THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

ALK - Q4 2016 Alaska Air Group Inc Earnings Call

EVENT DATE/TIME: FEBRUARY 08, 2017 / 4:30PM GMT

OVERVIEW:

Co. reported 2016 total revenue (excluding Virgin America) of approx. $5.8b, adjusted net profit of $911m and EPS of $7.32. 4Q16 adjusted net income was $193m and EPS was $1.56.

THOMSON REUTERS

CORPORATE PARTICIPANTS

Lavanya Sareen *Alaska Air Group, Inc. - Managing Director of IR*

Brad Tilden *Alaska Air Group, Inc. - Chairman & CEO*

Andrew Harrison *Alaska Air Group, Inc. - EVP & Chief Commercial Officer*

Brandon Pedersen *Alaska Air Group, Inc. - EVP, Finance & CFO*

Mark Eliasen *Alaska Air Group, Inc. - VP, Finance & Treasurer*

Shane Tackett *Alaska Air Group, Inc. - VP, Revenue Management*

Ben Minicucci *Alaska Air Group, Inc. - President & COO*

Kyle Levine *Alaska Air Group, Inc. - VP, Legal & General Counsel*

Peter Hunt *Alaska Air Group, Inc. - President & COO, Virgin America*

Chris Berry *Alaska Air Group, Inc. - Managing Director, Accounting & Controller*

CONFERENCE CALL PARTICIPANTS

Savi Syth *Raymond James & Associates, Inc. - Analyst*

Joseph DeNardi *Stifel Nicolaus - Analyst*

Rajeev Lalwani *Morgan Stanley - Analyst*

Helane Becker *Cowen Securities LLC - Analyst*

Hunter Keay *Wolfe Research - Analyst*

Nish Mani *JPMorgan - Analyst*

Eric Morgan *Barclays Capital - Analyst*

Mike Linenberg *Deutsche Bank - Analyst*

Darryl Genovesi *UBS Securities LLC - Analyst*

Andrew Didora *BofA Merrill Lynch - Analyst*

Kevin Crissey *Citigroup - Analyst*

Dan McKenzie *Buckingham Research Group - Analyst*

Dominic Gates *The Seattles Times - Media*

PRESENTATION

Operator

Good morning. My name is Jesse and I will be your conference operator today. At this time I would like to welcome everyone to the Alaska Air Group full-year and fourth-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 Managing Director of Investor Relations Lavanya Sareen.

Lavanya Sareen - *Alaska Air Group, Inc. - Managing Director of IR*

Thanks, Jesse, and good morning everyone. Thank you for joining us for Alaska Air Group's fourth-quarter and full-year 2016 earnings call.

On the call today our CEO Brad Tilden will provide an overview of the business. Our Chief Commercial Officer Andrew Harrison will share more about our commercial plans followed by Brandon Pedersen, our CFO, who will discuss our financial results and outlook for 2017. Several members of our senior management team are also on hand to help answer your questions.

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.

We will refer to certain non-GAAP financial measures such as adjusted earnings and unit costs excluding fuel. We have provided a reconciliation between the most directly comparable GAAP and non-GAAP measures in our earnings release.

All right. There's more disclosures. The acquisition of Virgin America impacts the comparability of our results, so to assist investors with comparisons our investor update includes certain unaudited supplementary data labeled combined comparative statistics.

That should help investors understand how our combined business would have performed had we acquired Virgin America at the beginning of 2016. Investors should be aware that these are not official pro forma results as required by the SEC but simply in addition of historical Alaska plus Virgin America data. Virgin America's historical financial information has been conformed to Alaska's financial statement classification where appropriate.

Moving on to results, this morning Alaska Air Group reported a fourth-quarter GAAP net profit of $114 million. Excluding $83 million in merger-related costs and a $4 million impact of mark-to-market adjustments related to our fuel hedge portfolio air group reported an adjusted net income of $193 million and earnings per share grew by 7% to $1.56 per share. This result compares to First Call consensus of $1.40 per share and exceeds last year's adjusted net income of $186 million, or $1.46 per diluted share.

For the full year, Alaska Air Group reported a record adjusted net profit of $911 million, up 8%. Earnings per share grew by 12% to $7.32 per share with the higher growth rate because of the number of shares repurchased during the year. Additional information about cost expectations, capacity plans, fuel hedging capital expenditures and other items can be found in our investor update included in our Form 8-K issued this morning and available on our website at alaskaair.com.

And with that over to Brad.

Brad Tilden - *Alaska Air Group, Inc. - Chairman & CEO*

Thanks, Lavanya, and good morning everyone. Lavanya just shared the numbers, so let me step back and talk about the underlying business and where we are headed in 2017.

First and foremost, this is the first quarter that we have spoken since we completed our $4 billion acquisition of Virgin America. We could not be more optimistic about what lies ahead.

Air Group is now the fifth largest airline in the United States, and we serve more than 42 million guests through our hubs in Seattle, Portland, San Francisco, Los Angeles and Anchorage. We have 1,200 daily departures to 118 destinations, almost 300 aircraft and about 19,000 employees.

The footprint of the combined airline gives us an unmatched ability to serve West Coast travelers and it creates a powerful platform for long-term growth. But to be clear, we know that simply adding routes isn't how you win in this business. For us to be successful over time our people, our guests and our owners have to be aligned, and we have to be focused on running our business in a way that we are creating real value for all of our constituents.

With this in mind, we are adopting Virgin America's purpose statement which is creating an airline that people love. Although this phrasing is new to Air Group, we think this language fits and it captures our commitment to continually improving in all areas.

As we look back on what this team has accomplished in 2016, one of the things that we are most proud of is how we've balanced Air Group's commitment to our employees, our guests, our communities and our investors. Let me start with our employees. We have a fantastic group of employees that care deeply about our guests and about the success of this Company.

We are spending a lot of time with our employees integrating the Alaska and Virgin America cultures. And we are, in fact, about halfway through a program called Momentum where we are inviting all Virgin America teammates in groups of about 120 to sessions where they can learn about the new Air Group, our vision and our shared goals.

These sessions are being very well received. And I want to thank Ben and the team at Alaska and Virgin for putting together such a great series of workshops.

Those of you who have been following us know that we've been proud of the fact that all Air Group employees participate in the same goals-based gain sharing plan which we call PBP. For 2016 our employees once again earned about a full month's pay and I want to congratulate them all. And looking to 2017 Virgin America teammates will be rolled into PBP, as well.

Moving to our guests, the merger of two safe, reliable and service-focused airlines is fundamentally good for guests who benefit from getting a premium product at low fares and an even bigger network. Safety is always our top priority and Alaska demonstrated this again recently by being the first airline in the United States to have its safety management system approved by the FAA. I want to thank our safety and ops professionals who worked long and hard to get through all of the gates necessary to make this happen.

Operationally, we had an excellent year despite some rough weather in December which continued into the early part of 2017. For the full year 87.3% of Alaska's flights arrived on time, earning our people the number one on-time performance ranking from FlightStats for the seventh year in row. Alaska also earned the number one ranking in the Wall Street Journal comprehensive airline surveys for the fourth year in a row.

As you know, both airlines have a history of offering our guests award-winning service. And this has been validated by Alaska's nine consecutive J.D. Power Awards and by Virgin America's number one ratings from both Travel + Leisure and Conde Nast also for nine straight years.

But we're not standing still. Among other changes we recently rolled out premium class on Alaska. Andrew will talk more about this in just a moment.

We have recently improved our food and beverage offerings and we were recently the first and so far only airline to introduce free texting on board for all our customers.

Finally, on to our owners. Today we announced a record annual profit of $911 million. This is our 13th consecutive annual profit on an adjusted basis. And perhaps more importantly, we have reduced our unit costs for seven straight years and for 14 of the last 15 years on the mainline side.

One thing that the last 15 years has taught us is that customers want low fares and to offer low fares we have to have low costs. On the strength of our strong service, low costs and low fares we've grown revenues at an average rate of 8% since 2009. We are also learning strong returns and we expect our pretax margin of 24% for the year to be among the top 15% of our S&P 500 industrial peer set.

Our multiyear track record of strong results and our investment grade balance sheet allowed us to finance the acquisition of Virgin America without issuing any new equity. The acquisition was accretive out of the gate in 2016 and we fully expect it to be accretive in 2017.

Also today we announced that we have increased our dividend for the fourth time in 3.5 years. Brandon will provide more information on this.

Andrew and Brandon will also share details about our 2016 results and trends that we are seeing in the business. But before I turn the call over to them I want to share a few more thoughts on the integration with you.

First, we are using the integration as a time to reset our sights on the future. A lot of work is underway behind the scenes, and we look forward to sharing more with you at our Investor Day in late March.

Second, our integration management office is fully activated and now that we've been able to talk openly between the companies we are finalizing the integration plan. We are on track to achieve a single operating certificate in about 12 month's time and we expect to transition to a single passenger service system in the second half of 2018.

Third, we are quickly taking advantage of the broader network and greater distribution capabilities of the larger enterprise to build loyalty. For example, Elevate and Mileage Plan members can already earn and redeem miles across Air Group regardless of whether they fly on Alaska or Virgin America. Andrew will share more details with you, but we believe that this has been one of the best and most generous rollouts for guests.

Finally, we are nearing completion of our brand work and plan to have an announcement about the go-forward elements of the brand before our Investor Day.

2016 was a remarkable year for Air Group. Doing a good job with the integration while also running a strong operation takes a tremendous amount of work and I want to take this opportunity to recognize and thank our people. We have incredible frontline folks and they are driving this terrific operational performance and guest service.

We also have an extraordinarily talented and committed leadership team that is being fully challenged by this integration effort and is clearly rising up to meet that challenge. I want to take a minute and thank all of these folks as we wrap up a simply fantastic year in 2016 and as we collectively turn our full attention to 2017.

With that I will turn the call over to Andrew.

Andrew Harrison - *Alaska Air Group, Inc. - EVP & Chief Commercial Officer*

Thanks, Brad, and good morning everyone. For the fourth quarter Air Group's total revenue, and that includes $100 million from Virgin America, was up $147 million or 11%.

Given Virgin America only represented two weeks of activity in the fourth quarter, I thought it would be most useful for this call to just generally talk about Alaska's results excluding Virgin America. We were very pleased with our fourth-quarter unit revenue results. Our Alaska RASM was up 0.3%, our first positive unit revenue since the second quarter of 2014 which exceeded industry unit revenue performance by 2.4 points.

For all of 2016 Air Group's total revenue, excluding Virgin America, was approximately $5.8 billion and grew by $233 million or 4.2%. This makes 2016 the seventh year of consecutive revenue growth for Air Group. That's twice the top-line growth of S&P 500 companies and contrasts with a 1% revenue decline for the airline industry in 2016.

Before we move into 2017 there is a few things related to our business, excluding Virgin America, from 2016 that I wanted to highlight. First, growth in 2016 was enabled by the addition of 10 more Embraer 175s to our fleet for a total of 15 E175s operating in 30 markets. These aircraft are allowing us to create new market revenue streams and also provide first- and premium class product for our guests.

The Embraer also provides incremental feed for our mainland business. We are excited to be adding 18 more these aircraft to the fleet this year.

Second, our relentless commitment operational excellence and service continues to fuel loyalty growth. As all US carriers have now abandoned miles-based programs, ours continues to prove out time and time again as more generous for the majority of members. As a result Mileage Plan grew 11% in 2016 and members in our card portfolio grew 10.2%, both growing at a rate almost twice that of our passenger growth.

Third, as Brad said, we are now selling premium class and both guest feedback and revenue has been fantastic. We expect this product to add approximately $50 million or even more to our revenues in 2017 and should continue to grow into an $85 million run rate by 2018.

Overall the core of Alaska business performed very well. We continue to build on our proven track record of profitable growth.

To put some numbers around this, in 2010 total revenues were less than $4 billion. Since that time Alaska's growth has added over $2 billion in revenues, that 50% growth, while continuing to lead the industry in profitability. In fact, about a quarter of our earnings per share today has been enabled by new markets added since 2010.

With the acquisition finally closed we are ready to leverage Virgin America as a platform for continued growth and create greater value for our guests, employees and owners. As we look at our capacity plans for 2017, that's including Virgin America and the base, we will grow about 6% in the first quarter.

As you might recall from our last call we stated that we intended to grow Air Group capacity by around 7% for 2017. That remains largely unchanged, but with the addition of Virgin America as well as new slots from constrained airports consolidated growth for Air Group is expected to be about 8.5%. That's almost 2 percentage points less than the aggregate businesses, that is Alaska plus Virgin, would have been for 2016.

That said, we make growth decisions at the market level taking into account economic conditions. And we feel confident about this growth being accretive to earnings and helping us continue to diversify our earnings stream.

So moving to competitive capacity, when we last spoke to you we expected other airline capacity in the first quarter of 2017 to be up 9%. As we look at published schedules today we now expect it to be up only 5%, that's a 4 point reduction. But more importantly with the addition of Virgin's network which provides greater diversification, we expect the weighted competitive capacity in the first quarter of 2017 to only be up 4%.

Overall we are seeing solid demand in our markets. And although the Easter shift from March will negatively impact first-quarter comps we feel good about the underlying fundamentals in the traditional Alaska markets. To provide some color on the first-quarter revenue our preliminary January PRASM, that's excluding Virgin America, was down about 3%. However, excluding the impact of recent winter storms this would have been closer to down 2.5%.

Although it's only been eight weeks since close the revenue and network teams have made great progress. In fact, from a network reporting and segment profitability perspective, we have already folded in Virgin America and are planning network synergy adjustments for the fall.

Additionally, under Shane's leadership along with Kevin Ger -- Kevin was Virgin's VP of RM who has now joined us -- by the end of the second quarter of this year revenue analysts will have all of revenue management including system interfaces, analysis, reporting, pricing all under a single set of tools. From an integration and synergy perspective this is huge.

I also wanted to highlight two areas where we've made significant progress since the deal closed to ensure that out of the gate we don't miss a beat on the revenues. Firstly, seven days after the close of the deal we blanketed Virgin America's network with Alaska's code. We are seeing healthy bookings on alaskaair.com from Virgin America code share flights including routes like San Francisco to New York City that were previously not in the consideration set for Alaska guests.

At current rates 15% of Virgin America operated revenue is now being booked through code share flights on alaskaair.com.

And, secondly, we've already opened Mileage Plan to Elevate members and are providing generous conversion offers including 10,000 bonus miles or $100 off their next flight on Alaska. Additionally, Elevate members can now earn and redeem on Alaska's network as well as globally through our international partners. We are especially pleased with the fact that one-third of Elevate elites have already enrolled in Mileage Plan.

As a reminder, loyalty programs offer a very real and tangible benefit to Air Group with total cash flows from Mileage Plan and Elevate exceeding $900 million for the full year of 2016.

As a side note you have likely noticed we've adopted Virgin America's use of the term guest. We have an extraordinary marketing team that's focused on translating all of the consumer and brand research we've done into brand decisions that will build loyalty. And what we found is that the term guest is much more in line with the unique hospitality and warmth we want people to feel when they fly with us. This underscores our cultural commitment to hospitality and creating long-term loyalty.

In closing, we look forward to seeing you at our Investor Day in March. We will have a lot to share including our plans for the brand, fleet and related aircraft configuration, onboard product including connectivity, airport infrastructure and much more.

With that I will turn the call over to Brandon.

Brandon Pedersen - *Alaska Air Group, Inc. - EVP, Finance & CFO*

Thanks, Andrew, and good morning everyone. Today we reported fourth-quarter adjusted net income of $193 million. Earnings per share rose by 7% to $1.56 a share.

These results include Virgin America from December 14 through December 31 which added approximately $15 million to net profit in the fourth-quarter and full-year results. Our full-year adjusted net profit was, as Lavanya said, $911 million and earnings per share rose 12% to $7.32. This marks the 13th consecutive year that we've reported an annual profit and the seventh year in a row that we've been profitable in every quarter, which shows the durability of the operating and financial model that we've created.

We ended the year with after-tax ROIC of 21.3%. Our acquisition of Virgin America adds about $3.5 billion to the invested capital base, bringing the total invested capital to about $7.5 billion. As a result, the trailing 12-month ROIC, which uses the average invested capital base over the rolling 12-month period, will gradually fall throughout 2017 until we annualize the acquisition date. To illustrate, if you simply took Alaska and Virgin America's full-year earnings for both companies for 2016 and calculated ROIC using the $7.5 billion invested capital base ROIC would be about 15%.

We remain committed to producing returns that are well above our cost of capital.

Our pretax profit for the quarter was $308 million, a $16 million improvement over prior year. Virgin America added $24 million of pretax profit offset by an $8 million reduction in pretax for the preacquisition Air Group business.

I might spend a minute wrapping up the final results for the preacquisition Air Group, excluding the impact of two weeks of Virgin. As Andrew said we were pleased with our fourth-quarter unit revenue results. On the cost side CASM excluding fuel was about flat for the quarter, which was a bit better than our Alaska Air Group guidance in early December before we closed the deal.

Our fourth-quarter economic fuel cost per gallon was actually up year over year, the first time that's happened since the first quarter of 2013. Looking at preacquisition Air Group for the full year I was really happy to see full-year CASMex declined by about 1%, and I want to thank everyone for their focus on keeping costs low by being highly productive and maintaining a frugal mindset. Our long track record of slowly chipping away costs is a major driver of our strong results over the last several years and is a source of competitive advantage over higher cost legacy carriers that will allow us to keep growing.

I thought I might also share Virgin America's fourth-quarter and full-year results. For the fourth quarter, Virgin America recorded on a standalone basis pretax profit of $61 million, a 14% improvement over the fourth quarter of prior year. For the full year Virgin America's standalone basis pretax profit was $244 million, a 14.7% pretax margin.

I want to congratulate the team there on the really nice year-over-year improvement. Peter Hunt is here with us and would be happy to add more color to those results.

Many have asked about our reporting going forward. We will give guidance on an Air Group basis, of course, with some more limited guidance for our mainline segment which is going to include Alaska and Virgin America.

The year-over-year comps will be muddy for the next four quarters. To help investors understand what is really happening we will give guidance that has both a comparison between new Air Group and preacquisition Air Group which will match our SEC reporting but will also provide some color on what the changes represent had the business been combined on January 1, 2016 as Andrew illustrated with the capacity guidance.

So let's turn the page to 2017. We expect consolidated CASMex to be about flat for the year on what would be an 8.5% increase in new capacity in the marketplace. This is on a combined basis as I said assuming a full year of Virgin America in the base.

On the positive side we are already seeing good progress on our cost synergy goals and there is also other purchase accounting adjustments that will favorably impact the P&L in 2017 by about $50 million. Those favorable items will help offset the cost pressure we are facing, including the impact of a likely new engine services agreement at Alaska and an increase in engine overhauls and heavy checks on Virgin's fleet.

We will also have the impact of the new contract with our Alaska technicians, assuming it ratifies, and higher pension expense. As Brad said we are making great investments to our onboard product.

And, finally, there is some ASM and cost headwinds associated with premium class which does have a significant margin benefit, as Andrew said. Overall, I like where our cost structure stands and the results for 2017 given all that we have going on and the changes that are happening at other carriers.

Turning to the balance sheet, we ended the year with $1.6 billion in cash. Total cash flow from operations was $1.5 billion excluding merger-related costs. This marks our fourth consecutive year of operating cash flows of about $1 billion or more.

CapEx for the year was just under $680 million, resulting in free cash flow of over $820 million ex-integration costs.

We have a busy year with the fleet in 2017. At Alaska we will take delivery of 12 Boeing 737-900ER aircraft which are absolutely fabulous airplanes. Those will backfill the remaining 10, 737-400s that will all be retired by year-end.

We are also in the process of modifying three Boeing 737-700s into freighters which will replace the five 737-400 Combis and one 400 freighter that we currently operate. Say that 10 times quickly.

In the regional business we are looking forward to taking 18 E175s from Embraer. At Virgin America we will take some number of the A321neos Virgin was planning on. But we are working with the lessor on an arrangement where we don't take all 10 that are scheduled to be delivered over the next two years.

Virgin America will be the worldwide launch customer for those aircraft which will be configured with 185 seats and we are very anxious to see how they perform. We are also planning more CapEx and non-aircraft related projects. For example, we are making a major investment into our facilities up in the state of Alaska including a new hangar and significant remodels of several owned terminals.

All-in we are currently projecting 2017 CapEx to be between $1.1 billion and $1.2 billion.

During 2016 we returned $329 million to shareholders via $136 million in dividends and $193 million in share repurchases. I hope you saw today's announcement that we are again increasing the dividend by 9% to $0.30 per share per quarter. We have now increased the dividend four times since it was initiated and it's increased threefold in that time.

The increase signals our Board's confidence in our plan and our ability to continue to generate strong results. We ended the year with $2.6 billion of long-term debt with most of that being acquisition debt. Including the impact of leases our year-end adjusted debt-to-cap stands at 59%.

We are well-positioned if interest rates rise as half our total debt is fixed. We remain committed to the idea of being not just a great airline but a high-quality business with a conservative balance sheet. In that vein we are going to continue to re-deleverage until we hit our target of about 40% debt-to-cap, so I would expect cash distributions to shareholders to be limited to the dividend and perhaps some modest opportunistic share buyback.

Overall I'm extremely pleased with where we are today. We closed the biggest acquisition in this Company's history without using any equity and did this while maintaining a strong investment grade balance sheet. This is a testament to the financial discipline that's part of the DNA of this Company and it provides us with a strong foundation as we head into the future.

With that, let's open it up to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Savi Syth, Raymond James.

Savi Syth - *Raymond James & Associates, Inc. - Analyst*

Good morning. Brandon, just maybe first off, I was pleasantly surprised by the dividend increase here. And now that you've find that you know what the funding is and have a better idea of CapEx and putting the plan together, I was just wondering what are your thoughts on how the balance sheet should progress over the next few years or at least what your targets might be, and also related to that if there's any kind of change in your fuel hedge strategy?

Brandon Pedersen - *Alaska Air Group, Inc. - EVP, Finance & CFO*

I will take the first and then Mark can take the second on the fuel hedge strategy. In terms of the dividend, we've talked about this for several years now, we want to have a track record of increasing the dividend. That's something that high-quality industrials do and we want to be considered that.

As we looked as you said at our CapEx plan for the year, our cash flow plan for the year the dividend made sense. And it's something that we are proud to announce. As I said in my remarks it shows confidence on the part of the Board and our plan going forward.

Mark, do you want to take the fuel hedging?

Mark Eliasen - *Alaska Air Group, Inc. - VP, Finance & Treasurer*

Sure, good morning, Savi. With respect to our fuel hedging, we're going to continue on with what we've been doing. It has worked really well and fuel has gone up or down, so we don't see any reason to change.

As you know, we are hedged at 50% hedged at $62 a barrel. And so our breakeven is around $64. We think it's a good place to be.

Savi Syth - *Raymond James & Associates, Inc. - Analyst*

Helpful. And if I may, just on maybe for Andrew, could you talk a little bit about the demand and yield trends that you are seeing and if there are variances in based on the type of market? And I wonder if you saw any holiday timing drag in December and a benefit in January and maybe have you quantified what Easter might be like?

Andrew Harrison - *Alaska Air Group, Inc. - EVP & Chief Commercial Officer*

Thanks, Savi. I will have Shane answer some of the more detailed questions on the timing. I think that what I would say at the big picture level is we were very pleased with the fourth quarter.

We continue to see strong demand in our markets. The team is heavily focused on the new Virgin America network and, again, with Kevin, who was their RM leader, coming over we are very well-positioned to continue good momentum there in the fourth quarter and going into the first quarter.

Shane, do you want to touch on the holiday movements?

Shane Tackett - *Alaska Air Group, Inc. - VP, Revenue Management*

Sure, I can do that. And just to give perspective on what Andrew said, I think throughout the quarter demand was super strong. Load factors were up couple of points.

Business demand within the month sequentially got better both on load factor and yield October through December. And we've seen that continue into 2017. So that's all good news.

On the shifts there was a 1 point shift for the month out of December into January just for the holiday return. I think others have mentioned there was some day of weak shifting around more Tuesdays in January this year than last year and that's impacting January results a little bit.

Easter is we are thinking about 2 points on the month moving out of March into April. But we're hopeful that we have space to backfill a lot of that with business traffic in March. So we're not necessarily assuming March is going to be down that amount, but we know the actual holiday shift is worth about 2 points.

Operator

Joseph DeNardi, Stifel.

Joseph DeNardi - *Stifel Nicolaus - Analyst*

Yes, thanks very much. Brandon, I think you mentioned on the loyalty program side that on a combined basis it would contribute about $900 million in cash in 2016.

I think that's a newish disclosure for you guys. So can you just provide maybe on a revenue basis what the combined program would look like and speak to any profitability metrics you would like to disclose?

Brandon Pedersen - *Alaska Air Group, Inc. - EVP, Finance & CFO*

The $900 million-ish is, I don't remember if it's new, but if it is great. I'm glad we were able to provide it. It really does demonstrate the power of the networks.

I don't have the revenue breakdown at my fingertips. But that will be in the 10-K, we disclose what's in passenger revenue and in other revenue.

In terms of the profitability of the program that's probably a longer conversation that's not going to happen on an earnings call. We can discuss that off-line.

What I will say is just it does wonders in terms of building customer loyalty and stickiness to Alaska/Virgin America. And that's for us where the power is. In terms of the profitability of each element that's a little harder to get into.

Joseph DeNardi - *Stifel Nicolaus - Analyst*

Okay, Brad, that's a lot of cash relative to what you guys generate and I would estimate it's quite a bit of your earnings also. So is there any concern that the way that you guys are disclosing the program now ends up with the airline relying on this program too much and not finding new ways to make the core business flying one person from city to the next more profitable?

Brad Tilden - *Alaska Air Group, Inc. - Chairman & CEO*

Joe, thanks for the question. I don't think there's any concern at all. Our entire -- and people that live out in our coverage areas do feel this, but our entire focus is going into the community and doing the right thing, being a good Company and building loyalty.

When we build loyalty we want people to get into our Mileage Plan and then we want them to get at least one of our credit cards in their wallet. Ideally two, maybe three of our credit cards in their wallet.

So that's what we do. And then what we want to do on the other side is give them huge value for having that card. So they get a free bag, they get miles, they get a companion certificate which gives them, they buy one ticket, they get a very inexpensive second ticket.

And then as we have been talking more about there's all sorts of benefits through the awards, as well. I think if you look at our 10-K, and this may be wrong but I think it's close to right, I think something like 19% of our travel on this Company is somehow affiliated with the Mileage Plan. And I think that percentage is much higher than other airlines.

I think other airlines are closer to 10% or 12%. It might be a full redemption or it might be a fare where they paid half with cash and half with miles. So I think this is our core business and I think it's a really important part of our core business.

We have got a fabulous relationship with Bank of America and I think it's something that you are going to see us. If you look back we've talked about 10% growth in the Mileage Plan for 15 years. Double-digit growth -- sorry, we talked about double-digit growth in the Mileage Plan for 15 years. I think it's something that you are going to see us continue to focus on.

Brandon Pedersen - *Alaska Air Group, Inc. - EVP, Finance & CFO*

Joe, we're going to send you an application.

Operator

Rajeev Lalwani, Morgan Stanley.

Rajeev Lalwani - *Morgan Stanley - Analyst*

Thanks for the time. Just on the capacity guide of 8.5% or so, can you just talk a bit more about where that growth will be focused? And then any implications to just being able to maintain that steady margin RASM that you guys have been putting up despite the higher level of growth?

Andrew Harrison - *Alaska Air Group, Inc. - EVP & Chief Commercial Officer*

Good morning, it's Andrew. So a couple of things on that.

Firstly, I will tell you from an internal perspective the 8.5% growth is at the top of our range. So I want put that out there.

Secondly, a lot of the growth will be Mid-Continent and transcon which has been what you've seen recently. The other thing is that we've had a really exciting opportunity with slots, and I think with Newark Alaska picked up more, Virgin picked up two more. We are hoping to get four slots into Mexico City here shortly, and we are also working on some other opportunities in constrained airports.

So overall I think that our growth is very balanced as it relates to the core and new markets and really exciting opportunities. As Brad has mentioned, this growth is going to fuel utility and loyalty for the combined airlines now. And we believe that this growth that we are going to produce this year is going to continue to basically ignite this acquisition and bring good things to guests.

And then also I should mention the regional, sorry Rajeev, the regional side is growing about 18%. And as you are aware the Embraer 175, this is really a new tool for us. It hits Mid-Continent routes, it's going to provide very valuable feed, and it also generates first-class and premium class revenues not available on our current regional fleet. So when you package this all together we feel very good about that.

Rajeev Lalwani - *Morgan Stanley - Analyst*

Great. And then just on the integration side, what are some of the big risks we should be focused on this year? And then maybe just some color on the timeline for cost synergies and some of the puts and takes there.

Ben Minicucci - *Alaska Air Group, Inc. - President & COO*

Good morning, Rajeev. It's Ben here.

What I will say is we are well underway, as Brad had in comments, with the integration management office. We have established 20 integration goals. Things like getting a single guest loyalty program, integrated call centers, a single passenger service systems. The work streams, over 100 work streams are established.

And on the synergy side we have established 30 synergy categories: seven revenue, 23 that are cost related. We've got executive owners in conjunction with FP&A and our supply chain people. And we are driving hard to achieve those synergies.

So we are really confident that we are going to achieve and exceed what we've established. And then on some of the risks we are just working on when we look at other mergers in the past we realize labor deals are a big deal. So that is an extremely high priority for us to get labor deals hopefully by the end of 2017, early into 2018.

Brad talked about culture. We are working hard on bringing these two cultures together to honor what has been so great at Alaska Airlines by looking at Virgin and see what Virgin can bring to really help the new Alaska to greater heights.

So I'm really confident about what we are doing now and where we are going.

Operator

Helane Becker, Cowen and Company.

Helane Becker - *Cowen Securities LLC - Analyst*

Thanks operator. Hi guys. Thanks for the time here.

So I have two questions and they are completely unrelated. The first question is, Brandon, I know you will be able to earn your way back to your 40% goal for debt-to-cap, but given where the stock price is have you given any thought also to maybe issuing some equity to bring the debt-to-cap level down even if it's not from 60 to 42 to like maybe 50 and then just reinstating the share repurchase program?

Brandon Pedersen - *Alaska Air Group, Inc. - EVP, Finance & CFO*

Helane, Brandon, good morning. No, we have not thought about that at all.

We wanted to do this acquisition in a way that wasn't dilutive and we did it. And I think we still have a very strong balance sheet. So I don't feel the need to do that at all.

Helane Becker - *Cowen Securities LLC - Analyst*

Okay. Then my other question is about the Airbus aircraft. And I know I heard what you said about trying out the neos and seeing how they work and working with the lessors to maybe adjust deliveries.

But after you are done with integration and you start to think about the route network, are there some markets where the A320neos will work better than the 737s that you would actually think about permanently keeping them or working to buy those aircraft rather than lease those aircraft? Because given your very strong balance sheet, I would think it would be cheaper for you to either buy them rather than to lease them.

Brandon Pedersen - *Alaska Air Group, Inc. - EVP, Finance & CFO*

Yes, I think there's two questions in there. One is a buy versus lease question and we've been a big advocate of buying for a lot of different reasons.

In terms of where the airplanes fit best operationally, I might get Ben to chime in on that because we are learning some things about that already.

Ben Minicucci - *Alaska Air Group, Inc. - President & COO*

Hi, Helane, it's Ben. And Andrew and I are partnering on this with his team.

The Airbus is a great airplane. As you know, we love Boeings, we are all Boeing and we are proud of that and we are learning a lot about the Airbus.

What I will tell you is where you put the Airbus, one of the things we've done well is we put the right airplane in the right market. The Airbus is limited, the A320 at least, is limited as a transcon airplane. We think it's a better north to south airplane.

So at least in the next five years I think you will see Andrew's team work with the ops team really to get these airplanes in the right markets to really maximize their potential. And so where the 321s go, whether they go to Hawaii or transcon, I think we will make the right decision for to maximize their potential.

Helane Becker - *Cowen Securities LLC - Analyst*

Okay, well, those are my two unrelated questions. Thank you.

Operator

Hunter Keay, Wolfe Research.

Hunter Keay - *Wolfe Research - Analyst*

Hi guys, good morning. So one of the more unfortunate conditions of the DOJ approval is that they are going to make you guys ask for permission to divest Virgin's gates at Love Field if you decide to go down that path.

So I know it's a little bit early to start talking about whether you are going to do that or not. But can you, and this might be a question for Kyle, by the way, if he is on the line, but can you tell me about how pragmatically easy that would be to do given the conditions attached to the approval, what steps you have to go through and the legal hurdles that you would have to clear to get that done if you decide to do it?

Kyle Levine - *Alaska Air Group, Inc. - VP, Legal & General Counsel*

Hunter, good morning. You know, the order as you have probably seen doesn't specify what steps are necessary. So in my mind if we ever decided to do that it would start by a letter saying hey, we would like an audience with you to explain our business reasons for wanting to do this and the discussion would go from there.

Hunter Keay - *Wolfe Research - Analyst*

To DOT?

Kyle Levine - *Alaska Air Group, Inc. - VP, Legal & General Counsel*

To DOJ.

Hunter Keay - *Wolfe Research - Analyst*

DOJ. Okay, got it. Thank you.

And then Brad, when will all your distribution agreements with the various GDSes be harmonized? And what's going to be your single biggest priority in the negotiations with them like obtaining a partial content agreement or is it just like lowering the booking fees? And then if you want to talk bigger picture about how big of an opportunity distribution savings is for the merged Company over the next many years that would be great too. Thank you.

Brad Tilden - *Alaska Air Group, Inc. - Chairman & CEO*

Thanks, Hunter. I'm going to ask either Andrew or Shane to answer this. Just to be really clear, Hunter is asking about distribution systems and the opportunities for Alaska and Virgin to harmonize and find cost synergies or even revenue opportunities.

Shane Tackett - *Alaska Air Group, Inc. - VP, Revenue Management*

Yes, thanks Hunter. I won't get into detail. Most of these agreements are actually open for us right now, but our costs of distribution are really good comparatively.

And so I think this is one of the key areas of cost synergy that has been identified that Ben just alluded to of those 30 areas. So we are working with the distribution providers right now on new contract language. We've got great relationships with them, and I think that this won't be hard for us to achieve pretty quickly.

Operator

Jamie Baker, JPMorgan.

Nish Mani - *JPMorgan - Analyst*

Yes, thank you so much for the time. This is actually Nish Mani on for Jamie. I wanted to ask you about customer retention and how that plays into the revenue synergies target that we should be thinking about going forward.

You guys have outlined that 175 run rate number, and I know that we had last spoke on the topic of the base case essentially included about 100% customer retention in the acquisition. And I am wondering if A, your view on the this has changed since the merger has closed that you had the ability to look at the numbers closely and do more channel checks but B, how we should be thinking about that going forward and how that could potentially impact the accretiveness of the deal?

Andrew Harrison - *Alaska Air Group, Inc. - EVP & Chief Commercial Officer*

Hi, this is Andrew Harrison. Thanks for your question. So a couple of things on that.

First, we are going to provide a lot more detail at Investor Day. But what I will tell you right now is that very much on the revenue synergies of 175 nothing has changed there. And as Brad has been sharing our whole goal here is to really provide significant revenue growth in California and particularly, of course, on the West Coast.

We are very hard at work working with elites, both Elevate and Mileage Plan signing up new members, and we are getting into it and we are going to have some exciting changes coming over the next six months. So we feel very confident that we are going to continue to grow our guest base in a major way as we move through this integration.

Nish Mani - *JPMorgan - Analyst*

Okay, that's very helpful. And then I wanted to just ask briefly about the evolving nature of the Virgin brand and how you guys are thinking about it.

Obviously, there are a bunch of operational decisions to be made down the road. But is it your sense from where you sit today that the Virgin brand would represent any kind of distinct departure away from what Alaska's product offerings are? Or has that decision still been mulled over, so to speak?

Andrew Harrison - *Alaska Air Group, Inc. - EVP & Chief Commercial Officer*

Andrew again. I've only ever had one rule, a sort of a collar around my neck, was that I wasn't to talk about unit revenues going forward. A recent new collar with respect to (multiple speakers) charge has been placed around my neck and that would include brand.

So what I will tell you is that we will talk to more about that at Investor Day. But at the end of the day what we can tell you is that as we move forward we are going to continue to evolve and become increasingly relevant and fresh and new, inspiring for the guests on the West Coast. And I will say, and it sounds like a small thing but it's not, at the end of the day this concept of calling guests which Virgin America had adopted it is very powerful.

And the more you get into it and culturally as we rethink how we talk about who we are serving it's going to make a difference. So we are going to start to unroll a lot of this stuff, again at Investor Day. So look forward to seeing you there.

Operator

Brandon Oglenski, Barclays.

Eric Morgan - *Barclays Capital - Analyst*

Hi, this is Eric Morgan on for Brandon. Thanks for taking my question.

I just wanted to ask about margin. Given that Virgin has had lower margins historically just wondering how you are thinking about the whole business now? And longer term is there any reason consolidated margins shouldn't ultimately reach where you were running premerger?

Brandon Pedersen - *Alaska Air Group, Inc. - EVP, Finance & CFO*

Eric, it's Brandon. You are right, Virgin America did run at a much lower margin than Alaska and mathematically when you add the two together you get a lower margin or a margin in between.

In terms of where the business operates going forward, I think that's largely a matter of the economic environment, fuel conditions, competitive capacity, etc. I think Alaska's goal is to just be in a place where we're doing better than the industry on average. And I don't exactly know what that is going to be, but that's the goal.

Eric Morgan - *Barclays Capital - Analyst*

All right, I appreciate that. And maybe just one on the premium class product.

Could you elaborate a bit of rollout and how it's playing out relative to expectations? It sounded like you were pretty happy with the revenue impact. So do you think that $85 million number you have out there could be conservative?

Shane Tackett - *Alaska Air Group, Inc. - VP, Revenue Management*

Thanks, Eric. This is Shane again. Yes, it's a great start.

We had all of our 800s, about 60 aircraft, configured to begin flying in January. We started selling those seats in November, so it was kind of a limited release. Our 900s are now starting the process of being configured.

I will just tell you the revenue out of the gate is more than what we had planned for in January and it looks to be the same in February. I do think as we get in the back part of the year and we have a full complement of the fleet configured our revenue goals are very, very aggressive. So I wouldn't necessarily say that we are going to outperform the $85 million at this point, but if anything there might be a little upside to it.

Operator

Mike Linenberg, Deutsche Bank.

Mike Linenberg - *Deutsche Bank - Analyst*

Hey, good morning everybody. I guess a couple here.

Andrew, you were kind to give us competitive capacity. In the March quarter you said it was 5% and then I think on a weighted basis including Virgin it was 4%. Do you have that for the June or September and/or September quarters?

Andrew Harrison - *Alaska Air Group, Inc. - EVP & Chief Commercial Officer*

What I can tell you right now just in the second quarter looking at the tapes which aren't finalized it's close to flat. But, again, that can continue to move around.

Mike Linenberg - *Deutsche Bank - Analyst*

Okay, very good. And then, as I recall and this is probably a question for Brandon, Virgin paid a royalty fee to the Virgin Group. I think it was at 1.1% of total sales, and then I think it moved up to 1.4% and then it came down.

Is that something that you are still incurring or that's gone since the merger close? I was never sure on that.

Peter Hunt - *Alaska Air Group, Inc. - President & COO, Virgin America*

Hi, Mike, this is Peter Hunt. Actually the level is 0.7% of revenue that was (multiple speakers) license fee.

And that is still in place. As long as we use the Virgin brand under our existing license agreement we would be required to pay that license fee.

Mike Linenberg - *Deutsche Bank - Analyst*

Okay. And then Peter, does it stay at 0.7% or is there some sort of revenue threshold or benchmark that changes that?

Peter Hunt - *Alaska Air Group, Inc. - President & COO, Virgin America*

There is a revenue threshold. It's a fairly high one, though. It won't come into play for many years.

And at that threshold the revenue or the (technical difficulty) drop to 0.5% at some point in the future. But it's like three times what the Virgin revenue is today. So it's fairly high.

Operator

Darryl Genovesi, UBS.

Darryl Genovesi - *UBS Securities LLC - Analyst*

Hi guys, thanks for the time. Brandon, I joined a little late, so apologies if you already did this. But would you break out the CASM outlook for 2017 between what's happening with core CASM and then what the purchase accounting impact is?

Brandon Pedersen - *Alaska Air Group, Inc. - EVP, Finance & CFO*

Yes, on a combined consolidated basis so, again, assuming Virgin America had been in the base for the full year CASM is going to be flat year over year. We have about $50 million or so of net good guy in the base that resulted from purchase accounting, and there's a variety of things in there, some positive, some negative.

And then the rest of it would be what I would call core growth including the impact of premium class which takes out ASMs and adds some cost. But as I said in my prepared remarks is very accretive to the bottom line as well as the investments we are making in the onboard products. So I wouldn't call that inflationary growth, I would call that purposeful investment that we believe has a real payback and is good for guests.

Darryl Genovesi - *UBS Securities LLC - Analyst*

Great. And then on the revenue side, did you need to write down the DTL as part of the purchase accounting process and is that going to impact Q1 RASM?

Brandon Pedersen - *Alaska Air Group, Inc. - EVP, Finance & CFO*

The deferred tax liability?

Darryl Genovesi - *UBS Securities LLC - Analyst*

I'm sorry, the ATL, the air traffic liability.

Brandon Pedersen - *Alaska Air Group, Inc. - EVP, Finance & CFO*

We actually carried over the ATL, well, I'm going to let Chris Berry answer this.

Chris Berry - *Alaska Air Group, Inc. - Managing Director, Accounting & Controller*

It is an accounting question. Darryl, I will be brief. Yes, ATL it was fair valued, meaning there was some write-down within the ATL number and that would carry through revenue over the next 12 months.

The offset of that is there was a write-up in the value of the Elevate program which has basically an equal offset to that revenue over the next 12 months. So you won't see a lot of revenue change as a whole for operating revenue for Virgin America on that.

Operator

Andrew Didora, Bank of America Merrill Lynch.

Andrew Didora - *BofA Merrill Lynch - Analyst*

Hey, good morning everyone. Brandon, I guess two questions on the cost side.

One, I know you've been talking about the $50 million good guy from purchase accounting. But can you give us a sense for what's included in that flat CASM guide for cost synergies?

And then second question around costs, we're seeing a lot more fuel efficiency, particularly on the regional site. And does this all relate to the additional E175 flying?

Brandon Pedersen - *Alaska Air Group, Inc. - EVP, Finance & CFO*

Hi, Andrew. On the second question I didn't quite follow it. Are you talking about non-fuel CASM or fuel CASM?

Andrew Didora - *BofA Merrill Lynch - Analyst*

I guess the second question on the fuel CASM, it seems like your fuel efficiency is increasing nicely here. And is that just solely a function of the new E175 flying that you have coming on this year?

Brandon Pedersen - *Alaska Air Group, Inc. - EVP, Finance & CFO*

For that flying, those are great airplanes, but for that flying that actually is a reduction in terms of ASMs per gallon just because the smaller gauge of those aircraft. Where you are really seeing the benefit is the exit of the 737-400s and replacement of the 900ERs, 37 more seats, basically they burn the same amount of fuel.

It's a nice, nice, nice tailwind in terms of fuel efficiency. On the cost side, I forgot your question, what was your question?

Andrew Didora - *BofA Merrill Lynch - Analyst*

On the CASMex side what are you assuming in terms of cost synergies in your flat guidance?

Brandon Pedersen - *Alaska Air Group, Inc. - EVP, Finance & CFO*

I'm not going to tell you exactly the number. But I will tell you that we are really pleased with the pace that we are going on realizing those cost synergies.

There is obvious stuff baked in, headcount reductions including the executive compensation that was in the base last year. But it's not just that, it's synergies that we've already realized in lots of different areas and we will give you more color on that at Investor Day. We are well on our way.

Operator

Kevin Crissey, Citigroup.

Kevin Crissey - *Citigroup - Analyst*

Hi, good morning everyone. Thanks for the time.

Brandon, how do you measure these synergy results not right away, because that's relatively doable, but how do you look at the revenue and the cost as what they would have been had you not merged, say, a year and a half from now?

Brandon Pedersen - *Alaska Air Group, Inc. - EVP, Finance & CFO*

I'm going to let Shane Tackett answer that question.

Shane Tackett - *Alaska Air Group, Inc. - VP, Revenue Management*

Great question and there's not a perfect way to do this, but the way we've done it is we've basically pro formaed both companies independently for five years. And then we pro formaed the combined Company and what we think we can create in synergies. And we will just re-baseline those based on some sort of revenue environment index as we go forward.

Kevin Crissey - *Citigroup - Analyst*

Okay. And so with us not having the benefit of your projections, assuming you are not going to release those and I imagine you wouldn't, should we be viewing the resulting synergy in better RASM growth versus say the industry in terms of to measure the revenue synergies and better margins overall maybe for the net of the revenue and cost synergies relative to where you were or where the industry was? Frankly, a year and a half from now when you guys are saying that you are going to be realizing your synergies and you're right on track, how the heck are we going to have any idea that that's the case?

Brandon Pedersen - *Alaska Air Group, Inc. - EVP, Finance & CFO*

Kevin, maybe I'll jump in there. Honestly I don't think you will because a lot of things happen between now and then I think for some of that, like network connectivity it does get lost in the mix little bit, although we do feel pretty good about the opportunity there.

A good example of that is just the statistic that we mentioned in the script which is about 15% of the Virgin America bookings right now are coming through AS.com and we believe 30% of that is incremental. That's real dollars that are adding to the bottom line.

The other thing I would say is that some of the synergy benefit is, of course, network connectivity and things like that, which will be a little harder to measure. But some of the synergy benefit comes from things like increasing the number of people that hold the credit card.

That is a very tangible and quantifiable number that we can tell you. We are not going to give you specific numbers, but we are going to say are we on track or not. And we can tell you with confidence.

Operator

Dan McKenzie, Buckingham Research.

Dan McKenzie - *Buckingham Research Group - Analyst*

Hey, good morning. Andrew, feel free to recharacterize this, but at least from my perspective what we've learned from Virgin is that growth in the wrong market can cause a lot of revenue pain.

And you made it clear this year that the growth this year is going to be accretive. But on the existing network, how would you characterize the changes that need to be made on the Virgin side? Are there some redeployments you are thinking about, and then just tied to this what is transcon capacity now as a percent of total flying?

Andrew Harrison - *Alaska Air Group, Inc. - EVP & Chief Commercial Officer*

Thanks, Dan. I was expecting an alliance question, so this is good. All is well there, by the way.

You know, here's what I will say. Virgin America's network I think is about 20 markets and they are all in these very large core O&Ds and I think they've done a fantastic job. So other than looking at gauge and putting the right airplanes in the right markets we believe it's a fantastic foundation and we are going to continue that.

We are also going to start making some changes in the fall to start to get schedules and equipment better, but really you will see much more in 2018. We've redefined our regions, and without going into the details our transcon, I think we have New York transcon is about 10% from memory here. I'm just looking at my cheat sheets, 10%.

And then you've got we also have Pacific Northwest transcon -- excuse me, California transcon, as well. So those two together is close to 20%.

At the end of the day what we hope to do is to take the Virgin America network and then bring to bear the loyalty, the network connectivity, the regional fleet, the mainline fleet and just grow this thing. That's really what you're going to see. So the barebones of what you see in the network that Virgin America has there solid and they are not going to be changing.

Brad Tilden - *Alaska Air Group, Inc. - Chairman & CEO*

Dan, to be fair there are a handful of markets that we look at and say we can make some changes to drive better results. And I don't think we are going to say a lot more about that today, but I think you will see some changes in the schedule in the next couple of months.

Dan McKenzie - *Buckingham Research Group - Analyst*

Okay I appreciate that. And Andrew you actually did front-run my next question on alliance (inaudible).

So I'm wondering if you can provide an update on code share revenue? Where are we at just given some of the changes that had to be made as a condition of the merger close? And to what extent does the new code share with Japan Airlines backfill some of that lost revenue?

Andrew Harrison - *Alaska Air Group, Inc. - EVP & Chief Commercial Officer*

I think real quickly, Dan, not materially since we last changed. We shared that the Department of Justice was about $60 million reduction, but we are going to backfill three-quarters of that. So it's about $10 million to $15 million of loss and then I think we also talked about the delta.

So at the end of the day we are continuing to rely less and less on code share revenues, and especially with the Virgin America network we are backfilling that and replacing that with our own revenues. And just on JAL and lastly on our international flag partners, we are seeing significant year-over-year and, of course, JAL will be new international traffic. And now with international gateways in Seattle, San Francisco, Los Angeles and even JFK, we have a great platform for international traffic growth.

Operator

Dominic Gates, Seattle Times.

Dominic Gates - *The Seattles Times - Media*

Hi, good morning. Just following up on Helane Becker's question about fleet plans, first of all could you just repeat if you would the plans for taking new aircraft, 737s, A320s, E175s in the coming year versus retirements?

And then you talked about not taking all of the A321s that were previously planned for Virgin. Give me your thoughts on why you are doing that? The A321 is the one Airbus aircraft that other airlines are rushing to get because it's perceived as doing better than the equivalent 737. So why does the fact that you are not taking all of those indicate where you may be going in terms of what to do with the Airbus way down the line?

Brad Tilden - *Alaska Air Group, Inc. - Chairman & CEO*

So Dominic, good morning. Thank you for the question.

So big picture, maybe just to sort of reset a little bit, we have been proudly all Boeing for I don't know how many years 10, 15 years. We have probably all Boeing on the front of every one of our airplanes. We are really proud of that.

Flying Boeing airplanes has been fantastic for this Company. Flying a single aircraft type has been fantastic for this Company. So that's fact one.

Fact two is we bought Virgin America and they fly Airbus airplanes. So overnight we now are in the position where we fly both airplane types. So all that we have said is that we are going to go through a process in 2017 where we make a decision as to whether to continue to fly two airplane types or whether to go back and fly a single airplane type again.

And that process is going to take six, seven, eight, nine months, something like that. But as any Company would we're going to go through the right process to make the right decision for everybody at Alaska. And we are going to certainly talk with Boeing and Airbus as we go through that process.

You are also asking about what happens in the interim? And what I would say is that the process has become, it's a little bit more complicated because Airbus is introducing this A321 like immediately, right away. And I will just say that we are having conversations with people that delivered the lessor and Airbus about that airplane to see if we can reduce that, that's a new airplane type to Virgin America, we are having a conversation to see if we can reduce that commitment to A321s or put that off of it while we go through this process to make the right long-term decision for Air Group. That's really all that we can say about where we are right now.

Dominic Gates - *The Seattles Times - Media*

Do you mind going over the numbers, what's the expectation for new deliveries this year versus retirement?

Brad Tilden - *Alaska Air Group, Inc. - Chairman & CEO*

We will have either Brandon or Mark. Happy to do that, Dominic.

Mark Eliasen - *Alaska Air Group, Inc. - VP, Finance & Treasurer*

Hey, Dominic this is Mark Eliasen. I can just give you a couple of numbers here.

One is that we have 54 firm Boeing airplanes on order today. We will take 12 this year, but we have 54 total on order which includes the MAX airplane.

For the Airbus fleet we have 10 firms on the books today that Virgin America had and we also have another 30 that are cancelable. So that basically breaks down the ratios there.

Operator

This concludes today's question-and-answer session. I will now turn the call over to Brad Tilden.

Brad Tilden - *Alaska Air Group, Inc. - Chairman & CEO*

Okay, thanks very much everybody for joining us. We look forward to seeing you at our Investor Day in New York on March 29.

Thanks very much. Have a great day.

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.
