



Investor Day 2015



Investor Day – 2015

Lavanya Sareen

Managing Director, Investor Relations

Alaska



Safe Harbor

This presentation contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are based on, and include statements about, the Company's estimates, expectations, beliefs, intentions, and strategies for the future, and are not guarantees of future performance. Forward-looking statements involve risks, uncertainties, assumptions, and other factors that are difficult to predict and that could cause actual results to vary materially from those expressed in or indicated by them. Please refer to the risk factors described in Company's filings with the Securities and Exchange Commission, including the detailed factors discussed under "Risk Factors" in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014.



Creating a business for the long-term

Brad Tilden

Chief Executive Officer

Alaska

Our strategy is **simple** and **balanced**



Safety &
Compliance



People Focus



Hassle Free
(Easiest airline to fly)



Energetic &
Compelling Brand



Low Fares, Low Costs,
& Network Growth

We were on-time



We took good care of our **customers**



"Highest in Customer Satisfaction
Among Traditional Carriers in North America,
Eight Years in a Row"

...Our employees



...And our community



Community organizations
supported



BOYS & GIRLS CLUB



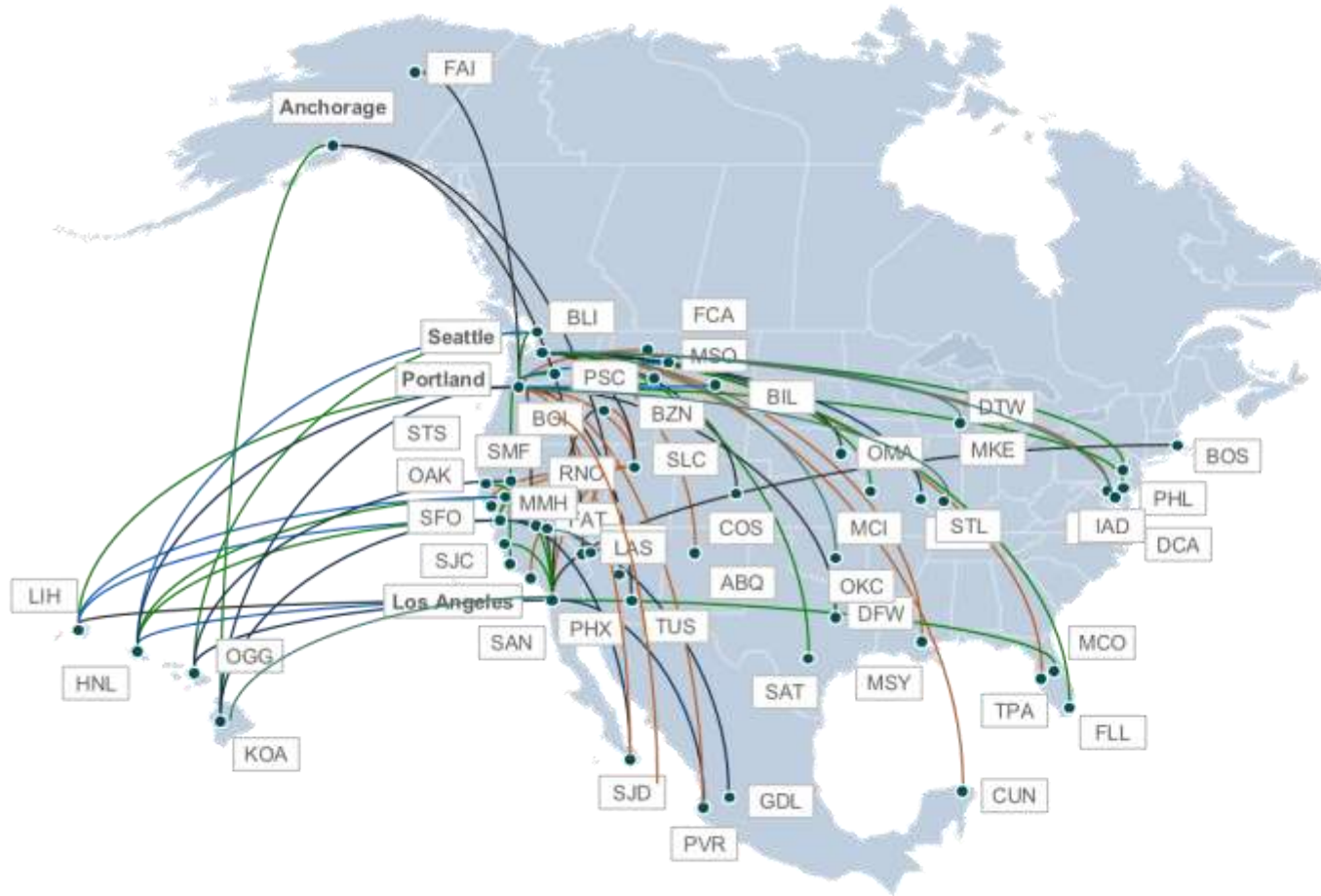
\$9.6M

Corporate giving in
2014



Big Brothers Big Sisters

We grew our network

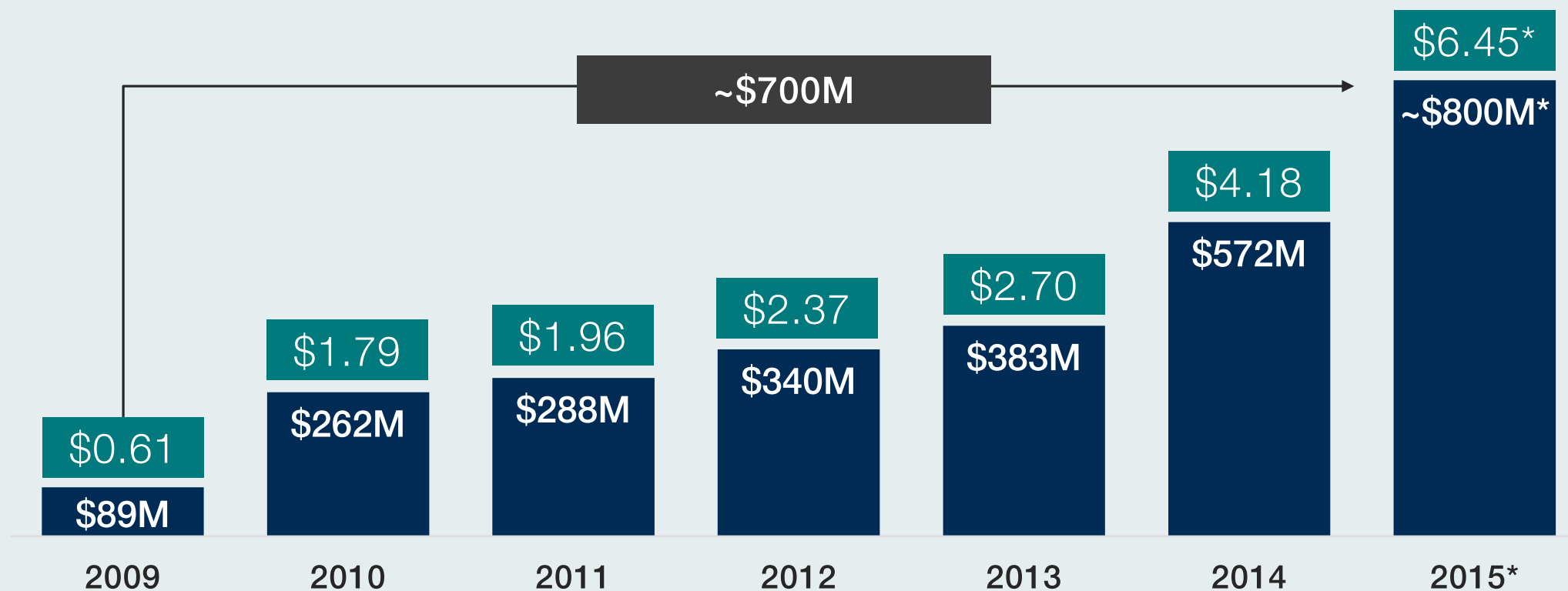


90
NEW MARKETS
since 2010

3 new markets launched so far in 2015, 16 includes all the public announcements

And we generated strong returns for our owners...

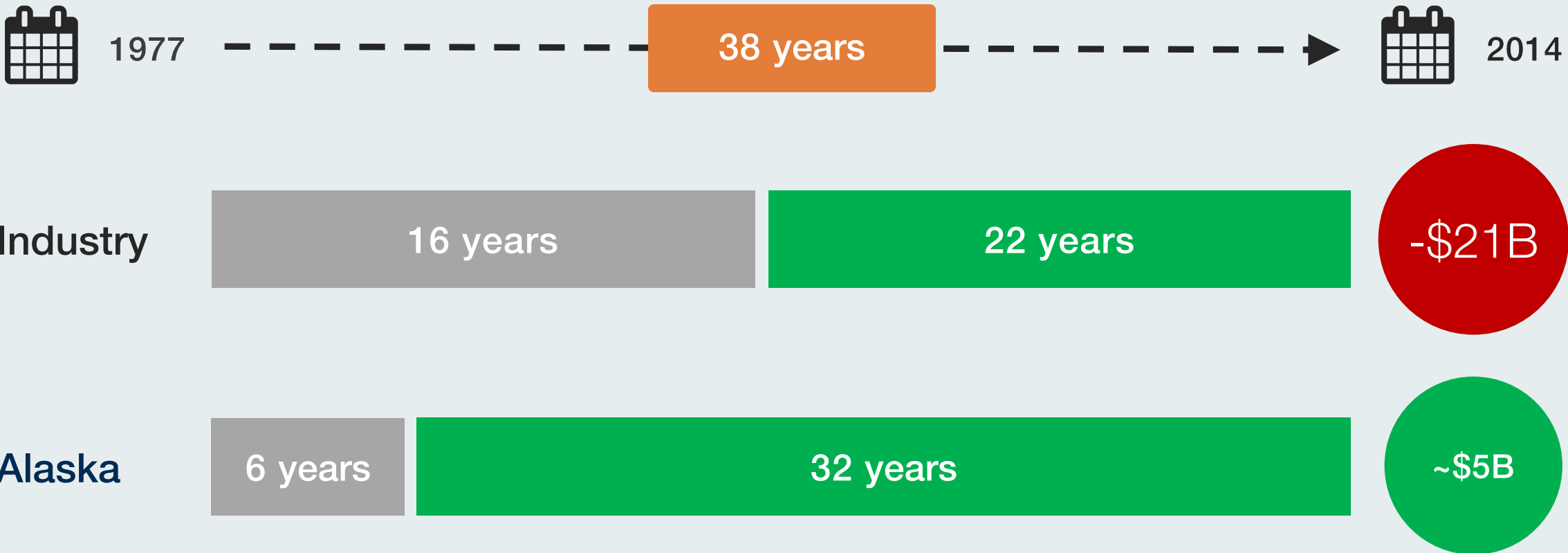
Adjusted Net Income and EPS



*Based on First Call estimates.



...Over the **really** long-term



*Pre-tax income. Based on A4A data for all passengers carriers in the United States

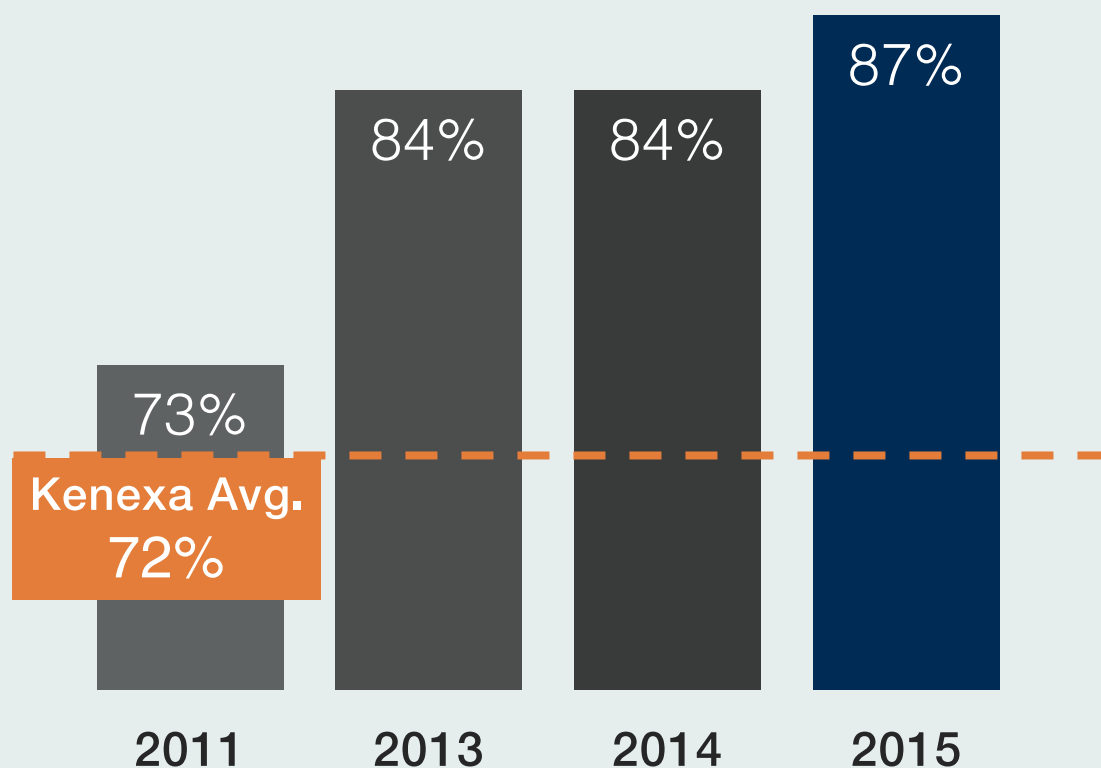


But businesses don't do things, **people** do...



Our employees are **engaged** and driving our company forward

Employee Engagement Scores



Top 100 Employer

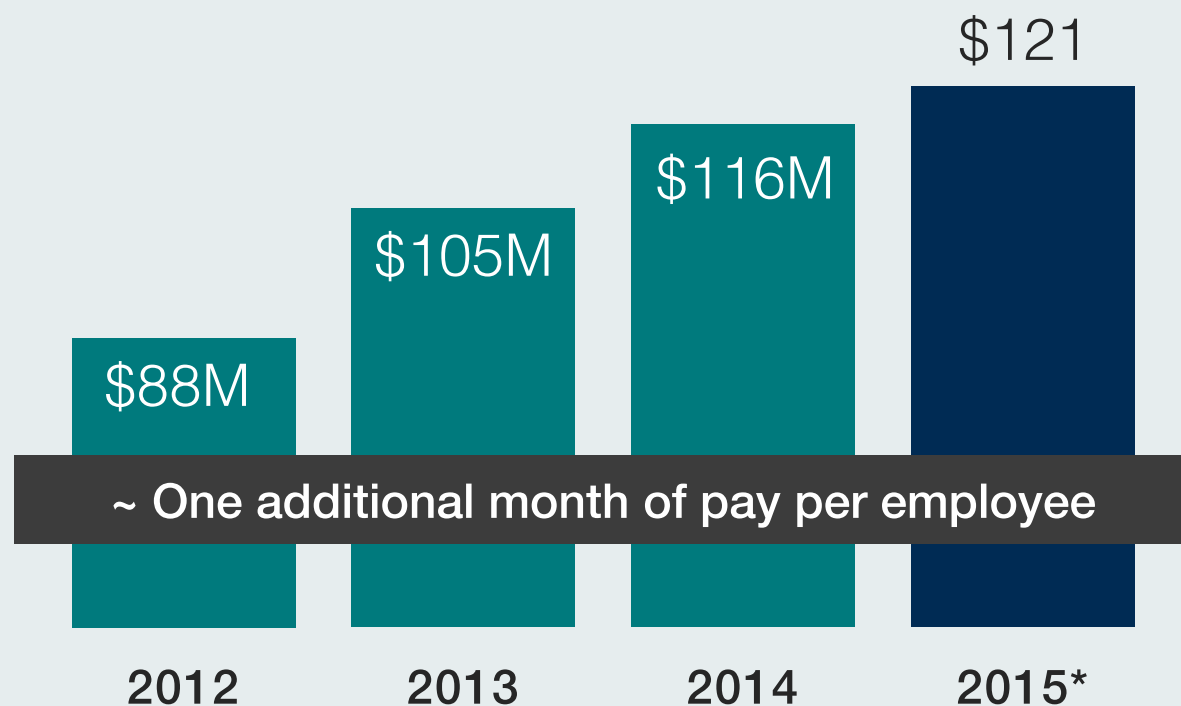


2012 did not have an employee engagement survey



Our people are **aligned** with our long-term goals

Combined Incentive Pay



Performance based pay

70% AAG Profit

10% Costs

10% Customer Service

10% Safety

Operational performance rewards

- On-time Performance
- Customer Satisfaction Goals

Everyone across the entire company participates in the same incentive program

We are continuously making investments in our **people**



2012–2013



2015–Beyond Service

And our **leaders**



2014



2015

We have talented leaders driving results

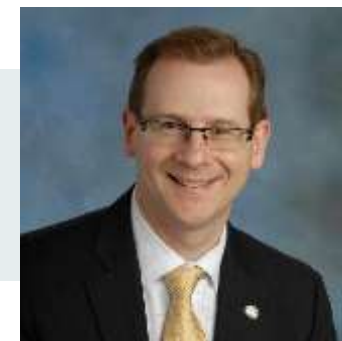


Running a Strong Operation at a Low Cost

Ben Minicucci—Chief Operating Officer

Growing Our Airline, Responsibly

Andrew Harrison—Chief Commercial Officer



Creating Long-Term Value for Our Shareholders

Brandon Pedersen—Chief Financial Officer

Questions we hear from investors



How is your operation performing?

Is your operation **cost effective**?

Is your service advantage **sustainable**?

What levers do you have to take your **productivity higher**?

Questions we hear from investors



What gives you **confidence** in your growth plan?

What's the status of your **partnerships**?

How is your product evolving?

How is your loyalty program performing?

What new **revenue opportunities** do you have?

Questions we hear from investors



Can your business model work through the cycle?

Is there runway to **lower costs further?**

What are your **capital allocation plans?**

How durable is this performance and this level of earnings?

- or -

How deep and how wide is our moat?



Running a reliable operation at low costs

Ben Minicucci
Chief Operating Officer

Alaska

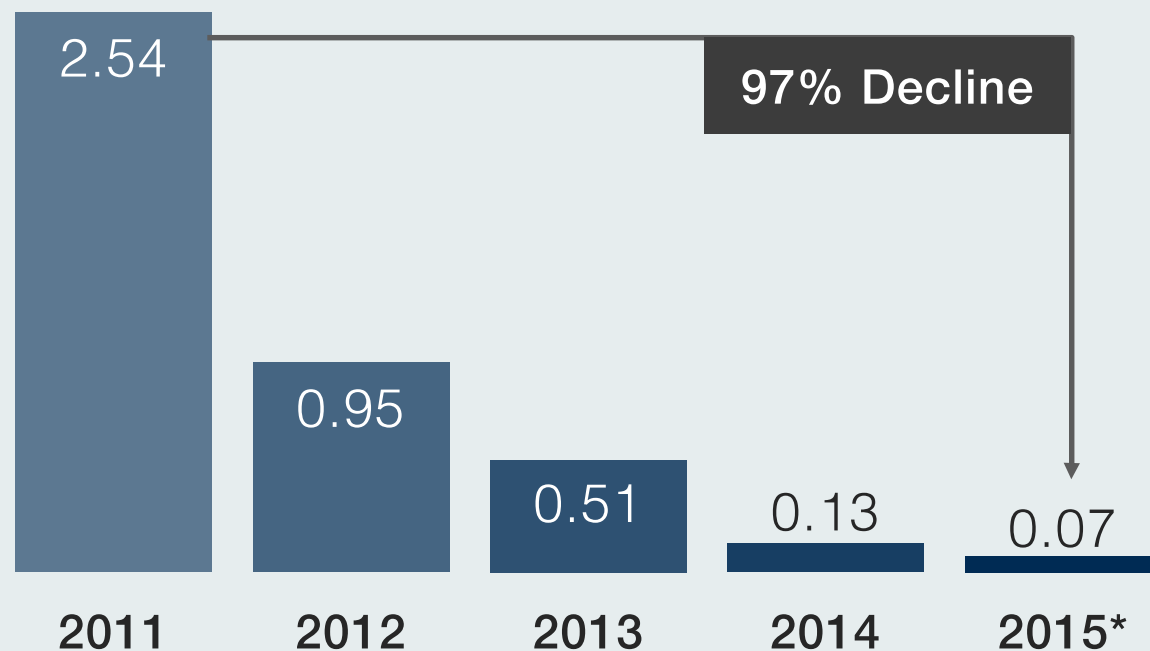
We are **operating reliably** and driving costs down



Fine Tuned Operation

Safety of our customers and employees is our top priority

Safety Events per 10,000 Departures

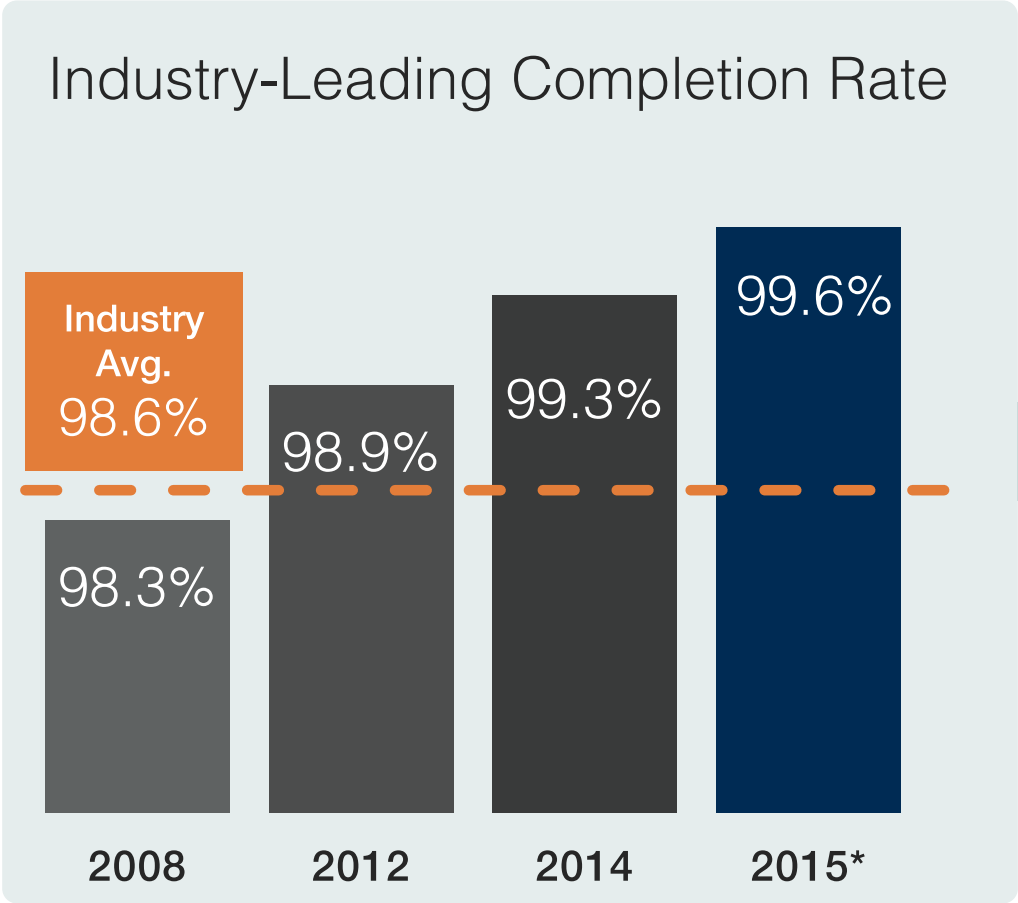


Lost time injuries are down more than 25% over the last 5 years

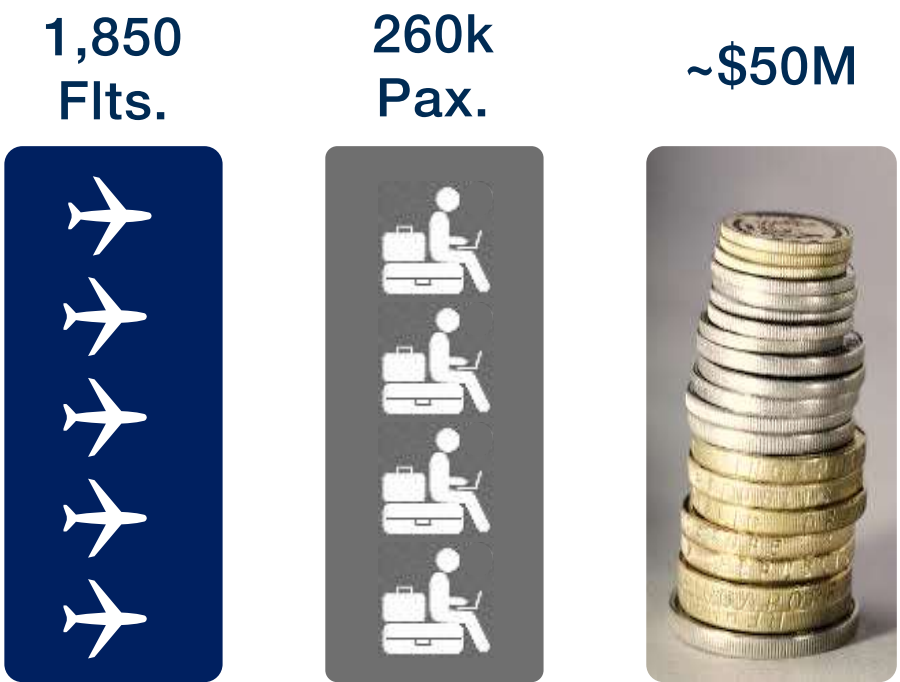
*2015 YTD through October

Alaska

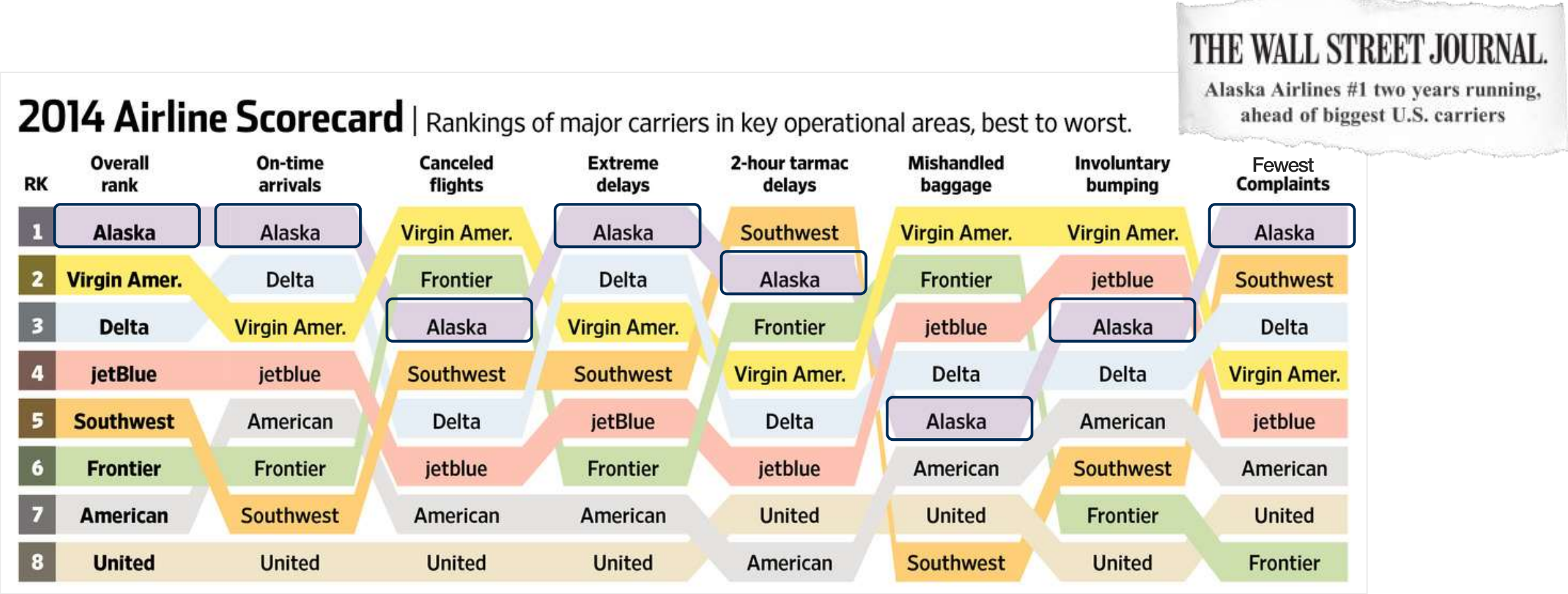
Our **completion** rate has improved continually and leads the industry



Impact of Completion vs. Industry Average



We have been **ranked #1 airline** by The Wall Street Journal on key operational and customer metrics two years in a row



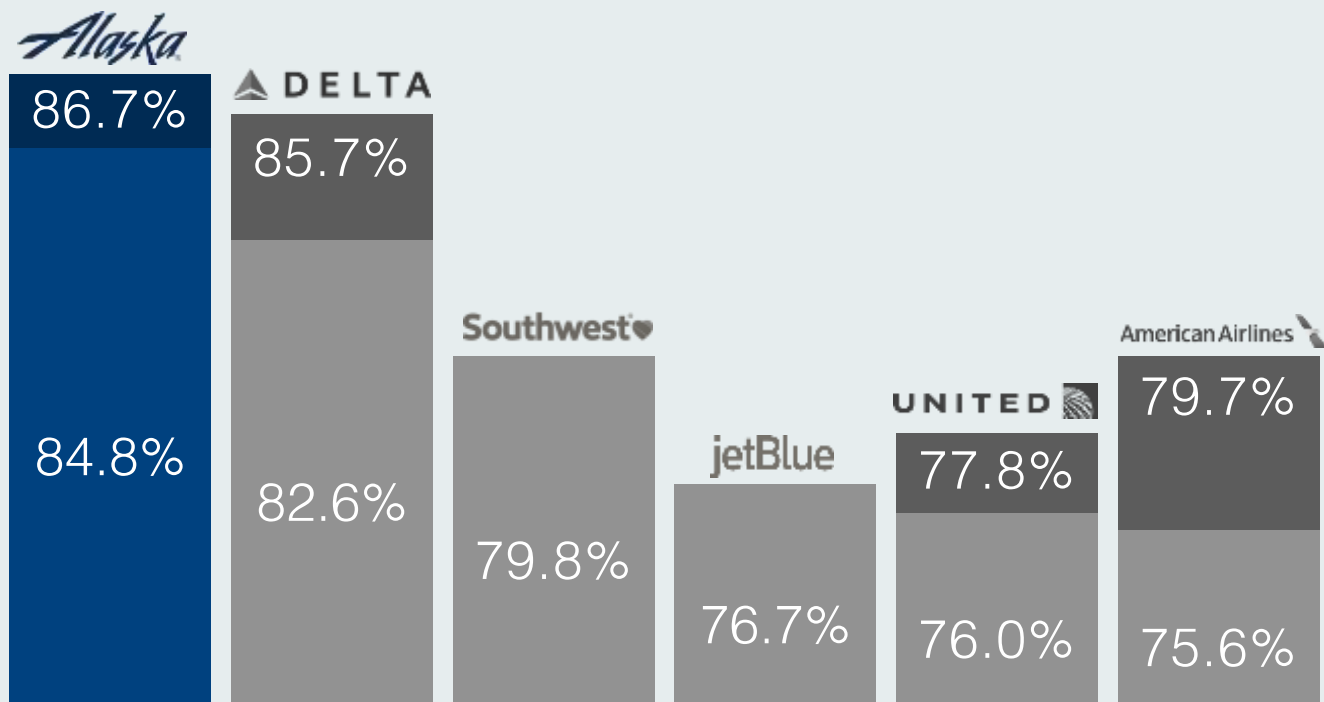
We have led the industry in **on-time performance** 5 years in a row



2010–2014

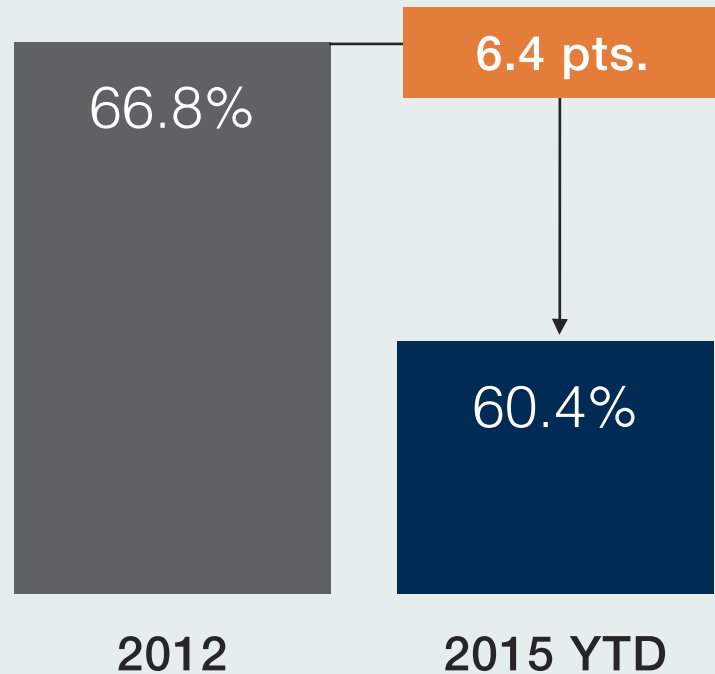
And we are on-track for the **6th year of #1** on-time performance

2015 YTD On-Time Performance

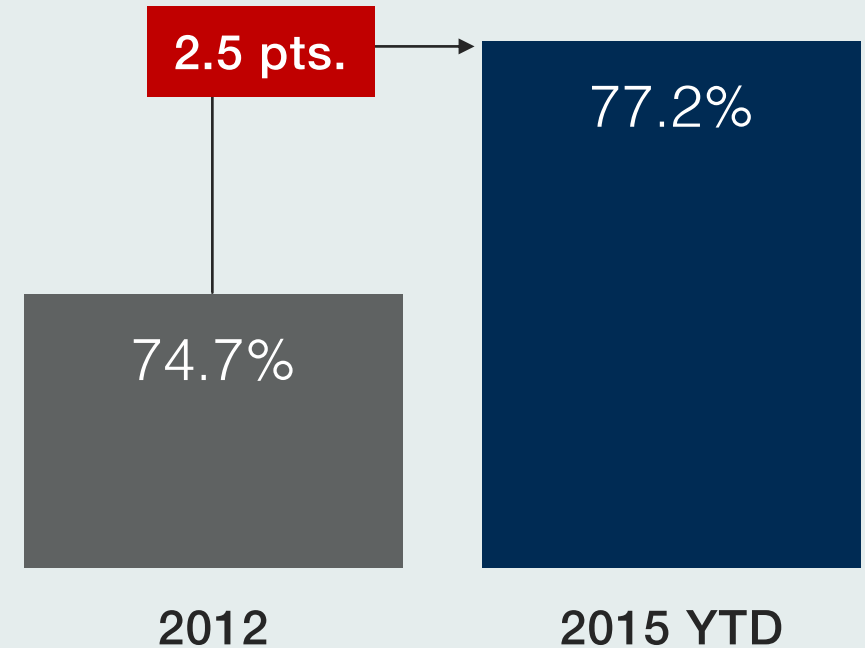


We have earned this through higher efficiency...
not expensive block time

Block within Zero Minutes—Alaska

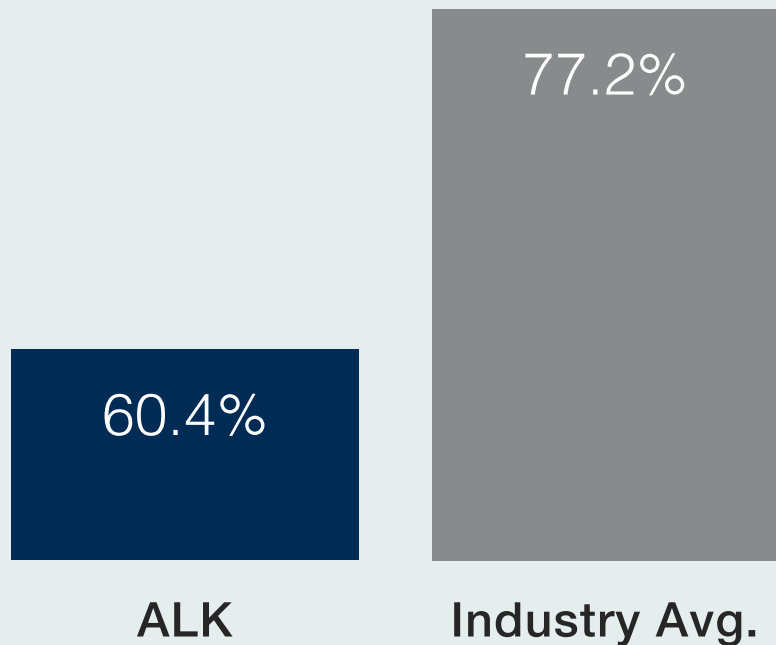


Block within Zero Minutes—Industry



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

Block within Zero Minutes



Why Does That Matter?



>13,000 Block Hours

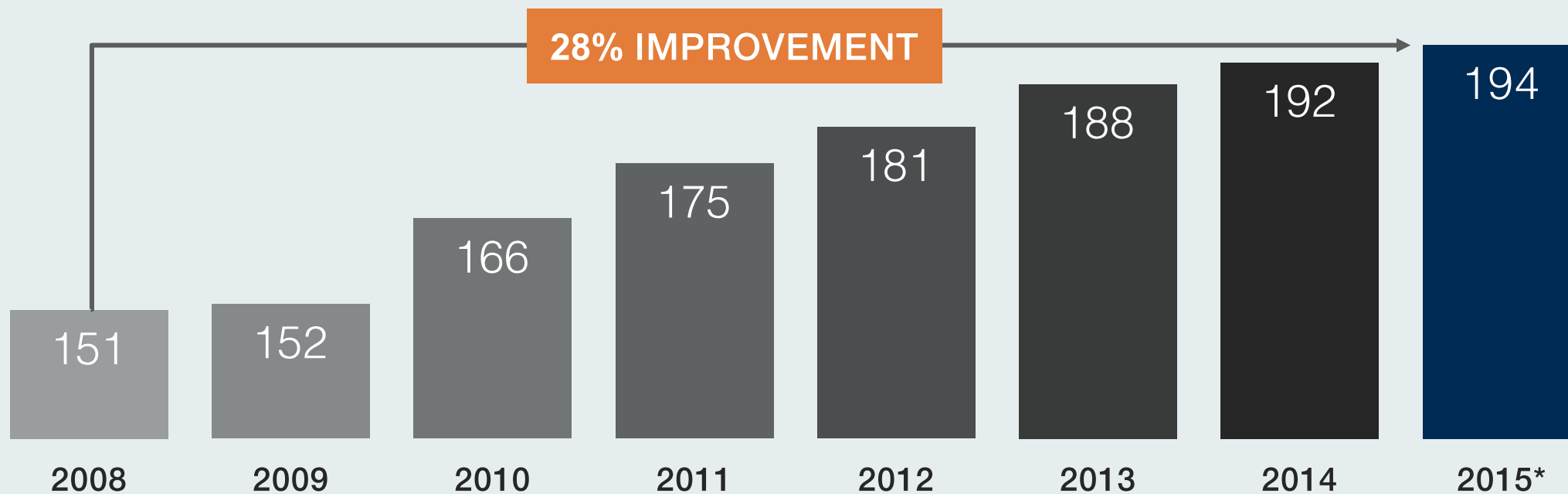


*2015 YTD

Alaska

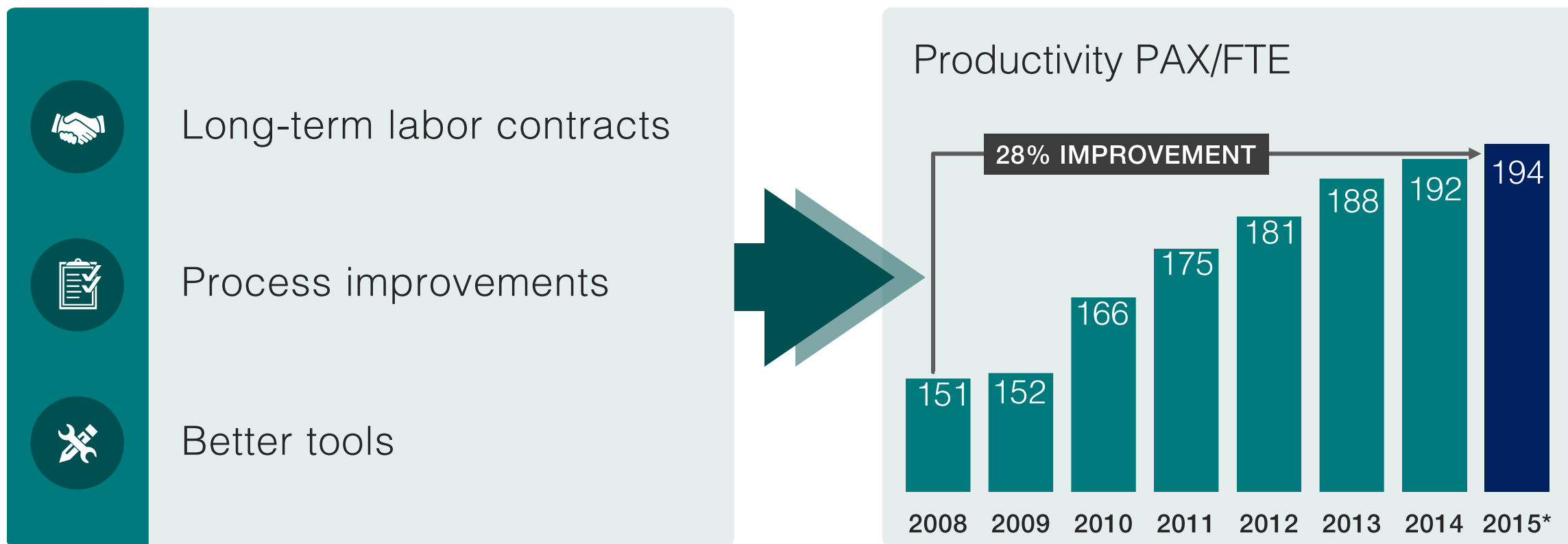
Our employees understand that **higher productivity** means lower costs

Productivity—PAX/FTE



Every 1% improvement in productivity = ~\$12M annually

We have **additional levers** to drive productivity higher



1 % improvement = ~ \$12M

We have **long-term contracts** with our employees structured to reward higher productivity

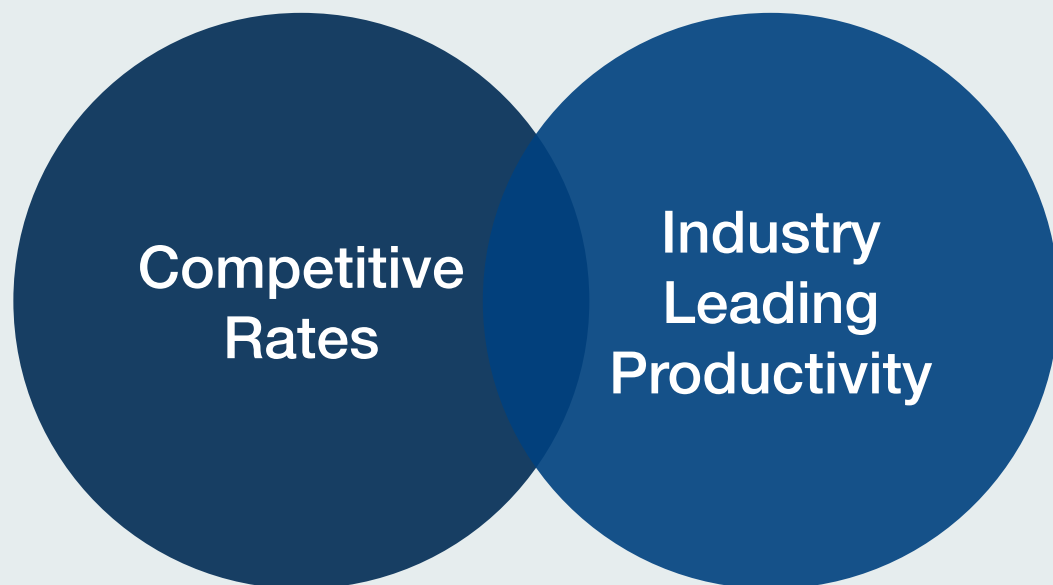
Long-term
Labor contracts



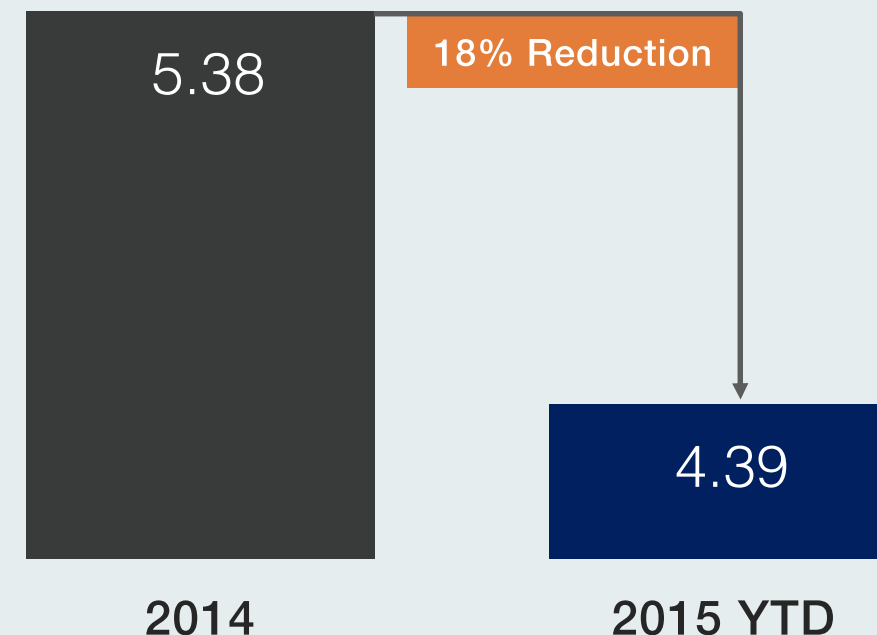
Process improvements



Better tools



Sick Time per Flight Attendant



Weighted average length of our contracts is ~3 years

We are improving our **processes** to eliminate waste while improving customer experience

Long-term
Labor contracts



Process improvements



Better tools



1

Print
(Home or kiosk)

2

Tag it

3

Drop it off



And equipping our employees with the right technology and **better tools** to serve our customers

Long-term
Labor contracts



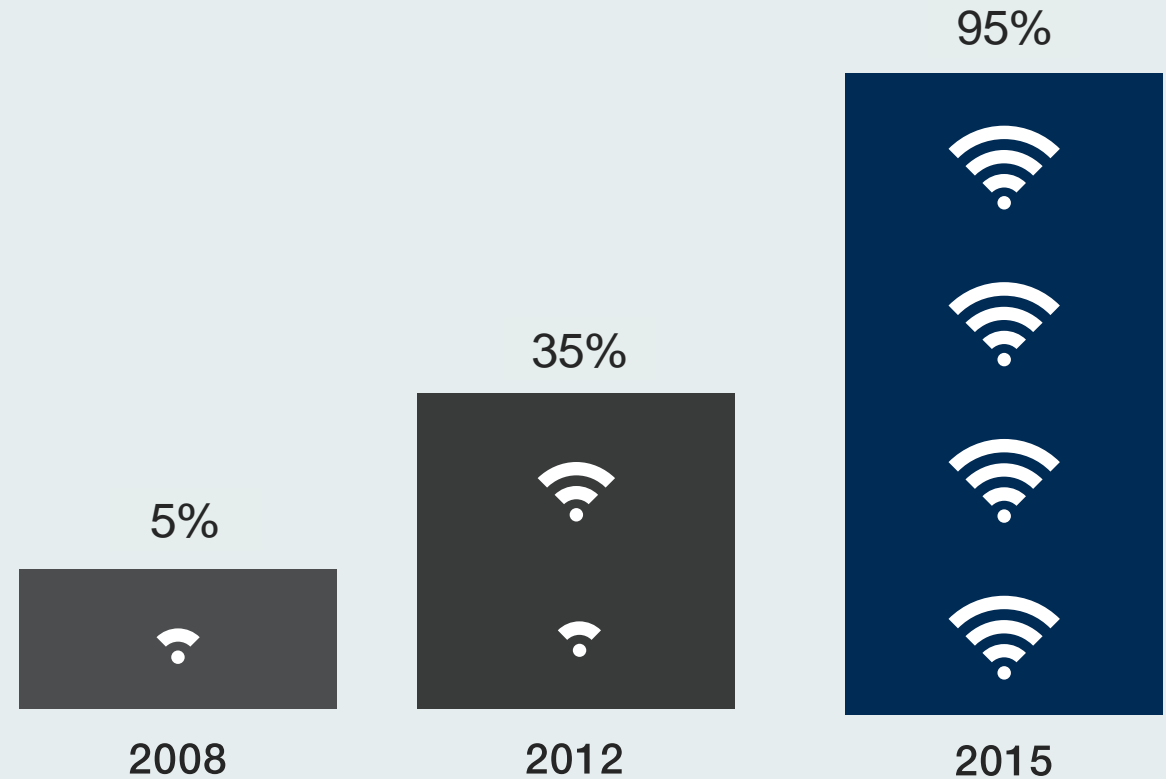
Process improvements



Better tools



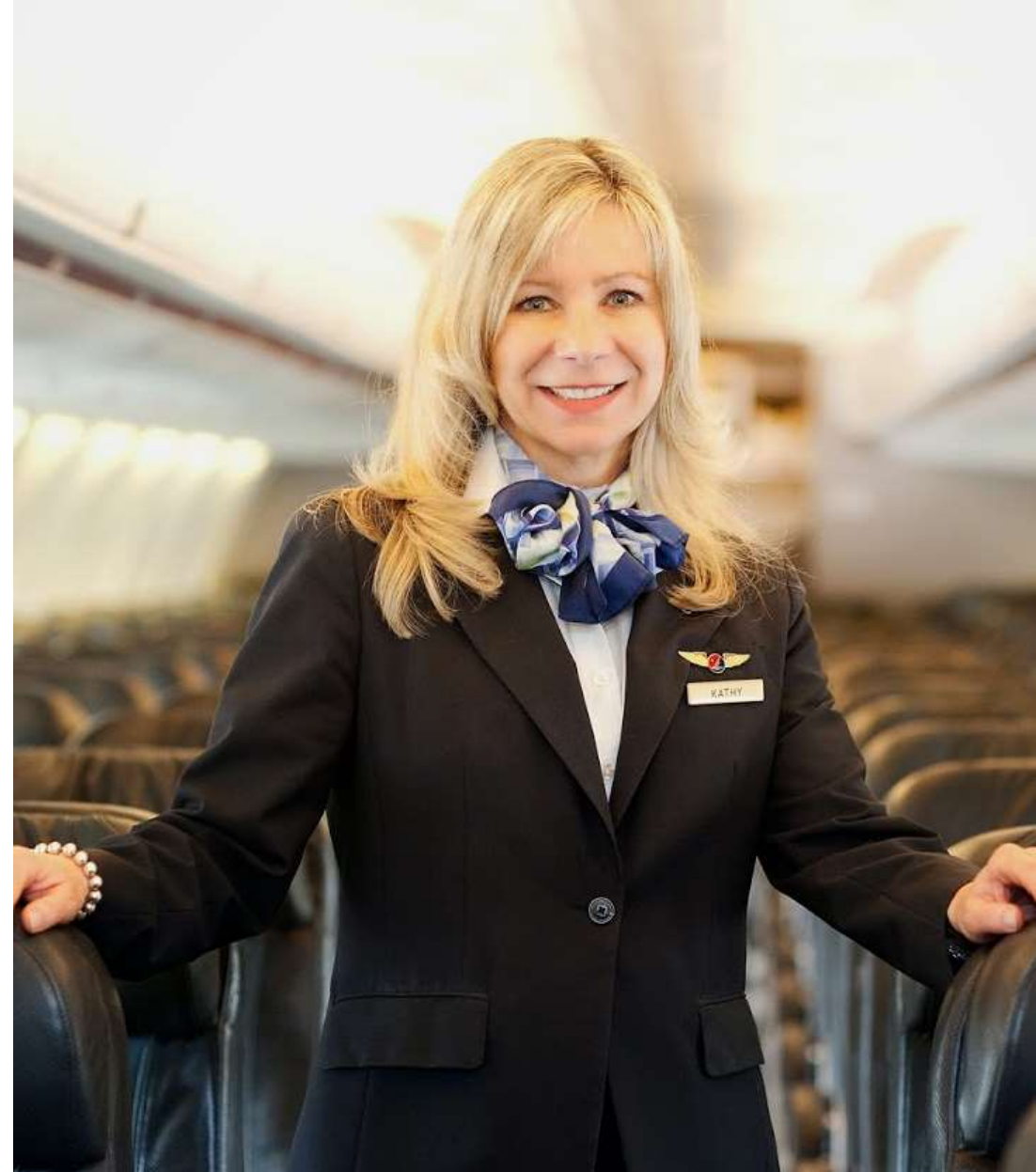
Mobile Workforce Connectivity



We were ranked #1 in customer satisfaction by J.D. Power for the **8th year in a row**

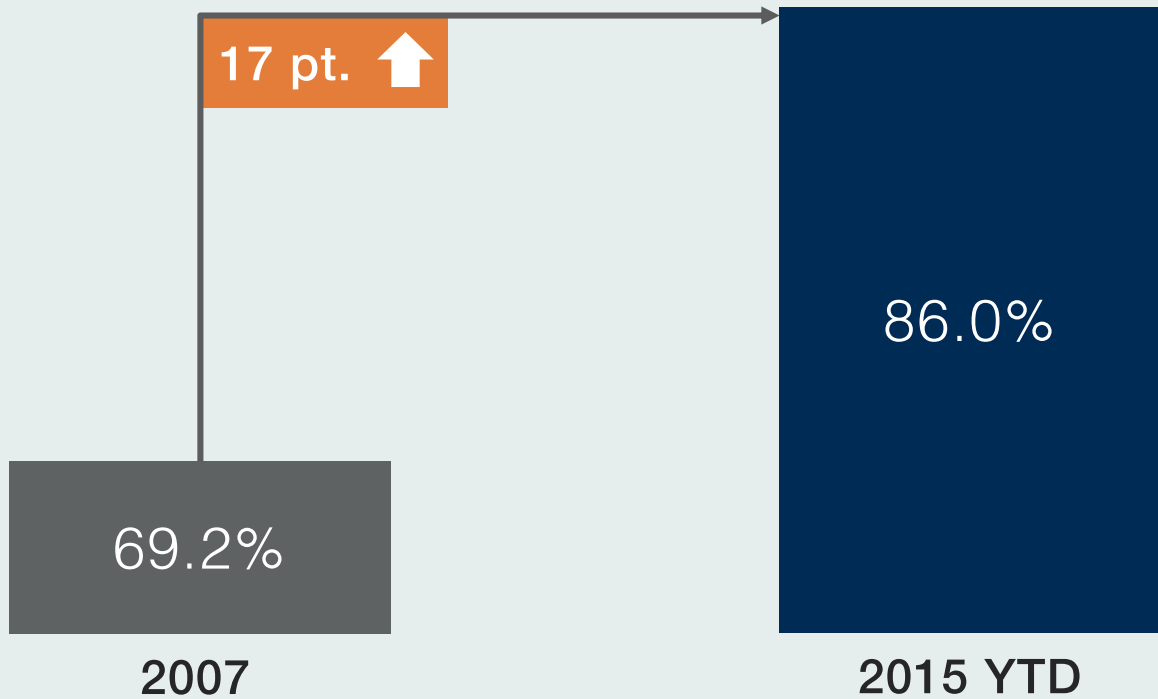


"Highest in Customer Satisfaction
Among Traditional Carriers in North America,
Eight Years in a Row"



More importantly, our internal customer satisfaction metric is at an **all time high**

Consistent Improvement in CSAT



This year we have invested significant time and effort to ensure that our **service advantage is sustainable**



Celebrate our heritage



Brand standards



Decision making framework



Immersive workshops



Empowered Frontline

63 workshops and 9,000 frontline employees



1. Industry leading operational reliability



2. Reliability is not bought by expensive block time



3. Our genuine and caring service is getting better



4. We have several levers to drive productivity higher





Growing our airline, responsibly

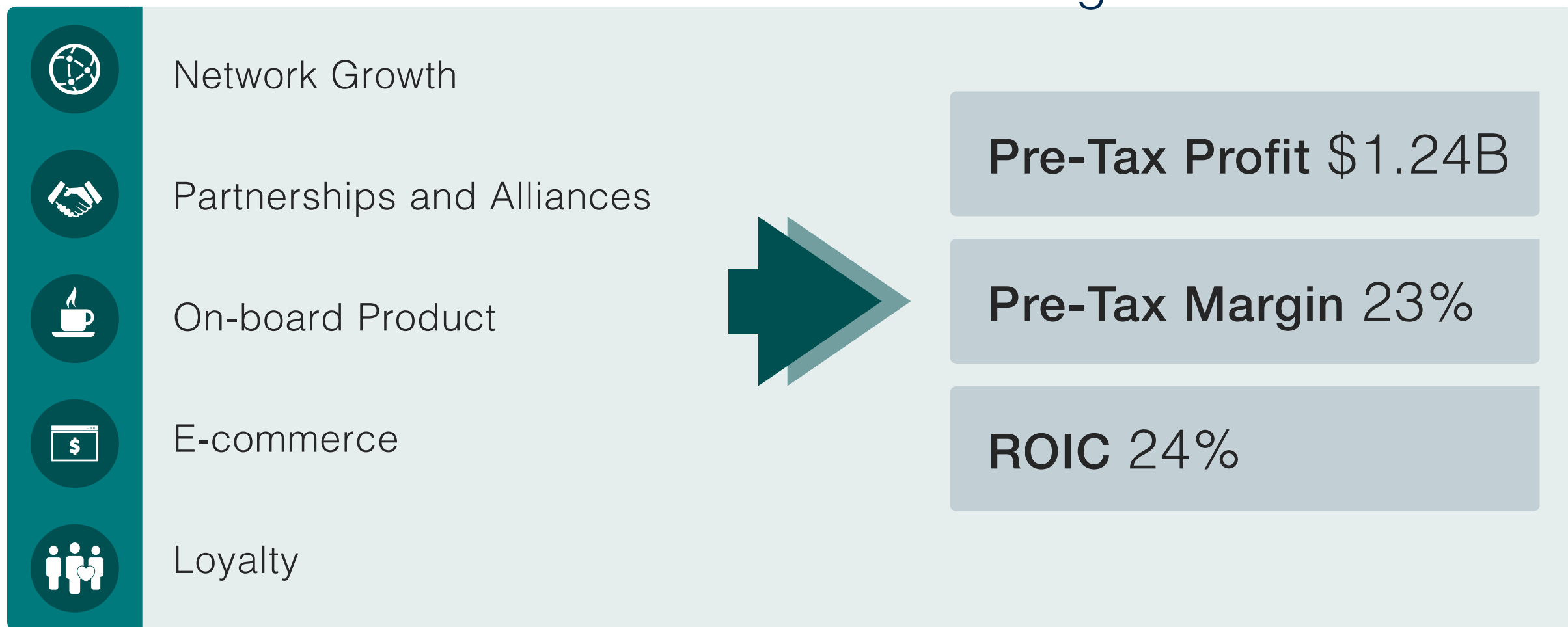
Andrew Harrison

Chief Commercial Officer



Alaska

In 2015, we strengthened our network, alliance partnerships, loyalty program, and enhanced our products...
...Which drove strong financial results



*Based on LTM 2Q15 actuals



Network: growth and diversification



Network Growth



Partnerships and Alliances



On-board Product



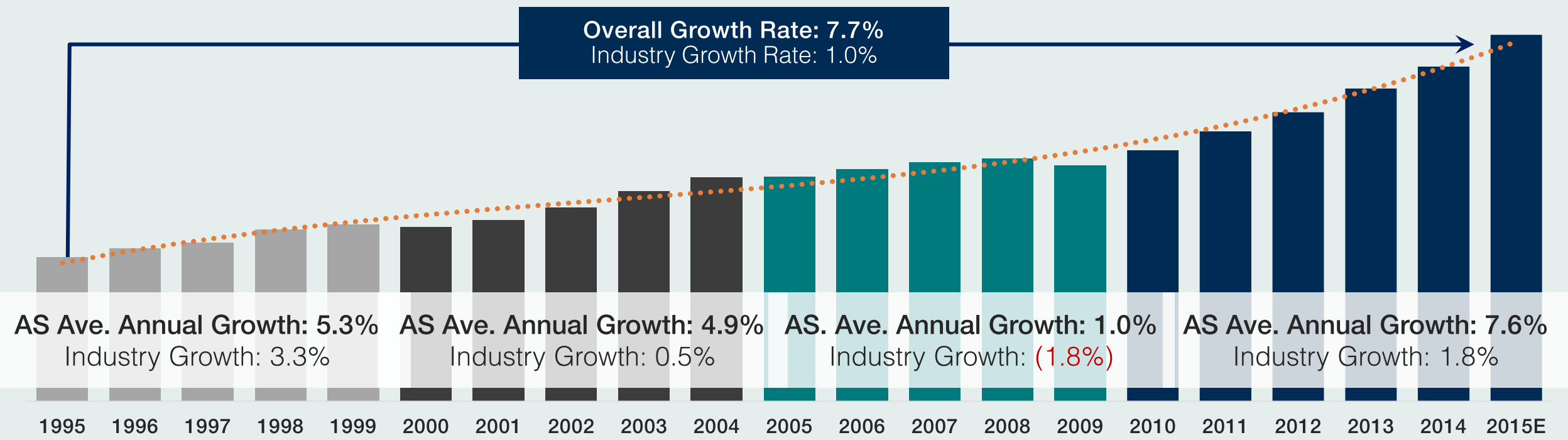
E-commerce



Loyalty

...Over the Long term, Alaska has a history of **successful growth**

Alaska Mainline ASM Growth by Year, 1995–2015

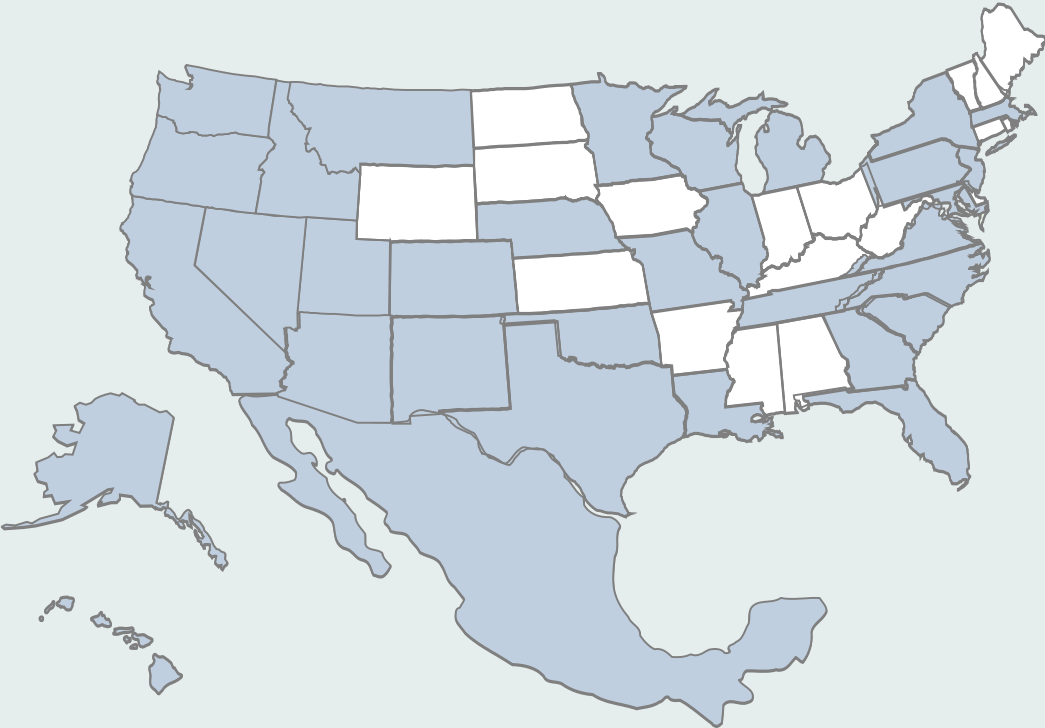


*U.S. Domestic Industry Data from A4A



Since 1995, Alaska has **added service** to 24 additional states, materially increasing revenue and diversifying the network

AAG Network, YE 2015



	1995	2015E	Difference
States Served	9	33	+24
Cities Served	78	114	+36
Annual Revenue	\$1.5B	\$5.5B	+260%

Since 2010 we have launched **90 new markets**
and entered 26 new cities

14 New Markets in 2010
1 New City

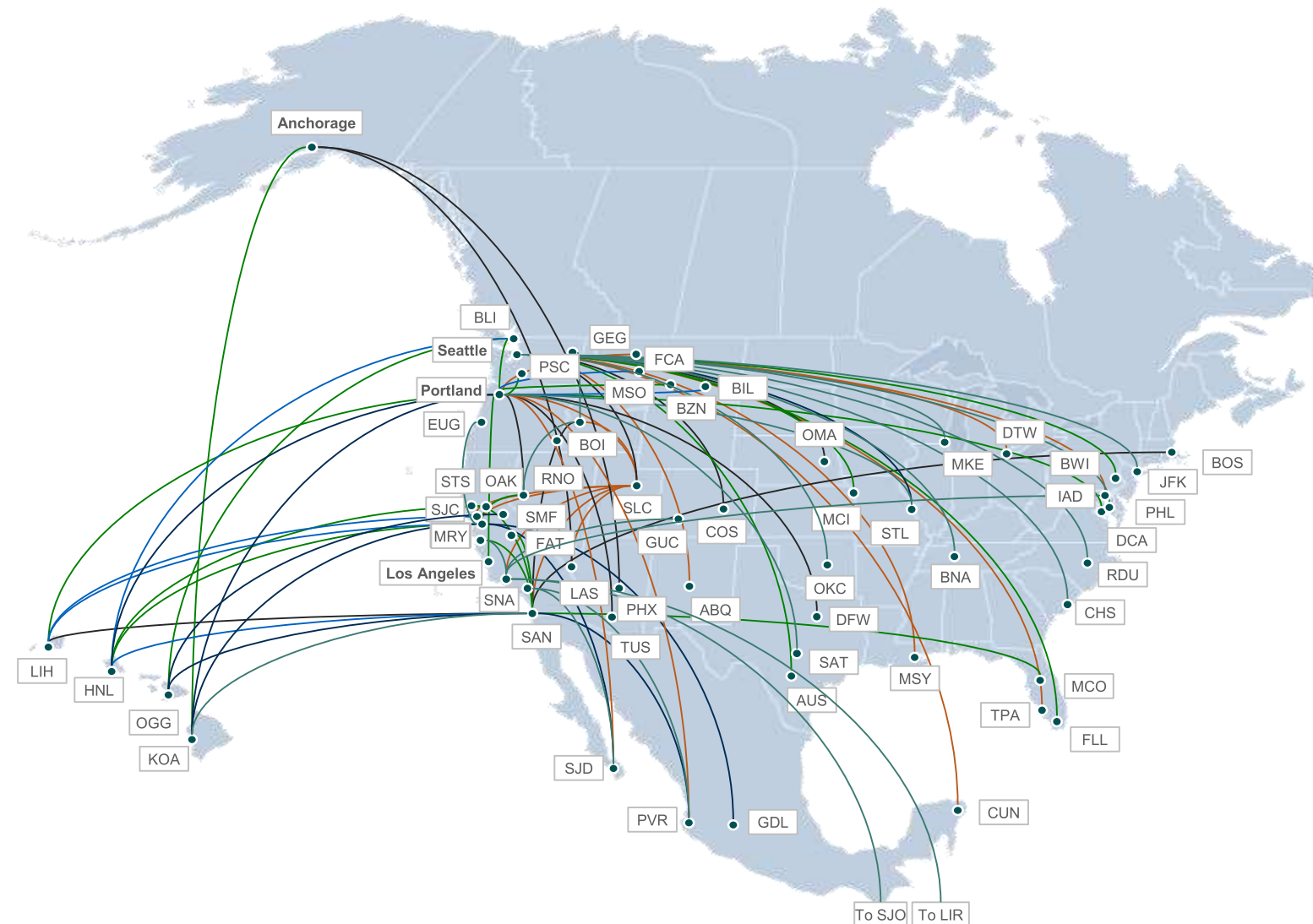
6 New Markets in 2011
No New Cities

19 New Markets in 2012
5 New Cities

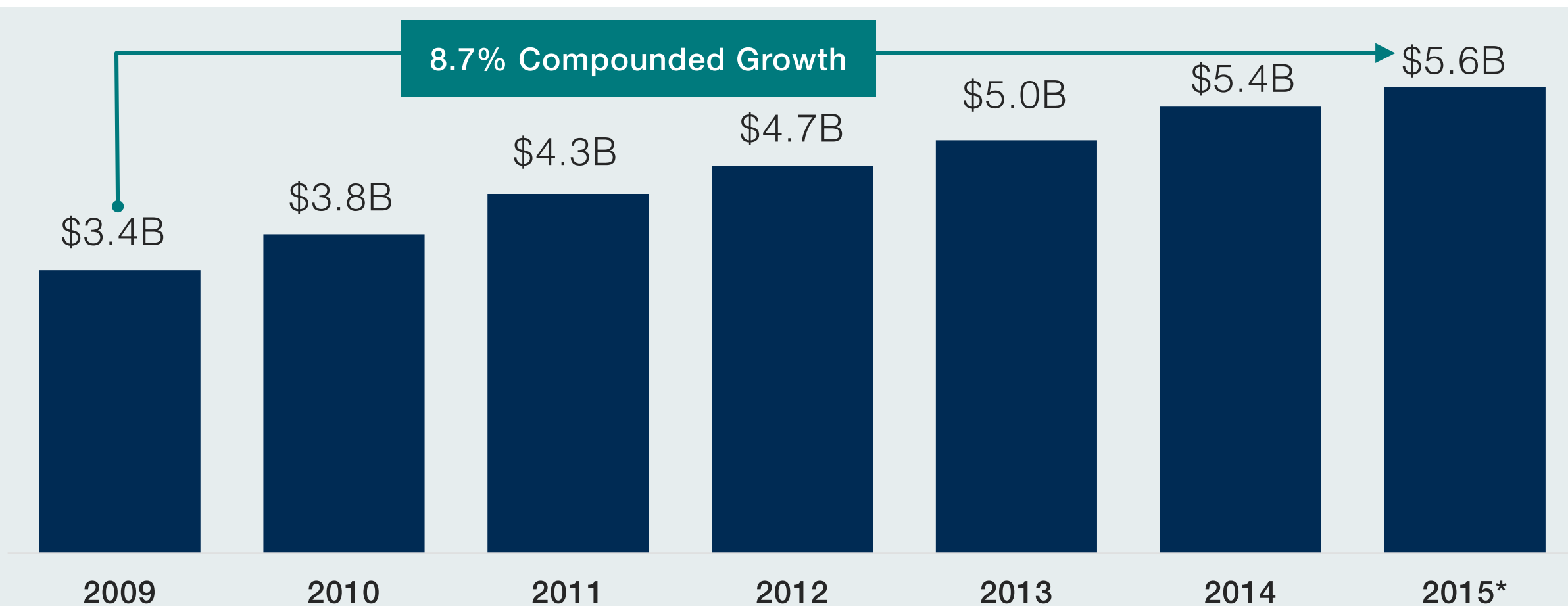
15 New Markets in 2013
4 New Cities

16 New Markets in 2014
6 New cities

20 New Markets in 2015
10 New Cities



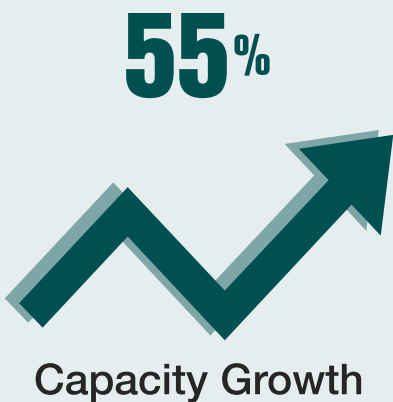
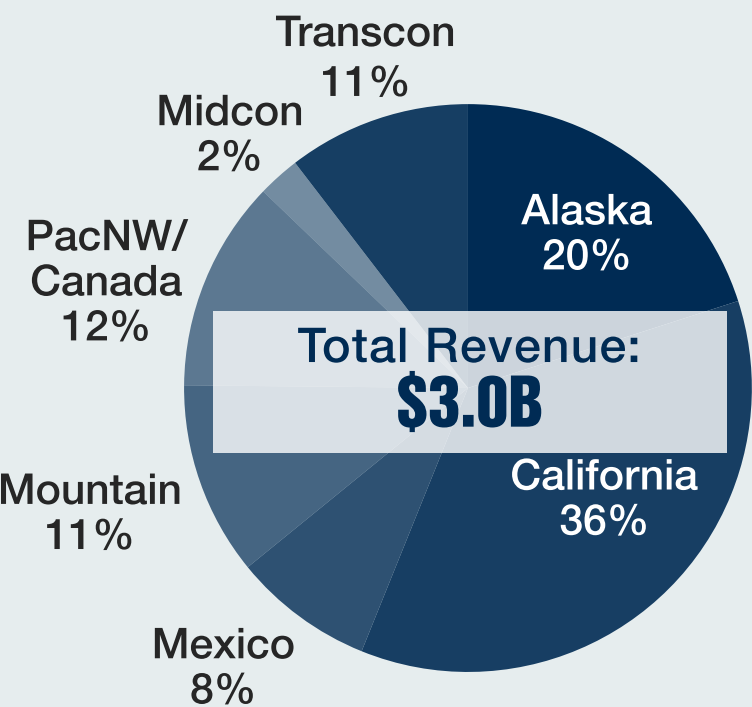
And **revenue** has kept pace with growth



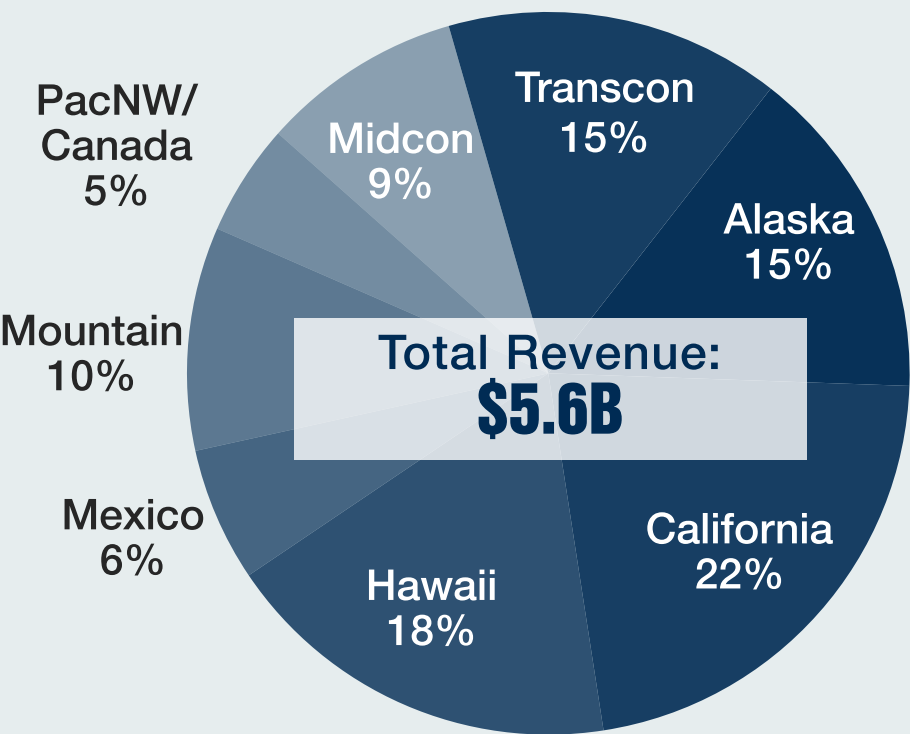
55% aggregate revenue growth

Our growth has enabled us to diversify and **strengthen our network**

Alaska in 2005

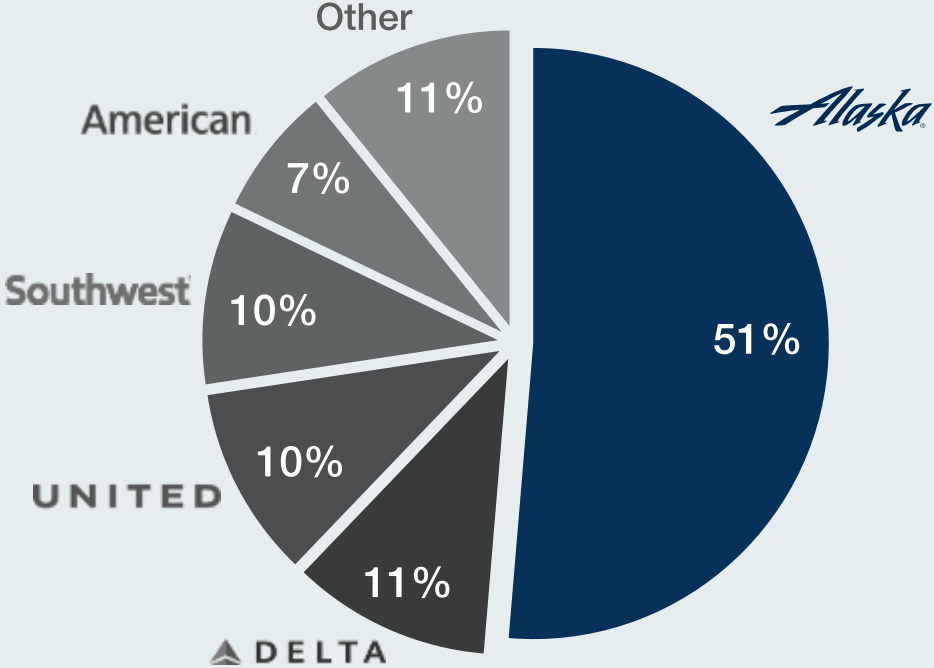


Alaska in 2015

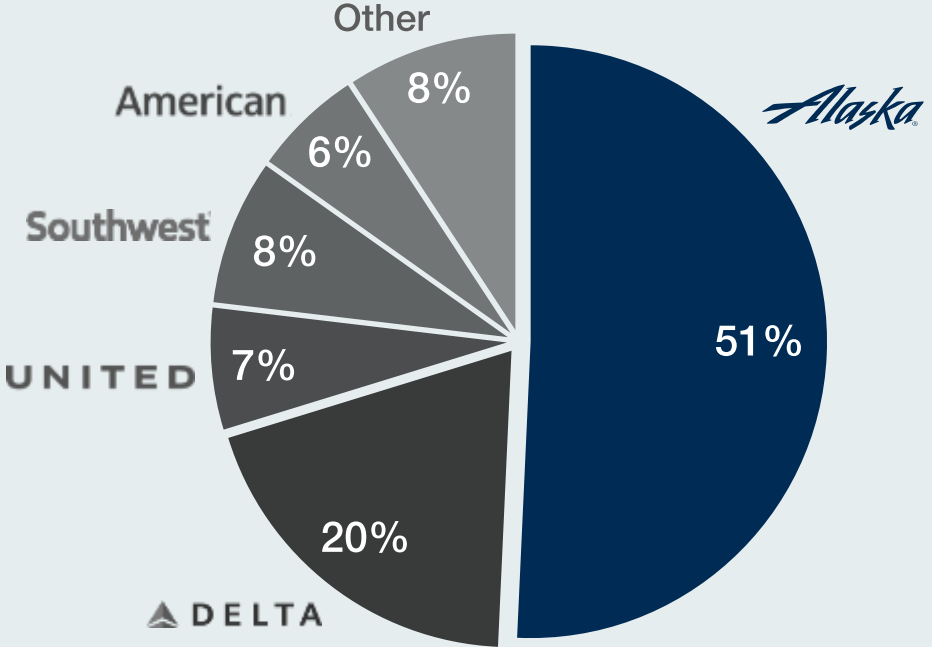


While retaining our **seat share** in Seattle in the face of unprecedented competition

SEA Seat Share, YE 2012



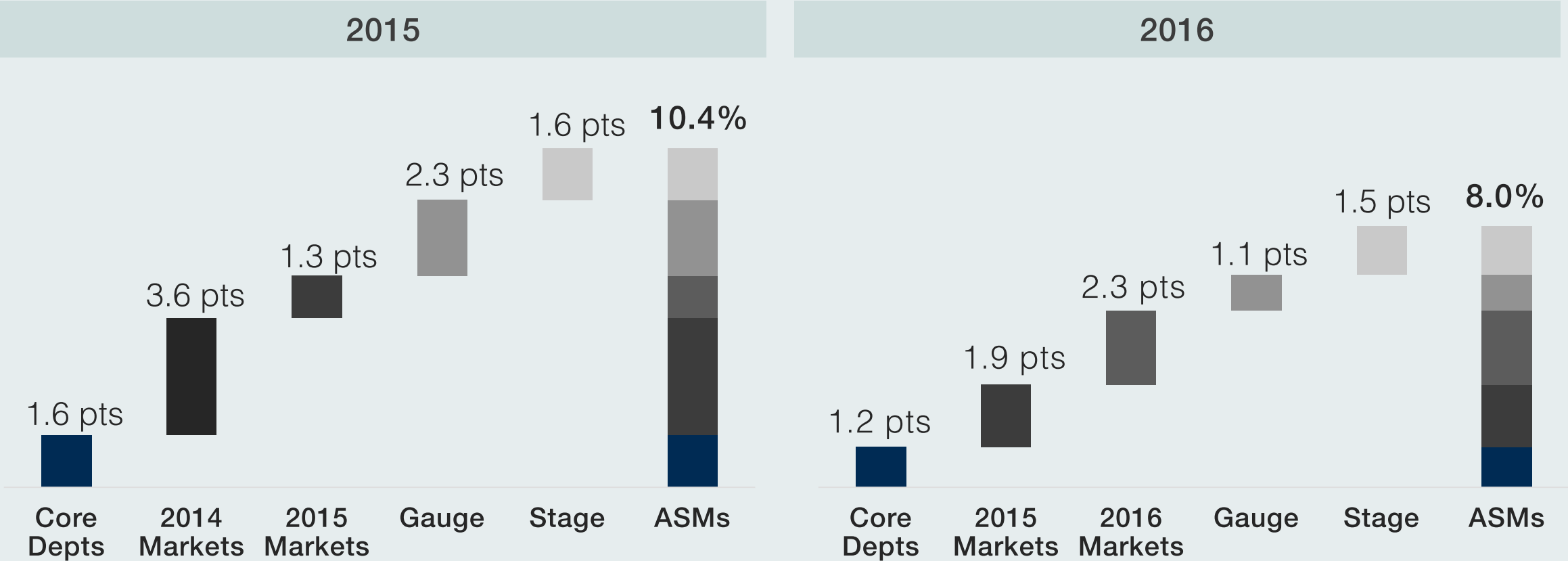
SEA Seat Share, YE 2015



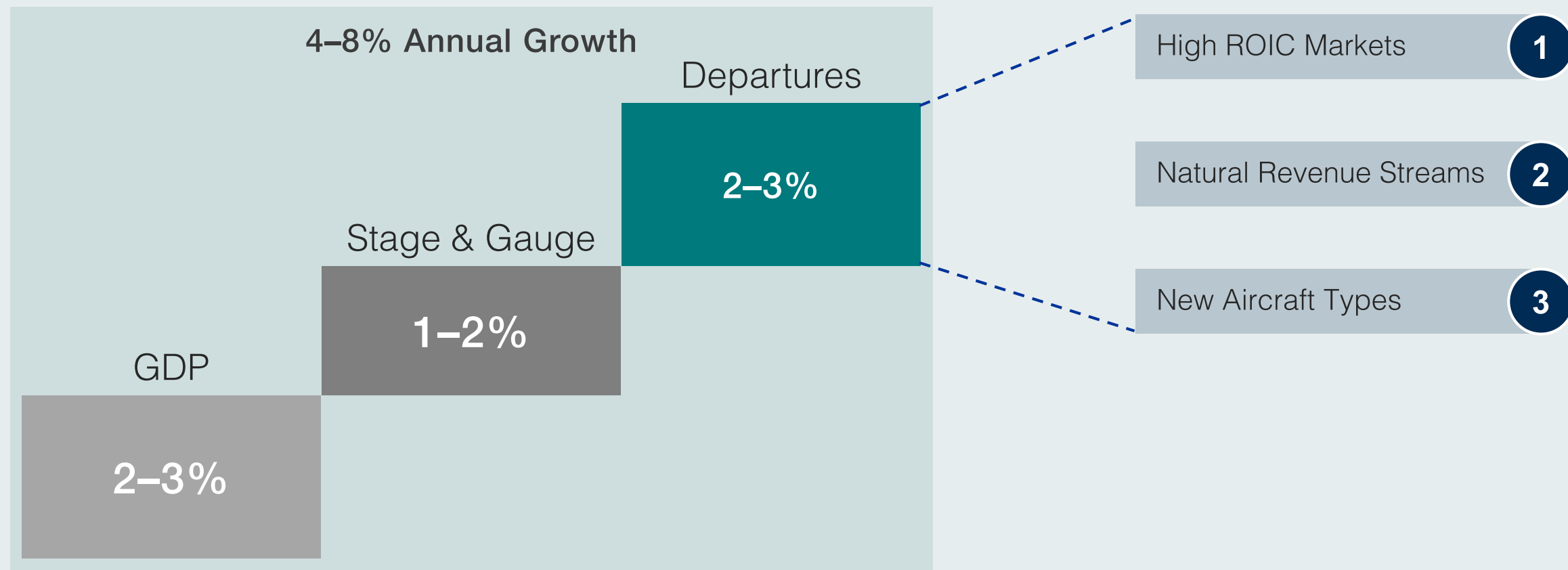
Airline						Other
Depts.	236	30	43	36	23	36

Airline						Other
Depts.	275	101	29	35	24	36

Capacity growth rate slows in 2016



We are confident in our ability to grow 4–8% annually



1 transcon roundtrip is ~75bps of annual growth

We will add capacity into markets where strong demand is resulting in margins far higher than system average

High ROIC Markets



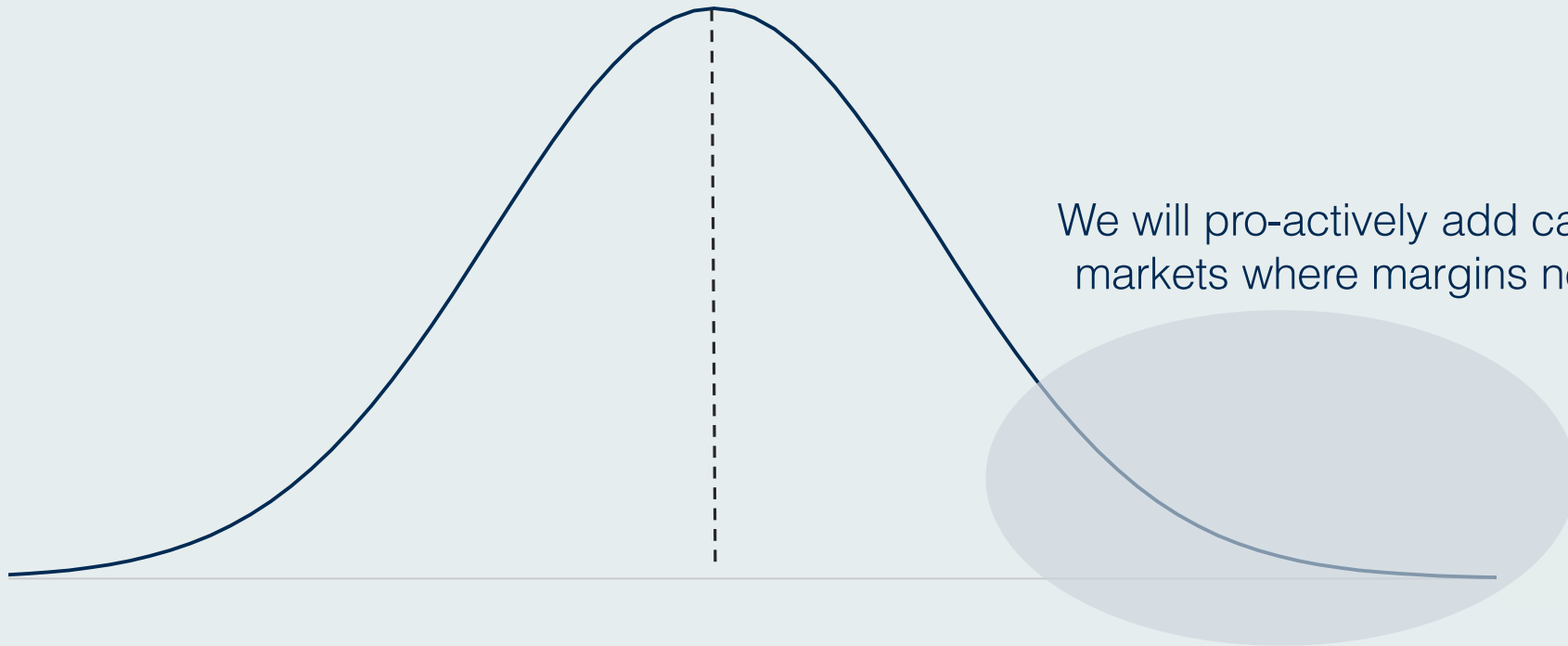
Natural Revenue Streams



New Aircraft



Average Pre-Tax Margin Over the Cycle



Margin Distribution curve is for illustrative purposes only



Baltimore is an example of a market that lacked year round non-stop service from SEA—an opportunity for Alaska to grow from a place of strength
...and **performance has been strong**

High ROIC Markets



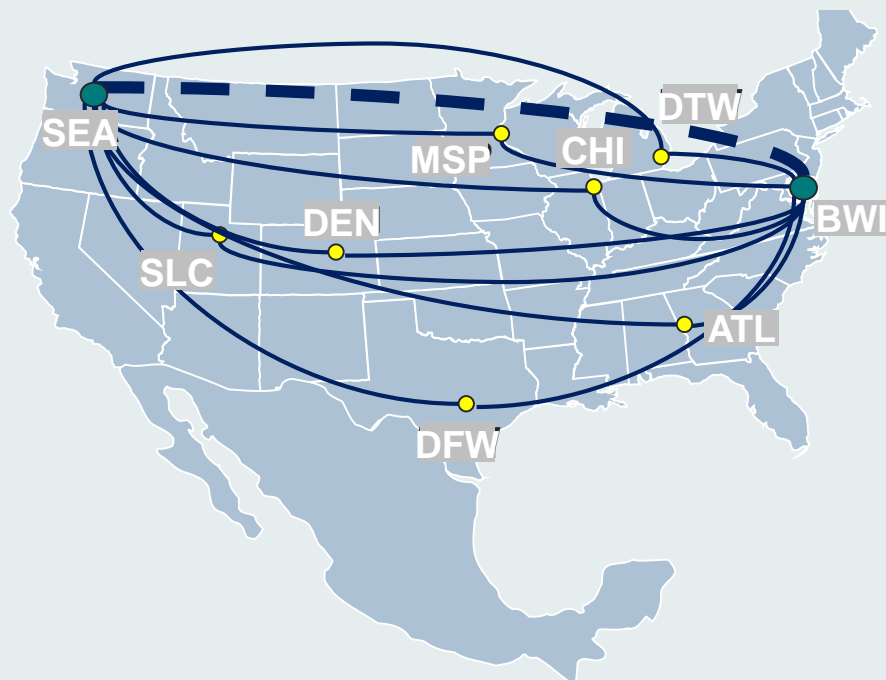
Natural Revenue Streams



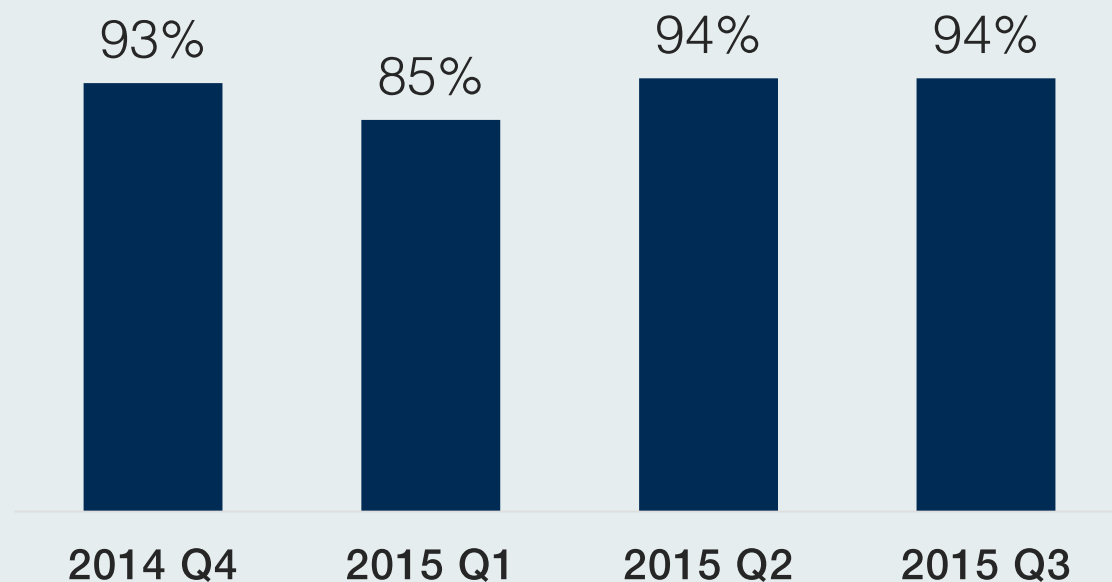
New Aircraft



Baltimore to Seattle Market After
AS Entry (304 PDEW, **+70**)



Alaska Baltimore to Seattle Load Factors
Since Entry



Regional jet opens up new market opportunities

High ROIC Markets



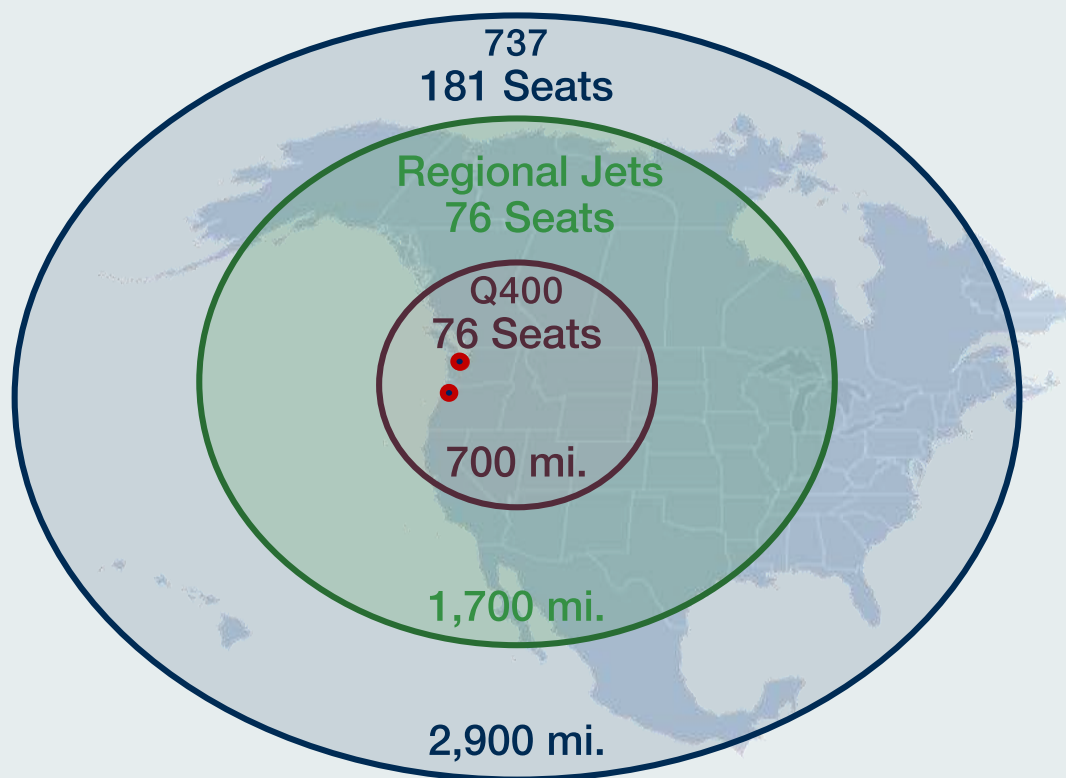
Natural Revenue Streams



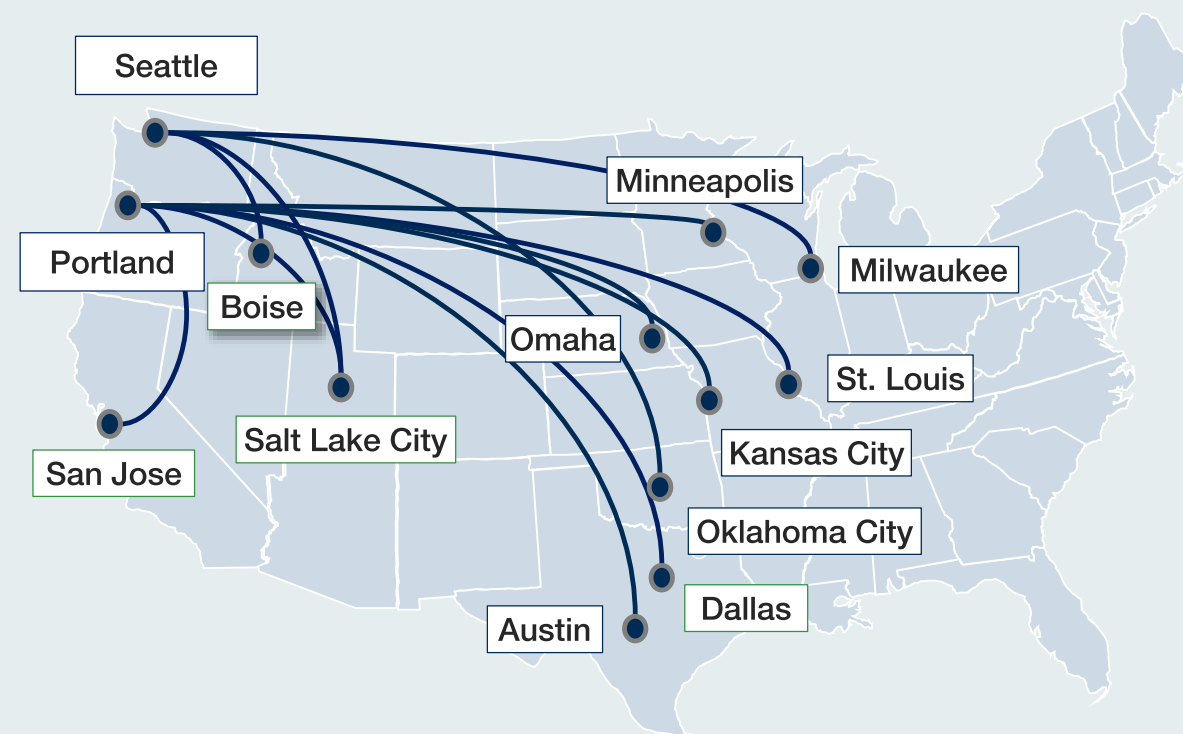
New Aircraft



Air Group's Fleet Range



Regional Jet Routes Launched to Date



First 7 regional jet steady-state annual revenue projected to be >\$130M

Partnerships: getting stronger and improving network utility



Network Growth



Partnerships and Alliances



On-board Product



E-commerce

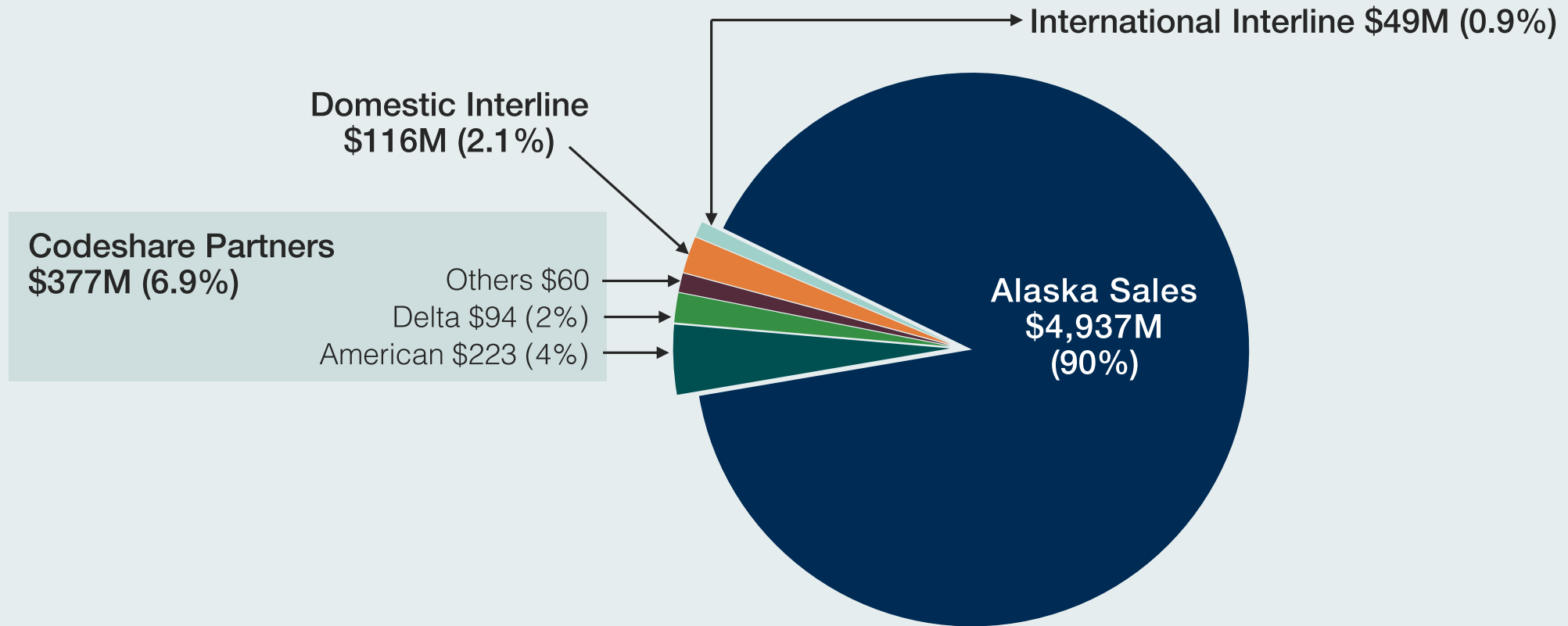


Loyalty

Our partner portfolio gives our customers global reach



90% of revenue is Alaska generated and partner traffic remains robust, while composition has shifted



*Total Onboard PAX and Revenue; YE Oct 2015



Product: thoughtful product updates



Network Growth



Partnerships and Alliances



On-board Product



E-commerce



Loyalty

We have invested in our product and customer experience

Power at Every Seat



Enhanced Airport Experience



Streaming Entertainment



Upgraded Food Options



Award Winning Mobile Tech



Alaska

And have further enhancements on the way in 2016

48% more carry on bags
=
Space for additional 57 bags



ATG4 WiFi **3x** faster



Alaska

E-commerce: making travel hassle-free for Alaska customers



Network Growth



Partnerships and Alliances



On-board Product



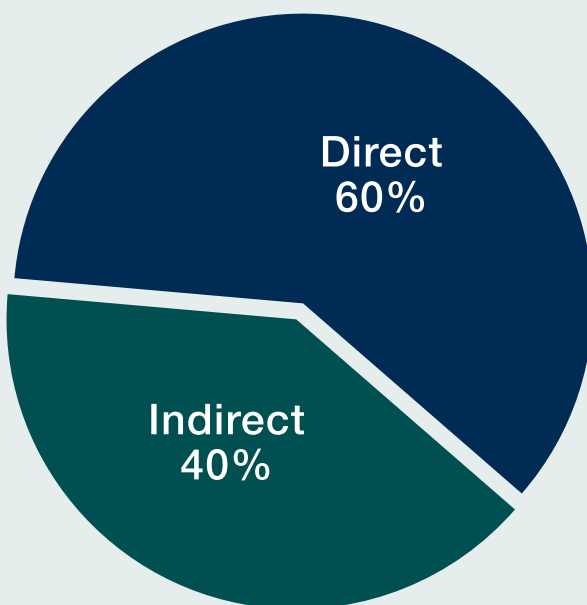
E-commerce



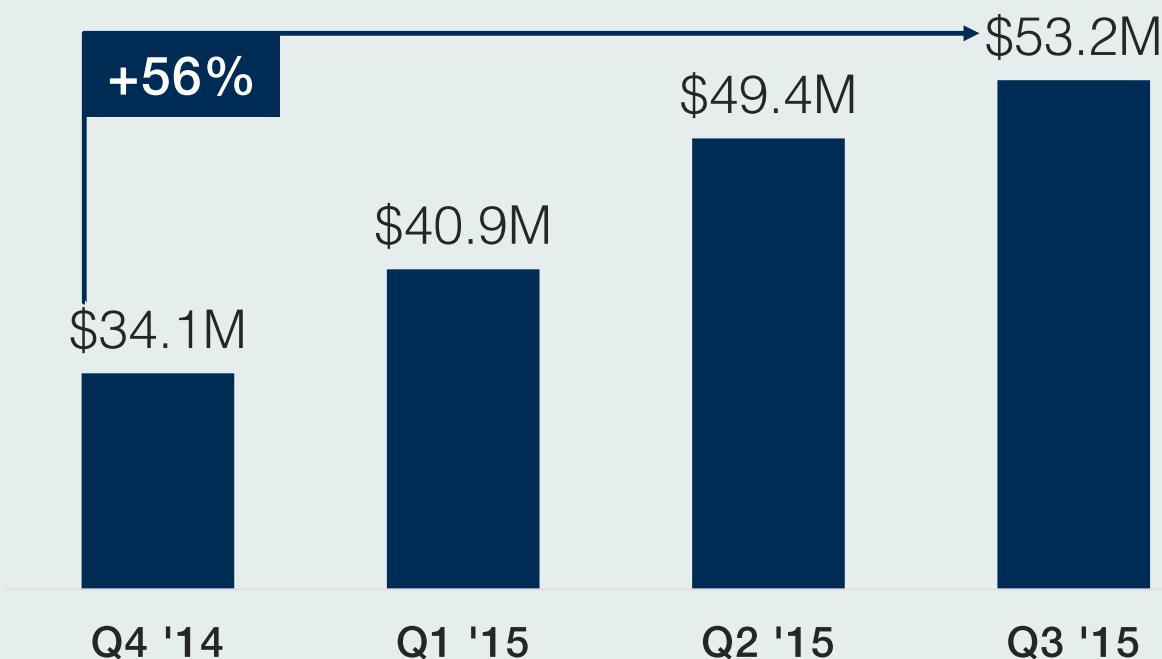
Loyalty

60% of Alaska's revenue is booked directly... ...and Mobile is growing rapidly

AS Booked Revenue by
Distribution Channel



Total Mobile Revenue by Quarter



*Mobile Apps include iOS, Android, and Windows Mobile



Revenue generated by Alaska's top rated mobile app has increased 71% versus 2014

Only 5 Star Airline App on iTunes



Customer Use and Revenue have Increased



*Data as of November 2015



Loyalty: growth in mileage plan & affinity credit card unlocking value



Network Growth



Partnerships and Alliances



On-board Product



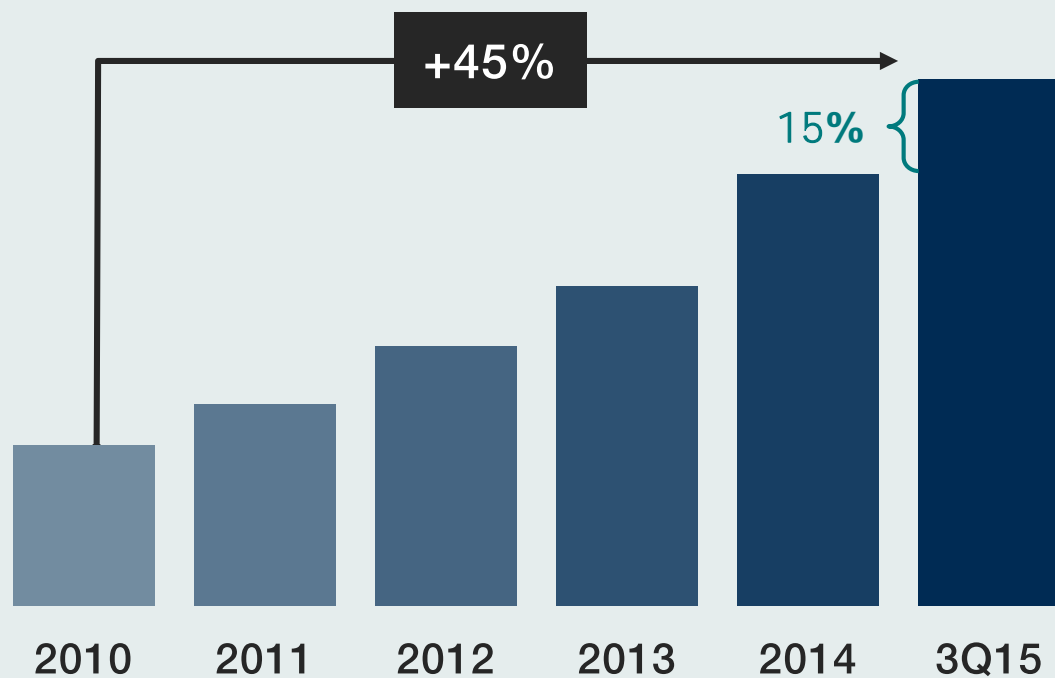
E-commerce



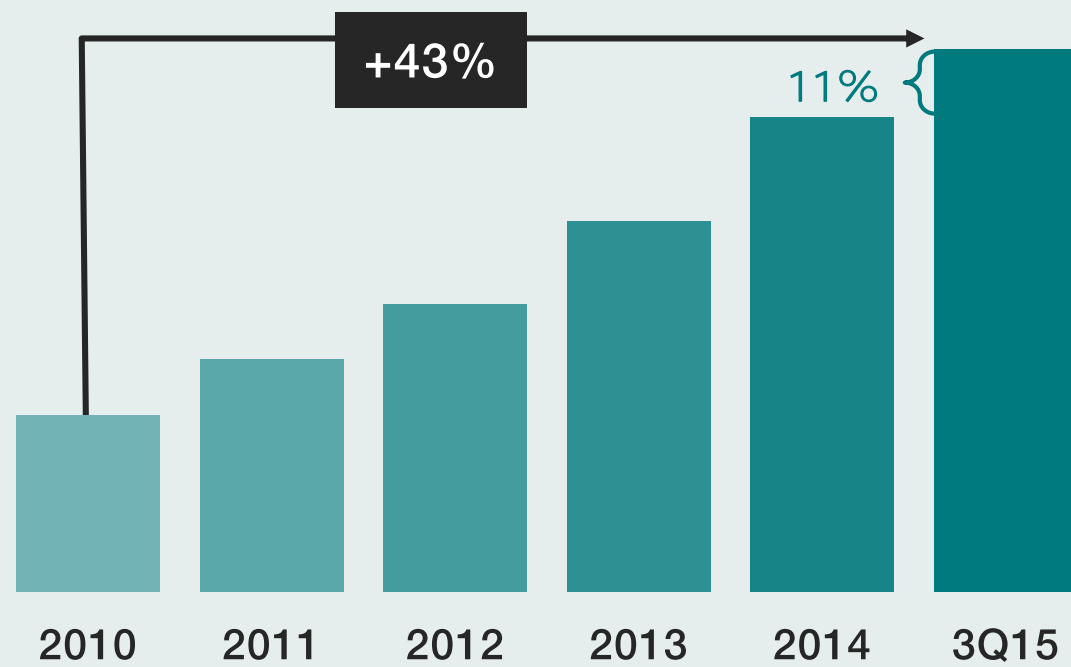
Loyalty

Both mileage plan and affinity card memberships are up over 10% versus 2014

Mileage Plan Members



Affinity Card Membership



*All data is year ending Q3



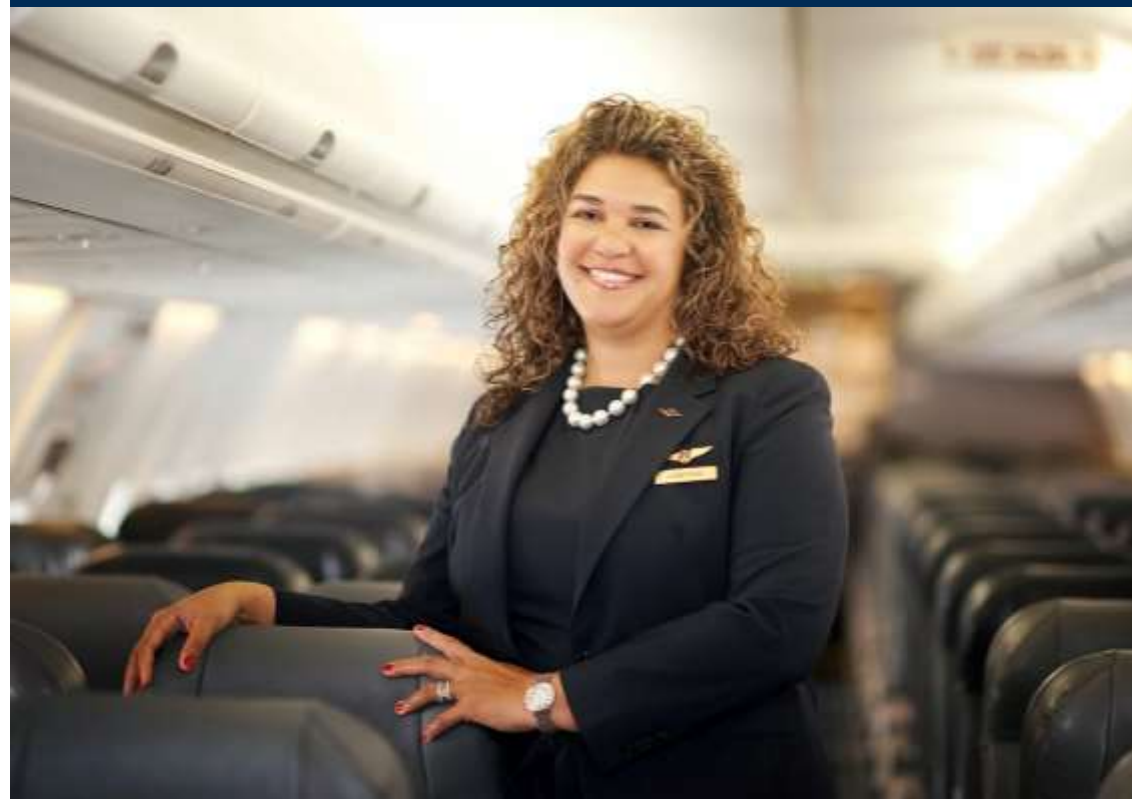
What's new for 2016:

More value for our customers, more revenue for Air Group

Affinity Card Enhancements



Premium Economy



Alaska's industry leading credit card is a key loyalty driver



	Alaska	DELTA	American Airlines	UNITED	Southwest
Annual Fee	\$75	\$95	\$95	\$95	\$99
Miles for on Airline Spend	3X	2X	2X	2X	2X
Companion Certificate	\$99	x	x	x	x
Top Rated Loyalty Program*	✓	x	x	x	x
Free Bag	✓	✓	✓	✓	✓
Foreign Transaction Fees	0%	0%	0%	0%	0%
Bonus Miles	30K	30K	30K	30K	25K

*JD Power and Associates, 2014 Airline Loyalty Rewards Satisfaction Report

New benefits for members start in 2Q16



Our new card agreement makes our credit card product more attractive to our customers and adds \$60 million in incremental annual revenue

New Customer Benefits



\$60M in New Annual Revenue



Starting in Q4 2016, Alaska will introduce Dedicated Premium Class product on 737's and E-175's



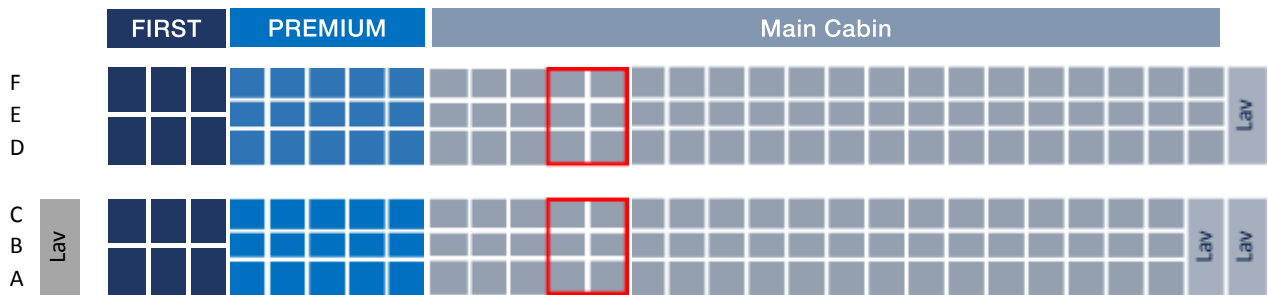
737-800 (159 Seats after Reconfig.)	
First Class Seats	-4
Premium Economy Seats	+30
Main Cabin Seats	-30
Net Seats	-4



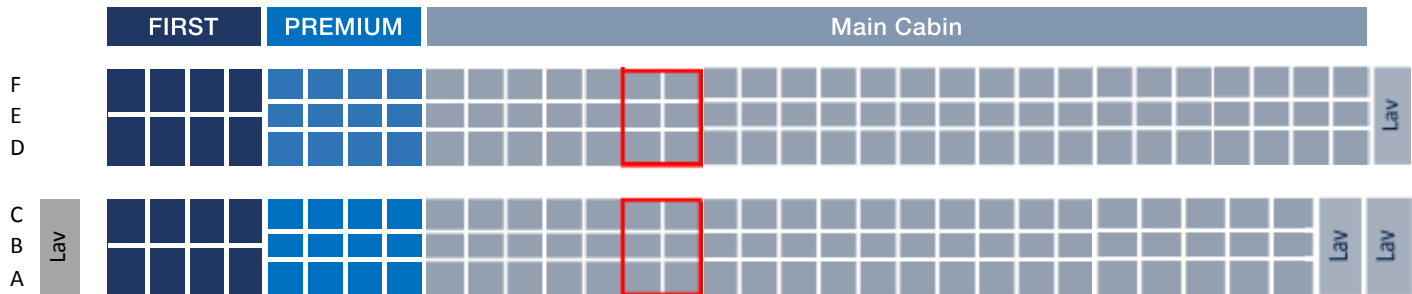
737-900ER (178 Seats after Reconfig.)	
First Class Seats	No Change
Premium Economy Seats	+24
Main Cabin Seats	-27
Net Seats	-3

New Premium Seats added to 737/E-175

737-800



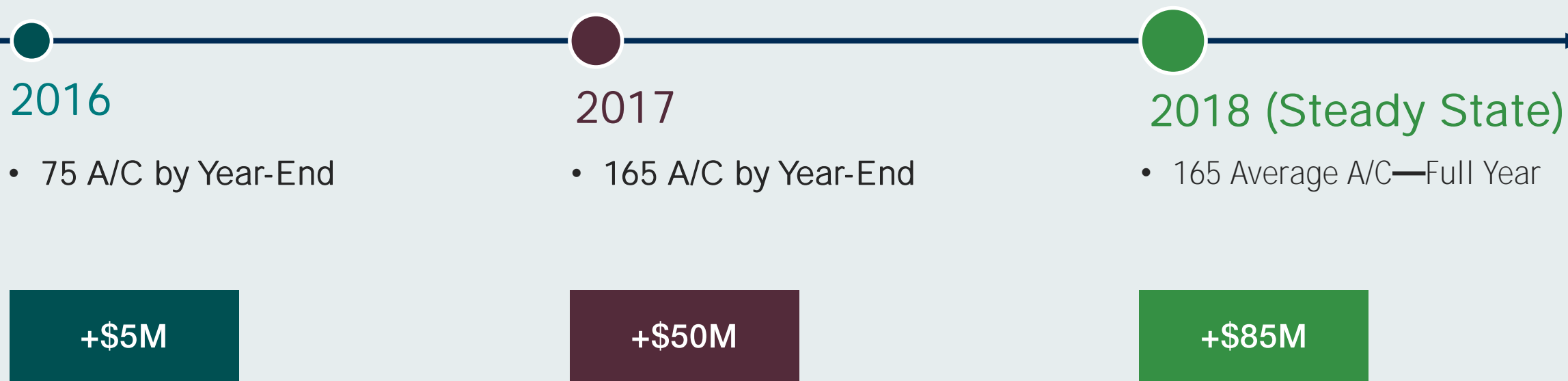
737-900



Despite these cabin changes, average gauge will increase ~5% by 2018 due to fleet mix change

Premium Class will add over \$85 million in annual profit by 2018

Premium Economy Aircraft Timeline





1. Confident in our plan to grow 4%–8% annually



2. Partnerships are getting stronger



3. Loyalty program is growing rapidly



4. Unlocking nearly \$150M of new margin





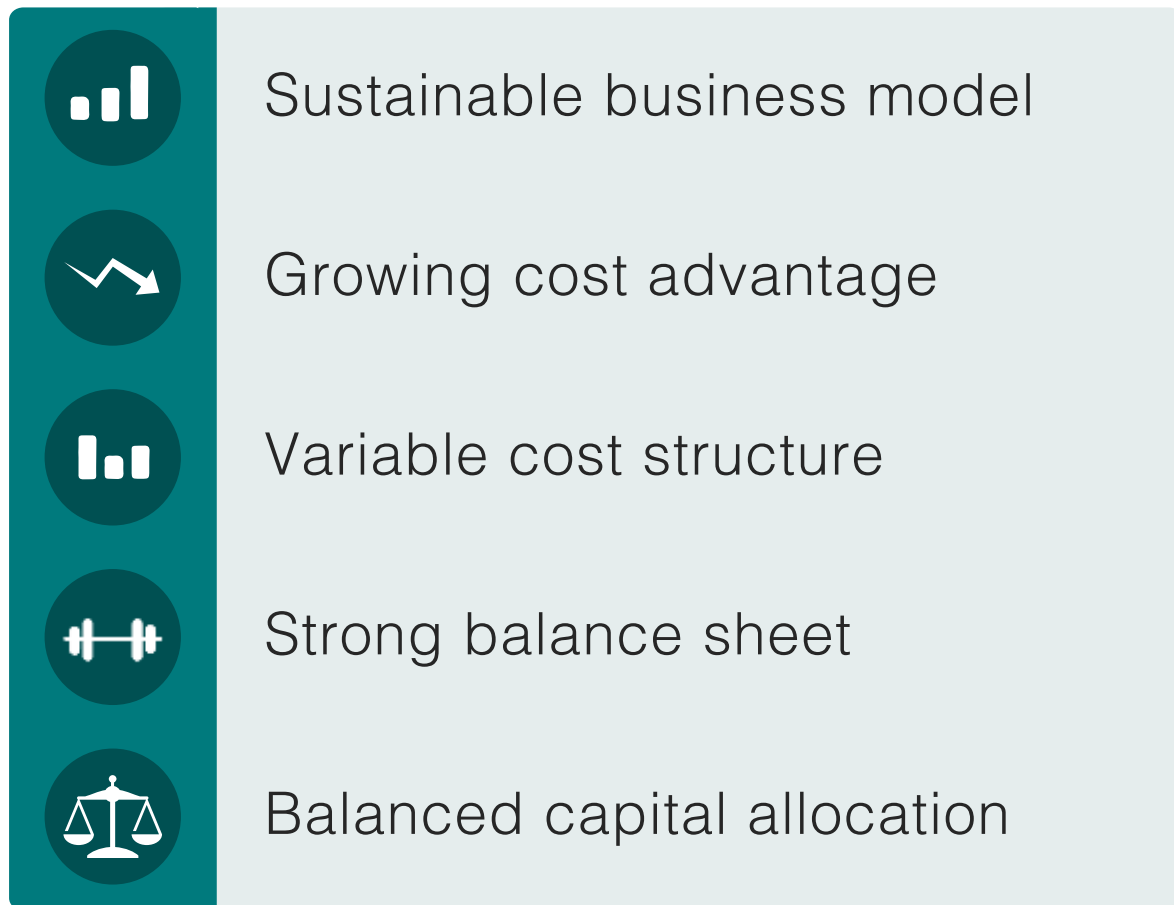
Creating long-term value for our shareholders

Brandon Pedersen

Chief Financial Officer (*The other CFO*)



We are **well positioned** to create **long term value**



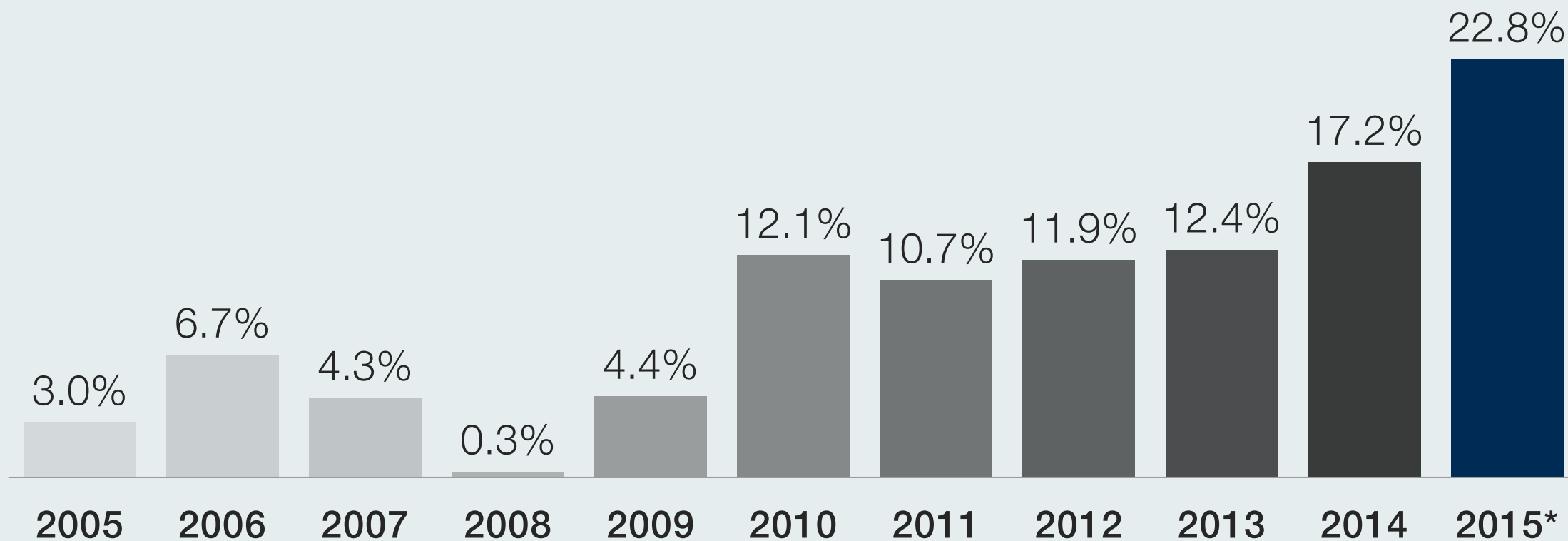
Sustainable Performance



Incremental Shareholder Returns

We have been profitable each of the last **10 years**

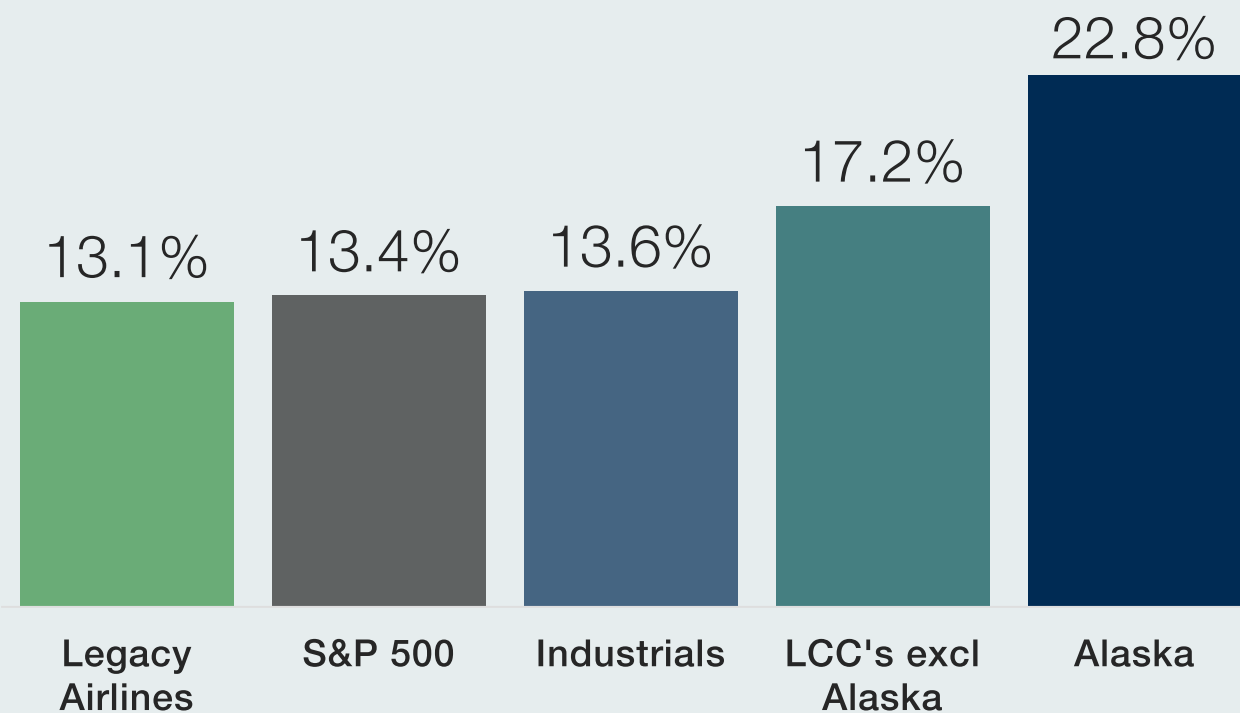
Pre-Tax Margin



And have generated over \$4.5 billion in pre-tax profits over that time

Our returns have been **consistently above** our industry and now **exceed** S&P 500 average

Industry and Sector Leading Pre-Tax Margin (LTM3Q15)

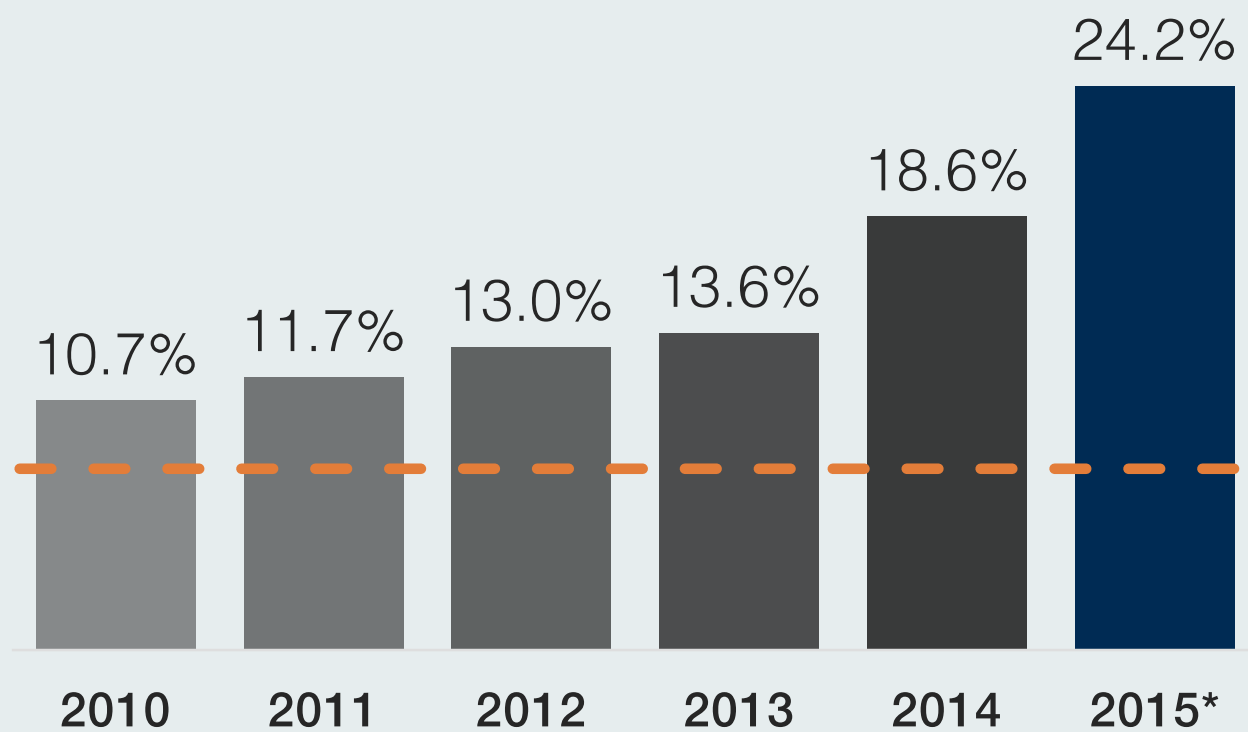


Network: AAL, DAL, UAL. LCC's excl ALK: LUV, HA, JBLU, SAVE, and ALGT
Airlines* include legacy and low cost carriers but exclude ALK
Industrials refers to all industrial companies included in the S&P 500



And we are consistently exceeding our **cost of capital**

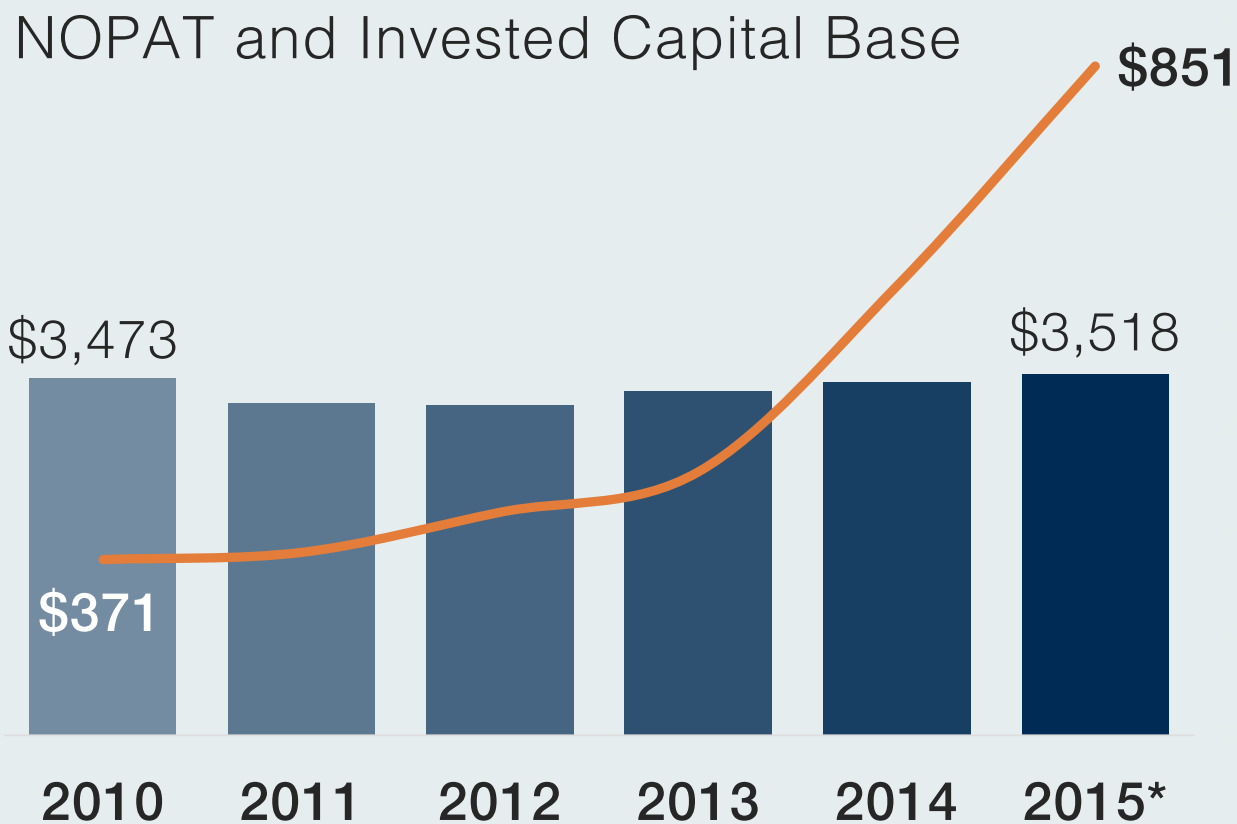
After-Tax Return on Invested Capital



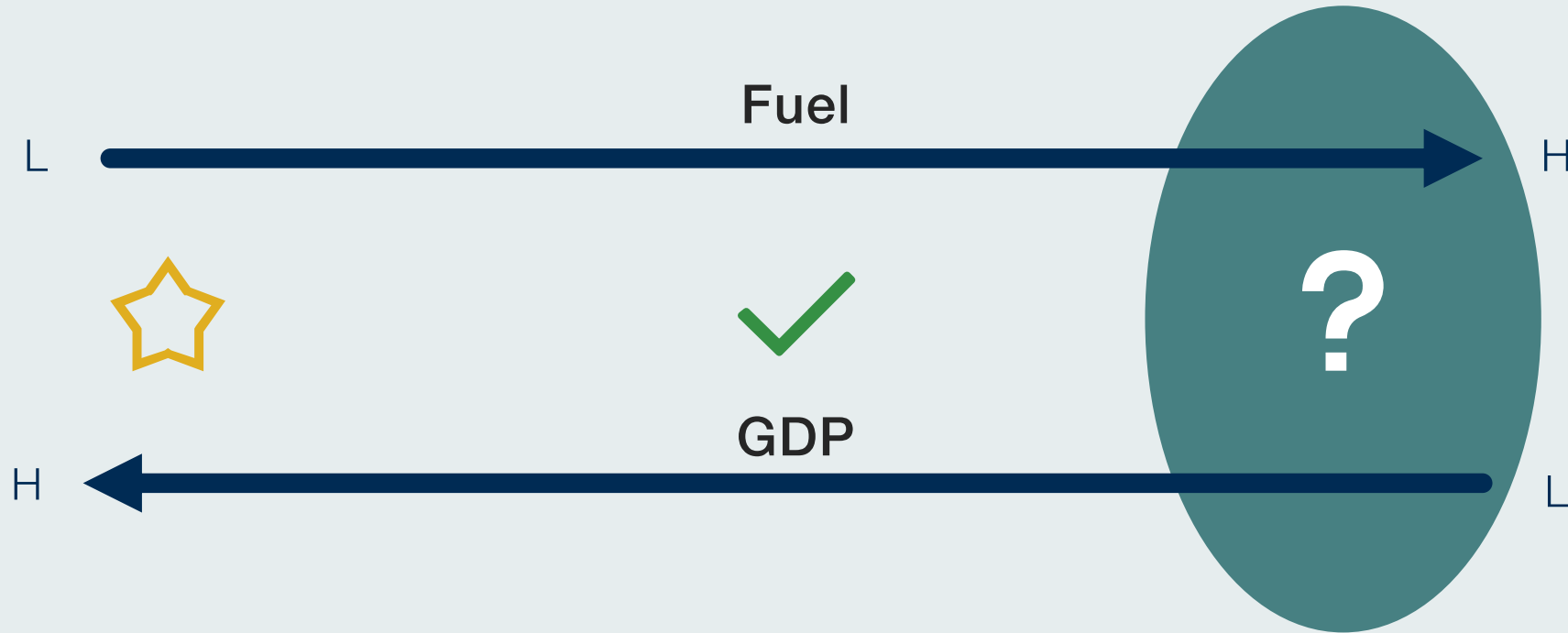
*LTM 2Q15

Alaska

Profit growth and stable capital base drive **ROIC** performance



But can your business work **through the cycle**?

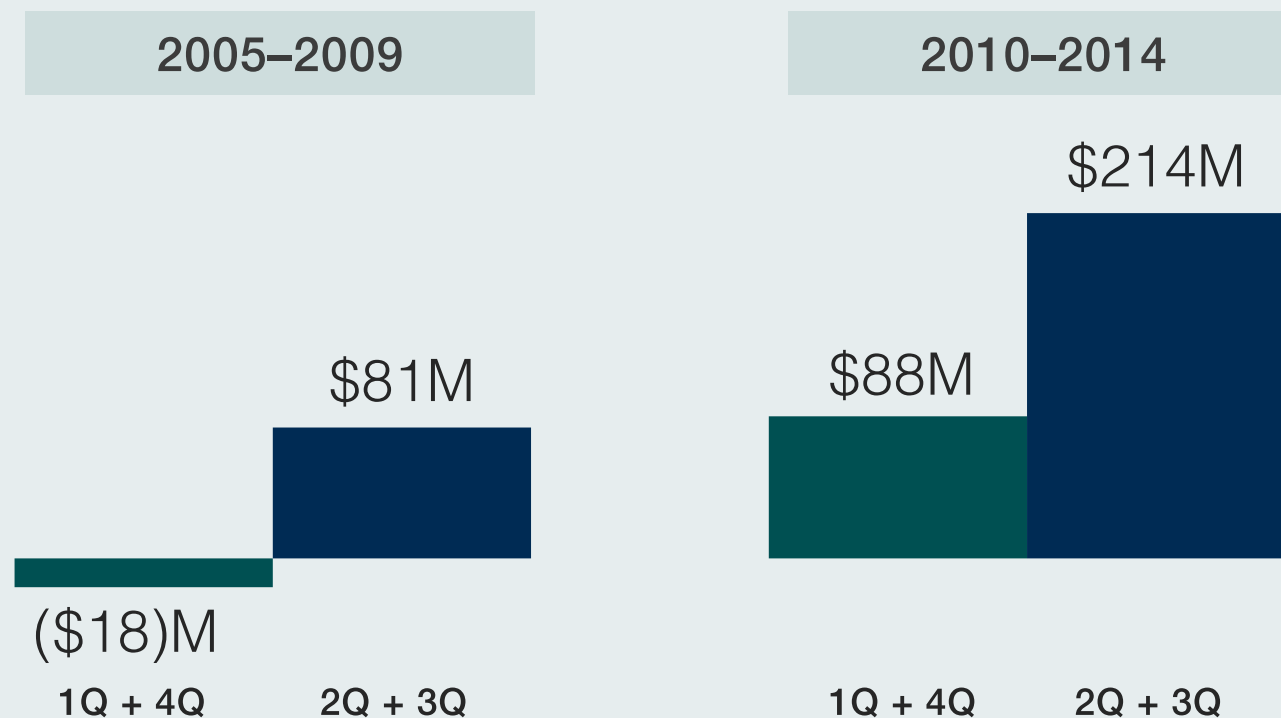


Our earnings stream is much more consistent



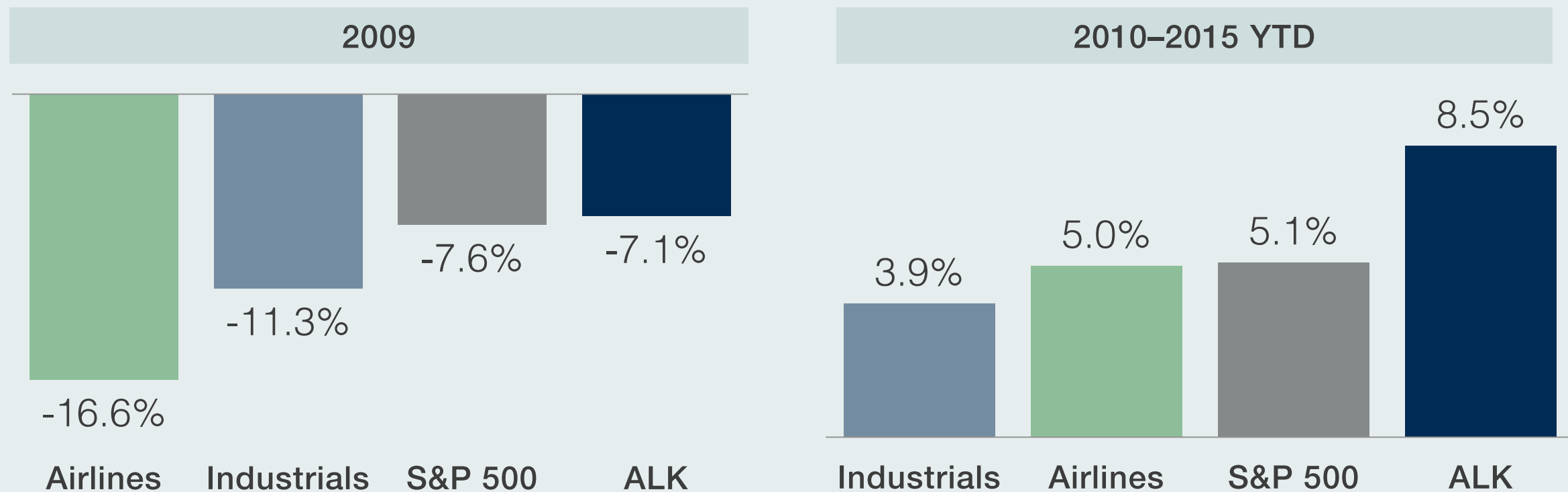
And we have been profitable every single month since January 2012

Average Pre-tax Profit (\$M)



We have greater exposure to **stable and resilient** U.S. domestic leisure revenue

YOY Change in Revenue

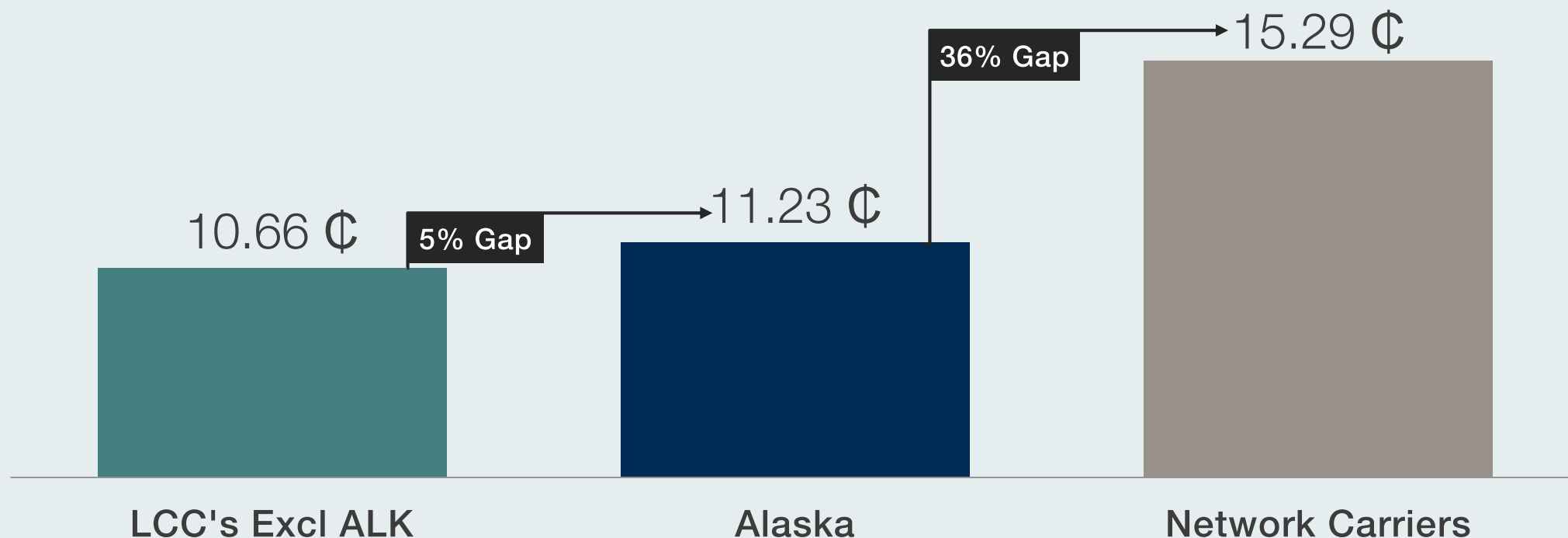


Airlines include legacy and low cost carriers but excludes ALK
Industrials refers to all industrial companies included in the S&P 500



And a sizeable **cost advantage** over network carriers

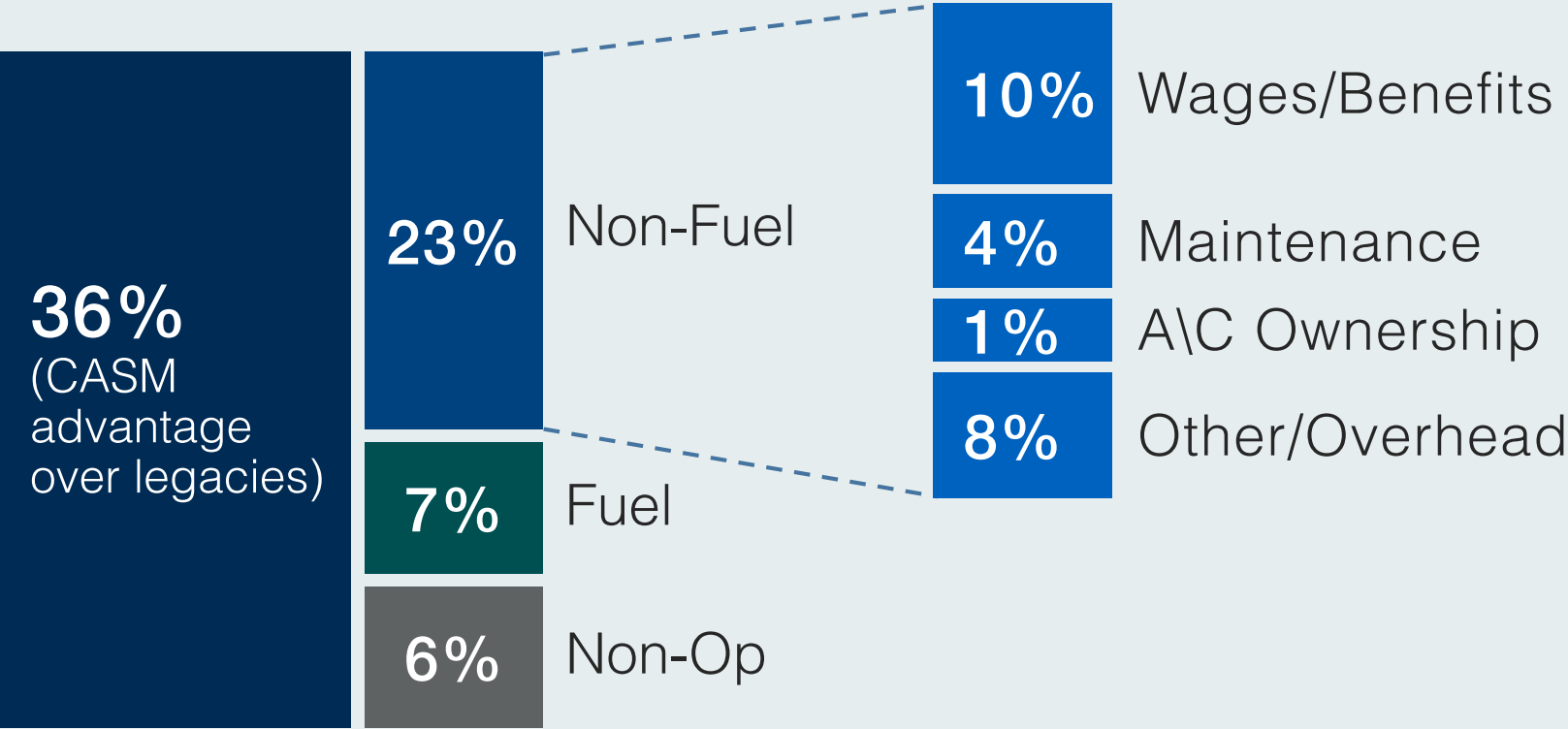
(LTM 3Q15)



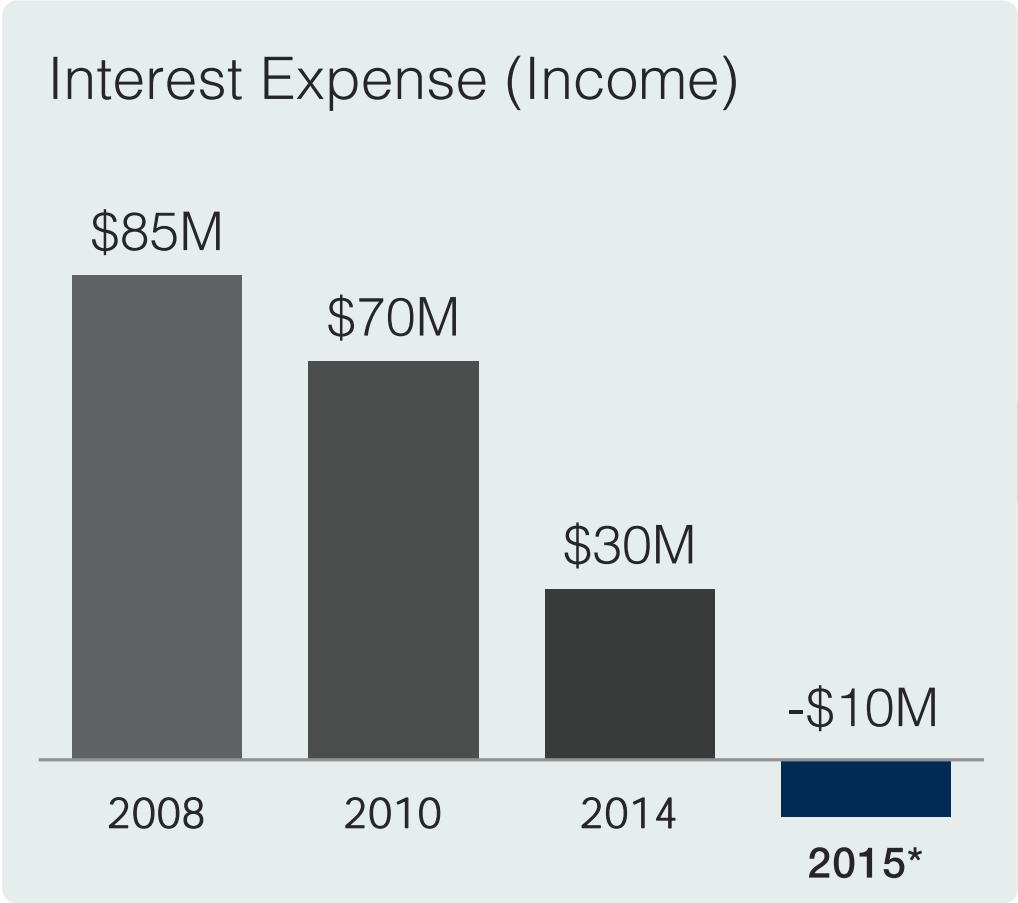
We have lowered our costs 14 out of the last 15 years

Our cost advantage is not limited to one area making it **sustainable in the long run**

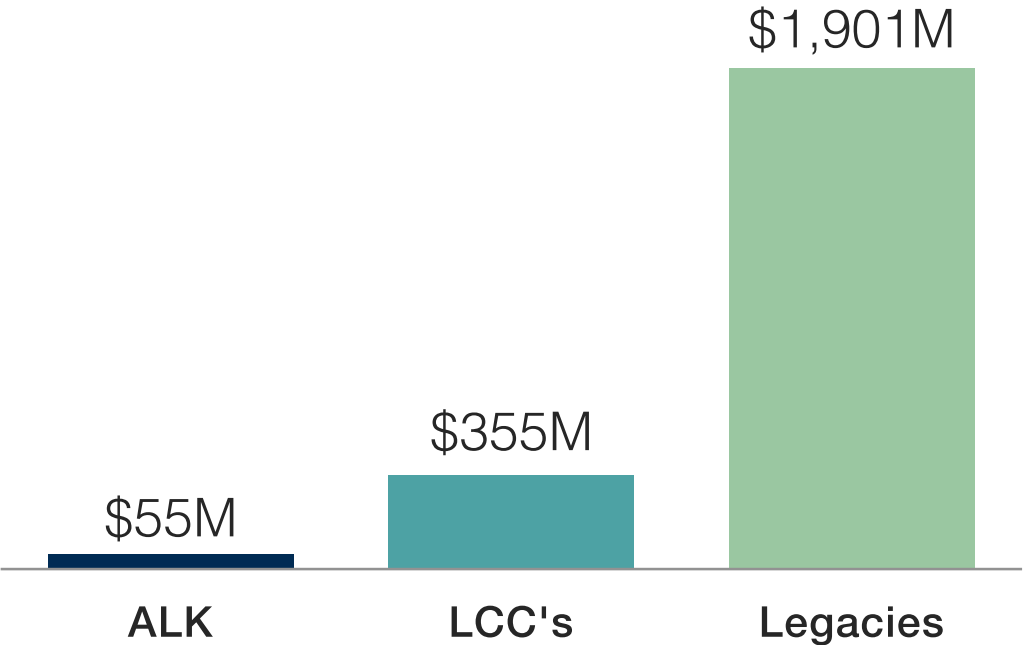
Alaska versus Legacy Carriers—Cost Structure



Our fixed charges are significantly lower than our competitors



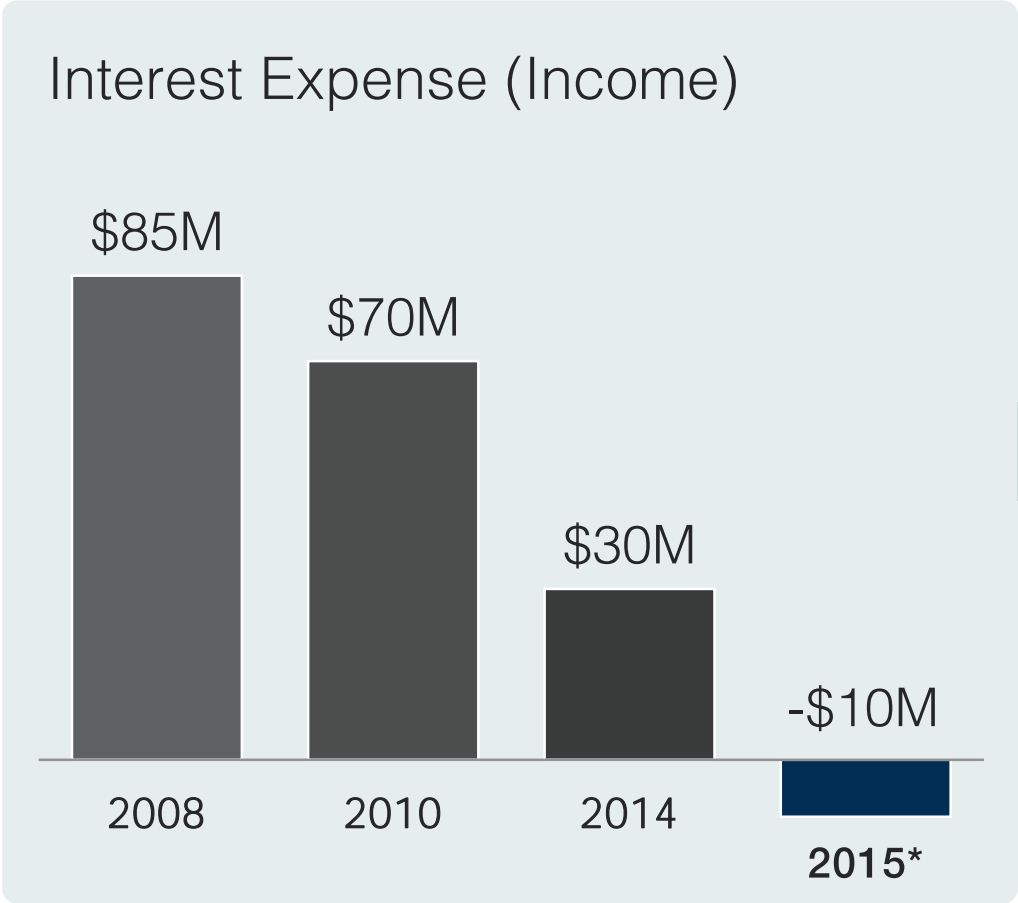
Average Annual Fixed Charges



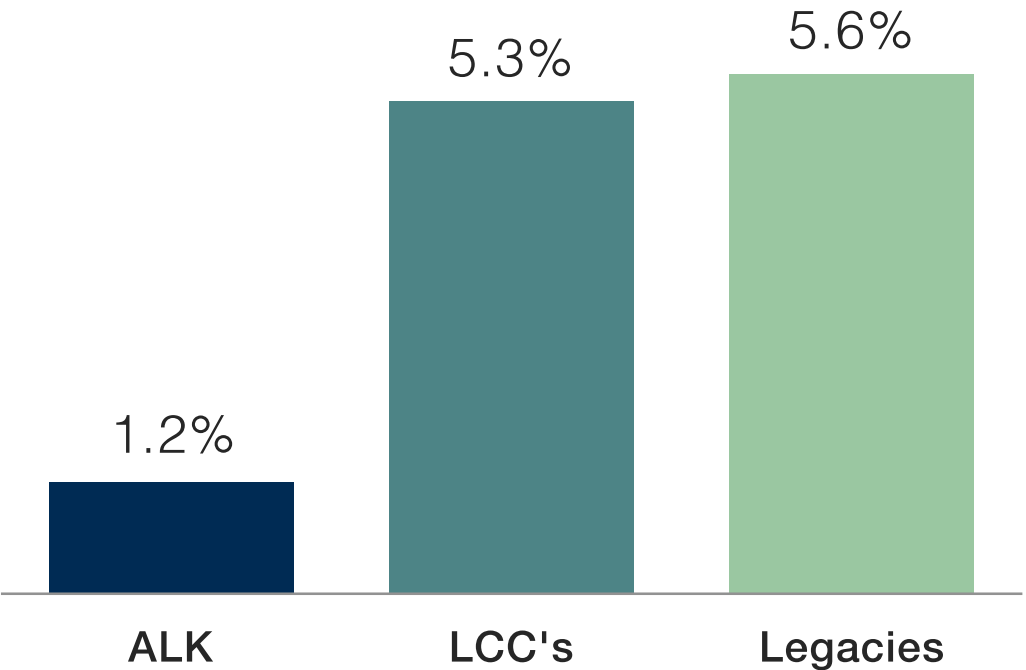
Fixed Charges include Aircraft rent and Interest Income/expense



Our fixed charges are significantly lower than our competitors

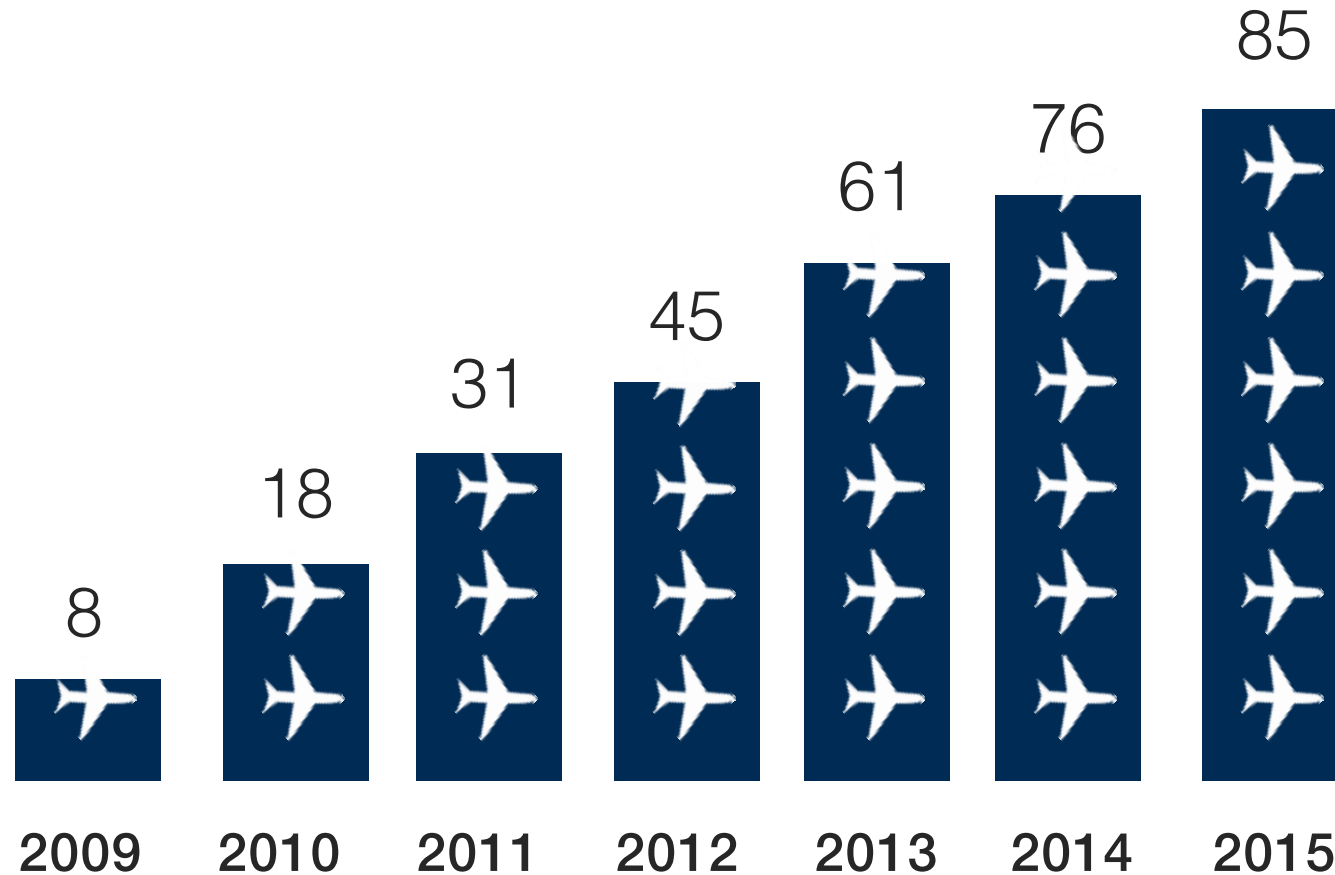


Fixed Charges as % of Revenue



Fixed Charges include Aircraft rent and Interest Income/expense

55% of our fleet is unencumbered, giving us tremendous flexibility to adjust our capacity in an economic downturn



55% unencumbered is more than twice the industry average of 25%

Our business will work **better through the cycle**



1. **Consistent** earnings
2. **Resilient** domestic leisure revenue exposure
3. Sustainable **cost advantage**
4. **Lower** Fixed Charges
5. **Unencumbered** Fleet

Several catalysts provide further runway to lower both fuel and non-fuel costs



Long-term labor contracts



Higher productivity



Fleet replacement/
up gauging 737-400's



Improving fuel efficiency



**Clear Visibility and
Improving Cost Profile**

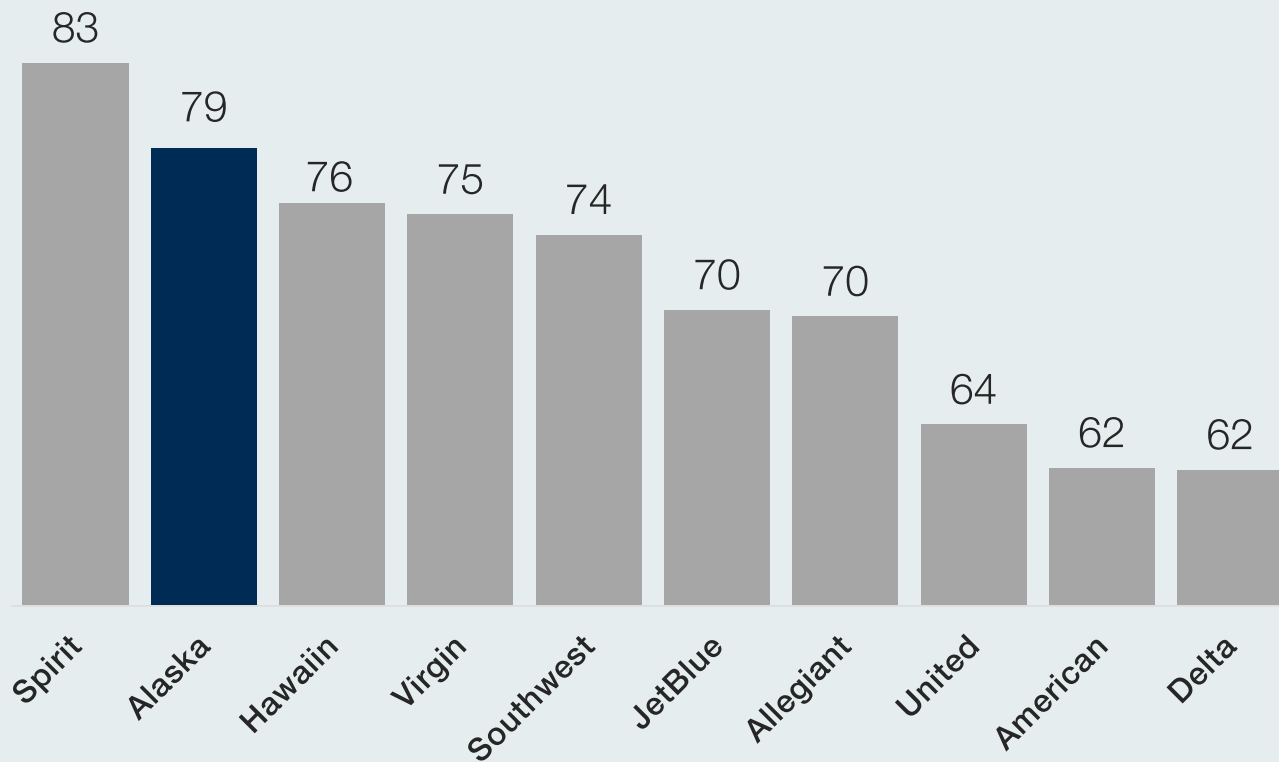
And further **strengthen** our competitive position

Cost Profile Excluding Fuel



Fuel prices have declined, but fuel still constitutes **~25%** of our costs

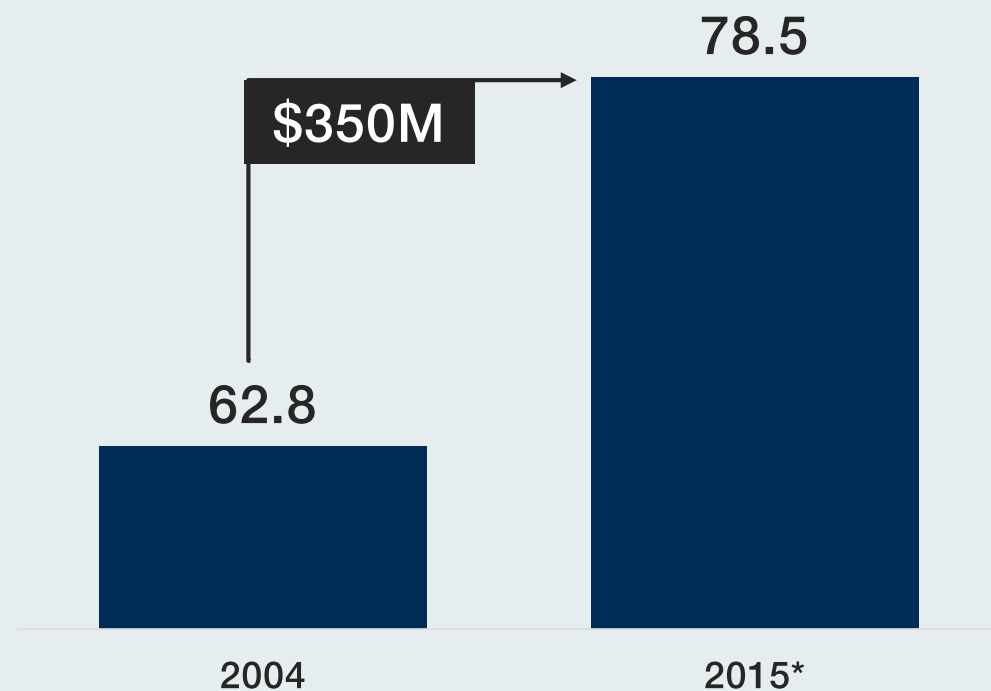
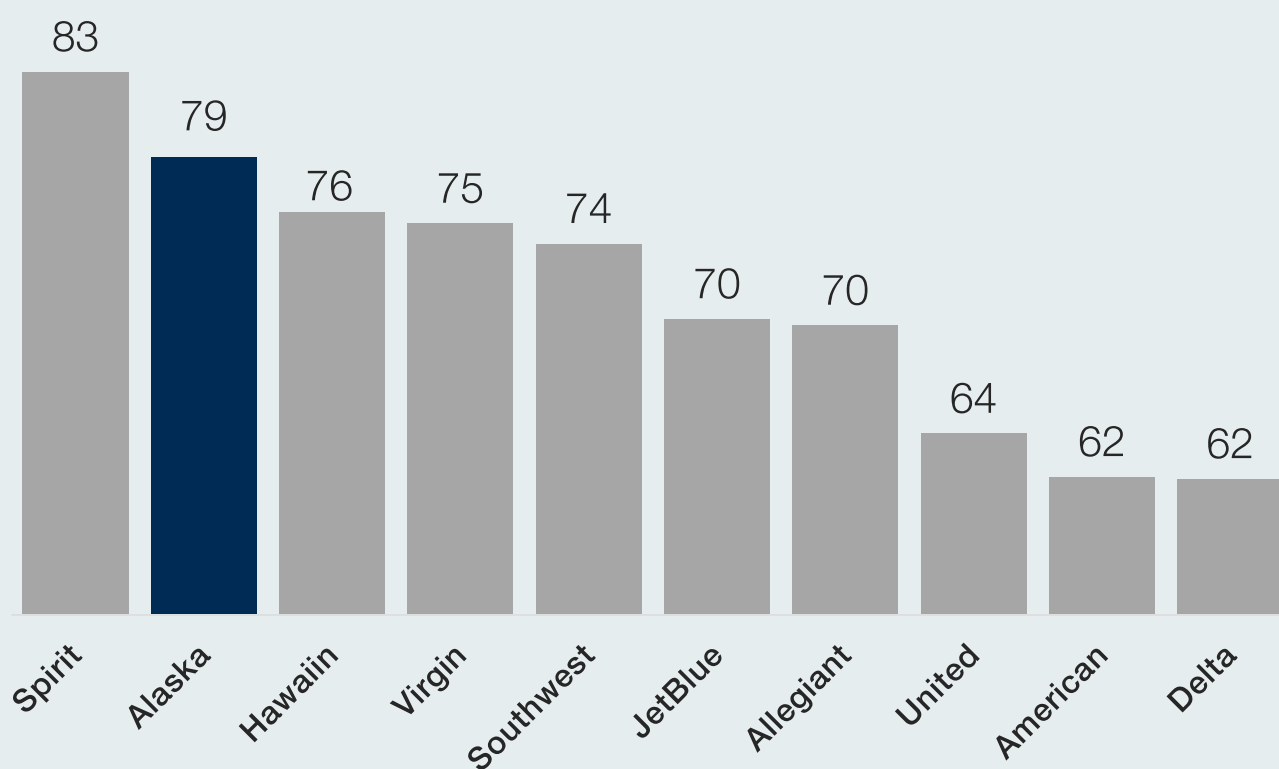
Fuel Efficiency—ASM's/Gallon



Our fuel efficiency
is **~25% better**
than legacy carriers

And we've improved fuel efficiency **2%** in 2015

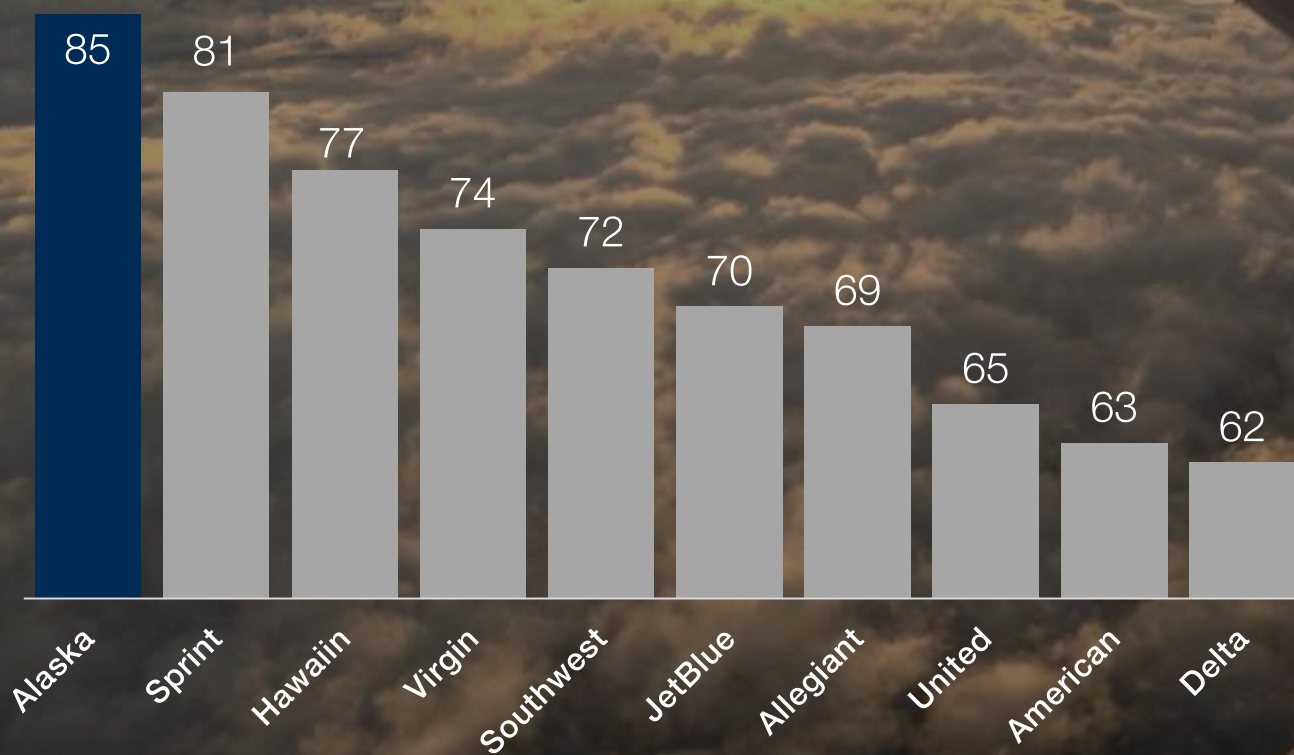
Fuel Efficiency—ASM's/Gallon



Our fuel efficiency has improved 25% (or \$350M @ \$2/gal.) since 2004

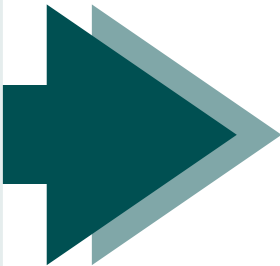
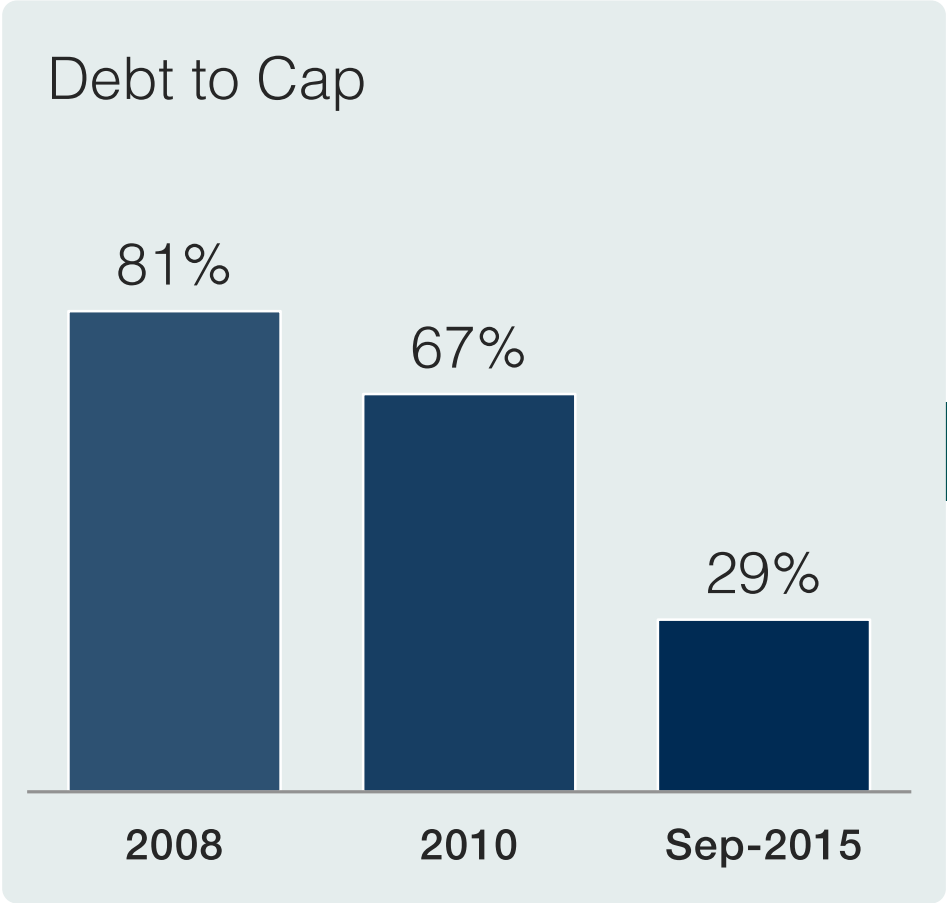
Our fuel efficiency should continue to get better













Fuel Efficiency—ASM's/Gallon



**~\$65M savings
by 2017 @ \$2/gallon**

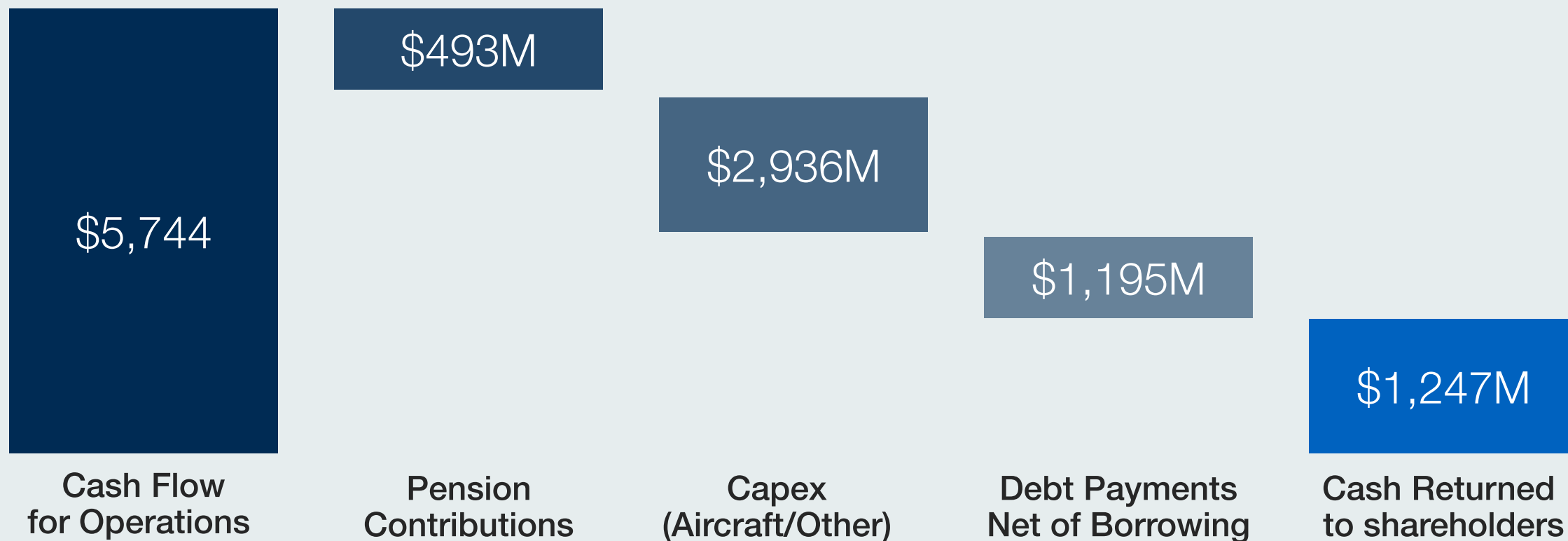
Our capital allocation plans start with our **fortress balance sheet**...



Airline Credit Rating		
	S&P	Fitch
BBB+		 ⁺
BBB		
BBB-		
BB+		 ⁺
BB		
BB-	 ⁺	 ⁺
B+		
B		 ⁺
B-		

Investment Grade

...and our track record of balanced allocation of our cash flows



2010 to Sept. 2015 cash generation and deployment. Capex includes both aircraft and other capex

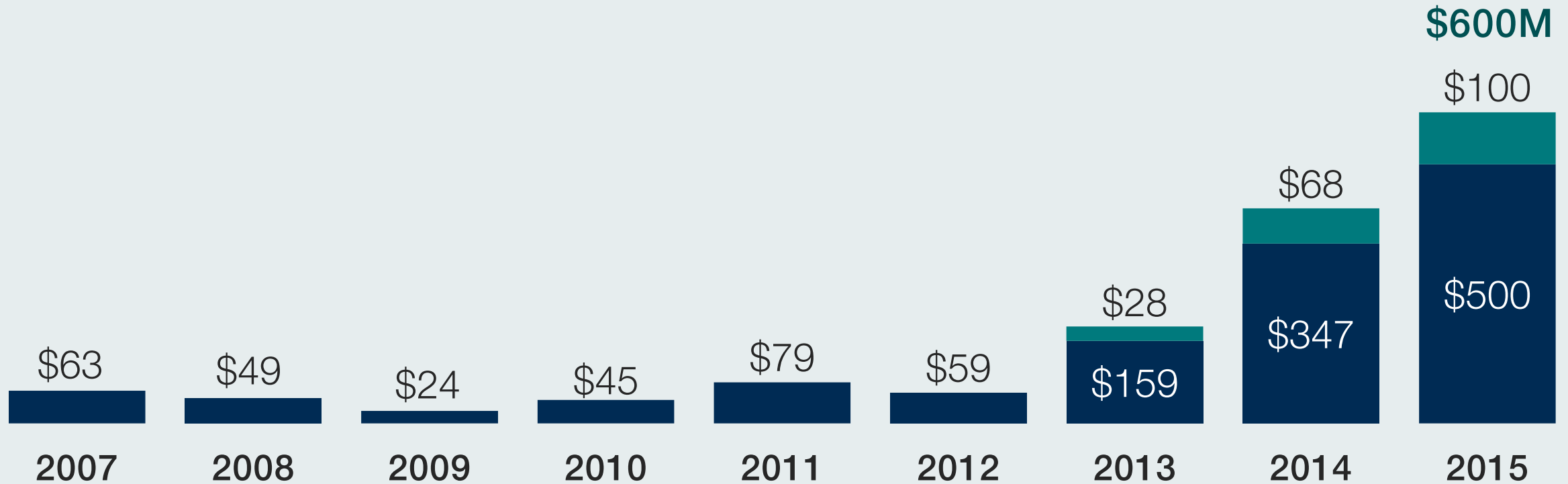


Our plan at investor day last year was to return **~\$420M** to shareholders in 2015

Annual Capital Returns (\$ in Millions)

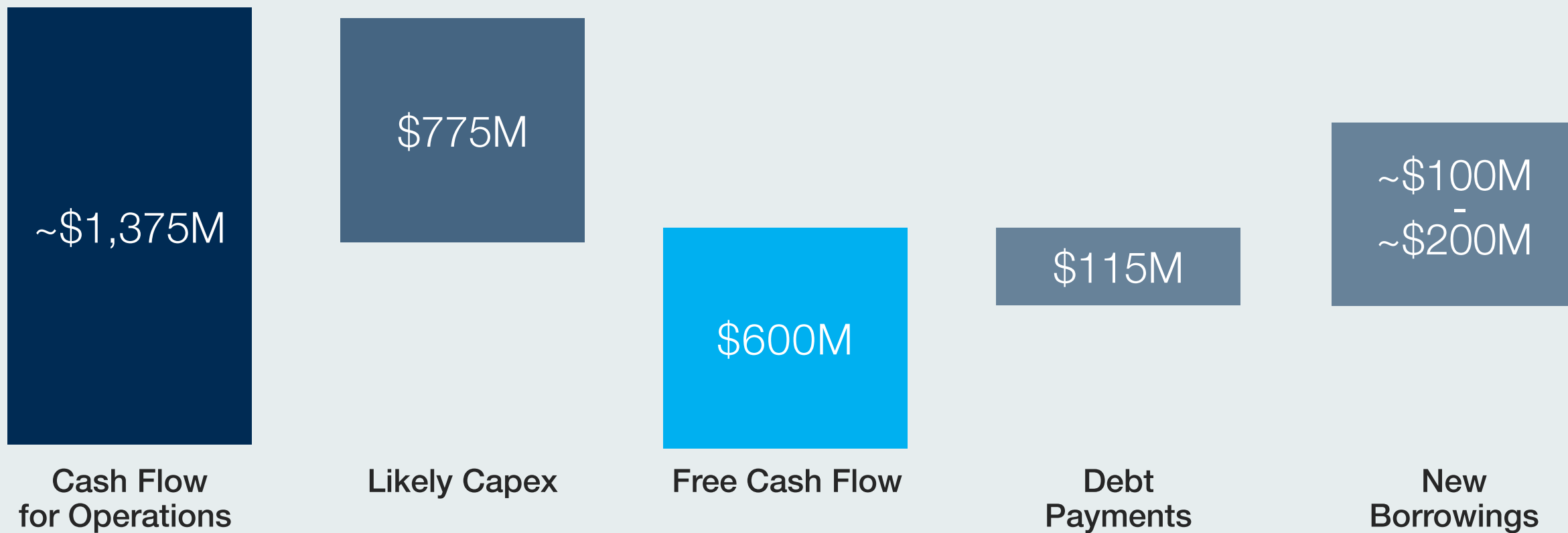


Driven by strong cash flows, we increased our 2015 shareholder returns to **~\$600M**



Shareholder returns are now expected to be **~43%** higher than initial 2015 plan

We expect another of year of significant free cash flow



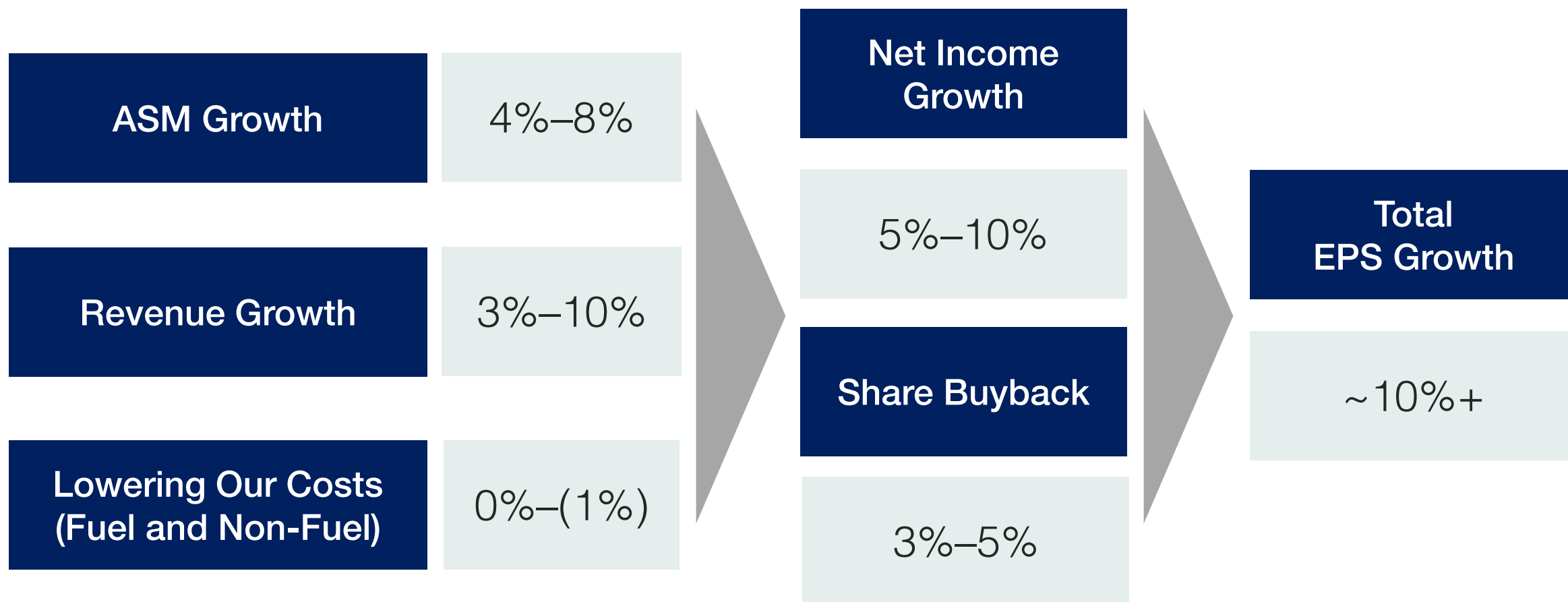
2016 estimate using consensus (not endorsed by Alaska Air Group) | Assumes Cash taxes at full rate for 2015 and maintains leverage ratio



We plan to return **more cash to our shareholders**
in 2016 than in 2015



Our **balanced capital allocation plans** set us up to create sustainable **long-term** value for our shareholders



Strong returns to shareholders



1. **Sustainable** Business Model



2. Clear Visibility into **Cost Profile**



3. Further Runway for **Lower Costs**



4. **Strong** Balance Sheet



5. **Balanced** Capital allocation Plan





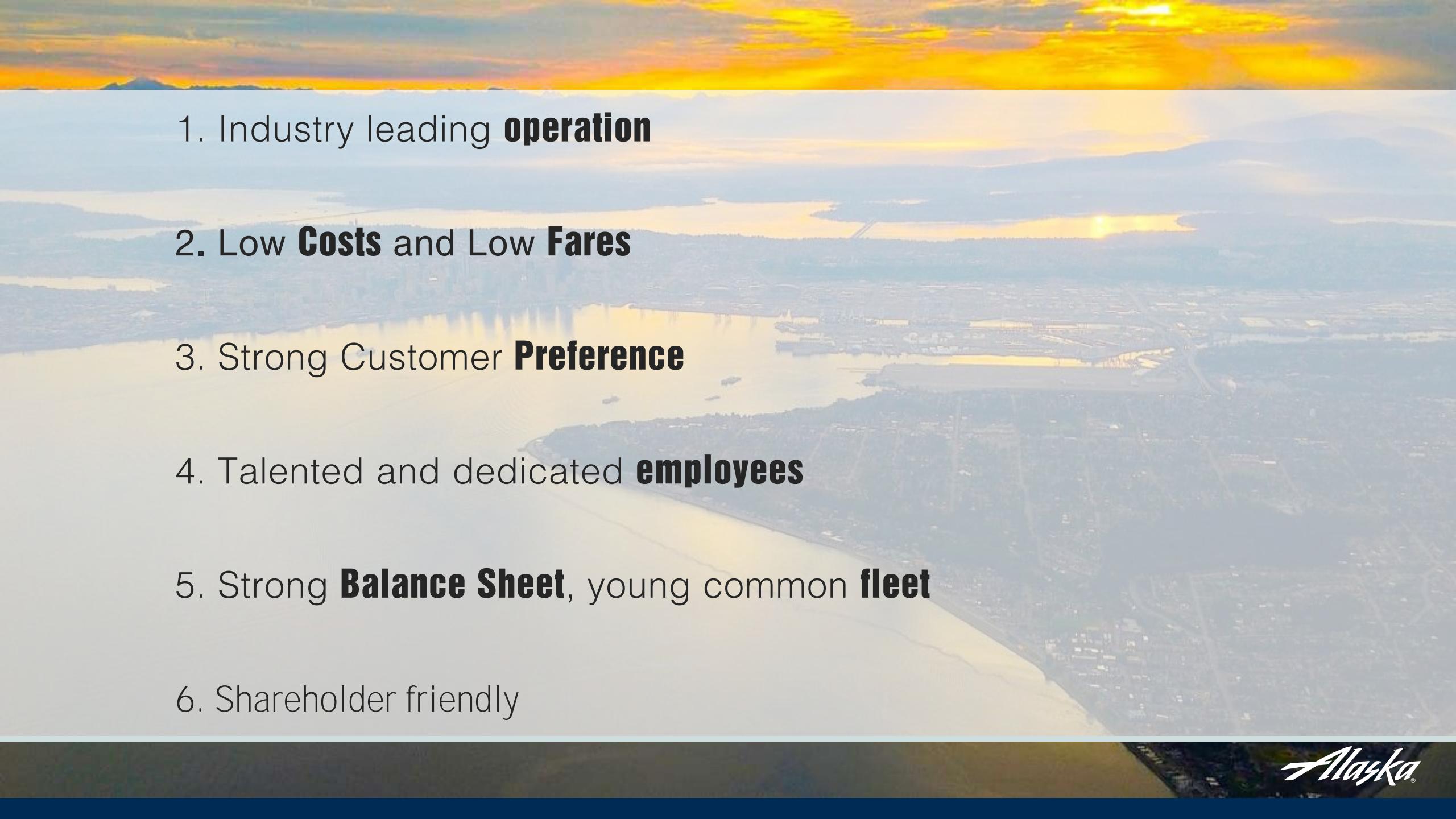
Closing thoughts

Brad Tilden

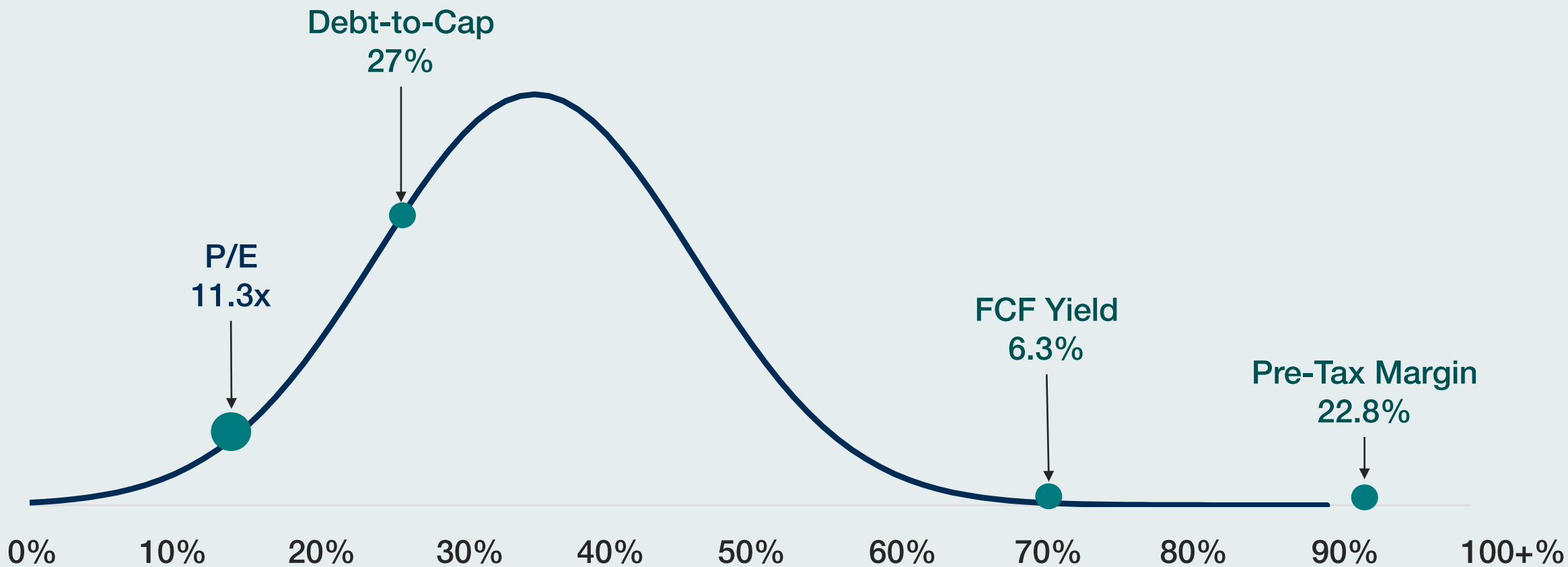
Chief Executive Officer

Alaska

How deep and how wide is our moat?

- 
- An aerial photograph of a coastal city, likely Seattle, taken from a high vantage point. The city is nestled between a large body of water (the Puget Sound) and a range of mountains. The sky is filled with vibrant orange and yellow clouds, suggesting a sunset or sunrise. The water reflects the warm colors of the sky. The city's layout, including roads, buildings, and green spaces, is visible from above.
1. Industry leading **operation**
 2. Low **Costs** and Low **Fares**
 3. Strong Customer **Preference**
 4. Talented and dedicated **employees**
 5. Strong **Balance Sheet**, young common **fleet**
 6. Shareholder friendly

Trivia time



86% of the S&P 500 companies have a multiple higher than ALK



Alaska[®]

Investor Day 2015