I personally think things are settling down and I also think that customers are recognizing and appreciating the difference that Alaska brings.

Brandon Robert Oglenski - Barclays Bank PLC, Research Division - VP and Senior Equity Analyst

Okay, I appreciate that. And then quickly on a follow up for Andrew. With your 2Q RASM guide down about 3% at the midpoint, I think you said, you could attribute the full 2-point decline in 1Q to new markets. Is there something else impacting the comp there? Is that Easter holiday placement or should we be thinking that new markets could actually have a bigger drag on 2Q than they did in the first quarter?

Andrew R. Harrison - Alaska Airlines, Inc. - Chief Revenue Officer, Chief Commercial Officer and EVP

I mean there was an extra point of strength in the first quarter so that comes out in the second quarter. So second quarter will have a headwind of about a point. If anything new markets, if we just look at the nature of what we're serving, and they're pretty much all started basically in the third quarter, we started over 20 new markets in 1 quarter. These are all now coming into demand strength periods. And the reality is that our RM team, our network, our marketing, all the levers and all the systems that we've been building together are starting to really take up steam. So I personally just see continued maturity and strength as we continue to go forward with these new markets.

Operator

Your last question comes from Adam Hackel with Imperial.

Adam Jay Hackel - CRT Capital Group LLC, Research Division - Former Research Associate

Couple of quick questions. First, just wondering on the Silicon Valley crowd, how have they taken to you guys? And is that what's really driving the strength on the sort of sign-ups in the credit card side of things, on the loyalty side?

Andrew R. Harrison - Alaska Airlines, Inc. - Chief Revenue Officer, Chief Commercial Officer and EVP

I think, again, without getting into detail, we're seeing -- Silicon Valley, we've been there a long, long time. But we've been very much big part of that community but I will tell you that the loyalty and other aspects are across all aspects not just any 1 particular area.

Adam Jay Hackel - CRT Capital Group LLC, Research Division - Former Research Associate

Okay, great and then just last 1 for me. Just wondering on the kind of the off peak periods a little bit. One of your peers talked about actually recent capacity on the off-peak toward the back half of the year, I presume that's probably the kind of post labor day period. You also saw Southwest talked about some weakness they saw in the first quarter on off-peak side. I was wondering how that came in for you guys in the first quarter and how you are thinking about that going forward?



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Andrew R. Harrison - Alaska Airlines, Inc. - Chief Revenue Officer, Chief Commercial Officer and EVP

I think if I understand your question, this really comes back for us to seasonality that peaks stronger and the shoulders are a little softer. And we were very proactive late in the fourth quarter of making significant adjustments. So I think in general, with industry capacity as it sits today, the shoulder or the top periods are even more difficult than they have been historically.

Operator

That's all the time that we have for questions today. With that, I'll turn the call back to Brad Tilden.

Bradley D. Tilden - Alaska Air Group, Inc. - Chairman, CEO & President

All right. Thanks, Jesse. Thanks, everybody for tuning in today. We look forward to talking to you again at the end of the second quarter. Thank you.

Operator

Thank you for participating in today's conference call. This call will be available for future playback at www.alaskaair.com. You may now disconnect.

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