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ALK - Q1 2019 Alaska Air Group Inc Earnings Call

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OVERVIEW:

ALK reported 1Q19 revenues of $1.9b and GAAP net income of $4m.

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PRESENTATION

Operator

Good afternoon. My name is Catherine, and I will be your conference operator today. At this time, I'd like to welcome everyone to the Alaska Air Group First Quarter Earnings Release Conference Call.

Today's call is being recorded and will be accessible for future playback at www.alaskaair.com. (Operator Instructions) I would now like to turn the call over to Alaska Air Group's Director of Investor Relations, Matt Grady.

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

Thanks, Catherine. Good afternoon and thank you for joining us for our first quarter 2019 earnings call. In today's prepared remarks, you will hear updates from our CEO, Brad Tilden; our President and COO, Ben Minicucci; our Chief Commercial Officer, Andrew Harrison; and our CFO, Brandon Pedersen. Several other members of our management team are also on hand to answer your questions during the Q&A portion of the call.

This afternoon, Alaska Air Group reported first quarter GAAP net income of $4 million. Excluding merger-related costs, mark-to-market fuel hedging adjustments and special charges, Air Group reported adjusted net income of $21 million and adjusted earnings per share of $0.17 ahead of the first call consensus. These results compare to adjusted net income of $18 million and adjusted earnings per share of $0.14 in the first quarter of 2018.

As a reminder, our comments today will include forward-looking statements regarding 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 now I will turn the call over to Brad for his opening remarks.

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

Thanks, Matt, and good afternoon, everyone.

Though we still got a lot of work to do to get our business performing as we would like, we're encouraged by the progress we made in the first quarter.

Last quarter and at our Investor Day in November, we discussed our multiyear plan to produce profit margins averaging 13% to 15% over the business cycle. We also discussed our intent to achieve those margins by improving performance in the controllable parts of our operations.

Viewed through that lens, our first quarter results were solid. On the revenue side, our initiatives began to deliver on schedule and in some cases, ahead of schedule. And on the cost side, we outperformed our guidance by delivering better productivity than we planned despite completing fewer ASMs than planned.

So in factors we control that drive long-term value, we're headed in the right direction. That said, the underlying improvements we're making to the business were masked somewhat by 2 unusual factors: first, a series of winter storms in February that significantly disrupted our operations; and second, a substantial drop in close-in fares in our California and New York-based transcon markets, which extended through most of the quarter.

These items had a significant impact on our revenues. And though we are not satisfied with our results, even if we exclude the impact of these events, when we do adjust to the noise they created, we see our initiatives gaining traction, and we see momentum in the business.

To put it more directly, we believe we're on track to deliver higher margins and returns in 2019 as we indicated last quarter and at Investor Day.

Regarding the storms, I want to first thank our terrific employees who through their skill and determination got us through the most significant winter weather the Pacific Northwest has seen in 50 years. Our teams went above and beyond to keep our guests and each other safe, and to minimize the number of flights we had to cancel.

We did end up canceling 1,100 flights. Our customer service and reservations agents did an outstanding job dealing with the cancels and reaccommodating our guests who were impacted. We're grateful to all teams across the organization who worked diligently to keep the airline moving during this time.

And looking ahead, we're optimistic about the rest of 2019. The summer travel season is almost upon us, it should provide a more stable pricing and operating environment. And the integration with Virgin America is largely behind us.

We're on track to realize $330 million in revenue synergies and initiatives this year, and we'll harness these opportunities to improve our margins and grow earnings per share. We slowed our growth to let recent investments mature and to focus our energies on making better use of what we have. We're investing in our people and our product, and we're coming together as 1 team to realize the great potential of our platform.

As we do these things, we will be leveraging our competitive advantage over a larger and more powerful route network, and our profitability will improve. And as our margins improve, we'll also get back to growing the airline, albeit, at a more moderate 4% to 6% annual pace that we believe is appropriate given the size of our business today.

We got a lot to cover today. So at this point, I'm pleased to turn the call over to Ben Minicucci, our President and Chief Operating Officer. As a reminder, Ben took on expanded commercial responsibilities in September of last year with the changes we made to our [old] structure. Ben, over to you.

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

Thanks, Brad, and good afternoon, everyone. After years of participating in these calls and responding to your questions during Q&A, I'm pleased to participate in our prepared remarks today and provide you with an update on our business.

In the first quarter, total revenues grew 2.4% year-over-year to $1.9 billion on roughly flat capacity, as unit revenues increased 2.2%. Our pretax margin improved to 1.5%, 20 basis points better than prior year, and our adjusted earnings per share also improved versus 2018.

I'd like to echo Brad's comments that we're encouraged with the progress we're making towards our multiyear goals despite the challenges we faced last quarter. With the integration almost complete, our attention has turned to streamlining and improving our business at the core. As we implement the initiatives on our roadmap, we're building greater awareness of our brand, aligning our guest experience, improving our product, and starting to make headway on productivity.

All of these efforts tie back to our strategy of attracting new customers and building guest loyalty in West Coast markets. Here are a few examples of our team's recent accomplishments: first, we began to capture material revenue synergies as we swap more of our Boeing and Airbus aircraft into the most appropriate routes. As of March, we had cross fleeted our higher gauge, lower unit cost Boeing aircraft into the most capacity-constrained markets with overflow demand. This will improve our margins going forward, especially during the peak summer season; second, we've now repainted 66 of our 71 Airbus aircrafts, and we'll complete all 71 by June.

Airbus interior renovations are also in full swing, and Andrew will provide a further update on those in a moment.

Third, our flight attendants began flying together as fully integrated teams on January 31; fourth, last week, we completed our Flight Path program, a series of face-to-face workshops with our people to reinforce our culture and bring us together as 1 team.

Over 20,000 employees attended these sessions with leadership over the past 6 months, and they've helped us move forward as 1 team toward our strategic and financial goals; fifth, although our operating performance was really challenged in February, as we navigated the winter storms, our team recovered well and took great care of guests. Key performance metrics have improved substantially in March and our departures on 0 and controllable departures on 0 are looking quite good in April. Sixth, we launched our new Saver Fare product in January. This was the most significant change we've made to our product and pricing lineup in years. And as we adapt to it operationally and respond to questions from some of our guests, the incremental revenue it has generated has thus far exceeded our expectations. And last but not least, we continue to enhance our network and product. In March, we launched service from Paine Field and added new international connections through our global partners. We are also upgrading our cabins, our WiFi offering, employee uniforms, and the guest experience at the airport with the opening of the North Satellite terminal at Seattle in June. Each of the steps are making our airline more accessible, attractive and valuable than ever for our guests.

Our momentum continues to build on all these fronts. We still have a lot of work ahead. But we are making good progress optimizing our network, building guest loyalty, and ultimately, increasing our profitability.

Before I turn the call over to Andrew, I would like to comment briefly on our longer-term growth potential. We always said the merger with Virgin America was about growth. And we still stay that today, however, given our slower growth this year, some investors have asked whether our thinking on this has changed. Our short answer to that is no. We still see lots of opportunity for profitable growth, especially in California, leveraging the valuable airport assets we acquired with the merger. We're taking a pause this year to let our recent network investments mature and increase returns. But beyond this year, we will leverage our competitive advantages especially, our low costs, our award-winning service, and our generous loyalty program to continue delivering profitable growth in the years ahead as we've done historically. We're just getting started on what we can and will deliver for our guests, our employees and our owners, and we are confident that our trajectory is heading upward. And with that, I'll turn the call over to Andrew for his commercial updates.

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

Thanks, Ben, and good afternoon, everyone.

Today, I'll be covering our first quarter revenue performance, updates to our product and service, and where we see Q2 revenues given what we know today.

As Ben just stated, in the first quarter, total revenues rose 2.4% to $1.9 billion, and a RASM increase of 2.2%. Despite navigating severe winter storms and the collapse of the close-in industry pricing that lasted for an 11-week period in California-based transcon markets, we still delivered on our goal to outperform our domestic peers on unit revenue growth.

The first quarter can present challenges. Given it's seasonally our weakest, but this year was especially choppy with close-in fares, which we highlighted on last quarter's call.

When this noise behind us, we see positive revenue momentum heading into the spring and summer. Close-in fares have firmed over the past month and our synergies and other initiatives are set to reach their full run rates mid-second quarter. Before turning to the future though, I would like to provide more insight into the puts and takes that resulted in our 2.2% RASM increase in the first quarter.

So in terms of tailwinds, our synergies and initiatives ramped up on schedule and contributed a combined 300 basis points of RASM increase. Saver Fare, the largest component of these, exceeded our expectations as more guests chose to buy out of the product than we planned. As Saver and other initiatives reached their run rates in Q2, we expect this tailwind to grow. Due to the initiative strength as well as pockets of improved pricing, we saw many areas of strength in the quarter. 9 of our 11 operating regions delivered positive unit revenues and some significantly so, compared to our West Coast yield environment that was up only slightly.

Our loyalty member base and credit cardholders also continue to grow, especially in California. Total Mileage Plan revenues grew 7.3% or 3x faster than our overall revenues.

Now moving to headwinds. The winter storms and the 1,100 cancellations they caused in February directly reduced Q1 revenues by $15 million and Q1 RASM by 20 basis points. In addition, California transcon markets, specifically San Francisco and Los Angeles to the New York Metro and Boston airports, were one of 2 operating regions to experience negative RASM in Q1. These markets representing 14% of our network saw significant weakness in close-in pricing from January through mid-March.

Since tickets purchased close to departure date generally sell for above-average prices, this close-in weakness had a material, 110 basis impact on Q1 and explains most of the variance to our original guidance. These prices were isolated, however, and do not affect the way we think about our revenue trajectory for the rest of the year. Close-in fares rebounded significantly in mid-March and have continued to firm since, consistent with their typical seasonal pattern.

We are cautiously optimistic on California transcon pricing as we head into the spring and summer.

Hawaii was the only other region to experience revenue softness in the first quarter. This was reflected in our original guidance due to lower pricing that has been in market since September of last year.

Importantly, though still negative, pricing in Hawaii has remained quite stable of late and in some cases has improved. Looking ahead, the commercial team's focus continues to be on improving margins through higher unit revenues. And while Saver Fares and other initiatives are major contributors, we're also implementing a number of improvements to our network and product this year that I would like to summarize briefly.

First off is our service at Paine Field, which began last month, offering 18 departures to 8 destinations for a greater utility and convenience for our guests that live north of Seattle. Results from the first few weeks of operation have been very positive.

Next, our Alaska Global Partners network is expanding with new direct flights out of Seattle from Cathay Pacific to Hong Kong, Japan Airlines to Narita, and Singapore Airlines to Singapore.

We're also beta testing the ability for our guests to book international flights on our global partners directly through our website.

And third, we're installing new cabin interiors on our Airbus and 737-700 aircraft that align and improve the guest experience. Each Airbus renovation increases total seat count and builds in a greater mix of First and Premium Class seats. And we're on track to complete all 71 retrofits by this time next year.

Fourth, satellite WiFi, which is 20x the bandwidth of current offerings, satellite is being installed on 26 aircraft to date, is already operating on transcon flights and will be installed across our fleet by mid-next year.

And lastly, the new North Satellite terminal at Seattle opens this June featuring a new 15,000 square-foot lounge for our guests. We'll also be opening a rooftop lounge in San Francisco next year. For all of these reasons, we are optimistic heading into the second quarter.

Our ASM growth is a modest 1% and competitive capacity growth eases to 1.7%.

Our Q2 RASM guidance range of up 2% to 5% reflects the sequential improvement we expect and assumes 350 basis points of incremental revenues from synergies and initiatives, a 100 basis point benefit from the Easter -- timing of Easter, which is offset by 100 basis points of continued headwinds from pricing softness in Hawaii. As we leverage the significant self-help opportunities in our plan, we expect Q2 RASM to outperform the domestic industry by a greater margin than it did in Q1, and our target is to outperform our domestic peers by 200 basis points for the full year.

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

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

Thanks much, Andrew. Just to recap. Air Group posted a first quarter adjusted net profit of $21 million or $0.17 per share, up from $18 million or $0.14 per share in 2018. On the surface, the result is only up modestly versus last year, but the improvement is more substantial after factoring in the headwinds we faced. Notably, this was the first quarter we've improved pretax margin since Q2 of 2016, and the result indicates that we've begun the steady upward climb toward higher margins and returns. We still have more work to do on both the revenue and the cost sides of the business to achieve our margin target.

My comments today will focus on costs. Overall, we were pleased with our cost performance in Q1. CASMex fuel ended up 2.8% or 200 basis points better than our initial guidance despite completing fewer ASMs than planned. About half of the 200 basis points was timing, and about half was better than planned execution across much of the organization.

This result gives us increased confidence in our full year cost outlook and more importantly, demonstrates our ability to protect our low cost structure despite slower growth.

Unit costs are -- low unit costs are, and have been for years, a key source of our competitive advantage. And despite the solid quarter, we need to make more progress on productivity and manage overhead lower.

Let me give you a couple of examples of where we did this well in Q1.

First, mainline pilot productivity was 2.5 points better than planned. This was great, but productivity still trailed last year; second, productivity in our res group was 7.5 points better than planned and a full 12% better than prior year. Kudos to the res team for a really strong performance this quarter; and third, overhead spend was 5% lower than last year after adjusting for some timing items, reflecting the management reductions we made in 2018, cost synergies, and lower spend in a host of other areas.

In addition, our cost reduction efforts also extended to our vendor relationships. As we mentioned at Investor Day, we're engaging many of our external business partners this year to renegotiate the rates we pay, and the initiative is starting to deliver real savings. I want to recognize the supply chain team for their leading -- for leading this effort and thank the vendors that have made pricing and other adjustments that will help us to continue to lean out our cost structure.

Looking to the second quarter. We expect CASMex to be up approximately 5% on a 1% increase in capacity.

The higher sequential costs reflect the continued mix impact of substantially higher regional growth this year as well as our current maintenance timing, which continues to be front-loaded in the first half of 2019. While this guidance is consistent with our previous Q2 guidance, it does represent better overall performance since our Q2 capacity growth is now 100 basis points lower than our initial plan.

For the full year, we have lowered our CASMex guidance by 20 basis points to 2.1%, reflecting the savings we captured in Q1. As a reminder, our full year cost guidance does not include the impact of any new labor deals we may complete in 2019.

Turning to the balance sheet. We ended the quarter with $1.4 billion in cash. Total cash flow from operations for the first 3 months was $490 million ex merger-related costs, while net CapEx was $110 million over the same period. This resulted in about $380 million of free cash flow, ex integration costs, which was nearly $300 million higher than in Q1 of 2018.

Increased profits and lower CapEx should lead to consistent year-over-year improvement in free cash flow throughout 2019. This free cash flow is allowing us to continue to deleverage, which remains our #1 capital allocation priority.

We've repaid a net of $140 million in debt so far this year, and we're on pace to reduce our overall debt balance by about $350 million in 2019, including $70 million of pre-payments.

We also crossed somewhat of a milestone this quarter, having now retired more than $1 billion of the $2 billion we borrowed to acquire Virgin America. With leases, our quarter-end adjusted debt-to-cap stood at 47%, and we should end the year at about 43%.

We now have more than 90 unencumbered Boeing NGs and Embraer 175s, and $400 million of undrawn lines of credit. As we repaid debt, we've also returned $55 million to shareholders via the dividend, which is currently yielding about 2.3% and share repurchases.

We still expect aggregate returns to exceed $220 million by the year-end. And once we achieve debt-to-cap closer to 40%, we'll have greater flexibility to increase capital returns to our owners and to pursue other opportunities that are consistent with our balanced approach to capital allocation.

Let me close by returning to a few of today's themes. We're working hard despite setbacks from Mother Nature and other factors to improve the financial returns this business is generating. Merger synergies and initiatives are creating revenue momentum. We're enhancing the guest experience. Our loyalty program continues to grow faster than passenger growth. Our cost outlook has improved. Our balance sheet is strong, and our expanded network footprint gives us significant runway for growth longer term.

Nothing in this industry is without challenges. With the noise of Q1 behind us, we are optimistic in our outlook for the rest of the year. And we look forward to leveraging our competitive advantages to deliver superior shareholder value in the years ahead.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Helane Becker with Cowen.

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

So just 2 questions. One, can you talk about the cadence or the trajectory during the second quarter of what you see in terms of bookings in and revenues that give you some degree of confidence hitting the numbers for the June quarter?

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

Helane, it's Andrew. I think firstly, with our revenue guidance sort of the range, and you can see there's an acceleration of growth there. But just as we sit today, just the visibility we have from April that's nearly done and then looking at advances as well as looking at the fare environment at it sits today, we feel very good about how the next 3 months are going to come in, all things being equal that I see today.

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

Okay. So are there areas of strength that you can specifically speak to?

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

I think what we're seeing a little bit is -- in our prepared comments we talked about couple of regions that were softer and the headwinds in Hawaii. But I would say, across most of our regions, we are seeing normal strength as we head into spring and summer in both the booking patterns and the fare environment firming up. So we feel pretty good about that as we move forward.

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

Okay. And then Andrew, just another question for you on loyalty and card. You mentioned that the card continues to grow and exceed your expectations, I guess. Are you seeing -- it continues to grow, but has the growth rate slowed off the tougher comps?

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

I would -- we still hit, without getting into details, double-digit growth in both Mileage Plan and the credit card in the first quarter. And in fact, California growth was double the system-wide growth rate. So I would say that we're still seeing very good momentum even as the base that we're growing off increases.

Operator

Your next question comes from the line of Rajeev Lalwani with Morgan Stanley.

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

Andrew, a question for you, first. You made a pretty bold statement in terms of your ability to outperform on RASM going forward.

Some of your peers that you're sort of alluding to are highlighting kind of low-single-digit, maybe even 2%, 3% growth in RASM, and so 2 points above that would be a pretty big number. Can you just talk about your comfort there? I mean if you look at just your 2Q guide, it's not too dissimilar from where JetBlue, Spirit, Southwest are. So you are kind of in line with them today. But I'd love to just hear more about how you're thinking about it in terms of some of your comments?

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

Thanks, Rajeev. Firstly, as we see what the domestic unit revenue growth were for the industry, we beat that by about 160 basis points.

And as we go into the second quarter and just seeing what others are guiding to, we feel pretty good with the self-help initiatives that we're putting in to continue that.

I mean at the end of the day, if you look at the comments that we made, and our midpoint of our guidance, which is 3.5, it's basically we said, 3.5 points from initiatives in self-help. There was a bonus there for the move of Easter and then you deduct Hawaii from that. So essentially, what we're saying is that all of our growth is going to come from initiatives. If industries fares go up, we'll do better, if they come down, we might have headwinds. So that's sort of how we sit today.

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

Okay. And Brandon a question for you. There's obviously been lots of discussion around the MAX and some of the headwinds it's causing for your peers. Can you talk about how you're going to navigate that? I think you start get some deliveries as the year progresses? And what incremental training could do? That sort of a thing?

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

Rajeev, it's Brandon. It doesn't really impact us a ton this year. We have 3 MAX scheduled for delivery June, July and October. Obviously, we're watching the situation closely, but we don't expect much of an impact on the capacity side, certainly. Ben, you might want to comment on the upside or training side?

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

I think you're right. I think we'll see very minimal impact with the 3 airplanes.

Operator

Your next question comes from the line of Duane Pfennigwerth with Evercore.

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

Brandon, I might have missed it in your prepared comments, but when would you expect to hit that 40% debt-to-cap level as we proceed through the year?

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

We would likely hit that in probably early to mid-2020. Did you say 20%, Duane? Just clarify.

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

40%.

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

Yes. 40%, we would do in probably, as I said, early to mid-2020.

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

And then any updated thoughts with respect to your 2020 growth rate and the profile of your cost structure into next year?

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

Duane, it's Ben. Like we said in our prepared remarks, Alaska has traditionally been a growth airline. We took a pause last year just to absorb the growth and focus on increasing margins. But what you'll see forward from us, we're a growth airline. You'll see anywhere from 4% to 6% over a period of time. So that's our mindset right now.

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

And maybe Brandon, just the longer-term thoughts on the cost structure into next year?

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

I think we're really committed to having a low-cost operation. Costs have been super important to us. They will continue to be super important to us. We need to do more going forward, but we're early into the planning process, and don't have specifics to share at this point.

Operator

Our next question comes from the line of Savi Syth with Raymond James.

Unidentified Analyst

This is [Matt] on for Savi. My first question would be in regard to Saver Fares. It sounds like you're having good progress with that. But could you talk about maybe any potential learnings have had there? Operational complexities in terms of markets rolled out? And if it is exceeding expectations that $100 million target gone up? And correct me if I'm wrong on that target, by the way, please?

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

Matt, let me start. When -- like we said, the Saver rollout exceeded our expectations. It's been a really good rollout. And as you roll out new big changes like this, of course, we did have some issues operationally with managing what we call oversold lists, but we're working through those right now with our frontline folks. And when we rolled out we had some customer questions on how this thing works. So there were a bit of issues we had to work our way through.

But I would say those things are working well, and we're making our way through that.

In terms of total dollars, I think, we feel totally comfortable about -- we said $100 million. And when we look at -- we look at it overall with all our revenue initiatives, we feel pretty good about that. And we've only launched it for 4 months. We'll give you more of a sense as we get more traction over the next few months on how it's going, but we're optimistic that we improve on that.

Unidentified Analyst

All right, great. And then maybe -- maybe to Andrew or Ben, whomever. Could you talk maybe just high-level about your second half RASM trends? Any puts and takes there? How we can think of timing of initiatives or tough comps that are going on in the back half?

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

Thanks, [Matt]. As we shared in our remarks, we plan to it full run rate on our initiatives and synergies by the middle of the second quarter, but we don't give any sort of guidance or outlook beyond what we've done on today's call.

Operator

Your next question comes from the line of Jamie Baker with JPMorgan.

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

Your cost guidance was careful to point out no incremental labor expense or -- reflective of any contracts progress. Just so that we can establish where the market is, what competitors do you currently use in your peer set when thinking about wage expense? I ask because given how the company has evolved and particularly post merger, it may be fair to say that, that peer set has changed somewhat. Not asking you to negotiate in public, just wondering who you kind of set yourself up against when thinking about where market wage rates are?

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

Jamie, it's Shane Tackett. I'll just be brief. I think we generally look at all the major carriers to understand where they are.

Obviously, our labor groups would look at those folks as peers. And what we try to do is find a way to get really, really competitive contracts, and at the same time, find ways to drive productivity up. It's the only formula that's going to work for the company over long term, and that's sort of been our approach with our labor groups over the last 15 or 20 years.

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

Okay. So it's fair to say that, that approach hasn't been altered in any way as the carrier itself has matured. Yes, I think it's totally fair, I'm just confirming that.

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

Yes, Jamie, I think our mindset in terms of high productivity and really competitive contracts hasn't changed. I think that obviously there's 2 parties in all of these discussions, and our folks need to feel like they have contracts that respect the work that they do and the contributions they make to our success.

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

Cool. And a quick follow-up to Helane's question. I apologize for sounding like a broken record. I've asked about loyalty on several of the calls this season. But the Virgin acquisition kind of put California into play, in my opinion. You've acknowledged stepped up competition there with Southwest. They spoke very enthusiastically today about rapid reward traction.

So I just want to confirm -- and I'm not of the view that some hold that loyalty benefits are competed away over time. But I just want to confirm that specific to California, not Seattle but California, you're not seeing any evidence of more aggressive card competition in that market?

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

Jamie, we see the usual periodic bonus offers that are just sort of glittery deals to bring people in. But what we believe the fundamentals are is that over the long term, loyalty programs only work if you actually reward people for their loyalty and have consistent and deeply embedded built -- generous mechanisms to keep people's loyalty. And so what we see right now is that our loyalty program and the growth that we've been able to achieve, we feel like what we offer to guests is being well received. And as I shared earlier, our California growth on both card and Mileage Plan is double the rate, albeit on a smaller base and our system-wide growth, which is still double digits. So it's always moving around. But as we continue to roll out new products, people get to know us more. Our awareness gets higher. We feel really good about what we have to offer to folks who want to join our club.

Operator

Your next question comes from the line of Catherine O'Brien with Goldman Sachs.

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

So Brandon, the first one is for you. So if better execution did drive some of that better March quarter CASM performance, is there anything that we should be thinking about that's unique to the March quarter that drove that better execution? Or if things continue the way they are, could we potentially see further improvements in the cost outlook as we move through the year?

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

Catie, I don't think I would drive or call out anything specific in the first quarter that drove a number that was "artificial." I do think it was really good execution across the organization. In particular, our team did a good job scheduling the airline. I think it's required that we continue to have this good execution going forward. I don't see anything that's going to derail that, but it's super, super important that we hit our plan. That's what we aim to do.

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

Catie, it's Ben. How we schedule the airline has a massive, massive impact on not only the productivity of people, but of assets. And I think what we're going to do now, we've got a full-court press with a team looking at how we optimize this network with a Boeing and Airbus product, getting the right airplanes on the right routes, maximizing utilization on airplanes, maximizing productivity of our people, and getting this to configure to how we had it before the merger. So I mean that's our focus and I think you'll see just a steady improvement on that.

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

That's great. Congrats on the strong performance this quarter and hopefully more to come. And then one for you Andrew. So if you're noting that all of your June quarter RASM growth is due to internal initiatives and synergies, should we be assuming that you're not incorporating the rebound in transcon fares you noted earlier in the call into that guide? Just any color on how should we think about that would be great.

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

Catie, I think what I'm really saying that the growth that we're seeing net of everything is really being driven by the initiatives.

That said, we gave a fairly decent range, a 3-point range, and we have a high end, of course. And so to the extent that things go the way we'd like to see them go, we will move up that range. To the extent not, we'll probably -- the goal is we hit the midpoint.

Operator

Your next question comes from the line of Joseph DeNardi with Stifel.

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

Andrew, I just want to follow up, I guess, on that question. Is there some sort of offset on just kind of the base fare line from some of these initiatives? Because it does seem either conservative that 1% capacity growth shouldn't produce low to mid-single digit core RASM on top of the initiatives. Or is there kind of demand leakage somewhere? I mean the competitive capacity outlook is pretty benign, why isn't core RASM is stronger than what you're expecting?

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

I think number one, we don't like to have to trust in guidance, which is what we have to do in the first quarter. So we're being a little bit more sober and prudent about how we guide. I would, you characterize a conservative guide, I wouldn't necessarily argue heavily against that.

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

Okay, okay. And then I guess I'll join my loyalty brother Jamie with a question along those lines. Brandon, I never really understood why the Virgin transaction didn't trigger kind of a renegotiation of sorts with BofA, and an improvement in economic. So given how clear it is that kind of the economics of loyalty have gotten better of late, is that something that we can assume you guys are kind of working on with BofA, and if you'd like to talk about what you think the opportunity there is? I would love to hear it.

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

It's Brando. That actually falls squarely into Andrew's area. He owns the relationship with the bank right now and perhaps, it's a good that he would answer the question.

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

No. Yes. So we don't disclose -- we renegotiated that not too long ago, and...

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

It was like 3 years ago, wasn't it, Andrew?

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

Yes, time flies. But we've had a small extension I think a few years ago. But what I would say is that a couple of things. Number one, these agreements in my career have never sort of gone their full tenure. Changes in the market condition, if there are some, are always I think good things, especially if they're to the positive side. And we continue to talk to Bank of America on how we can continue to build a very, very strong relationship we have. So there may be some more market data out there today. But again, we'll digest that and continue to work with our program and make it the best for us and Bank of America.

Operator

Your next question comes from the line of Hunter Keay with Wolfe Research.

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

Brandon, can you give me some color on the $26 million of merger integration costs. I've got 3 questions. Number 1, why were they up 20 million year-on-year? How much of that was cash? And when you guys going to be done pulling these out?

Christopher Michael Berry - *Alaska Air Group, Inc. - VP of Finance & Controller*

All right. Chris is going to answer them instead of Brandon, Hunter. So 50 -- about little more than half of it was noncash. It was related to a onetime sort of true-up vacation balances. When we integrated the former Virgin America crews into the Alaska crew scheduling or crew tracking system.

So that was the majority of it that's noncash. The rest of it are things like paint lines for the Virgin America livery as well as some IT costs associated with moving former Virgin America data centers and consolidating those. So we should be -- that was -- the year-over-year impact is solely because -- primarily because of that onetime labor vacation throughout balances and it's not nonrecurring.

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

When was it done, Chris?

Christopher Michael Berry - *Alaska Air Group, Inc. - VP of Finance & Controller*

When was it done? So the biggest because we have remaining or associated with the maintenance integration, which has not really started yet. And so that should be really over the next 12 months, 15 months. But we said, I think, $400 million of onetime charges were about $345 million from acquisition to date. And I still feel pretty good about the $400 million.

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

Okay. Chris and Brad, and then couple of years ago you guys resisted the urge of lie-flats because a couple -- one of the reasons at least was because you thought you might make yours -- your airline more prone to a downturn, which I felt was actually really insightful.

But look, you've said before you try to attract new customers and the marketplace has changed. Not only Pacific Northwest, but now you're in these markets in San Francisco and Los Angeles. You've got the credit card, and your competitors are having some success with these lie-flat seats. So how are you thinking about that now? Are you fighting the urge to do it? Or is it something you guys have just decided we'll never going to do this and that's just who we are.

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

Hunter, it's Shane. I think I took this question before. Our thinking haven't changed. And in fact, if you look at some of the pricing softness in the markets that you're talking about, a lot of that is actually on the premium side of the cabin. And so I'm not sure that the economics would be any different. In fact, they would probably be more challenging at this point.

I think the question about do we have a good enough first-class product, which is again a very small percentage of the overall market that demands that. Is it good enough to compete with lie flat, I think it's a good question, and it's one we're sort of humble about and we're just -- we're going to take a little more time to understand if we need to go a different route. We don't really have the aircraft to do lie-flat today. We've got some of the A321s. That's the aircraft you would want to do it on. So we said before, if we needed to go there we could. But right now, our sort of view is more loyalty and upgrade into our premium cabins, and less sort of all-out looking to yield in the premium cabins and that still works for us. Throughout the system, we think it will. If that changes, we'll be able to go lie-flat if we have to.

Operator

Your next question comes from the line of Mike Linenberg with Deutsche Bank.

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

I want to go back to something in your prepared remarks, you talked about Alaska being a growth airline and you're excited for next year, profitable growth opportunities. I think you sort of referenced the acquired assets in California and presumably you were referring to San Fran and LA, LAX. And I'm just curious, those -- obviously space is tight at those airports, and I was under the impression that your utilization of your current gauge there is actually pretty high, but just based on your comments it seems like maybe you are only using 60% or 70% of the space. Can you just give us a sense of how much maybe additional room at LAX and SFO you may have? And maybe you have some gauge coming online over the next 12 months or so that I'm not aware of?

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

Mike, thanks for the question. A couple of things. I wanted to put in context was I know there were concerns about our growth and our -- we are a growth airline, and our longer-term strategy is to grow. Now I said California, there are some constraints in San Francisco and Los Angeles. There is construction that sometimes constrains us. There is some coming up, but those are 2 places where we have considerable strength.

So those are definitely options for us to grow, but we have a broader California network as well that we're going to look at as well.

So our mindset is always 4% to 6%. And California, of course, we made the acquisition of Virgin America to get those valuable slots and gauge. So we're going to take as much advantage and get as much productivity of the assets we have to grow. And we're not giving too much detail on that.

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

Okay, not a problem. And just Andrew, the 9 of 11 regions where you had positive RASM in the March quarter, Andrew, as we look to the June quarter, is -- are we going to be able to get to a point, where it's 11 of 11 or maybe 10 of 11?

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

Yes, that is the hope. I think as we move in -- a lot of that's going to depend on the industry pricing.

We have a lot of time spend at fares that are technically industrywide may be rolling off or not. But at the end of the day, I think, that there could be strength there. On the comments though we did say with Hawaii. I think just I'm not sure that's going to get to positive unit revenue just given the capacity that sort of come on board there and the fare environment.

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

Andrew, I didn't even know you had 11 regions. So I couldn't even name them, so I just -- I'll ask that off-line.

Operator

Your next question comes from the line of Brandon Oglenski with Barclays Bank.

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

Andrew or Shane, I guess, we've heard this commentary too from other carriers as we go through earning season here that leisure was soft up until I guess the end of March or beginning of April. Where do we get that -- I mean, we've heard others talk about low World Cup fares on transcon as well. So what changed? Was demand not showing up? Or did we see capacity tweaks in these areas? Where is the confidence that things have improved into the summer?

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

Number one, I think really specially what went on with World Cup fares had nothing to do with demand and supply. I mean it just -- there was just the pricing actions taken by carriers that brought those down very, very low and they doubled -- these fairs doubled overnight starting in mid-March. I think for us specifically, the first quarter is always deeply seasonally weak and weak quarters affect demand to our network, affects the pricing up into Premium Class. So as we move into the spring and summer season, we are seeing the traditional strength that we've always seen in these markets. But at the end of the day, the fare levels out in the marketplace are somewhat flat give or take across the system versus last year, and we continue to see them move. So over the next 2 or 3 weeks, we'll learn more about where this is headed.

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

Okay, I appreciate that. And then I wanted to follow up on the question about business-class versus your domestic First Class. Have you guys put the 900 on the transcon routes yet? And are you getting the relative revenue production out of the aircraft that you thought you would? I guess more from like a square foot perspective?

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

Sure. We actually just -- it was only really mid-March that we fully transferred all of JFK and Newark to Los Angeles and San Francisco on to the ER and the 321, so -- as we get into these demand periods. So we will get a lot more visibility to how they perform over the next few months. So that's just really started as we speak.

Operator

Your next question comes from the line of Jose Caiado with Crédit Suisse.

Jose Caiado De Sousa - *Crédit Suisse AG, Research Division - Research Analyst*

I just have 1 quick follow-up question on the second quarter guidance. I guess you said that you wouldn't push back on the notion that there are some conservatism in Q2 RASM guide. But when I think back to the last earnings call where your provided first quarter guidance, I think, there was also an explicit statement at the time that the original Q1 forecast embedded, less confidence in close-in pricing. So maybe that could have been characterized as conservative at the time as well and then it obviously came in materially worse than what you were expecting. So how were you thinking about that in the context of this Q2 guide here, the assumptions behind close-in specifically, just given your experience in the first quarter?

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

I think what we were trying to say on the first quarter was that we saw real volatility and choppiness in the fares, and we were just pointing that out as we -- as part of the basis of our guide, is what we are saying, but -- and then literally days after the call, we saw them continue down. I think what we're really saying here is, is that at the end of the day, we feel good about what we see today, but we see fares still move around a lot and there is a good chance that fares could continue to move up across the industries, the demand comes in. Honestly, we have seen seats come out close in due to the MAX groundings.

We've seen carriers pull seats out of the market. We've seen numerous frequency reductions across our markets as late as last week into June. So some of these things will actually help RASM going forward.

Operator

Your next question comes from the line of Darryl J. Genovesi with Vertical Research.

Darryl J. John Genovesi - *Vertical Research Partners, LLC - Principal*

The first quarter -- the calendar first quarter was the first quarter of year-over-year fuel decline that we've seen in a while, perhaps the last as well. Within that construct, we had a somewhat bifurcated revenue progression with United, Delta and American guidance holding up by-and-large while the more domestic-oriented carriers like yourselves and Southwest and JetBlue cetera had to cut. I knew there are some geographic differences. But I'm also wondering the extent to which this bifurcation may also be related to the global network carriers more mature customer segmentation efforts relative to yours in a fuel environment that perhaps engendered some competitive pricing behavior. Any thoughts on that, Andrew?

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

I think you've confused, Andrew.

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

I'm not. That was -- it was an impressive question, but I'm going to -- I'm not sure I quite understood it, and that's. I'd take it off-line.

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

Better able to -- with more segmentation history -- better able to recover higher fuel costs. That's what you're asking, Darryl?

Darryl J. John Genovesi - *Vertical Research Partners, LLC - Principal*

Yes, basically. I know Delta and American have had basic economy for a while. You guys just rolled yours out. JetBlue doesn't have one yet. Southwest doesn't have one yet. The 3 of you had to cut your guidance. United, Delta and American didn't. I'm just wondering if there's a connection there.

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

Got it. I'm not sure but what I can tell you that we have going on that others do not have going on is this, the massive change going on in our business. We really -- we forget about this -- we just really rolled out Premium Class last year. So we had a 23% increase in Premium Class seats just in the first quarter. The Saver Fares having rolled out, the fleet. So we have a lot of choppiness and noise and distraction going on a little bit historically, just to be honest with you. So I don't know the answer to that question. But what I do know is going forward as our business settles down and we get a much better grasp of our levers, I'll probably have a better answer for you next time.

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

Darryl, what I would add is, we believe, Alaska has competitive advantage. So we know there's a lot going on in the industry, but we have a great product. Everything from the Saver Fare we've introduced, Main Cabin, premium cabin, First Class. And we don't have lie-flats. But I think the net we cast over the customer population is pretty large. So we feel that we can weather a lot given our low cost structure and we just feel we're in a good place.

Darryl J. John Genovesi - *Vertical Research Partners, LLC - Principal*

Great. And then Brandon, I mean, if I may ask, on this 40% debt-to-cap target, can you just give us some sense of how you came up with that target in particular, how do you go about stress testing it. Apologies, I knew you've probably done this before, but as the cycle gets a little bit more mature, I think it becomes more important to understand these balance sheet metrics?

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

No, no, no. It's a very fair question. What we did was we looked at the leverage that generally high-quality industrials keep and it's usually right around that, and then you blend that with absolute debt balance look, you blend that with the coverage ratio look, I think, all of that sort of works into this view of kind of 40% is a good place for us to be. We want to maintain an investment grade balance sheet. We want to have -- I mean, all of that, that's basically the answer.

Operator

Your next question comes from the line of Dan Mckenzie with Buckingham Research.

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

Shane, I guess this question would be for you. From what I can tell the Saver Fare appears to be more mechanical and less dynamic today. First, am I correct in that characterization? And then is there potential to be more dynamic here and how do we think about what that could mean for revenue as we look forward here?

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

Yes, Daniel, you are right. I think we've gone out initially with a pretty sort of flat approach. We've really done it essentially based on how far people are traveling, and I think that's really what the industry has gone out with and more or less has stuck with. I think there is -- we're starting to ask the same question you just asked me. Is there a way to get a little smarter at the flight level to move the buy up around. Our goal with this would be lots of buy up at pretty low price. We would love to sort of maximize the economics by getting a lot of people into the main cabin fare that's the better product. And so we want to make that buy up attractive to folks over time. So we are very motivated to figure out how to get more dynamic, as you say, with this but it's probably a couple of quarters away. We really do need a little history before we start changing things a lot.

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

Understood, okay. I guess second question here going back to pilot productivity, which was in the prepared remarks. I believe it was roughly -- responsible for roughly 1/2 of the CASMex improvement in the first quarter. Based on the second quarter cost guide, which is unchanged here, it doesn't appear to be filtering through to the second quarter. And I guess I'm just wondering if that's correct? Or is there some potential upside here?

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

Dan, this is Shane. I'll take that as well. I think this was asked by somebody earlier. In Q1, we had a number of areas that we actually performed a little better than what our plan was. Productivity was 1 driver, and the 1 that was mentioned by Brandon was crew productivity. We had -- we actually had good performance in a couple of other areas as well, distribution costs, selling costs, and overhead, which I think Brandon also mentioned. In Q2, ASMs were actually pretty low again and what I would say is we're still fully understanding why and how we got as good versus plan, as we did on the productivity side. And our goal is to definitely drive that through the rest of the year, but it actually was better than we had planned. So we are just making sure we fully understand what drove that so we can continue doing those things.

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

Understood, and if I can just squeeze one last one here. Just going back to the Investor Day and the fact that you shared around Mileage Plan members, generating 4x more revenue. Just given the loyalty growth rates that you've highlighted, to what extent is that helping to infect revenue today? And does that help revenue inflect more materially as we move throughout the year? I am just wondering if you can provide more color here as well.

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

Dan, it's Andrew. All of that holds true. And I think as we've shared earlier, the strength of the loyalty shows historically, what it does to the percentage of people we booked through AS.com. The percentage of those folks who actually spend more on the average fare, and as we see and as we look into California, we have been filling more and more percentage of our seats on our aircraft with loyalty members in California. So we're going to continue to work that and we expect to see the same relationship between loyalty members in the Pacific Northwest, as in California, as we move them up the value chain.

Operator

Your final question comes from the line of Kevin Crissey with Citigroup.

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

Just one quick one. We've heard it argued that your good results from a network and revenue perspective have been traditionally your legacy Alaska markets, and your weakest results have been your traditional legacy Virgin routes. Can you talk to that? And maybe put another way, what areas of Virgin network and assets are doing well?

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

Kevin, it's Andrew. We -- I recall and maybe I've made, I made in earlier quarters, some very high-level comment around that Pac Northwest versus California. We don't share that level of detail, but what I would, going forward that was just initial half of the acquisition. What I will share with you is that what we have squarely in focus with all the initiatives we are doing with the cross fleeting, with the Saver Fares, with the loyalty growth, the productivity, cost reductions is continuing to improve the results of the California marketplace, which is as you know, a very highly competitive marketplace. And we have seen good solid trajectory there. We have a lot of work to do, no question, but our results continue to improve and that's exactly what we're looking to do.

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

Kevin, it's Brad. I might add on that to that a little bit. In my time here, I've seen lots of different reasons for this company be -- reasons that were challenge for sometimes for a period of years. When I first joined Seattle to the Bay Area -- Pacific Northwest to the Bay Area was a challenged area. It's a highly contributing area today. When we first went into transcon's sort of a similar experience and it's really, really valuable part of our franchise today. Southern Cal to Mexico, if you go back a few years was not -- was underperforming for some period of time. And so some of these California transcon markets aren't doing what we believe they should do. But it doesn't shake our belief in our need to be there and it doesn't shake our belief in our competitive advantage. So we're going -- I don't know that we'll add a ton of capacity in these markets, but we're going to stay there. And we are going to fight it out, and we believe our company has real competitive advantage that will be rewarded over time.

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

And then I think that -- Kevin, I thank you very much for your question. I think that might've been the last question of the day. Thank you all for our interest. We look forward to talking to you at the end of the second quarter. Thanks.

Operator

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

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