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ALK - Q4 2018 Alaska Air Group Inc Earnings Call

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OVERVIEW:

ALK reported 4Q18 revenues of \$2.1b and GAAP net income of \$23m.



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PRESENTATION

Operator

Good afternoon. My name is Sia, and I will be your conference operator today. At this time, would like to welcome everyone to the Alaska Air Group Fourth Quarter and Full Year Earnings Release Conference Call. Today's call is being recorded and will be accessible for future playback at www.alaskaair.com. (Operator Instructions) Thank you. I would now like to turn the call over to Alaska Air Group's Director of Investor Relations, Matt Grady.

Matt Grady - *Alaska Air Group, Inc. - Director of IR*

Thanks, Sia. Good afternoon, everyone, and thank you for joining us for our fourth quarter and full year 2018 earnings call and for connecting with us at this new call time. In today's prepared remarks, our CEO, Brad Tilden, will provide an overview of the business. Andrew Harrison, our Chief Commercial Officer, will share an update on our revenue performance and outlook; and our CFO, Brandon Pedersen, will discuss our results and expectations for costs and cash flows. As usual, several other members of our management team are also on hand to help answer your questions during the Q&A portion of the call.



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This afternoon, Alaska Air Group reported fourth quarter GAAP net income of \$23 million. Excluding merger-related costs, mark-to-market fuel hedging adjustments and special charges, Air Group reported adjusted net income of \$93 million and adjusted earnings per share of \$0.75, ahead of the first call consensus. For the full year 2018, Air Group reported record revenues of \$8.3 billion, adjusted net income of \$554 million and adjusted earnings per share of \$4.46.

As a reminder, our comments today will include forward-looking statements regarding our future performance, which may differ materially from our 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 have provided a reconciliation between the most directly comparable GAAP and non-GAAP measures in today's earnings release.

And with that, I will turn the call over to Brad for his opening remarks.

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

Hey, thanks, Matt, and good afternoon, everybody. Last month marked the 2-year anniversary of our merger with Virgin America. As we look back over that time, we're very happy with how far we've come. Just 24 months ago, we were 2 airlines in complementary geographies with distinct products, operating processes and cultures, not to mention separate FAA certificates, labor agreements and IT systems.

Today, virtually all of that has changed. Our operating processes are fully aligned. Substantially, all of our systems have been merged, and all but one of our labor groups are under single collective bargaining agreements. To be sure, everyone in our organization has navigated a period of significant change and growth during this integration. We've also faced material external pressures from fuel prices and competition, but we believe the competition makes us better. And time after time, this team has responded to competition with new strength and new capabilities.

We want to thank our terrific employees who've done so much to bring these 2 airlines together while also continuing to deliver excellent service and reliability to our guests. We're very proud that they've earned \$120 million in performance-based bonuses, which will be paid tomorrow, and we're also proud that this is our 10th consecutive year with payouts that are above our target, which, as a reminder, is 5% for most employees, 5% of pay.

We're making great progress with the integration on a number of fronts. Culturally, our employees are coming together as a single team. Across the fleet, our guest experience is increasingly aligned and will reach full alignment early next year when we finish renovating the Airbus fleet. We've already begun to swap Boeing and Airbus aircraft on the most appropriate routes. Our flight attendants begin flying as integrated crews next week, which, as you know, is very early compared to other airline mergers. And we're working on the integration of our pilot schedules as we speak. All of this means we're rapidly becoming a better version of ourselves with greater reach and scale with the same competitive advantage we've always had and with fantastic opportunities ahead of us.

The progress we're making is also starting to show up in our financial results. The fourth quarter was solid and represented a turning point in our margin trajectory. Unit revenues rose at the fastest pace we've seen since 2011, and we expect continued RASM out-performance this year as we begin to harvest the value of our combined platform.

At this time last year, we faced multiple headwinds from aggressive competition, our own growth, new higher cost labor agreements and rising fuel prices. Today, that picture looks very different. Our growth has slowed. Newer parts of our network are maturing, and fuel prices are down. Demand overall is solid, and we're beginning to implement the margin improvement initiatives we laid out at Investor Day. We have good momentum heading into 2019.

Before I talk more about our future, I'd like to provide a few details on the recent accomplishments of our people. First, our operation continues to run very well. Our CD 0 or controllable departures leaving within 0 minutes of their scheduled time was flat at 85.5% in the fourth quarter, and it rose 1.5% for all of 2018 to 86.6%. Second, momentum is building at Horizon, where our productivity is improving and where our on-time performance was the best in the regional industry last year. Third, we've integrated 95% of our integration milestones, and the remaining items, once completed,



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will improve the productivity and efficiency of our network. Fourth, we've repainted 39 of 71 Airbus aircraft and will repaint the remainder of the fleet over the next few months. Interior renovations are also underway, and our first refurbished Airbus aircraft entered service 2 weeks ago. Fifth, our balance sheet is strong and getting stronger. We've now repaid \$866 million or 42% of our merger-related debt, and we ended 2018 with an adjusted debt-to-cap ratio of 47%. And finally, roughly half our employees have completed our Flight Path program, thus far, and the remainder are scheduled to do so by April 30. As a reminder, Flight Path is a series of face-to-face workshops we're conducting with our people. It's a mix of presentations, open-and-honest dialogue and interactive activities focused on Alaska's culture and future. These sessions are helping us come together as a team, something that's been so important to our historical success. And we intend to continue doing this sort of thing in the years ahead.

Many of you have asked us about how recent economic forecasts and market volatility might impact us this year. As you all know, we like to focus our energy internally. Nevertheless, we will say that, not unlike other airlines, near-term bookings suggest modestly more revenue uncertainty in the first quarter compared to the fourth as we move through the year's seasonal trough period. But in general, demand is solid, and we have not seen any dramatic shifts in the marketplace. Andrew will elaborate more on market conditions in a moment.

Most importantly, we're determined as a leadership team to stay clearly focused on factors we control to deliver consistent value for our guests, employees, communities and shareholders. We believe that if we do this, we'll produce strong relative margins and returns regardless of the industry environment, and that's our primary financial goal. For 2019, this means delivering on the \$330 million of revenue initiatives and synergies that we've detailed for you and hitting our operational and cost objectives. Andrew and Brandon will talk more about these in a moment.

Summarizing and taking into account our general expectation for the industry, our multiyear goal is to produce profit margins, which average 13% to 15% over the business cycle by improving performance in the controllable parts of our operation. We believe we can and will do this as we unlock the value of our newly combined platform. And since lower capacity growth supports us in this process, we believe our plan to increase capacity 2% this year and by 3% to 4% next year is the right plan. We're on the road to delivering higher margins in 2019 and 2020 as we work with our people to leverage Alaska's substantial competitive advantage over a route network that now has greater reach and scale. With most of the integration now behind us, we look forward to doing just that in the quarters and years ahead.

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 afternoon, everyone. Total revenue for the fourth quarter rose 6% to \$2.1 billion on capacity growth of 1.1%. RASM increased 5.2%, which was our largest increase in several years. Slower capacity growth and a more stable competitive environment provided a favorable backdrop, while the network, brand and loyalty investments we have made to activate the Virgin America acquisition began to yield strong results. As we outlined for you at Investor Day, this positive momentum should continue into 2019 as we further enhance our revenue production through synergy capture and accretive initiatives.

Before turning to our future plans, I would like to provide some additional color on our fourth quarter results. First, same-store markets or markets in operation longer than 1 year represented 97% of our capacity and contributed positive 5.7 points to RASM. Strong close-in demand and yields across most of our network due in part to the strong growth in business volumes delivered roughly 2/3 of the increase, while accretive network adjustments made earlier in the year and strong Mileage Plan revenues contributed to the balance. We were especially pleased with the strength in business traffic, considering, historically, we've had a much stronger orientation towards the leisure traveler.

Next, developing markets, these are markets in operation between 1 and 3 years, contributed about a positive 70 basis points to RASM. These markets are a subgroup within our same stores and represented about 7% of capacity in the fourth quarter. They include the routes launched in 2017 that created a headwind for us over the last year. Today, these markets are comping positively with RASM, up 10% on improved yields and load factor. We continue to be pleased with the development of these routes.

And then finally, new markets or markets in operation less than 12 months represented just 3% of capacity in the fourth quarter and had a negative 50 basis point impact to RASM.

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As mentioned last quarter, the Hawaii market is navigating a period of elevated capacity and weak pricing. West Coast ASMs to Hawaii rose 8% in the fourth quarter. Yields were down year-on-year and had a 125 basis point impact on our fourth quarter RASM, and that's consistent with our guidance. Though we expect yield weaknesses to continue this year, we believe strong growth in our loyalty program, the introduction of Saver Fares and our low fares, high-value positioning will enable us to weather the near-term environment better than our competitors.

And speaking of competitive positioning, we're continuing to enhance our product offering. We have a number of upgrades planned for 2019 that will drive continued momentum for our brand and will translate to higher guest preference and stronger revenue growth over time. To name just a few of these improvements, first one, we're deploying satellite internet with 20x the bandwidth of our current offering on 125 aircraft this year. We're installing next-generation interiors on 1/3 of our mainline fleet. We're launching a reimagined food and beverage program, along with continued expansion of our in-flight entertainment offering. We're adding more Embraer 175 aircraft. They now represent approximately 60% of our regional feet and are equipped with First-Class and Premium-Class seating, in-flight entertainment and Internet connectivity. And finally, we're upgrading our lounges and opening a new flagship lounge in Seattle, which will offer handcrafted coffee beverages and premium food for purchase. All of these enhancements have been engineered to deliver high value for our guests at relatively low costs and will stand on their own from a P&L perspective.

As our product improves, we are also highly focused on delivering the \$330 million in incremental revenues from synergies and self-help initiatives this year, which we outlined at Investor Day. Let me give you a quick update on each of these. First, Saver Fare, which competes with basic economy offerings at other airlines, is arguably the most important of our initiatives and is on track to deliver at least \$100 million this year. Our November product test went smoothly and enabled us to refine our processes and technology before rolling it out network-wide, which we did on January 7. Though the product is still new, early results are encouraging and have tracked ahead of our expectations. We look forward to updating you more fully on Saver's progress in the near future once it's had time to mature and related revenues have ramped near their run-rate level, which we anticipate by Q2.

Second, we have several ancillary revenue initiatives underway. Our recent bag fee increase worth \$50 million annually is also new to market and should reach its run-rate by the second quarter. Other ancillary initiatives, such as the exit road sales and change fees, they remain on track to deliver a further \$50 million this year.

And then third, our ability to capture revenue synergies is accelerating now that key commercial integration projects are behind us. In Q4, we crossed the Boeing and Airbus aircraft on a handful of routes, but that number will increase significantly in the first quarter before reaching its 2019 run-rate in Q2.

Our loyalty program also continues to perform at a very strong level with revenues, which is redemption and credit card, up 17% for the fourth quarter. That's quite remarkable results on a 1.1% capacity increase.

Looking to our first quarter, competitive capacity growth is similar to Q4 at 4.2%. Our own capacity growth will be modest at 1.2%, and we expect it to remain around this level through the second quarter before rising above 3% in the second half of the year. For the full year, we still expect ASMs to increase approximately 2%.

In terms of revenue guidance, we established a Q1 RASM guidance range this afternoon of up 2.5% to 4.5%, continuing the year-over-year gains we saw in the fourth quarter. Though this guidance includes a meaningful tailwind from our ramping synergies and initiatives, it nevertheless shows a modest deceleration versus the fourth quarter for 3 reasons. First, Q1 year-over-year comparison is 200 basis points more difficult than Q4 of '18. 120 basis points of RASM has moved into the second quarter with the holiday shift. And then volatility in filed fares has increased in both the positive and negative direction since late Q4. Since Q1 is our seasonally weakest quarter, we have put a bit less confidence in close-in pricing behind our Q1 forecast than we saw in the fourth quarter. Despite these impacts, we expect our Q1 RASM will outperform the industry by a wide margin as it did in the fourth quarter and as we expect it will do consistently this year as we leverage the significant self-help opportunities of our commercial plan.



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Bottom line, we're entering the year with positive revenue momentum, which is a big change from this time last year. Delivering margin improvement through higher RASM continues to be the commercial team's #1 priority in 2019. And we are confident, we'll achieve it as we exploit new revenue sources that are largely within our control.

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

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

Thanks, Andrew. Hey, everyone. As you've seen, Air Group posted a fourth quarter adjusted net income of \$93 million or \$0.75 per share, bringing our full year adjusted net income to \$554 million or \$4.46 per share.

Return on invested capital was 9.4% or 140 basis points above our cost of capital. At \$8.26 billion, this was Air Group's highest revenue year ever, certainly something to be proud of, but overall, our financial results are not where we want them to be.

We finished 2018 on a very positive note. After several quarters of significant margin declines, our fourth quarter margin of 6.2% was roughly 100 basis points below prior year. And the lower tax rates resulted in net income and earnings per share actually improving year-over-year.

RASM strength nearly offset both higher fuel and nonfuel costs, this despite elevated Q4 CASMex on the lowest capacity growth of the year, combined with a high-level of maintenance activity and a jump in depreciation from the 11 new E175s we took delivery during the final 4 months of the year. It's worth noting that our Q4 cost performance was better than our initial guidance despite us having completed fewer ASMs than planned.

As Brad said, the strong finish resulted in our people earning \$120 million of performance-based pay, or PBP, which translates to more than 6.5% of pay for the vast majority of our employees. PBP pays based on achieving financial, safety, loyalty and guest satisfaction goals. It's also unique in our industry because it aligns every employee, regardless of role or level, around the same set of goals. When combined with our operational rewards program, which pays when we meet monthly goals, we shared more than \$147 million with our people in 2018.

And we're proud of this payout because it's an example of how we're trying to run the business in a balanced way that benefits all of our stakeholders. We're providing good wages and benefits to our people and sharing \$147 million of incentive pay with them for hitting important goals. Our guests are getting low fares and an improving product, and our owners are getting a larger dividend that I'll talk about in a few minutes.

The fourth quarter marks a turning point in our earnings trajectory and underscores the shift in focus we've made from network expansion to business optimization and on generating higher margins. And although we have a lot of work left to do, Q4 was an important step in the right direction. For the full year, unit costs rose about 3% on 5% capacity growth, outperforming our early 2018 guidance of 3.5% CASM increase on a 6.5% growth in capacity. It's worth viewing 2018 unit costs in light of step-function increase in labor cost that we absorbed last year. Agreements we amended added 300 basis points to our unit costs. This headwind aside, CASMex would have been about flat in 2018.

Teams across the company deserve a shout-out for executing some of the most complex integration milestones last year while also delivering the kind of back-to-basics cost performance that has been a competitive advantage for us. As we guided at Investor Day, 2019 nonfuel costs will be up 2% to 2.5% on about 2% ASM growth. This is an exceptionally strong cost plan considering the low ASM growth and the roughly 120 basis points of headwind we expect from a higher mix of regional flying this year.

One important element of our 2019 cost plan is aggressively working to improve terms we have with our business partners and consolidating our purchasing efforts across multiple spend categories. Our supply chain team is leading this effort, and I want to acknowledge our business partners who have already come to the table and stress for them the importance of this campaign to our near-term success. We're looking for long-term partners who can help us reduce cost today in exchange for future opportunities to grow their business with us.

Our guidance does not include the impact of any new labor deals we may complete in 2019. We're in active negotiations with the International Association of Machinists, which represents our fantastic customer service, reservations and ramp service agents as well as other employees and

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support functions, and we remain in discussions with the Aircraft Mechanics Fraternal Association representing our aircraft technicians. We hope to secure ratified deals with these groups; and as we do, we will update our cost guidance accordingly.

Our update this morning provides expected unit cost performance by quarter. Let me touch on the first quarter, where we expect CASMex to increase by about 5%. There's some information on our investor update that should help investors understand it, but in a nutshell, here's a quick summary. First, on the cost side of the equation, there are several timing events that create tough year-over-year quarterly comps in the first quarter of the year. Those are: First, aircraft maintenance is significantly front loaded this year compared to back loaded in 2018; second, the depreciation impact of the 11 E175s that we took in the last 4 months of the year; and third, our Flight Path employee workshops, which ran from last fall and go through late April.

On the capacity side of the equation, it's our lowest growth quarter of the year, and that growth is heavily weighted to higher CASM regional flying. Big picture, our cost will be up in the first half of the year but should be about flat in the second half of the year. Our teams worked hard on the 2019 cost plan, and I have confidence in their ability to deliver on it especially after the great performance in 2018.

Turning to the balance sheet. We ended the quarter with \$1.24 billion in cash. Total cash flow from operations for the year was \$1.3 billion ex merger-related costs, while net CapEx was about \$960 million over the same period, resulting in roughly \$370 million of free cash flow, again ex integration costs.

Operating cash flow, of course, should improve in 2019, although the increase will be tempered somewhat by the higher cash tax rate. Our current expectation is 19%. However, CapEx declines to \$750 million with lower fleet growth, so free cash flow should still increase materially versus 2018.

And we're sharing some of that immediately with our owners. As you've seen, today, we announced the sixth increase to our dividend since we initiated it in 2013. We're raising our dividend by 9% to \$0.35 per share per quarter or \$1.40 per year, representing about \$175 million of cash that will be paid to our owners and increasing our yield to about 2.1%. We're also planning to repurchase about \$50 million of our stock in 2019, essentially offsetting dilution. However, this plan is flexible.

Our #1 capital allocation priority continues to be fortifying our already strong balance sheet. In 2018 alone, we reduced on-balance sheet debt by \$470 million. With leases, our year-end adjusted debt to cap stood at 47%, 6 points better than at the end of 2017 and fully 12 points lower than the end of 2016. We expect to achieve our leverage target of debt to cap in the low to mid-40% range by the end of the 2019.

Here are 4 other data points that underscore our balance sheet strength: First, Fitch recently reaffirmed our investment-grade credit rating; Second, we have 95 unencumbered aircraft valued at about \$1.7 billion; Third, we have \$400 million of undrawn credit facilities; and finally, our defined benefit pension plans, which have all been closed to new entrants since January of 2010, are 84% funded. Our long-term owners tell us they value a conservative balance sheet, and it's been a hallmark of our past success.

Let me close by reiterating a theme you've heard several times today. We're working hard to improve the financial returns this business is generating. We've shared with you our longer term goal of achieving a 13% to 15% margin, and 2019 should be a nice down payment on that. Our top line will benefit from merger synergies, slower growth, maturing markets and new revenue initiatives. Our loyalty is growing. Our onboard product is becoming more consistent. Our class plan is aggressive but achievable. Our fleet is fuel efficient. Fuel prices are reasonable, and our balance sheet is strong. And this team is very optimistic about what 2019 holds.

And with that, let's go to your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question will come from Savi Syth with Raymond James.



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

The first question on the transatlantic. Just trying to understand, with the fleet changes, I realize that it's still pretty early stage with kind of swapping the Boeing and the Airbus aircraft. I'm wondering if what the core underlying trend is in the transatlantic and the markets where you have swapped, if you're kind of seeing the improvement you would have expected.

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

Savi, it's Andrew. Essentially -- yes, I'm -- essentially, as we said in the prepared remarks, we pretty much effected the cross fleet that we wanted to do, especially in the New York area. I think what we see here, traditionally, Q1 is our weakest quarter. And so we're -- actually, what we've done is we've added capacity in a trough period on the transcon. So we really expect to see the real benefit from this really start to kick in, in March and going forward. So we feel really good about these changes, and they are a key part, of course, our revenue synergies for 2019.

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

And on the capacity front, I know it's still early on in the year, but I noticed that kind of 2020 was kind of updated from like 4% to 3% to 4%. Just wondering how you're thinking about capacity and what the flexibility is, especially with kind of fuel pulling back but I know a lot of uncertainty here on the macro front. Just high-level thoughts on growth here.

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

Yes. Again, this is Andrew. I think one of the things, that we feel good about the capacity increase for this year. As you know, we give a range. I think one of the things that for 2020 is also looking at what happens to the environment, how's that going to continue on, where are we at with our revenue generation. And of course, we have also -- with multiple fleets, we have pilots that are going through training. So pilots will be another key area that we need to look at with the -- will have a marginal effect on our growth getting people through the training houses we continue to grow.

Operator

The next question will come from Michael Linenberg with Deutsche Bank.

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

I guess, 2 questions here. Andrew, you called out the weakness in Hawaii. I think you said that was like 125 basis points of RASM headwind in the fourth quarter. How is that trending into the March quarter? Is it similarly under pressure? Or is it -- are we seeing some improvement?

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

Yes, I think for modeling, you might want to just carry that forward into the first quarter. Capacity is less elevated in the first quarter but also, given, especially geography-wise the first quarter, especially for California, is a weaker time. So I would just carry forward the same weakness that you saw that we advised in the fourth into the first and then, interesting as we get into the stronger months. And capacity growth has started to slow, and we'll see where we go from there.



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

Okay, great. And then just one other question. I think at -- or not even I think. At your Investor Day, you kind of hinted at or maybe even said that it seems like, at the end of the day, that joining oneworld would make a lot of sense for Alaska. And yet, when I look at just the partnerships that you announced over the last quarter or 2 with Japan Airlines, Aer Lingus, Finnair, Fiji, many of those companies are either in oneworld or associated with oneworld. At some point, does it -- would it be better off for you just to have lots of bilateral relationships with oneworld carriers and not go through all of the maybe complications and pain of joining the alliance maybe like what Aer Lingus is doing, where they're taking that approach, where they're going into the JV, but for now, they're keeping oneworld on the side? I mean, what's better for you from kind of Alaska's perspective?

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

Mike, I'm going to put you on my alliance team because I'm very impressed with your detailed knowledge of our alliance business. That was impressive. I think, yes, what we've mentioned was really talking about oneworld connect. We're not considering a full membership. So connect is a much lighter version, and you still need your bilaterals. So -- I mean, but your point's a very fair one. I think if you look at our portfolio, the majority of our partners are oneworld partners, where we have good bilateral agreements with them, and we also have some independents. So I think as we look at this, again, we're very much just in the research phase, but we're just looking to see if there is any benefit with all our partners, including American. But if there's not, we think we've got a good strategy as it stands today.

Operator

The next question will come from Andrew Didora with Bank of America.

Andrew George Didora - *BofA Merrill Lynch, Research Division - Director*

First question maybe a little bit of a bigger picture question maybe for Andrew. But how have you seen maybe your booking curve change since integrating Virgin America? Have you seen it move out further? That gives you a little bit more visibility? Or is it just more closer and -- given the corporate focus there? And I guess as a follow-up to that, how have you had to adjust some of your revenue management practices because of that change in booking curve?

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

I might start it off, and I know Shane oversaw that for a long time. But I will say that a lot of the changes we made to any of the booking curves, we made earlier on. Virgin America used to take a lot of bookings more closer in. Our traditional comfort level was to take them further out, and so we adjusted our booking practices there. But certainly, we fly a lot more transcon markets now that are very, very competitive. And so the JFK-LA is a classic example. So we've had to adjust how we look at that and how we book that. But I don't know, Shane, if you've got any other commentary to add.

Shane Tackett - *Alaska Airlines, Inc. - EVP of Planning and Strategy*

Thanks, Andrew. I would just add -- I mean, Andrew nailed it spot on. The real trade-off is if you hold out for yield or not and then you sort of hope that it comes. And when it doesn't, you feel bad about your strategy; and when it does, you feel great. And we traditionally like to manage that just further out the booking curve. So we have seen the California booking curve get a little bit longer. But the downside of all of these changes is whenever you change your approach, you usually get a little bit wrong out of the gate, which gives you an opportunity to optimize. So I think part of what you're seeing now too is just us getting smarter and smarter about this market and managing it better.



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Andrew George Didora - *BofA Merrill Lynch, Research Division - Director*

And then my second question, probably for Brad. You had mentioned Horizon in your prepared remarks, and that's clearly an entity that continues to drive your growth into 2019 but then kind of eases as you get later in the year. I think it's about a year or so ago you made some of the management changes at Horizon. Can you maybe talk to how those changes have performed versus your expectations and what initiatives you have for Horizon as you look through -- look into 2019?

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

Thanks, Andrew. Thanks very much for asking that question. A little bit of history, we -- despite the fact that Horizon has been part of Air Group for 37 years now, we -- there actually has not been nearly enough sort of management back and forth between the 2 companies over most of those years. And so you end up with cultures that were more different than we were comfortable with. We did get ourselves into a mess operationally 1.5 years ago. And Gary Beck, who's sitting in the room right now, came back after a super successful tenure as Alaska's Vice President of flight operations to become CEO of Horizon. And he took Constance von Muehlen with him, took John Hornbrook, Brooke Vatheuer and [Colonel Sandejas], a terrific team of leaders, and I think the turnaround at Horizon has been stunning. They are totally fine with -- and it's not that the industry doesn't have something -- has to work on in Alaska. Pilot attraction's something we all need to think about. But I was actually down in the schoolhouse a week ago or I guess it was a week ago today and was super impressed by what I saw. And I just want to say this leadership team's done an incredible job. They've also -- a lot's going on with their fleet. Gary, you're up to 26 E175s, so in a short period of time, you've gone from being an all Q400 operator to pretty soon you'll be 30, 30, 30 E175s and 30 Q400s. So thanks for the easy question, Andrew, and it's a chance to heap a little praise on a group of people that have done just a fantastic job.

Operator

The next question will come from Duane Pfennigwerth with Evercore.

Duane Thomas Pfennigwerth - *Evercore ISI Institutional Equities, Research Division - Senior MD*

Just with respect to your commentary about more conservatism with respect to close-in. Are the off-peak periods behaving differently into the first quarter than they did in the fourth quarter sort of ex shutdown impact if there's a way to isolate that? Or is it just sort of conservatism given the fact that the March quarter is highly dependent upon March?

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

Yes. I think, really, the off-peak periods where there's really not a lot of demand and you see this across the industry. Just the fares go down to the lowest levels. And really, January and February, apart from -- after the first week of January and then Martin Luther King Day and a few others, January and February are really quite weak. So really -- and this has just been history for us. But I'd shared previously with the acquisition of Virgin America, our first quarter got heavier again as far as our weakest period. And so we continue to work on that. As far as government shutdown goes per se, we have not seen any material impact at all to-date as it relates to fares and travel, although, down the road, and if Ben wants to comment that if the -- this continues that there will be some real challenges operationally.

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

No, Andrew, it's exactly that. Everyone across the country sees challenges along the TSA front and we're just hopeful this thing gets solved soon and things get back on track.

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Duane Thomas Pfennigwerth - *Evercore ISI Institutional Equities, Research Division - Senior MD*

But just to clarify, you had some off peak in the fourth quarter as well. Were you not seeing that in the fourth quarter?

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

So what happened -- and I think this is general we have seen, but there was good fare momentum in the fourth quarter. And then we sort of got in coming up to Christmas where the fares all collapse and came down. Business came down as the industry tried to fill seats coming up to Christmas in the softer period. The business fares have sort of come back. The leisure fares took a little longer to come back. So again, even as we look at fare filings and the industries putting 4% more capacity in general in the first quarter, I think it's still finding its way. And so I think what I'm really trying to say is there was a little more confidence in the fourth quarter just with the stability, as we moved into the first quarter and saw what happened over the Christmas holiday season and the fare filing activity in the first couple of weeks of January, which has been a little bit more cautious about where this going to settle out.

Duane Thomas Pfennigwerth - *Evercore ISI Institutional Equities, Research Division - Senior MD*

Fair enough. And then just can you give us an update on your thinking and analysis with respect to potentially moving to a single-fleet type down the road?

Mark G. Eliassen - *Alaska Air Group, Inc. - VP of Finance and Treasurer*

This is Mark Eliassen. As you know, we've got 37 mainline planes on order. So we're looking at the fleets. We've said for a long time that the question is whether we return to all Boeing or we continue with a mix of 321neos and a Boeing fleet. But we don't have to make that decision right away. We're growing at 8 airplanes a year. You can see that we're 37, we've got some time to do it. So we're learning a lot about Airbus as we operate that airplane. We're learning a lot about the 321neo and the way Airbus supports its customers and its launch customers. So as we evaluate the plane, we'll be able to make a good decision, and we're looking forward to that decision.

Operator

The next question will come from Helane Becker with Cowen.

Helane R. Becker - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

So Andrew, this time around, you didn't talk too much about your frequent flyer program and your credit card acquisitions in the fourth quarter, and I was just wondering if there -- you could just give us a little update on that or if it's gotten to the point where acquisitions slowed.

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

No. Thanks, Helen. It's -- that's a very fair question. I mean, the reality is that the trend that I've been sharing all year has continued. I think I'm just feeling a little bit like continuing to be very -- highly transparent about that program is probably -- doesn't serve us well in the long run. I think initially we did that just as -- a lot of the concerns over the brand and the Virgin America and the integration. We wanted to just make sure people felt really solid about our program and embedded, has continued to perform. And as I made in my prepared remarks, the fourth quarter revenues for Mileage Plan, which includes credit card and redemptions, was about 13%. And so it was very, very quite significant.

Operator

The next question will come from Jamie Baker with JPMorgan.



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

I love competing with Michael Linenberg, so I'll be submitting my resume to the alliance team as well. Just turning to the Q1 RASM guide, it's obviously helped by the high level of regional flying, you've cited the Easter shift, which also bodes well for the second quarter. But ordinarily as that regional contribution wanes in the second half, you'd expect RASM trends would moderate somewhat as well. I mean, that's just kind of the math. I'm not asking you to necessarily endorse that. I am trying to understand though whether you believe that your revenue initiatives could offset that phenomenon, which, in turn, would suggest that quarter-to-quarter RASM trends would be reasonably consistent with one another throughout the year. Any thoughts on that?

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

Thanks. That -- you can go to the RM department with that question. But -- so a couple of things, the -- on the regional side, a lot of the new markets that we've been growing and these maturing markets were all in the regional side of the house. And also, with all these new regional aircraft, they're actually adding -- I think our First Class ASMs are actually up 8% -- excuse me, our revenues are up 8% for the First Class cabin, 6% growth. So the regional fleet, although -- it does have higher unit revenues but was also bringing a lot of Premium Class cabin as well, which we want to continue to sell. I think -- so I still see upside as we continue to mature the markets that the regional network is flying, and we bring more and more First Class product into the market and Premium Class. And then to your other point though, first quarter, if you look at our revenue initiatives, whether it was the first bag fee, which came out December 7, Saver Fare came out January 7, the cross fleet, which I referred to earlier, we're on a very steep ramp-up during the first quarter. So we still have a lot of confidence in the revenue initiatives, but it's really the second quarter and beyond that they will really take full hold. Then, you'll really start to see them come through our unit revenue guidance.

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

And second, just on the choppiness in regards to close-in pricing and this follows somewhat on Duane's question. But did you afford, maybe I missed it, any geographic commentary around those comments? Is it broad based? Was it SoCal? Transcon? I mean, the comments did catch me a little bit by surprise, so maybe just a little bit of additional geographic color if any.

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

Yes. I think in -- just depending on the markets, but in general, I think we saw that across the system as it related to -- and it's in varying degrees depending on the market. But I think if you go take a look, the industry has been very active in fares. And you just look back in even December through to January, there's been a lot of fare adjustments coming up and down. And again, just given our network and where we compete, we're just being a little bit cautious with that because it'll -- forward pulls but nothing specific geographic that would drive any specific comment there.

Operator

The next question is from Rajeev Lalwani with Morgan Stanley.

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

Andrew, actually, just picking up on some of the last couple of questions as far as the volatility in close-in fares. What do you attribute it to? I mean, you've been doing it for a while. Does it maybe indicate that there's a problem with demand coming or there is competitive issues? Just some thoughts given your history.



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

Yes, Rajeev, I just think that really -- again, I'm only speaking from our corner of the world, and you've seen everyone's guidance as we go into the first quarter. I just think there's -- there was a pretty decent shift between -- as we went up to the Christmas period and then people getting ready for the first quarter and especially, January and February, and we just saw a lot of fare activity. Fuel has also been moving around a lot, so we're just being very active. I'm not saying it's actually good or bad. It's just a little volatile. So as we look ahead, we expect things to calm down, especially as we start to move into the back end of the first quarter and moving to a more solid period in the second.

Rajeev Lalwani - Morgan Stanley, Research Division - Executive Director

Okay. And then on lower fuel, I think the last time around, we saw a big move down. Alaska pushed capacity growth, I think, a decent amount. Why isn't that in the cards for this year? And then relating to that -- this might be for Brandon. I mean, should you keep a lot of the benefit around fuel? Does that mean you can maybe start a buyback program before the end of the year?

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

So Rajeev, you're asking with lower fuel, why aren't we growing more, just to make sure I understand your question?

Rajeev Lalwani - Morgan Stanley, Research Division - Executive Director

Yes, yes. And you've done that historically, right? That was a couple of years ago.

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

Yes. I think what -- And just to be very -- maybe just to take a step back and get everybody on -- up to speed with how we're thinking about things, we are a higher growth airline. That's been our history. We bought Virgin America. We added a huge amount of capacity following that to sort of activate those markets. And the language I would use is we've throttled back here to -- and now to enable the markets an opportunity to catch up a little bit. And also, it's -- there's a lot going on internally here as we get pilots moving around training, getting the right pilots trained on the right aircraft. There's aircraft going through interior mods that sort of affect pilot supply by aircraft type as well. So I just think the way to think of it now is 2% this year. We're just sort of settling in a little bit. I think this is the wrong call to ask us really about growth in 2020 and beyond. We're not locked in on 3% to 4%. What we're saying is this is the right amount of growth for us right now as we look at our business. As we get into the summer months, if we think -- and you know this is how we think. If we can -- if we believe we can create incremental values, value for the owners of this business by growing, we will grow as we've done over the years. And I -- personally, I'm optimistic -- I do -- we all believe in our competitive advantage. I believe in our route network, all of that. I think we're going to find those conditions. But when we find them, whether it's summer -- I don't think we really want to be put in that box right now but that's how we're looking at the world. Brandon, I think there was a related question on, if we didn't grow, would we buy back more stock, and I'll let you answer that.

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

I think the question Rajeev is, if I heard it correctly, was if cash flows turn out to be stronger, then maybe we're expecting because of the lower fuel prices, would we start doing more repurchase with that excess cash flow. And the answer is maybe. In the prepared remarks, we said we were going to repurchase \$50 million of stock this year, but we also said this plan is flexible. And people should know this plan is flexible. We're really focused on the fortress balance sheet that we had and getting back to it. We're damn close. But if we want to do more share buyback with excess cash flow, we certainly have the ability.



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Operator

The next question is from Catherine O'Brien with Goldman Sachs.

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

So I'm not sure I'm prepared to throw my hat in the ring with Mike and Jamie there, but I also have a question on Global Partners. So at the Investor Day, and correct me from wrong, but I believe you mentioned that you consider selling partner airline tickets without an Alaska connection in the future. Do you have any update here? I think you said it could be as early as this year.

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

Catie, nice to hear from you. Thanks for your question. So we are continuing that route. And in fact, we are actually testing that as we speak. In fact, if you were to maybe look up San Francisco to Sydney on Qantas on alaskaair.com, you would actually find a flight. We're not heavily marketing that right now as there's limitations to it. You can't buy First Class or Premium Class yet and a few other things. But we are well into our trials with our partners and talking to many of our partners about starting to sell their metal on alaskaair.com.

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

Really interesting. And then I would assume -- would that be above the \$330 million in initiatives you've got going for this year?

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

Well, that's an interesting question. Here's what I will say is that we have loyalty, and we have initiatives around loyalty. And of course, selling internationally is going to be part of that portfolio. In fact, our code share on interline traffic actually increased 9% in the first quarter. And so our network working with our partners has actually been a real asset for us, so...

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

But the real strategy there Catie is to grow our loyalty program and sort of grow -- be able to be a one-stop shop a full-service provider. I don't think that selling Qantas is going to be -- bring huge incremental revenue to Alaska, but being a one-stop shop for our customers does have big value to us as a business.

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

And I'd like to just maybe ask one quick follow-up. What inning would you say we're in just in terms of network refinement, cross fleetings, all of the initiatives like you kind of had to get under your belt after the reservation system cutover last fall -- excuse me, last spring?

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

Hey, Catie, it's Ben Minicucci. Great question. I think, as you heard from the tone of the call, we're feeling pretty darn optimistic coming out of Q4. We're 2 years into this integration. What's up this year? It's still not all complete, but we've got -- we're going downhill. That's the way I would describe it. So whether it's a seventh inning, eighth inning, we're going downhill. We got some major systems still to integrate. Like our dispatch system, pilot crew scheduling, maintenance systems are big ones. And from a customer standpoint, it's just converting all these Airbus to the Alaska interior and getting that complete. So by the end of the year, we're done, but we're just -- we feel like we've got the wind at our back, and we're going downhill. We're feeling pretty good.



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Operator

The next question is from Hunter Keay with Wolfe Research.

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

This is -- this Love Field situation is becoming kind of a mess between Southwest and Delta, and you guys are kind of caught in the middle of it. So a couple questions around this. Does the settlement from the Virgin merger contain any contingency language that allows you to leave that place if operating conditions change there, that if this legal case takes a weird turn like some sort of MAC clause? And then how core is that airport to you guys in the long run in the event that happens?

Kyle B. Levine - Alaska Air Group, Inc. - Chief Ethics & Compliance Officer, VP - Legal, General Counsel and Corporate Secretary

Hunter, this is Kyle. I'll take the first one and turn it back to Andrew. Our consent decree with the Justice department does allow us to move on from those gates if -- whatever our wish to do so. The circumstances around that just generally are a court could order us to have that outcome or we could go propose a solution to Justice and they would have a right of refusal over it. But as far as the Dallas Love Field litigation goes, that's not our wish at all. We view those as important property that we purchased from Virgin America. We want to take a good shot at it. And even though we're cooperating with the judges -- with the judge and the other parties, we're standing firm.

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

Okay, that's good enough. And then, Brandon or Matt, how many employees of yours listen to these earnings calls? And how has that changed over the last 12 months if you sort of adjust for growth in headcount?

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

Hunter, I would say most. Do we have that data?

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

Yes, I don't know if we have numbers. But Hunter, I think it's been -- when I talk to our folks, I think there's just pockets of people who are really interested. They actually own a lot of shares in Alaska. We got a great ESOP program that they participate in. I know our union leaders, to be honest, when we talk to them, they're also listening on the call, so -- and then, to be honest, right after we do this, we rush over to the airport here in about an hour and we do an entire webcast. We've kind of summarize what we talked about with all our employees. And then we have, what, 2,000, 3,000 people, so 3,000 people listening in. So that's kind of how we think about it.

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

How about share ownership to -- while we're talking about this sort of thing. Do we -- I saw something recently. Do we -- do you guys know that figure? It is pretty high, percentage of our employees that own shares in the company. I -- personally, Hunter, I'm not positive how many listen to the analyst call. It -- there are some that do. But then this webcast, they would be a lot more connected to and...

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

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

Yes, I'm just wondering if -- the nature of the question was I'm kind of wondering if, during the struggles with the stock and the margins, if you just had a lot more employees dialing in to these calls over the last 12, 18 months or so and whether that's an indicator of sort of morale or confidence or anything like that. But...

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

No, Hunter, but I'll tell you, we talk about it openly. We have these Flight Path workshops that Brad talked about. And when we talk about running a balanced business about taking care of employees and customers and shareholders and communities, when we get to the shareholders, we say, look, we've been under pressure, honestly, in the last 12 months, and our job is to get the stock price to a place where we can provide good returns for our owners. So we are totally transparent with our employees about that, and they understand.

Operator

The next question will come from Dan McKenzie with Buckingham Research.

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

Just one housecleaning question on the Saver Fares. Where are you guys at with respect to that average upsell differential today?

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

So we've not really spoken about that. I think we're only like 2.5 weeks into it. But as we said on our prepared remarks, we're very pleased with how it's tracking. And the \$100 million that we shared with you, we're very, very confident that, that will be met this year. And on the next quarter call, we'll give more of an out brief on that.

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

I see, okay. And then, of course, at the risk of kicking the dead horse here, just kind of going back to the choppy fares on off-peak demand kind of spread across the network, should we be thinking that there -- that potentially is the link between lower fuel and lower revenue potentially leading to some of that choppiness? Or is it just overcapacity? I guess I'm trying just to get a little bit more clarity. And I guess, just related to this, how much of the benefit from lower fuel do think Alaska can capture this year? Is it 100% of the benefit, 75% or something potentially a lot less than that as we kind of think about rolling through the year here?

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

So just on the first one, again, I want to make sure I don't overplay this choppiness. I think, really, what I've been saying is that just given the switch from the fourth quarter and then into the first quarter and the capacity increases that we're seeing industry-wide, I think there's just been active fair management with the fuel moving around. But I think, at the end of the day, we're still seeing strong demand. Our business demand is very, very strong as well. So that's sort of just where we are on that. I don't know, Brandon or Shane want to add to the fuel question.

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

Yes, go ahead, Shane.



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Shane Tackett - Alaska Airlines, Inc. - EVP of Planning and Strategy

I think it's anybody's guess at this point, and it really probably comes down to what happens with fares as you move through the quarter into March and beyond.

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

I see. Okay. And then I just had one more follow-up here, and let's just revert to an earlier question I think maybe from Catie here. But in the past, you guys have talked about connecting -- revenue from connecting widebodies coming into San Francisco from the partners, I guess passengers connecting at San Francisco from partners, going onto your metal. I'm just wondering if you can elaborate a little bit more on that? What are you seeing? Is it material at this point? And is that something that can get turned on more fully as we kind of move through the year here?

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

Yes, as Brad shared earlier, the real benefit to Alaska and our loyalty program is not so much the incremental passenger getting off a widebody. It's really more our loyalty members getting access to long-haul flights. They stay in our program. They accrue miles on us. They pay tickets on our partners. That helps our partners. So it's a really good, strong ecosystem that allows our global partners good feed into the United States, and it allows us good access for our members globally and to earn miles. Sort of that's how we look at the world.

Operator

The next question will come from Joseph DeNardi with Stifel.

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

Andrew, I was going to say thank you for all the additional detail you provided in your prepared remarks, but then you said you didn't want to be transparent anymore on the loyalty program. So I'm not going to say thank you. But just on the guidance for 1Q, 4Q initially was 1.5% to 3.5%. You ended up at 5%. I mean, how much of that was close-in coming in better than expected? Just trying to get a sense for whether the first quarter RASM guidance was constructed similarly to fourth quarter.

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

Well, I think a couple of high level and someone else can jump in. We actually haven't been forecasting unit revenues. We used to be likely to give you load factors and booking trends and stuff like that. So really, I think it's just in 2018, we've really been forecasting unit revenues for The Street. And with the amount of change in our business and we just -- we went from a 3 range at 1 point to a 2 point range. So I think on the fourth quarter, we -- there was some strength that came in for sure, but additionally, with all the moving parts in our business, we probably undershot our forecast. But I think as we get more and more of this under our belt, we get more and more confidence about how we're forecasting the quarters going forward.

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

Okay. And then, Brandon, in the Investor Day deck, you had a capital deployment waterfall for 2019, which showed about \$130 million left over for buybacks or more debt reduction. You mentioned the \$50 million assumption on the buyback for 2019. So does that imply that there is \$50 million left over after all the other uses, CapEx, debt, dividend? I mean, what were you -- is that a comment on cash flow for the year? Can we plug the \$50 million into what's left over in your waterfall chart and back into your cash flow guidance for the year?

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

Yes. You can kind of back into your cash -- the cash flow guidance of the year that way because, as we just -- as we were constructing that chart, we were thinking about our likely capital allocation. We tried to give you more clarity on the call today. I think if you just take consensus numbers, for example, and you say that produces roughly \$1.5 billion, \$1.55 billion of operating cash flow, you got CapEx of \$750 million, debt repayments of roughly \$300 million, dividend \$175 million, repo \$50 million as we've stated, it probably -- and then you've got some integration funding left to do, it probably leaves around \$150 million of additional capital that we haven't yet decided what to do with. Specifically, we could use that for share buybacks or we could take debt to cap down probably another 2 points.

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

Okay. So it's not to imply that your outlook for 2019 cash flow is less than consensus because you're going to have less leftover than what you had in that chart?

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

No, that -- no, we weren't trying to imply anything like that.

Operator

The final question will come from Brandon Oglenski with Barclays.

Unidentified Analyst

This is actually Matt on for Brandon. Just a quick one from me. You talked about in the commentary and a couple of times through Q&A about corporate business fares being strong. Is there something that -- from the initiatives at the Investor Day or just general strength in kind of business fares you should think about any of the initiatives that are coming through from Alaska on this regard?

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

Matt, thanks for the question. I mean, specifically to the initiatives in the \$330 million, there's not really anything materially baked into that. I think you're going to hear just a tad more from me on a quarterly basis about business given our new expanded network. We have a Vice President of Corporate Sales, and we're actually doing a lot of cool stuff and -- with our new network and just starting to build more muscle there. So I think part of what you'll hear from us is, actually, we have better insight now on corporate traveling business, which is a good measure of the economy. So I think you're just going to hear a little more talk from us about that. It doesn't necessarily mean we have some massive initiative that you should be counting on for the \$330 million.

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

Thanks, Brandon, and I want to thank everybody for tuning in for this quarter's call. And As we break, I want to want to also thank Mark Eliassen for a terrific career with Alaska Air Group. This is Mark's last analyst conference call. Mark, you retire next Thursday or something like that. I want to thank you for a fantastic 10 years with this company, 38 conference calls and lots of airplane deals and airplane financing deals. Thanks very much.



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Mark G. Eliassen - Alaska Air Group, Inc. - VP of Finance and Treasurer

Thank you, Brad. Thank you.

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

Talk to you all next quarter. Thanks.

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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