Operator: Good morning. My name is Charlie, and I will be your conference operator today. At this time, I would like to welcome everyone to the Alaska Air Group's 2022 First Quarter Earnings Release Conference Call. Today's call is being recorded and will be accessible for future playback at alaskaair.com. [Operator Instructions] I would now like to turn the call over to Alaska Air Group's Vice President of Finance, Emily Halverson.

Emily Halverson: Thank you, operator, and good morning. Thank you for joining us for our First Quarter 2022 Earnings Call. This morning, we issued our earnings release, which is available at investor.alaskaair.com. On today's call, you'll hear updates from Ben, Andrew and Shane. Several others of our management team are also on the line to answer your questions during the Q&A portion of the call. This morning, Air Group reported a first quarter GAAP net loss of $143 million. Excluding special items and mark-to-market fuel hedge adjustments, Air Group reported an adjusted net loss of $167 million. As a reminder, our comments today will include forward-looking statements about 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. We will also refer to certain non-GAAP measures, such as adjusted earnings and unit costs, excluding fuel. And as usual, we've provided a reconciliation between the most directly comparable GAAP and non-GAAP measures in today's earnings release. Over to you, Ben.

Ben Minicucci: Thanks, Emily, and good morning, everyone. Despite a slow start to the year in January and February, March results were very strong. In March, we recorded Air Group's highest ever cash sales, 13% above our prior best month. And for the first time since the pandemic began, March revenues exceeded their 2019 comp. This was driven by strength in both leisure and business demand with leisure currently more than 100% recovered, and business demand now at 70% of 2019. As demand strength has carried into the second quarter and throughout the summer, we issued guidance today indicating that we expect to deliver double-digit percentage increases in both unit revenues and yields versus 2019. And the second quarter guidance reflects line of sight to double-digit pretax margin for the quarter. Given we expect to deliver profits in Q2 and for the remainder of the year, we are reiterating our full year pretax margin guidance of 6% to 9% for 2022, even with the higher fuel prices we are experiencing today. To provide more context about our expectations, I want to speak to you today about 3 topics: what Air Group is doing well, where we are experiencing challenges, and why our team is optimistic about our future. I'll start with what we're doing well. While scaling capacity back rapidly has proved challenging, I'm proud of all the work being done at the company today. Our people have persevered through a lot these past 2 years. Every day, I ask our people to focus on what we can control, and where we need to do better. But I also want to say thank you to every one of our employees, from leaders to our front line. It is because of their hard work that Alaska was recognized as the 2022 Airline of the Year by Air Transport World. It's an incredible affirmation of the hard work and results this team has produced in a very challenging environment. We are also progressing on many aspects of our long-term strategy extremely well, including our oneworld and West Coast International Alliance partnerships that continue to strengthen and provide more value to our guests and to our results. Our new long-term materially enhanced co-brand agreement with our partner, Bank of America, being recognized as one of the 100 Most Influential Companies by Time Magazine for our climate efforts underscored by our commitment to net-zero by 2040. Returning our balance sheet to within our target leverage range and continuing to post financial results that we believe will lead the industry this year. And as we discussed extensively at Investor Day in late March, positioning Alaska to outperform the industry over the next several years given our cost profile and tangible commercial road map to grow revenue by $400 million. Moving on to where we are experiencing challenges. We have faced more operational disruptions than is acceptable as we scale our business back with the primary issue being staffing levels. We have been successful attracting new people to Alaska. We have hired 2,600 employees to date in 2022 with many of our work groups progressing as we expected against staffing plans. However, throughput in our pilot training department fell short of our plan at the end of the quarter, and our teams are now working to accelerate throughput and to get us back on track for the year. For this reason, coupled with our commitment to accelerate the exit of the Airbus 320 fleet, plus persistent high oil prices, we have reduced our planned capacity growth by a modest amount in the short term, and now expect full year capacity to be flat to down 3% versus 2019. Alaska at its core is a company that is rooted in operational excellence and the productive and efficient use of our resources. Returning to our historic levels of excellence in these areas is the primary focus of our teams going forward. Despite these challenges, I have full confidence that we have a phenomenal future ahead of us because of our people, our culture and our business model. The key elements are now in place to build a solid foundation to profitable growth. We have deepened our expansive network and global connections from the West Coast. We've reshaped our network over the past few years, seizing profitable flying opportunities as the pandemic shifted the competitive landscape. We are deepening the spokes of our network with efficient, low-risk growth primarily in existing markets. And we continue to build our global presence via oneworld benefiting from international recovery as our global partners launch new nonstop flights and restart service. We have accelerated our move to single fleet to drive cost savings and operational efficiency. This week, we welcomed our 20th MAX aircraft into the fleet. Last month, we announced plans to retire our Q400 aircraft and move our regional operation to a single fleet of modern E175 regional jets. The economics are clear and compelling and executing the strategy as quickly as possible is a top priority. We're leveraging our compelling product, brand and powerful loyalty program to strengthen our performance. Our renewed credit card agreement with Bank of America expands the value of our program and speaks to the incredible partnership we have and the potential to grow the program further. Finally, we're delivering on our resilient business model supported by our competitive advantages, including a low-cost, high productivity mindset, operational excellence and a remarkable

service and culture of care. We have a track record of delivering industry-leading pretax margins. On top of this, we have restored our balance sheet to pre-pandemic strength, and continue to focus on our commitment to sustainability. Together, our business model and the initiatives we have undertaken will enhance our ability to produce superior results even in volatile times. As we navigate the remainder of the year, I've asked my team to prioritize 3 critical work streams. First, to pursue our transition to a single mainline fleet by no later than early 2023. We know and understand the benefits this brings for our company and the faster we get there, the better. Second, to deliver on the $400 million in commercial initiatives we outlined at Investor Day. And third, to return Air Group to operational excellence for our people and guests. Air Group has done well over 90 years because we are committed to learning from and adapting to our ever-changing environment. It is no small feat that we grew our airline 32% over the same period in 2021, and we have the ability to deliver future growth plans with our commitment to excellence. We will adjust our plans where needed to ensure safety, quality and our long-term success, while also meeting our financial commitments in the near term, including our 6% to 9% pretax margin this year. I'm very excited for the bright future we have ahead of us. And with that, I'll turn it over to Andrew.
Andrew Harrison: Thanks, Ben, and good morning, everyone. Today, I'll provide a recap of our Q1 results and trends with a specific focus on March, which is indicative of what we see going forward. I'll also touch on our Q2 guidance along with longer-term commercial drivers. Total first quarter revenues came in at $1.7 billion. That's nearly $1 billion more than the first quarter of last year and down just 10% versus the same period in 2019 on 11% less capacity. This marks continued sequential improvement in our revenues, up 5 points from the fourth quarter of last year. That said, the most exciting aspect of Q1 was just how remarkable the return in demand has been from February. We went from bookings down 40% versus 2019 in early January to above 2019 levels by the end of February. We have now settled into booking levels in line with our capacity, but at very strong yields. Our load factors followed this booking trend and continue to strengthen as case counts declined and people returned to travel. January's load factor was 69%, February improved to 75% and March came in at over 85%. That's 1 point stronger than 2019. This positive progression contributed to our March revenues exceeding 2019 levels by 1.5%, even though capacity was down 8% versus 2019. Let me give you 3 main contributors to these results. First, the return in corporate demand. We've continued to see strength in leisure demand, but overall demand has also been buoyed by the return of business travel. Corporate travel has been improving at a rate of 2 to 3 points for some time now. And today, we are down just 30% in corporate bookings when compared to 2019. Strong yields. In the first quarter, yield was up 3.5% versus 2019, but March was up 9%. We expect to continue to see yields improve through Q2 as spring break travel hits in full, strong summer bookings maintain their trajectory, and corporate travel continues to recover. And our premium product outperformance. Q1 was another strong premium product quarter, but March was exceptional. First-class revenues were up 19%, with paid load up 15 points versus 2019. And for the first time ever, our regional fleet fluids paid first-class load factor on par with mainline with a 22-point improvement from 2019. Additionally, premium class revenues across our network were up 8.6% with paid load up 9.7 points. Moving to Q2 guidance. With the continuation of strong bookings, I'm confident in our Q2 capacity setup and planned return to growth in the back half of the year. In Q2, we expect total revenues to be up 5% to 8% on capacity that will be down 6% to 9% versus 2019, resulting, as Ben said, in double-digit yields, double-digit unit revenues and double-digit pretax margins for the quarter. While I've shared our near-term outlook and what sets us up to produce solid financial results this year, more importantly, Air Group is configured to grow profitably over the longer term, driven by revenue initiatives. As outlined at Investor Day, we have identified $400 million in incremental revenue that will build through 2025, driven by 3 categories: product and loyalty, fleet and network. First, product and loyalty. This represents $195 million, driven primarily by our renewed credit card deal with Bank of America. Our loyalty program continues to be a very strong performer with cash remuneration from the bank up 34% versus first quarter of 2019. This new agreement offers a powerful source of continued cash flow growth, and I expect it will remain a resilient revenue source as we continue to grow the airline. Second, fleet accounts for about $70 million of the $400 million, representing the revenue opportunity from up-gauging and incremental premium mix. Demand for premium products has outperformed throughout the recovery. And with our longer average stage length than all of our major competitors, our increasing premium mix will be well suited for our network as well as our financial performance. And then finally, network and alliances. That will drive about $135 million in incremental revenue. Our growth will be highly efficient over the next few years, 90%, which will be driven by frequency, gauge and stage length in existing markets. With the Pacific Northwest restored to 2019 levels of flying and California to be restored by year's end, we have the full breadth of our network back in play. Now we can prioritize building depth across our network with 70% of growth in the Pacific Northwest and 30% in California. We are focused on lower risk growth, competing where we can win and adding value to our network. Building on our own network, our alliance partnerships exponentially expand our reach and enable seamless global travel for our guests, which in turn only further strengthens the value proposition of our loyalty program. As business and international travel return, we are set to leverage our West Coast hubs as gateways to the rest of the world. This global access for our guests only continues to grow as partners add new and returning service off the West Coast, such as Seattle-Helsinki, Portland-London and San Francisco-Madrid. As Seattle continues to grow as a destination and gateway, we're excited to begin the first phase of our terminal transformation this spring. The renovations will modernize the guest experience and double capacity throughput, making it a more smooth and seamless experience. What I hope you take away and what I am most excited about for the future is that the foundation for profitable growth is in place for Alaska, and we are well positioned to capitalize on the return of travel demand. And with that, I'll pass it to Shane.

Shane Tackett: Thanks, Andrew, and good morning, everyone. While losses are not ever the goal, the $167 million adjusted net loss for the quarter was a reasonable result given the Omicron backdrop we operated in. We are, of course, encouraged by our financial performance in the month of March where we turn to profit and by the strength of demand we are seeing this spring and summer. As you heard from both Ben and Andrew, we expect Q2 to perform at double-digit pretax margins and have reiterated our full year margin range of 6% to 9% even with higher oil prices. So while we will be focused on restoring operational excellence and ensuring our teams have the resources they need to do so, I remain excited about our position in the industry and about the initiatives we are executing on to set ourselves up for strong performance over the long term. Let me start with the near-term focus we are placing on ensuring we have the required staffing to run a more reliable operation. Our teams have done a solid job delivering absolute costs in line with our plans and targets, and our people have been resilient and consistently delivered care to our guests. However, we have been challenged in stepping up capacity as quickly as we would like to. As Ben mentioned, we've reduced our full year capacity by approximately 3.5 points at the midpoint to flat to down 3% versus 2019. This is primarily driven by staffing that is short of our plan, and simply put, we are going to fix that problem before we kick growth into a higher gear. Our CASMex guidance directly reflects this capacity change, and we now expect full year CASMex to be up 6% to 8%. For the second quarter, CASMex is expected to be up 16% to 19% on capacity down 6% to 9% versus 2019. The reduction in capacity adds approximately 8 points to CASMex in the quarter. Also, we expect fuel prices for the second quarter to be between $3.25 and $3.30 per gallon, up 40% from the beginning of the year, inclusive of hedge benefits. At current prices, our hedging program is expected to provide a net benefit of approximately $200 million for the full year. Reflecting on Q1, we were profitable in March and produced first quarter results in line with our guidance. Our nonfuel costs totaled $1.5 billion, inclusive of approximately $35 million in lease return costs and $36 million in incentive pay accruals for our employees. Beginning in Q2, lease return costs will be reflected as special as we accelerate our fleet transition. CASMex was up 17% versus first quarter 2019, coming in slightly better than our latest guide. Our balance sheet and liquidity remained healthy, and we ended the quarter with $3.3 billion in total liquidity, inclusive of on-hand cash and undrawn lines of credit. Our Q1 cash flows from operations were approximately $285 million, driven by the strong booking trends that began in February. We continue to feel comfortable with our liquidity position and our ability to generate positive cash flows on a sustained basis as our business returns to normal, which together will support cash payments for the 55 mainline aircraft deliveries we have scheduled through 2023. We ended the quarter with a debt-to-cap ratio of 50% within our target range and among the best in the industry. For the rest of 2022, our contractual debt repayments are roughly $200 million, with $52 million due in the second quarter. We expect our debt-to-cap to decline within our target range over the remainder of the year. During our Investor Day in late March, we guided full year pretax margins to between 6% and 9%. And as we've indicated, we are not changing this expectation today. Demand has remained strong. Our capacity modifications will be focused on our least profitable flying. And with oil prices where they are currently, capacity reductions can drive better margins in the near term even though they pressure near-term unit costs. Our profit guidance also includes expected continued accruals towards incentive bonuses for our employees. This year, we have returned our performance-based pay program focus back to the achievement of profitability goals, a shift from the focus on cash flow generation in 2021. This year, 70% of our bonus program will be tied to pretax profitability, while 30% remains linked to other important goals, including ESG, safety and unit costs. We've also built-in goals related to outperforming the industry on pretax margin, which is ultimately what we are focused on achieving over the long term. And over the long term, I believe we have the right structure and business model in place. We have a strong balance sheet. We have a solid fleet plan and fleet order with Boeing. Our network position has improved coming out of the pandemic, and our growth will be primarily focused in geographies of strength. We have a solid $400 million commercial road map that is already in motion with the recently signed co-brand agreement extension and with the fleet up-gauging, which is underway. And we have line of sight to improving unit costs relative to the industry. It is this combination of initiatives that should enable us to continue to improve our relative position versus industry peers as we progress through the next few years. And with that, let's go to your questions.

Operator: [Operator Instructions] Your first caller is Jamie Baker of JPMorgan.

Jamie Baker: So recognizing that the government has gotten involved in the past when the industry has required some form of assistance. Is that something that we should start thinking about vis-a-vis the pilot shortage? I'm thinking about the 1,500-hour rule. Maybe making, I don't know, low-cost government loans available for flight school. Like I guess another way of asking the question is whether you think the pilot shortage is severe enough or will become severe enough that the solution may not entirely be in the hands of the industry. You might need some outside help, if you will.

Ben Minicucci: Jamie, that's a great question. One person has just been doing a lot of work for us is Joe Sprague on the regional side. As you know, that's how you first see the fax open up. So Joe, do you want to jump in here?

Joe Sprague: Jamie, it's Joe. It's an interesting question and certainly, there's a few issues hitting the entire industry right now more strongly than the pilot situation. The trade groups in D.C. have been focused on how we can boost financial aid for new student starts for flight training. That's an important piece at the very beginning of the pipeline and something that will help not only produce a greater supply of pilots, but help with improving the diversity of the pilot workforce as well. So we're certainly supportive of those efforts. Beyond that, it is something that will take a bit of time, but there's really strong training programs in place at Horizon in Alaska, and we feel comfortable about being able to produce pilots over the next several months and several years.

Ben Minicucci: Jamie, we have a pilot development program that -- we have 500 pilots in that program right now that have signed up with some financial assistance. We've teamed up with a school in Hillsboro, Oregon, that's going to train 200 pilots a year for Horizon with pathways. So I think your question is there could be an industry initiative that addresses some structural things. And I think as you're seeing is all airlines are taking destiny in their own hands to create a pipeline into their regional and mainline fleets, but you bring up a great point. I think this is going to be one of the biggest constraints for the industry going forward.
Jamie Baker: Interesting. All right. And second, just on the premium emphasis at Alaska, 1 question I get from clients is whether you're inadvertently creating a vacuum that ultra low-cost carriers can backfill. I certainly have my own answer to that question. But how would you answer that, if posed by a current shareholder?
Andrew Harrison: Jamie, I couldn't quite catch the first word in there that was quite important to your question. What did you -- what was your first sentence?
Jamie Baker: Yes. Sorry about that. The premium strategy, chasing premium demand, which is something Alaska clearly is doing, does that create a vacancy sign, if you will, in markets for ultra low-cost carriers to backfill, which in turn potentially hurts you down the road, possibly? I have my own views on this topic, but it's a question that I gotten quite a bit as it relates to your premium strategy, how do you respond to the question?
Andrew Harrison: Yes. It's -- what's interesting about that is, I think, just to be clear, we're seeing -- obviously, the premium cabin has upgrades in it as well. I think as we grow the fleet, we're seeing demand for the premium cabin to be sure with people paying to get in there. But we're also seeing strong demand for our saver or basic fare structure. And as we shared on Investor Day, we are very focused on having a cabin that is -- works for our premium flyers, our regular flyers and those who want to be discount fliers. So I think as we up-gauge the fleet, as we grow the fleet, we're going to create more seats, more room. So I think it's a great question, but I think that's why I love our fleet strategy and our product strategy.
Operator: Your next caller is Helane Becker of Cowen.
Helane Becker: So just on -- I know you're talking about strong business travel. Can you parse that out by group and by geography? Like are you seeing improvements in California and on the West Coast, in general, California, specifically? And then in terms of like tech companies, are they coming back? Because I feel like they were the first to kind of work from home and seem to be the last to want to come back.
Andrew Harrison: Yes. Thanks, Helane. It's actually quite fascinating to watch. And you're exactly right. I think the small, medium business is back to full strength, and they have been for a little bit. What I've literally seen in the last 2 weeks is a staggering increase in the increase in flying for the large tech companies. Some of the big ones have come back at the end of March and early April, where their traffic was down 80-plus percent. Just in the last week, one of the largest high-tech companies was only down 25%. So I think we're going to be a little lagged on Alaska on the West Coast because of the high tech, as you say, but I see that coming in quite strongly. So that's where we stand.
Helane Becker: Okay. And then my other question, maybe for Ben. You're talking about having to hire pilots and there's a huge pilot shortage, and we just heard United talk about their forecast for the industry having to hire 13,000 pilots, and our forecast is somewhere between actually 10,000 and 12,000 for the year. But it seems like -- why do people come to Alaska? Like what's your selling point to get pilots to come to Alaska Air versus American Delta or United, who are hiring at least 200 pilots a month each?
Ben Minicucci: Helane, it's a great question. I think this is -- with the pilot supply issue, I think pilots have a choice, and pilots will have a choice on what they want to fly and where they want to fly, so they have a choice. I think for us, we've always had a brand that's been differentiated in the industry, a brand where people come in, it's -- we're a bigger company, but we still have a small tight culture. And we're based on the West Coast, we fly all across the country. We have a great network. And so I do feel there's just a lot of appeal about who we are and how we operate. So I can tell you to date, our plan is to hire 600 mainline pilots and a couple of hundred regional pilots. We're on track on the regional side, which is fantastic. On the mainline side, we're halfway through. We've hired 300 net pilots so far this year. But it's a huge strain on our training systems, which is one of the issues that we're working through is how do we get pilots through the school house in an efficient manner and get them out on the line.
Operator: Your next caller is Scott Group of Wolfe Research.
Scott Group: So the guidance implies a pretty massive inflection in capacity growth relative second quarter and the second half of the year. So is that just the pilot situation getting better for you? Is that aircraft? And then maybe just talk about what you think the exit rate will be on capacity exiting the year and your confidence in getting there?
Shane Tackett: Scott, it's Shane. Thanks for the question. Yes, it does imply a pretty significant upturn in capacity and growth above 2019 in the back half of the year. I think it really does assume that we get back to where we want to be on the pilot throughput in the training house. The one thing I'll just say is we're committed to this exit of the Airbus fleet on a very expedited basis. And as we begin to do that, we may continue to move capacity around a bit. I don't think we have a strong appetite to, as an example, hire a new pilot onto the Airbus aircraft, have them fly it for 1 month and then put them back into training to transition. So as that comes into the window, we're just going to look to optimize the transition of that fleet off the business and over to the MAX. So there'll probably be some more changes. It's hard to predict what's going to happen in Q4 right now, but that's where we stand.
Scott Group: Okay. And then I wanted to just ask about the fuel hedges. I understand you hedge oil and not the track

spreads. So at current jet prices, is this what we should assume -- the guidance you gave for second quarter, is this what we should assume for now, for the rest of the year if jet stays where it is right now? And do you reconsider the way you hedge to maybe do a better job covering track spreads?

NatPieper: I'll take the second one first. It's Nat Pieper. Our hedge program is really consistent with the way we've run our company for 90 years, financially conservative, and frankly, it's auto pilot. As we talked about at Investor Day, buying calls 20% out of the money, 18 months in advance, 10% strips and just continuing to layer them on. As Shane mentioned in his script, we value the 2022 remaining order book at $200 million for a hedging benefit. It's basically 50% at $78 for the remainder of the year, 50% at $71 for the quarter.

Operator: Your next caller is Duane Pfennigwerth with Evercore ISI.

Duane Pfennigwerth: Just with respect to your loyalty card extension, can you talk about how ratable that is versus amounts paid upfront? Oftentimes, when we see these things in the industry, there'll be kind of a heavy weighting in the first part of the agreement, maybe the first quarter or 2 and then it tails off. Can you talk about how this was designed and agreed to?

Shane Tackett: Duane, it's Shane. In terms of the cash, I think the cash you're going to see right away, I think that's something that we saw in the first quarter. We saw a very strong increase in cash from our bank partner. The recognition is going to be at a slower pace as you know, a good amount of this gets deferred and recognized over time. So I think through the P&L, you'll see this build throughout the rest of this year and even into next year as we get to start to recognize the cash that we're deferring today. So cash will come pretty quick, the recognition will take some more time.

Duane Pfennigwerth: Okay. Great. And then I guess just going back to your Investor Day, you were one of the first to really tease out this kind of more constructive revenue outlook for the year, certainly relative to where we were and where the Street was at that time. I wonder if you could just mark-to-market for us relative to Investor Day, what's changed since that time that has sort of further improved your forecast? What specifically has gotten better since Investor Day?

Andrew Harrison: Duane, I think firstly, corporate business travel. I just think there was just a real step change over the last few weeks on that side. And as we've shared, certainly on the fairs side. Just to be frank, as we close up the buckets in the inventory, the demand didn't stop. And so the fares kept going up, but the demand kept coming. So I think since Investor Day, we've just seen a more sustained and, in fact, increasing strength in the demand as we book in now into summer and later spring break.

Operator: Your next caller is Ravi Shanker of Morgan Stanley.

Ravi Shanker: Just a follow up on the corporate commentary and then the tech group coming back. So is it fair to say that much of the corporate normalization that you're seeing so far and what do you expect to see in the coming weeks and months is just a return of the kind of historical Alaska corporate customer? Or are you seeing new customers as well, kind of given the American Alliance and maybe new destinations and outreach?

Andrew Harrison: Yes. Thanks, Ravi. I think a little bit of both, just to be frank, but they certainly knew our agreement with [MX, TBT] as well as our joint contracting with American has opened up a lot of doors for us. And we'll get a clearer picture of that as we move forward into Q2 and Q3. And as we start to see the tech travel pick up more and more. But I do believe, and just seeing our fair share, our fair market share of corporate travel, just the reports I just was looking at last week, we're actually seeing a positive movement in our share gap. So I feel like that's good and that's sort of new traffic for us.

Ravi Shanker: Great. And just a follow-up, and I apologize if I missed this in your commentary. I know it's only been a few days, but are you seeing any uptick in interest in your forward booking curve now that the mass mandate has been dropped at least temporary or permanently?

Andrew Harrison: It's very difficult for us to tell that. What I will tell you is that just even looking at yesterday's bookings that were even better than the day before. So I'm just still seeing very strong momentum here.

Operator: Your next caller is Andrew Didora of Bank of America.

Andrew Didora: So maybe sticking on the corporate theme. We've been hearing from a few hotel owners that they're seeing sort of a change in the corporate booking curve, it's shortening pretty dramatically. Just curious kind of, Andrew, what you're seeing on the corporate side, I guess, particularly as maybe some more of these tech-heavy corporates come back on the road. Are you seeing any changes in the way they either book or they travel in the early parts of the recovery here?

Andrew Harrison: The only sort of color I could give you there is that it just feels like there was this pent-up demand and then there's just been this material, as in 50-point change in booking levels for some of these big guys in the last few weeks. So I think what I'm seeing right now is a very big step change. And I think over the -- especially on the tech side, and I think over the next month, I'll have a much better feeling about if there's any other changes going on there, but that's what I see today.

Andrew Didora: Got it. And then, Ben, sorry if I missed this in your prepared remarks. But just I guess big picture when it comes to the kind of some of the operational issues that have popped up here causing kind of the change in capacity. Just outside of pilot hiring or training like, what else can you do to fix this? And just curious like how much is it going to cost to finally get back towards normal utilization levels?

Ben Minicucci: Andrew, yes, it's a great question. Andrew, you've known us for a long time. This company is rooted in operational excellence. And what I can say, and I've been with the operation a long time is, and I look at it closely, the root cause has essentially been staffing. And not staffing because we weren't hiring people, but staffing because we weren't able to produce the people in time to go execute the schedule. So when I look at the core operation, we are still very process-focused, system-focused, metric-focused, but you got to have the people there. And what happened to us early part of the month is pilots were stuck in the school house, and 60 pilots make it out on the line to go execute the schedule. So we're derisking the operation a little bit to give our pilots schoolhouse just a little bit of breathing room as we train them. And again, this Airbus transition is a big strain as well as we exit the Airbus. So we're just putting a little more conservatism into the plan and making sure that what we're known for, what we're recognized for, our customers can count on us, our employees can count on us, just making sure that we operate reliably. So I appreciate the question, Andrew.

Operator: Your next caller is Mike Linenberg from Deutsche Bank.

Mike Linenberg: Ben, I want to go back to Helane's question just on the pilots. I know you said that you're sort of halfway through your hire -- you noticed is at 300 net. Obviously, there's attrition there, but -- and maybe even retirements and whatnot. Have you actually seen a pickup in your pilot hiring? This is the first time in my career where what we're hearing is that you can move up to a captain seat fairly quickly for a major carrier, much shorter than historically. And that definitely is an attractive feature. Anything -- any color on that on the attrition?

Ben Minicucci: Yes, Mike, it's a great question. Look, if you look at what happened in the last 2 years, the industry early outed 10,000 pilots. And so as we're trying to all get back to 2019 levels, you got to backfill that 10,000 taken early out and plus growth. So really pilots have a choice on what equipment they want to fly, where they want to live. And I think the acceleration from right seat to left seat is really quick, especially depending on who you're with. So again, we look at our plan, and I feel good about the pilot pipeline, but is it a risk for our growth plans going forward? Definitely. So that's why, like I was mentioning to Helane, we're putting a ton of time and a ton of energy to make sure the pipeline is full. And yes, it's not something that we've historically done because there's always a huge resource of pilots, but now you got to take destiny in your own hands and you have to go to high schools and encourage young kids from diverse backgrounds. It's expensive to become a pilot. So it was exclusive to a certain group of people. And now we're trying to expand it by offering financial assistance and grow that pie for people who want to be pilots to get into this industry. So I'm feeling good. Through this bad thing with this pilot shortage, I think it might be a good thing because a lot of airlines are really reaching out to communities where this wasn't a viable option. And now with these financial opportunities, we're tapping into a lot of people who're interested. Like I said, we have 500 people in our pilot development program. We're partnering with a school. And so -- but this is going to be an ongoing issue for everyone. And a little bit like I said, you got to take destiny in your own hands.

Mike Linenberg: Great. That's helpful. My second question, just to Andrew. Andrew, when I look at some of the markets that you've been paring back and you highlighted earlier with -- to get sort of -- the operation sort of integrity -- the integrity back to sort of what it was. But I have seen you pull down a decent amount of Hawaii. And I've seen other carriers also pull down a decent amount of Hawaii, and some of it may be taking down one of those flights freeze up, maybe an inordinate amount of resources. Or maybe some of it is just these longer-haul flights, especially ones that are predominantly leisure-focused, become more difficult to justify when fuel prices are $350 plus. What -- is there anything specific to the Hawaii market, maybe availability of fuel on the islands? Or is it just that economically the incremental or utilization flying – or the long-haul utilization flying just makes a lot less sense?

Andrew Harrison: Yes, thanks for the question. I think what you've seen us do is maybe take a 1/4 now down to 1/3. You've seen us cut back on some of the LA, Konas and La Huis. I think right now, I don't know for whatever reason, Hawaii's lagged a little bit, just to be frank. It's also very expensive to actually vacation there having just come back from there last week. And so there's just the accommodations, the rental cars. I think there's confusion as it relates to preclear and getting tested and that just went away as well. But what I am seeing as we head into June in the summer period is sort of that traditional Hawaii strength. But I think just as we look at the network, we had to make decisions. I think we felt like a few flights coming out of Hawaii and then we cut across sort of day of week, the Tuesdays, the Wednesdays, the Saturdays. High-frequency markets, we took down a few. And a little bit more where we're doing a little bit more aggressive growth, we sort of pulled it back. So we've tried to spread this across our network and Hawaii, we felt like a couple of flights coming out would be fine.

Mike Linenberg: Andrew, do you think that with international long hauls really starting to come back, especially transatlantic, that Hawaii was kind of that go-to exotic destination. Maybe a year ago after they opened, you saw flood of people go there. Is that -- do you think there's some of that where there's just now displacement on the other, call it, exotic destinations that are now international, but because they've lowered their restrictions, it's just easier to get to. Any of that maybe?

Andrew Harrison: I probably don't have first-hand knowledge to that, except to say that you are very correct that the choice of where folks can vacation now has expanded massively. I also think Costa Ricas and the Belizes and the Floridas and the Mexicos. I mean we're just seeing a lot of demand across all these locations. So I think historically, where Hawaii was sort of the go to. I think there's just more options for travelers right now.

Operator: Your next call is Savi Syth with Raymond James.

Savi Syth: Shane, it seems like maybe Ben is giving you a bit more of a stretch goal here, if I'm hearing it correctly. Because I think the single fleet type return was slated for end of 2023, but maybe pulled to kind of early 2023. And then I know you still have the A321s and Q400. So what -- could you talk about what you need to still accomplish to hit that target? And what that means in terms of maybe how we should be thinking about in terms of kind of cash flow even though some of that might be considered special items?

Shane Tackett: Yes, yes, yes. Emily might jump in with sort of the remaining lease return cash costs. But just functionally in the operation, we've got to train 600, 700 Airbus pilots over to the Boeing. And we've got to do that in a way that's as ratable, as possible and doesn't sort of impact the network to a large degree. And we also have to sort of decide our long-term basing strategy for the Boeing. So there are some important decisions that we have to make. They're important to pilots as well. I think we have said by early 2023 for the Airbus A320. What I can tell you is Ben and I and others are -- the sooner the better. We like this behind us. We sort of can't wait to be through it. We know it's going to be a little challenging to get through it, and we'll put a good plan together and I'm sure it will shift around a little bit. And then we're executing now our sort of thinking about the A321 fleet. We've got 10 of those. We're committed to moving beyond those by the end of 2023, and Nat's actively working that. We don't really have anything else to share there. But Emily, maybe on the cash for lease return?

Emily Halverson: Yes. Savi, so in terms of the lease return costs, you got it right that the special items that we'll be taking going forward will include the acceleration of those lease return costs. So we had previously shared with folks that, that was probably going to be in the range of around $250 million. The cash though will not be accelerated because the contractual lease return dates for those aircraft is still what it was before. So we'll park those planes earlier. We'll continue to do the work as we move towards those lease return dates and that cash will be spread over the original period. The only caveat I would share is that as we go through this exercise, we are continuing to have conversations with lessors. And of course, as we do less flying on those aircraft, that could impact the amount of cash that we actually incur. So hopefully, that's helpful.

Ben Minicucci: And Savi, just a little more color on that is like one of the things we have to work through right now that will impact how we think about capacity going forward is. What I've told the teams, I don't want to train a pilot who we spent 90 days in training only to produce them in September and October to transition them in January. So we really have to think about when we stop actually training on Airbus and transition to all Boeing. And that will really decide how much capacity we have for the Airbus fleet going forward from the summer on. So that's something we're still going to work through, and we'll give you guys more color on that soon.

Savi Syth: That's helpful. And maybe just a little bit tied to that. And I think this question was asked a little bit earlier, too. On the second half capacity, I guess, how much cushion have you built into that where you might not have to kind of pull meaningful amounts down? And how should we think about like 3Q versus 4Q? Because I'm guessing some of this Airbus aircraft coming happens more in 4Q than 3Q where you have the summer demand. Just any kind of color around that?

Shane Tackett: Yes. I mean I think it's sort of a middle of the road estimate, Savi. It's really until we begin to make decisions around how much hiring we want to do onto the Airbus and when. It's hard to give you more precision. I think I'll get these numbers right, there's 10-ish thousand Airbus hours a month that we fly, give or take. Obviously, that cannot go to 0. I think we fly 80,000-ish, 75,000 to 80,000 total Airbus hours, just to give you some context around how much Airbus flying is of the total. So there's probably -- we'd like to do the 8,000, 9,000, 10,000 Airbus hours and see that meter down towards 0 as we get to the end of the year. But it could come down a little quicker than what we're currently planning. But I don't think it will be super material in the short term.

Andrew Harrison: Yes, Savi, just on the -- you mentioned the -- there'll be a little cleanup on the schedule here in the next weekend or so, but the summer capacity is -- you're going to see it through the tape and is going to be pretty solid and scheduled there. And to Shane's point, about 4,000 of the 9,000 Airbus hours is actually the 321. And so we're going to really start that transition, to Shane's point, in the fourth quarter, which is why that's probably the softest part of our capacity guide right now. But we're going to get real tight on that soon.

Operator: Your next caller is Brandon Oglenski of Barclays.

Brandon Oglenski: Andrew, I guess, as you guys have expectations coming off the back of that question to really ramp up flying in the second half of the year. It looks like to get to your guidance, we would take RASM down a little bit from maybe where you are in the second quarter. But is that necessarily the outcome that has to happen?

Andrew Harrison: Not -- on the RASM side, I obviously have pretty much no visibility into the fourth quarter there. But my expectation is as we get surgical and sharp and smart about capacity, I think if anything, it's going to boost our ability to maintain good solid unit revenues into the fourth quarter.

Brandon Oglenski: Okay. I mean, is there anything about the flying that would be new markets or developing markets that could set that back a little bit?

Andrew Harrison: I mean I can safely say to you right now, you pretty much see what we're going to be flying this year as far as markets. And as I shared on Investor Day, 90% of all of our growth is going to be in existing markets and pretty much what you see already, the Miamis and such are our new markets for this year. So we're sort of done.

Operator: Your next call is Conor Cunningham with MKM Partners.

Conor Cunningham: And just in terms -- I know you talked a little bit about the corporate recovery in California. But just wanted to see if you could give some color around just the entirety of that market. I would think that the California network really dramatically outperformed relative to the Pacific Northwest as demand snapped back. So just want to see where you are in terms of that -- recovery of those markets and your expectation for a full recovery there. And then is California

dilutive to RASM at this point? Or is it actually back in line with the system?
Andrew Harrison: We're not going to probably get in the habit of providing that level of detail. But what -- your observations are correct, especially with the snapback looking at March and April. But the California demand is extremely strong, and we are seeing very, very solid unit revenue performance, especially on the yield side out of California in our current bookings. So if anything, just given we have less capacity there than we do in the Pacific Northwest, I think what I'm seeing right now is a very, very solid recovery out of California.
Conor Cunningham: Okay. And then your guys' financials have recovered a lot quicker than others and your balance sheet is in great shape. And -- so when I -- the one thing that is kind of outstanding is the pilot contract, there's been a lot of discussion on this call about pilots in general. I would imagine -- is that now your #1 priority of getting done? Like I'm not asking you to negotiate right now, but it seems like it would be front and center in terms of priorities for you.
Ben Minicucci: It's an absolute priority for us, Conor. We're focused on getting a deal with our pilots, recognizing their contributions. And get a deal that makes sense for a business model. So we are entirely focused on getting a deal with our pilots.
Operator: Your next call is Myles Walton of UBS.
Myles Walton: I was wondering, as an operator, an airline, you could comment or weigh in on the benefits and risks of requiring the MAX 10 to include a new flight crew alerting system. And if that were to come about, what it would -- what would the cost benefit tradeoff to you be given some of your fleet expansion’s obviously reliant on moving into the MAX 10?
Nat Pieper: Myles, good question. It's Nat. We're obviously observing the certification of the program really closely. And clearly, safety is first in that whole process and why it's so important. But to reinforce, we are really bullish on that airplane. We think it's got the potential to have the best seat cost of any airplane in our fleet. But obviously, that assumes a level of pilot commonality that runs through all of the models. And hard to say and forecast where that goes. But should that not be the case, it's something we would reassess and obviously, the Dash 9 is a great airplane for us. We have 20 of them so far, and we'll have good optionality with Boeing.
Myles Walton: Okay. And then in terms of just a cleanup on the ATL. Can you just level-set us as to what is set for expiry this year from the holdover maybe during COVID from travel credits?
Emily Halverson: Yes, this is Emily. So we look at the ATL kind of historical trend in terms of breakage rate every quarter. So from an accounting perspective, we've been updating those over time. And I would say that generally, there has not been a massive change in terms of the breakage and experience that we've been having. Separately, though, kind of on the guest front, the #1 priority for the company is to make sure that we're meeting guests where they are and making sure that we're honoring the flight that they want to have with us. So I think over time, if we start to see guests come back and look to redeem some of those tickets, we'll be generous in the way that we handle those things.
Operator: Your next caller is a Catie O'Brien of Goldman Sachs.
Catie O'Brien: So I guess the first one for Nat. Just like a bit of a follow-up on the Airbus discussion. I know you're working on a solution for the A321s. But is there a potential for someone to maybe look to buy you out of your A320 leases, given aircraft supply constraints? Mostly, you've been focused on wide-bodies, but we've heard more about aircraft constraints again this earnings season. Understanding even your capacity plans for this year, but if you did get bought out, like maybe that changes the cash costs over the life of the lease and potentially the recognition on your P&L over the rest of this year, realizing that's special out of CASM, that was kind of nested question. So I appreciate the help.
NatPieper: Catie, it's a great question. I'll tell you initially that the ratio of calls I get on the A321s to the A320s is about 10:1. So it tells you from a market perspective that folks are much more focused on those airplanes. And part of it is they're 2 to 4 years old, Airbus is delayed in delivering new ones. And so folks are interested in trying to take 10 young airplanes and grow their fleets that way. On the A320s, the lease is there, it all expire by the end of '25. And so as we answered earlier in a question, we're focused on that return plan and Emily's run our numbers to focus on that. But there are opportunities with lessors to buy out of those leases early, especially if the lessor has a prospect on the other side. And so it can be actually a win-win, certainly for us, and it helps us get the airplane out of our fleet more quickly and maybe not have to do all the return conditions for then the lessor to modify the airplane for the new operator. So there's some gains that are potentially there, and we're working those really hard.
Catie O'Brien: Got it. And then 1 for Andrew. You called out some of the new partner flights into your West Coast hubs during your prepared remarks. But could you maybe just give us like broad strokes on how much partner capacity is up into your hubs as we look through the rest of the year? And I guess just any high-level read-through from your partners on how demand and yields are looking on those routes? And then lastly, how could that translate into incremental revenue for Alaska?
Andrew Harrison: I think the largest as it relates to partners is international. And in our prepared remarks, you're starting to see that come back. I mean Japan Airlines as one is certainly still significantly down. So the long-haul carriers are starting to come back. Qatar obviously is sort of up. And so I think as we get beyond this summer and going forward, I think more and more there. I think some of our other comments that we shared on Investor Day is really taking a key city from Alaska flying into another key city of American and connecting beyond that, that continues to work. The vast majority, obviously, of our passengers travel across our own network. But as we get into the Q2, Q3, we're going to have much better visibility on that partner traffic as demand fully returns there. So we'll give you more color on that in the next couple of quarters.

Emily Halverson: Operator, I think we have time for 1 more question.
Operator: Your next caller is Dan McKenzie of Seaport Global.
DanMcKenzie: A couple of questions. I guess, first for you, Andrew. What forward data are you tracking to give you confidence on unit revenues through year-end? And if you can talk about fair searches on alaska.com, how are they trending versus 2019? And are the searches tying into the -- or are the searches tied into the revenue management systems to inform how you're sort of thinking about the revenue trends?
Andrew Harrison: Yes. We -- one of the beauties, I suppose, of COVID, but every day, we're looking at bookings and searches and all of those. What I will tell you is that the -- even as the yields are going up, the conversion rates are not going down. So the conversion rates are staying strong. RM is not technically connected to the booking schedule on as.com per se, the searches, I would say. But we stay extremely close. And as I've shared earlier, we look every day of what was sold in which month at what yield, and we are seeing across the board out at least the next 4 to 5 months, strength across all of it, all the regions at those high percentages every week.
Dan McKenzie: Well, very good. Going back to the ULCC. What percent of revenue does this impact this summer? So I guess the question is, is it material? And then if you can just help us balance that with what the growth rate in premium seats is this summer, say, versus 2019? And I guess I didn't catch this earlier, but just tied to the premium seats this summer versus '19, what's the rate of corporate recovery here in the first quarter? And what's the expectation on the corporate recovery this summer? And I apologize if you shared that earlier. I joined late on the call here.
Andrew Harrison: No. I think on the ULCC, irrespective of what happens in the marketplace, we don't -- the ULCC overlap in our markets has not really changed. It's not significant. A lot of it is really East Coast focused and the Midwest. So nothing's really changed on that front on the ULCC side. I think on the premium seats, we've given no color into the specifics in the second or third quarter other than to say is that -- as I said in the first quarter, we saw revenues for first-class up 19%. So we're going to continue to watch the yields. But I think as business travel continues to come in, I think there's going to be continued strength in the premium, Kevin.
Ben Minicucci: Thanks, everyone, for joining us, and we'll talk to you next quarter.
Operator: Thank you for participating in today's conference call. This call will be available for future playback at alaskaair.com.