REFINITIV STREETEVENTS

EDITED TRANSCRIPT

ALK.N - Q2 2024 Alaska Air Group Inc Earnings Call

EVENT DATE/TIME: JULY 18, 2024 / 3:30PM GMT

OVERVIEW:

Company Summary

CORPORATE PARTICIPANTS

Ryan St. John *Alaska Air Group, Inc. - CFO & Executive VP of Finance*

Benito Minicucci *Alaska Airlines Inc - Chief Executive Officer*

Andrew Harrison *Alaska Air Group Inc - Executive Vice President and Chief Commercial Officer of Alaska Airlines, Inc.*

Shane R. Tackett *Alaska Air Group, Inc - CFO & Executive VP of Finance*

CONFERENCE CALL PARTICIPANTS

Jamie Nathaniel Baker *JPMorgan Chase & Co - Analyst*

Duane Thomas Pfennigwerth *Evercore ISI Institutional Equities - Analyst*

Scott H. Group *Wolfe Research, LLC - Analyst*

Andrew George Didora *BofA Securities - Analyst*

Daniel J. McKenzie *Seaport Research Partners - Analyst*

Ravi Shanker *Morgan Stanley - Analyst*

Conor T. Cunningham *Melius Research LLC - Analyst*

Michael John Linenberg *Deutsche Bank AG - Analyst*

Savi Syth *Raymond James - Analyst*

Tom Fitzgerald *Cowen and Company. - Analyst*

Stephen Trent *Citigroup Inc. - Analyst*

Christopher Nicholas Stathoulopoulos *Susquehanna Financial Group, LLP - Analyst*

PRESENTATION

Operator

"Please stand by for streaming text" Now they're in and then no,

Good morning, ladies and gentlemen, and welcome to the Alaska Air Group 2024 second quarter earnings call. (Operator Instructions)

I would now like to turn the call over to Alaska Air Group's Vice President of Finance, Planning and Investor Relations Ryan St. John.

Ryan St. John - *Alaska Air Group, Inc. - CFO & Executive VP of Finance*

Thank you, operator, and good morning. Thank you for joining us for our second quarter 2024 earnings call. Yesterday, we issued our earnings release along with several accompanying slides detailing our results, which are available at investor.alaskaair.com.

On today's call, you'll hear updates from Ben, Andrew, and Shane. Several others of our Management team are also on the line to answer your questions during the Q&A portion of the call. This morning, Air Group reported second quarter GAAP net income of $220 million. Excluding special items and mark-to-market fuel hedge adjustments, Air Group reported adjusted net income of $327 million.

As a reminder, our comments today will include forward-looking statements about future performance, which may differ materially from our actual results. Information on risk factors that could affect our business can be found within our SEC filings. We will also 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. Over to you, Ben.

Benito Minicucci - *Alaska Airlines Inc - Chief Executive Officer*

Thanks, Ryan, and good morning, everyone. As we closed out another strong quarter, we remain steadfast in executing on the key pillars that are paramount to our success, safety and operational excellence, financial strength and taking care of our guests and employees.

A few highlights for the quarter include achieving $2.9 billion in revenue, the highest quarterly result in our history with nearly $1 billion generated from our premium segments. Our 15.8% adjusted pretax margin will likely lead the entire industry differentiating us for some other domestic focus peers in terms of profitability.

We continue to prove that our ability to achieve industry leading profits during the second quarter and the summer peak is unmatched. And at the same time, we are actively working to improve margins in this seasonally weaker Q1 and Q4.

We're happy to announce a record tentative agreement with our flight attendants, underscoring our deep appreciation for their vital role in our business. This includes a 32% increase in compensation aligning with industry standards and reflecting our commitment to their futures. This would mark the completion of our last major labor contract and pending ratification in August, it will conclude the labor cycle for us.

Making investments in our people remains a focus, and we look forward to the stability and alignment that our labor contracts bring, as we focus on being best in class operators. Our resolute focus on cost management and productivity across the business remains strong, driving a unit cost result that is among the best in the industry, down nearly 2% year over year.

This was even better than our expectations, reflecting the dedication of our teams in carrying out our aggressive internal plans. We ran a safe, reliable operation with a completion rate of 99.5% or better each month this quarter as our teams were focused on delivering for our guests. And lastly, an update on our planned acquisition of Hawaiian Airlines.

In the quarter, we submitted the DOJ second request for information. We are maintaining close and transparent communication with the DOJ as they finalize their review process expected to be completed by August 5 when we anticipate learning more about potential next steps.

Now turning to our business outlook. As we move into the second half of the year, we are adjusting the midpoint of our full year EPS guide by $0.25 to reflect the economics of our flight attendant deal as well as the current domestic environment. That said, the fundamental drivers that have consistently placed us among the top margin producers in the industry remain unchanged.

In terms of growth in aircraft deliveries, we have acquired 10 MAX aircraft from Boeing while maintaining vigilant oversight of the production process to guarantee nothing but the highest quality aircraft are delivered to us.

The line of sight and increased confidence to 2024 Boeing deliveries, we now expect full year capacity growth to be less than 2.5%. Although lower than the level of growth we configured the business for this year, our teams are doing a great job managing costs and productivity.

Operational excellence is core to our DNA, and we are committed to being best in class operators and delivering for our guests. We're off to a great start as we fly our largest ever summer schedule and posted a 99.5% completion rate over the 4 of July holiday period despite some challenging weather and airport construction projects.

As a further testament to the care, our employees provide for our guests and our commitment to run a safe, reliable on-time airline with exceptional service. Recently released DOT data for 2023 shows, Alaska generated the lowest number of customer complaints per 100,000 guests of any US airline.

This result is an improvement versus (technical difficulty) better than the industry average and 35% better than the second ranked airline. Still, we're not sitting idle. We have more to do and continue to elevate our brand and travel experience.

We're making the online process easier with 23 of our oneworld and global partners now available to book through alaskaair.com. We're enhancing the in-person guest experience with new technology in a beautiful new terminal and lounge at San Francisco, where we are the second-largest carrier and a state-of-the-art stunning and brand new lobby in Portland. We're also stepping up our premium exposure, given the strength in demand and shift in gas preference towards this segment.

With the first modifications set to begin to September, this was a decision made some time ago. We'll be adding six premium class seats to our 737-9 and MAX 9 fleets and four first class seats to our 737-800 fleet, driving our total premium seat mix, up three points to 28% when completed.

I'm excited that we are making this investment as we continued to respond to guest preference and diversify our revenue base. This is a dynamic industry that requires constant adaptation and course corrections had it not been for a full $223 million impact from flight 1282 and a fleet grounding to start the year.

We'd be on track for improving full year margins versus last year, even amidst a softer domestic demand environment and continued material step-ups in industry labor costs. And still we expect to be a top three margin producer and far and away the strongest domestic focus carrier.

I am grateful for the talented and dedicated team of employees here at Air Group and building a business model, design to excel and achieve long-term success. The underlying fundamentals are embedded in our DNA, a strong balance sheet, operational excellence, guest care, and our relentless focus on areas within our control.

I am confident our investments going forward build on our unique competitive advantages. Including the potential acquisition of Hawaiian Airlines, which, if approved, we believe will enhance our strength as we broaden our presence in both domestic and international markets.

At Alaska, we meet challenges head-on and we are committed to maintaining a track record of consistent success day-in and day-out just as we have done for years . And with that, I'll turn it over to Andrew.

Andrew Harrison *- Alaska Air Group Inc - Executive Vice President and Chief Commercial Officer of Alaska Airlines, Inc.*

Thanks, Ben, and good morning, everyone. Today my comments will highlight our second quarter results as well as provide color on third quarter outlook and capacity guidance. We achieved a record $2.9 billion in revenue this quarter, up 2% year over year. This was on capacity increase of 6%, resulting in unit revenues down 3.7%.

Notably, this unit revenue result reflects the impact of $60 million in lost revenue attributed to the fleet grounding over two points of last [resm] Throughout the quota, unit revenues moderated as our and industry capacity reached peak growth in the month of June.

Low load factors also increased sequentially, reaching 87% in June. Our 84% load factor for the quarter, along with the records of the past two years, so outsized impacts from regions with double digit capacity additions that pressurized both yields and loads more than originally anticipated.

As you know, the past few years have demonstrated significant volatility in testing demand, but I believe trends are stabilizing and should continue to allow us to optimize further.

For the most part, booking patterns are similar to what they were pre pandemic and business travel has largely returned. For Alaska, I still see opportunity in front cabins given guest preferences as well as network refinement to match when and where guests want to fly. Our premium cabins continue to be the bright spot in our performance.

First Class and Premium Class revenues were up 8% and 6% year-over-year, respectively. And continue to outpace Main Cabin revenue growth. Paid first-class load factor was 71% for the quarter, up four points on flat yields. As Ben mentioned, we are continuing to invest in premium seating.

Late last year, we added a row of premium class to our original Embraer 175 fleet and starting this full, approximately 220 of our mainline aircraft on property, including all our800's, 900 ERs and MAX eights and nines will start being fitted with additional premium seats with [certain net] loss in total ship seats with program completion by mid-2026.

Similarly, our loyalty program remains strong with bank cash remuneration starting this fall, approximately 220 of our mainline aircraft on property, including all our eight hundreds, 900 ERs and MAX eights and nines will start being fitted with additional premium seats with certain loss in total ship seats with program completion by mid-2026.

Similarly, our loyalty program remains strong with bank cash remuneration totaling $430 million for the quarter. We are constantly strengthening the value of the program with new and various offerings that [allow] guests to build value in different ways. We found unique ways to attract younger next generation mileage plan members to build lifetime loyalty.

Our recent partnership with built where customers can pay rent with Alaska's credit card and earn triple miles for example, has had great initial results. Our partners selling platform now covers 23 global airlines, including the recent addition of our long-time partner, British Airways.

To date, guests have purchase tickets to more than 80 countries, and ticket sales are up 53% year to date. We're also continuing to invest in our global loyalty proposition. Since we relaunched partner redemptions on April 1 with more content, new promotions, and refresh pricing, we've seen activity increased 61%, helping drive overall revenue contribution from our partners to 7% of our total revenue.

And we continue to enhance our customer experience. We're excited to move to a stunning new terminal in San Francisco this month, which co-locates us with many of our oneworld partners. We will also open our new 11,000 square foot lounge next week. In addition to offering a world-class experience and amenities, a lobby in the Harvey Milk Terminal 1 is the first to offer next-generation automated backdrop technology.

This innovative and seamless self-service technology introduced in the heart of Silicon Valley will get guests through the check in process within minutes. Our bag tag technology which has been implemented system wide has also resulted in a 30% increase in guest checking in digitally before they arrive at the airport and guest using self-service check-in bags has doubled to over 70%.

We've also reintroduced hot meals for prepurchase onboard our aircraft in our premium in main cabins. At Alaska, we are focused on quality experience for all our guests. We are excited to continue investing in the products and amenities that create this premium experience for them. Turning to our managed corporate business, travel remains solid throughout the quarter following the significant step-up we experienced at the beginning of the year.

Corporate revenues were up 24% year over year in the second quarter and continue to be driven by technology companies that were up 40% year over year. On a revenue basis, we have now eclipsed 2019 although overall volumes are about 85% recovered. Specific to the Bay Area, we see further upside potential given the market has only recovered 80% of revenue to date.

Encouragingly, as we sit here today, held managed corporate revenue on the books is up over 15%. Now turning to our outlook and guidance, we expect capacity to moderate sequentially to up 2% to 3% year over year in the third quarter. Similarly, domestic industry capacity is set to increase approximately 3% year over year in the third quarter, that's down from the 6% increase we saw in the second quarter.

Following an exceptionally strong Q1 result, we stretched to capture more yield in the second quarter before rebalancing towards load. While we saw good results versus competitors in this peak flying period, we've made net worth and capacity adjustments for Q3 and beyond to better match supply and demand in off peak periods.

Also factoring into our expectations is what we believe to be a shift in school calendars to slightly earlier summer breaks, leading to a strengthening in June versus July and August. As more leisure trips take place earlier, this has pushed June to become a stronger peak month.

Given the shift along with the yield environment we observed last year during these months, we are planning for nearly flat capacity in August and September versus 2023. Lastly, the international versus domestic traffic mix has not yet normalized, although we still believe it will over time.

With over one point of demand having shifted out of domestic travel since 2019, we expect this phenomena is still detracting from high value domestic demand that would otherwise be present.

Looking ahead, we've been encouraged by our advanced bookings, which are coming in above capacity growth with load factors for August and September building ahead of last year. We currently have 65% of forecasted coupon revenue in the books as of today's call.

Given our lower growth as we go into the shoulder periods of August and September, we are seeing the benefit of stronger loads relative to last year. These trends give us confidence that we can achieve flat to positive unit revenues in the third quarter versus last year.

This assumes negative revenues in July, modestly positive in August and solidly positive unit revenue in September. September may have more upside potential as corporate travel traditionally picks up versus the summer months. We have a strong commercial plan that offers great value for our guests is producing results and has room to grow.

Our upcoming fleet modifications will expand our premium offering, adding 1.3 million lifted seats annually. I'm excited to drive more revenue from this side of the business from the 25% premium seat mix today to 28% of seats when completed layering on of comprehensive network, both our own and through our partners internationally, guests can go anywhere in the world, and they can do so while accruing currency in the most valuable loyalty program out there.

While Alaska doesn't offer long-haul international services on our own metal, our guest consistently choose to fly our partner airlines when taking these trips choosing one of the attractive options within the global Alaska ecosystem.

This is among the many reasons our multifaceted approach to creating a premium experience across our product segmentation drives value for our guests, differentiates us from domestic peers and supports long-term sustainable financial results.

And with that, I'll pass it over to Shane.

Shane R. Tackett - *Alaska Air Group, Inc - CFO & Executive VP of Finance*

Thanks, Andrew, and good morning, everyone. We delivered a strong second quarter, which is now by a large distance our strongest quarter of the year. June has become our strongest margin month of the year. And while margins were down slightly year over year, the gap to 2023 narrowed in each month of the quarter sequentially.

Absent the impacts of the fleet grounding during the first quarter, our results in the first half of this year would have improved nicely versus 2023, an indication of the strong underlying business model we have created.

And while we are seeing similar trends, demand-wise as others and will experience a significant step-up in labor costs, should our tentative agreement with our flight attendants ratify. Our expectation is that our full year pretax results again adjusted for the impact of the fleet grounding would be similar or better than 2023's full year result of 7.5%.

Turning to our second quarter, our adjusted earnings per share was $2.55, with what we believe will be an industry-leading adjusted pretax margin of 15.8%. Fuel price per gallon was $2.84, down from $3.8 in the first quarter. In particular, we were encouraged to see West Coast refining margins return to being on par with Gulf Coast during the quarter.

Our total liquidity, inclusive of on-hand cash and undrawn lines of credit stood at $3.1 billion at quarter end. Debt repayments for the quarter were approximately $50 million and are expected to be approximately $110 million in the third quarter.

We continue to have one of the healthiest balance sheets in the industry with debt to cap at 45% and net debt to EBITDA at one turn. Share repurchases totaled $28 million this quarter for a year to date total of $49 million, and we are tracking to at least fully offset dilution for the year.

Second quarter unit costs were down 1.9% year over year, coming in better than our original expectation, as our teams continue to do a great job managing costs with incrementally better results across the organization.

Productivity improved again this quarter with passengers per FTE up 2.3%. This was the sixth consecutive quarter of productivity improvement, adjusted for the impact of the fleet grounding, a trend we expect to continue going forward. Turning to third quarter guidance, we expect more pressure on unit costs than we saw in the first and second quarters which we anticipate will be in the high single digits for the back half of the year.

I will provide detail on what is driving this, but would note that we have the toughest comp in the industry, given that we leading cost performance in the second half of last year, with unit costs down 5% versus an industry average up 3% year over year in the third quarter, creating a natural headwind as we lap those results. For the third quarter this year, we are seeing a five to six point drag on CASMex from the following areas.

First two points of headwind is from having configured our business for a higher level of growth than we will realize this year, primarily driven by fewer and later deliveries from Boeing. While we have done an excellent job managing costs down in the face of lower growth, we are still not at an optimal level.

While this will be a future opportunity and tailwind as we continue to right size our cost structure these new growth levels, it's driving a headwind in Q3.

Second, we are seeing about a one point of pressure from the timing of cost shifting to later in the year. This includes modestly higher maintenance spend in the second half and airport real estate costs that reset July first.

Third, labor costs continue to step up materially, and we will see two points of pressure from our agreement with our flight attendants assuming that ratifies. And also in the labor cost category, there's a little more than a one point headwind from the annualization of our pilot wage snap up to industry from last September and the new agreement with our technicians from late last year.

We are excited about the investments we've been able to make in our people and with line of sight to closing our last labor deal of this current round of [marketing] we now have more visibility into our future cost structure, which we now need to fully adapt our business model too.

To Importantly, our long-term strategy and commitment is to maintain our unit cost advantage versus our competitors, and we remain confident this continues to be the case. On a stage length adjusted CASMex basis, we still expect to finish the year with one of the best results in the industry versus 2019.

While unit metrics may be pressured in the near term. As I noted on the last few calls, we will continue to be responsible with capacity given the current demand contacts and will focus on prioritizing margin and profitability over other metrics.

Fuel remains somewhat unpredictable, but trends in the last quarter have been a welcome change with crude around $80 a barrel and West Coast refining margins averaging only a $0.03 premium over Gulf post for the quarter.

Although the spreads have recovered more in line with historical levels, we are still focused on neutralizing the West Coast fuel disadvantage we've seen through other initial actives over time. For the third quarter, we expect our economic fuel cost per gallon to be between $2.85 and $2.95.

Taken altogether, we expect third quarter EPS to be $1.40 to $1.60, and we've adjusted our full-year EPS lower by $0.25 at the midpoint. These are both principally driven by an outlook that now incorporate (technical difficulty) contract, more moderate growth in the second half of the year and the moderated domestic fare environment we've experienced recently compared to a few months earlier in the year.

That said, we still expect to be in the top group of margin producers in the industry, both this year and in years to come. Absent the grounding, we're on track to achieve at least flat margins versus last year, validating our differentiated business model and the strong fundamentals that underpin it.

And in a more premium leaning environment, we're excited to not only a premium seats, but to do so without removing any total seats from our planes, a positive for revenue and our unit cost. By any metric, Alaska has a long track record of success.

As we continue to build on our competitive advantages and apply learnings to adjust parts of our business within our control, we are strengthening our already successful business model that's helping us win in today's environment.

And if the industry continues to evolve, we will adapt and position ourselves to continue delivering margins amongst the best in the industry. And with that, let's go to your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Jamie Baker, JPMorgan.

Jamie Nathaniel Baker - *JPMorgan Chase & Co - Analyst*

Two in a row. I should be paranoid. So deal related question folks. With Virgin you disclosed you were speaking with Justice and remedy used were being bantered about. I'm trying to square that against what you said in the prepared remarks regarding the August 5 date. It sounds as if you are not yet having constructive discussions rather, you're at a wait-and-see mode just as the market is to hear back from just as by then. Is that how I should incorporate Ben's opening remarks?

Benito Minicucci - *Alaska Airlines Inc - Chief Executive Officer*

Yes, Jamie. Look, we went through the entire process with the DOJ and all the documents and discussions have occurred were in the home stretch here in two weeks, and we're waiting to see what DOJ comes back to us with. So we made our case and we feel pretty strong about our case on being a pro-consumer and pro-competitive. So we'll wait the DOJ's decision and go from there.

Jamie Nathaniel Baker - *JPMorgan Chase & Co - Analyst*

Perfect. And then second, on a yield basis, what's your paid premium class? Not first class, but premium class paid premium to traditional or average economy yields? I know it's a metric you don't usually disclose. I'm estimating it to move below 15% to 20% range. Just trying to find out, if I'm close with that forecast.

Andrew Harrison - *Alaska Air Group Inc - Executive Vice President and Chief Commercial Officer of Alaska Airlines, Inc.*

Yes, Jamie, I think you are off the top of my head. I can tell the entire cap. Ben is around 40% and about half of those have paid versus not. So I think you're on that sort of where we sit at that. So it's a good 40% for the cabin over the Main kempen and it's been very encouraging.

Jamie Nathaniel Baker - *JPMorgan Chase & Co - Analyst*

Sure. But and again, but your 40% includes elite upgrade is right?

Andrew Harrison - *Alaska Air Group Inc - Executive Vice President and Chief Commercial Officer of Alaska Airlines, Inc.*

Correct. Which about.

Jamie Nathaniel Baker - *JPMorgan Chase & Co - Analyst*

Okay.

Andrew Harrison - *Alaska Air Group Inc - Executive Vice President and Chief Commercial Officer of Alaska Airlines, Inc.*

There's about half of them, yes.

Jamie Nathaniel Baker - *JPMorgan Chase & Co - Analyst*

Okay. Perfect. But just wanted to make sure I understood. Okay. Thank you, both. Appreciate that. Take care

---

Benito Minicucci - *Alaska Airlines Inc - Chief Executive Officer*

Thanks Jamie.

Operator

Duane Pfennigwerth , Evercore ISI.

Duane Thomas Pfennigwerth - *Evercore ISI Institutional Equities - Analyst*

Hi, thanks. I don't know if you have this metric, but overall competitive capacity in your markets, what was that growth in 2Q? And how do you see that evolving in 3Q and perhaps for 4Q?

Andrew Harrison - *Alaska Air Group Inc - Executive Vice President and Chief Commercial Officer of Alaska Airlines, Inc.*

Duane, it was elevated as you're aware and as in my prepared remarks, an area like Alaska, long haul industry's capacity was up over 20%, which is a 12% of our network. But as you look through all of our hubs, looking forward and certainly September, October seats sort of flat to very low single digits up.

So very much a significant reduction in the overall trajectory of growth that we see today.

Duane Thomas Pfennigwerth - *Evercore ISI Institutional Equities - Analyst*

Credence. Sorry, to do with you, but you piqued my interest with the 65% booked comment. Can you put that in context for us, revenue pacing of 65% at this point. How would that compare to last year or maybe 2019 ?

Andrew Harrison - *Alaska Air Group Inc - Executive Vice President and Chief Commercial Officer of Alaska Airlines, Inc.*

2019 off the top of my head, we might need to follow up on that. But it's -- this is in line. It's normally anywhere in the mid-60s to headed towards the higher 60. So it's certainly right in line over the last year or two.

Duane Thomas Pfennigwerth - *Evercore ISI Institutional Equities - Analyst*

Okay. Thank you.

Operator

Scott Group, Wolfe Research.

Scott H. Group - *Wolfe Research, LLC - Analyst*

Hi thanks. So share, I want to focus on the cost side a little bit. So I totally get the year-over-year comps are harder on chasm unless capacity growth hurts unit cost. I want to trying to focus on just absolute costs for a minute.

So if you just look like Q2 to Q3, you're guiding to a good 10%, 11% increase, just an absolute cost ex fuel with capacity only up five and or it's like almost $200 million. Help us bridge that (inaudible) how much is pilot, I'm sorry flight attendant. How much is the other factors? And does that new level of costs day, does that start to come down again as you go out to fourth quarter next year? Just any thoughts?

Benito Minicucci - *Alaska Airlines Inc - Chief Executive Officer*

Yes. Thanks, Scott, and good morning. In terms of like the proportionality, I think labor is going to be a third or so of the increase just on a percentage basis with the bulk of that being the flight attendant contract. We do have another -- much more modest snap up with our pilots that will occur in September again. Very different in magnitude than last year. But the last rate adjustment we have in the current contract.

The rest is really like there's some 15 timing things we had a significant credit on the airport cost side in the first half of the year that hit June. And as I noted in my prepared remarks, you've got new rates coming in them with airports enjoy one. And so we've got a slightly lower base in Q2 that rolls over to Q3 main into similar there's some shifts from Q2 to Q3.

I don't think any of our costs are structurally different than any of our competitors, and that's we've talked about this quite a bit and we will continue to -- we are going to ultimately maintain our cost advantage against the legacies and shrink the cost gap to the LCCs. We have lower costs than JetBlue today, we're close to Southwest and we're not letting Delta United American encroach on us.

And that's what our expectation is for the balance of the year and as we go forward. The other thing I just want to make sure I know, I think we had six consecutive quarters of productivity improvements that will continue, even though we're having to adjust growth lower and it's going to be a tailwind throughout the rest of this year and into next year.

So we don't expect high single digit number to be a new normal for us at all. I think it's timing and some material step-up costs and labor rates, which I think this is probably the last of this size as we've because this particular negotiation cycle down if our flight attendants ratify their deal.

Scott H. Group - *Wolfe Research, LLC - Analyst*

Okay. That's helpful. And then so everyone is all the airlines so far have talked about, hey, you look at August, September things start to flatten out on capacity and looks good. When I just look at current schedules, it looks like you guys reaccelerate in Q4.

Benito Minicucci - *Alaska Airlines Inc - Chief Executive Officer*

So I -- is that just a placeholder and you think that gets revised down for Q4 closer to flat and for you like you are in September and then any early thoughts about how to think about capacity in '25?

Andrew Harrison - *Alaska Air Group Inc - Executive Vice President and Chief Commercial Officer of Alaska Airlines, Inc.*

Just on the Scott, on the capacity on, as you heard in our prepared remarks, the year will be sort of sub 2.5%. What I'm expecting is that Q4 on a year-over-year basis will actually be a little lower than Q3 is what I'm saying.

Benito Minicucci - *Alaska Airlines Inc - Chief Executive Officer*

Yes, in 2025, not ready to speak to one thing. I will share though as we expect to take fewer deliveries next year of aircraft and we do expect to retire more aircraft than we did this year. And so, I think it's going to -- we're going to be judicious about capacity and really be thoughtful about the network and making sure we're -- as I said in remarks this time and on the last call and I think the call before that really focused on expanding margins for the company as we go forward.

Okay. Thank you, guys.

Thanks, Scott.

Operator

Andrew Didora, BofA Global Research.

Andrew George Didora - *BofA Securities - Analyst*

Hi, good morning, everyone. Shane I was actually going to ask the 2025 capacity question as well, but I guess kind of big picture given kind of the delivery delays. Is it fair to say that next year we'll continue to remain below sort of your medium to longer term targets of kind of mid-single digit growth?

Shane R. Tackett - *Alaska Air Group, Inc - CFO & Executive VP of Finance*

Yes, hi Andrew, good morning. I think that's a fair way to look at it . I think we're going to -- we really want the 10, and I think that certification is extending to the right. That's really what the bulk of our forward order book is now positioned as is a MAX10 and I think there's a lot of opportunity for us to continue to work and further optimize the network. And so I think it's fair that we would likely be below as we sit here today, looking out our longer term sort of growth target in 2025.

Andrew George Didora - *BofA Securities - Analyst*

Yes, got it. Makes sense. And just thinking about it in that type of growth environment. So what we see in a cost kind of at that similar high single digit level into the first half of '25 because it doesn't seem like much of these headwinds will ease by then? Or do you expect some sort of relief earlier than that? Thanks.

Shane R. Tackett - *Alaska Air Group, Inc - CFO & Executive VP of Finance*

Yes. Thanks. I really early for us to be thinking about or talking about 2025. What I would say is philosophically. No, we wouldn't expect to see this level of elevated unit costs. It's not been a part of our thinking about the business or the business model. It's not going to become a part of our thinking about the business model to have high single-digit unit cost.

And I think for the full year we're going to be in a fair place and if you look at us against 2022 or against 2019 we're no different holding our own on a unit cost basis against all of the industry and we'll be very mindful about continuing to work on the productivity and other efficiency levers in the business and some of these things do begin to actually lap and they're part of the base next year. And the last thing I just remind you, we had a lot of capacity out of Q1 of last year, so there's going to be some noise in the comps even as we go forward in 2025.

Andrew George Didora - *BofA Securities - Analyst*

Right, that's fair. Thanks much.

Shane R. Tackett - *Alaska Air Group, Inc - CFO & Executive VP of Finance*

Thank you .

Operator

Dan McKenzie, Seaport Global.

Daniel J. McKenzie - *Seaport Research Partners - Analyst*

Oh! Hi. Thanks. Good morning, guys. Going back to the premium on Economy Plus is the 40% Premium over Mainline Cabin across all stage links or is it reasonable assume it's a little bit higher in the longer haul and a little bit less on the shorter all flights ?

Andrew Harrison - *Alaska Air Group Inc - Executive Vice President and Chief Commercial Officer of Alaska Airlines, Inc.*

Hi, Dan. Yes, that's absolutely correct. And just as a reminder, we have premium class across our entire regional fleet as well. And our stage length from is one of the longest domestically in the industry. And so this is why premium class is such a huge asset for us. And I think our regional aircraft probably fly most longer than most other Regional aircraft as well. So that's why the PC product is a really good fit for us.

Daniel J. McKenzie - *Seaport Research Partners - Analyst*

Yes, of course. And then going back to San Francisco being 80% recovered, how much revenue does that account for and is it primarily corporate that hasn't recovered or leisure? And then how are we -- how are you thinking about the recovery cadence from here?

Andrew Harrison - *Alaska Air Group Inc - Executive Vice President and Chief Commercial Officer of Alaska Airlines, Inc.*

Yes. Hi, Dan. My comments were specifically to business travel.

Daniel J. McKenzie - *Seaport Research Partners - Analyst*

Okay.

Andrew Harrison - *Alaska Air Group Inc - Executive Vice President and Chief Commercial Officer of Alaska Airlines, Inc.*

And I think we have the network post COVID positioned very well in California. And as you look at our growth, certainly in the Bay Area has been very moderate just because we're not going to get ahead of the demand curve there.

And again, in Los Angeles, we've been focusing more on some of these are Latin and high leisure markets, which have generating revenue done quite well for us. But again, we are on a low growth cadence here for the next little bit and what we will be doing is spending a lot of time, there's sort of no autopilot here on network.

We will be managing this dynamically through this year and into next year to ensure that we've got the airplanes in the right markets to maximize our revenues and to accommodate where our guess actually want to fly.

Daniel J. McKenzie - *Seaport Research Partners - Analyst*

Yes, thanks for the time you guys.

Operator

Ravi Shanker, Morgan Stanley.

Ravi Shanker - *Morgan Stanley - Analyst*

Thanks. Good afternoon everyone and kudos for sneaking in that autopilot pun in there. Just on the Premium Cabin, kind of just given the new initiatives and the target to kind of raise the mix there. Where is that incremental customer coming from? Is that converting from Main Cabin? Is that coming from oneworld partner airlines? Is that coming from other legacy carriers, who's that incremental customer?

Andrew Harrison - *Alaska Air Group Inc - Executive Vice President and Chief Commercial Officer of Alaska Airlines, Inc.*

Yes, thanks, Ravi. I think it's sort of all of the above. And I think we are being going to tell a lot more of a story around our premium product in general, both First Class and Premium Class. Our international partners can sell into that.

And we've just seen, as I shared earlier, just a row real appetite and demand for that Premium Class Cabin. I think as you look at the industry and you look at the lower end of fares, we meet those very well with our Saver Fare, but we are doing a much better job actually selling the product we have.

For instance, not too long ago, the only way you could buy Premium Class on us directly was to go into the seat map while you were choosing your seat and we would upsell you there. Now we have it fully on our front page matrix and then it will be coming to mobile here soon. So I think we have real merchandising opportunity to catch demand out there that perhaps folks haven't seen it as much as we could have put it in front of them.

Benito Minicucci - *Alaska Airlines Inc - Chief Executive Officer*

Ravi, it's Ben. I just -- even higher level, we're talking about not just a premium seat, but a premium experience. And I think this is what really differentiates us from our domestic competitors. From the time you check in, we're innovating lobbies with automated backdrop. We have lounges, we have partnership with oneworld, we have a fantastic loyalty program, with great rewards, we have the premium product on board, we've got excellent food and beverage, local food, and beverage.

And so you look at the entire experience, we're providing a premium experience and I think this is where the accretion comes from with the premium seats.

Ravi Shanker - *Morgan Stanley - Analyst*

Understood. That's great color and look forward experiencing that. Maybe as a follow up, just wanted to confirm that, when you check your Net Promoter Scores and customer like booking behavior and everything. Is everything back to normal after the January incident or is there still some lingering impact?

Andrew Harrison - *Alaska Air Group Inc - Executive Vice President and Chief Commercial Officer of Alaska Airlines, Inc.*

Yes. I think as we actually even said last quarter, I think the -- we've not seen any lingering impact or effect at all from the grounding in the first quarter.

Benito Minicucci - *Alaska Airlines Inc - Chief Executive Officer*

Yes. And I'll just add, I'm so proud of how our company up through the first quarter. If you think about the how immense that incident was on January 5 and the grounding, how our company came out of it with losses in Q1 to this fantastic quarter, where we're posting industry-leading margins.

It's really a tribute to all the people here, and I'm so proud of him and Ravi and no, I think everything is behind us and we feel pretty but pretty good going forward on the future.

And I mentioned in my script, in 2023 DOT data, we had the lowest customer complaints of any airline in the industry and I think that's just attribute of what our people are doing out there in our operation.

Ravi Shanker - *Morgan Stanley - Analyst*

Wonderful. Thank you.

Benito Minicucci - *Alaska Airlines Inc - Chief Executive Officer*

Thanks Ravi.

Operator

Conor Cunningham, Melius Research.

Conor T. Cunningham - *Melius Research LLC - Analyst*

Hi, everyone. Thank you. Just -- as you -- just on the premium topic for a quick second, when you're expanding the First Class, I'm just curious on how much CapEx is actually driving for you. I don't know if you've mentioned that anywhere. And then it seems like a pretty quick turnaround time, just on the whole overhaul thing. Did you have any issues finding MRO capacity at all to do this retrofit? I'm just curious. Thank you.

Andrew Harrison - *Alaska Air Group Inc - Executive Vice President and Chief Commercial Officer of Alaska Airlines, Inc.*

Well, let me start. I think I said in my script, Conor, we just didn't come up with this a month ago and put it in here. This is something we've been thinking about a lot. We've invested in our premium experience now for many, many years, and this just doesn't happen overnight.

So on the 800's, on the First Class seats, we have 12 in there. It's a smaller airplane. But over time, we feel that we need to match to the rest of our fleets. That's where we're going to 16. In terms of CapEx.

Shane R. Tackett - *Alaska Air Group, Inc - CFO & Executive VP of Finance*

It -- Conor, it's going to be a roughly $1 million an airplane and it'll be spread out over a couple of years. It's a new seat in the 800. The 900ER is easier. It's just repackaging and that will be done relatively quickly. And no, we've had good allocation from our MRO partners available to us the last few years and good capacity looking forward.

Conor T. Cunningham - *Melius Research LLC - Analyst*

Okay. That's helpful. And then when I think about your historical seasonality of your business, you guys make the vast majority of your money in 2Q, 3Q. Ben, you mandated significant change in 1Q. As you think about the opportunity in fourth quarter, what are your learnings that you saw in 1Q that you could apply to the fall?

Is it more of just an off-peak versus peak, changing of capacity? Just curious on how you're thinking about evolving seasonality in general of your earning stream? Thank you.

Benito Minicucci - *Alaska Airlines Inc - Chief Executive Officer*

Yeah. Connor, thanks for the question. I'll let Andrew provide more detail. But for us, as you know, like we are, the Q2 and Q3, you're right, we're super, super strong, and we outperform mostly everyone. And Q1 and Q4, there's just several weeks in both of those quarters where it's weaker than the rest of the year and those are the ones that we are attacking.

And like I said in my script, we try and control the things we can control and we're going to point airplanes in places where we know we can make money. So with that, we made some -- actually some pretty significant announcements. Andrew, just a little more color on that.

Andrew Harrison - *Alaska Air Group Inc - Executive Vice President and Chief Commercial Officer of Alaska Airlines, Inc.*

Yes. And Ben's exactly right. And I think we are being more judicious than we've ever been before on the first -- on the fourth quarter and the capacity side and the days of week. But I just want to just remind folks that this is not just about network.

I think, we're nearly done with a three-year modernization of our digital platform. So conversion rates, what we're able to sell, how we're able to sell. We just think there is more merchandising opportunity. You heard that we've re-racked out the whole sort of the loyalty program and how we've rolled that out and looked at redemptions domestically, globally.

And the awards, we're monetizing more of the cabins and seats in front of the exit row, excuse me, and then also the exit rows and Premium Class. So I think we're looking at the entire portfolio of being very exact and disciplined on the network side. But we also have numerous revenue initiatives offering guests better product and service and more options and I think we're going to just see those continue to improve.

Conor T. Cunningham - *Melius Research LLC - Analyst*

Appreciate it. Thank you.

Operator

Mike Linenberg, Deutsche Bank.

Michael John Linenberg - *Deutsche Bank AG - Analyst*

oh, hey. Good morning, everyone. I want to just go back; you call it out in the guide about this moderating domestic revenue environment. I think, Andrew, you kind of mentioned it. I think Andrew, you kind of mentioned it, I felt like I heard it a few times.

How much of it is pure macro versus just supply demand out of kilter? And maybe another way of asking it is that we see volumes domestically running up 6%, 7% right now. But I think the prevailing view is that maybe a much greater portion of that is stimulated demand. Like what's your -- when you look at your forecasting and where you see things, what do you think organic demand, like true demand absent any sort of stimulation or are we really starting to see some macro softness? And then I have a follow-up.

Andrew Harrison - *Alaska Air Group Inc - Executive Vice President and Chief Commercial Officer of Alaska Airlines, Inc.*

Yes, hi, great. Great question. What I would say is this. Firstly, there's just the general population and then there's flyers and people who travel and I do think there's a little bit of a difference there. I do think on the lower end of fares, just even the last 28 days, we've seen more of a shift out of OTA mix into direct, which sometimes at the lower fares. So that would seem that there's softness there. But I think mostly for us, it's just really a capacity story.

As I said, we grew seats 8% in first class in our revenues went up 8% in the second quarter. The main cabin was a little bit of a different story. So I do think that in general demand, if we -- the adjustments we're making to our capacity, I think we'll go a long way of getting in equilibrium there.

Benito Minicucci - *Alaska Airlines Inc - Chief Executive Officer*

And Mike just.

Michael John Linenberg - *Deutsche Bank AG - Analyst*

Okay, yes.

Benito Minicucci - *Alaska Airlines Inc - Chief Executive Officer*

Just to remind you on that, like if you look at our -- again with counsel at the bottom line, if you look at our at our margin and if you look at ex the impact of 1282, our full year margin, even with all the incremental cost step-ups that we have, it will be the same or better for 2024 than it was '23. And I think that's a remarkable achievement.

And I think it's attribute of the business model we have and the investment we made in premium. And so I do think there's a lot of resilience there and that we're attracting the right set of customers, and we have enough segmentation and our product to win .

And so we feel pretty good about where we are and where we're going.

Michael John Linenberg - *Deutsche Bank AG - Analyst*

Great. And then just quick one on now that you're well established as a oneworld partner, although maybe you're still saying he would probably tell me that you're still maybe in the third or fifth inning, not the seventh.

What are you seeing like the contribution and it may even be what is driving you to go from 25% to 20% because someone who comes off a BA flight and maybe is connecting to, I don't know Portland or Medford or wherever maybe even the State of Alaska, they want that front seat product.

So if we think about it, I don't know if it's load factor points or whatever that you're getting now that you've synced up very nicely. I mean, you gave some numbers on how much more you're selling in the oneworld ecosystem. What is that driving on your own. Thanks for taking my question.

Andrew Harrison - *Alaska Air Group Inc - Executive Vice President and Chief Commercial Officer of Alaska Airlines, Inc.*

Yes. Yeah. That's a great question. And I would just say in the scheme of size, if you will, that the number of international connections onto our network, given our domestic size and what we do carry is not a huge component of it. I think the oneworld is really our loyalty members being able to carry their elite benefits globally and staying within the oneworld system and Alaska's loyalty system is the real upside.

But nonetheless, to your point, as we continue to put more First Class seats on our aircraft, as well as Premium, that opens up more opportunity for all the long-haul connections we do to provide them and many of them also choosing premium seats up their long trip.

Michael John Linenberg - *Deutsche Bank AG - Analyst*

Very good.

Benito Minicucci - *Alaska Airlines Inc - Chief Executive Officer*

Andrew, it's 7%. What percentage of revenues ?

Andrew Harrison - *Alaska Air Group Inc - Executive Vice President and Chief Commercial Officer of Alaska Airlines, Inc.*

Total revenues from the partners is about 7% of the mix.

Michael John Linenberg - *Deutsche Bank AG - Analyst*

Does that include.

Andrew Harrison - *Alaska Air Group Inc - Executive Vice President and Chief Commercial Officer of Alaska Airlines, Inc.*

Again.

Michael John Linenberg - *Deutsche Bank AG - Analyst*

Andrew, is that your Regionals as well or is that Non Regional connections?

Shane R. Tackett - *Alaska Air Group, Inc - CFO & Executive VP of Finance*

Sorry, I think Mike uses a 7% of our revenue is enabled by our partnerships. He wasn't -- we weren't talking Mainline versus Regional. So that's coming from our oneworld and other partners.

Michael John Linenberg - *Deutsche Bank AG - Analyst*

That's perfect.

Shane R. Tackett - *Alaska Air Group, Inc - CFO & Executive VP of Finance*

Yes, and I think it's going to grow from there. And to your point, it's a high value traveller, generally speaking.

Michael John Linenberg - *Deutsche Bank AG - Analyst*

Yes, very good. Thank you, everyone.

Benito Minicucci - *Alaska Airlines Inc - Chief Executive Officer*

Thanks, Mike.

Operator

Savi Syth, Raymond James.

Savi Syth - *Raymond James - Analyst*

Hi. Good morning. If I might, the 3Q cost bridge chart was very helpful. I'm just curious what in there might have been incremental versus what you were thinking before and just along that the line of questions that you've gotten so far on the cost side. I think, historically, I think the thinking was, if you grew about 5% or a little bit higher than that, you can keep unit costs flat. Is that relationship still holding?

Shane R. Tackett - *Alaska Air Group, Inc - CFO & Executive VP of Finance*

Yes, hi Savi. Thanks for the question. Yes, I think in terms of the second half forecast, what has changed from like earlier in the year, certainly the growth rate coming down and as holding resources and sort of having been configured to fly more that it's not like we haven't had line of sight to that, but it's certainly different than our original expectation for the year.

Our labor deal was somewhat higher in terms of the final negotiated compensation than we had been thinking about and planning for not excessively, but it was a higher deal than we had originally thought at the beginning of the year it might be.

And then the rest is really some timing shifts of airport credits and how those land relative to the rest of the year and some shift in maintenance timing. So, I think, the shifting of expenses happens kind of every year. It's hard to predict. And in this year, it just happened to be relatively significant on the maintenance side and airport credit side.

The thinking in terms of leverage against growth, we have not changed our thinking. If we grow 4% or 5%, we would expect unit costs to be flattish. And in fact, I'd like to do even a little better than that over time. That is still a philosophy that's intact and alive at Alaska.

Savi Syth - *Raymond James - Analyst*

That's helpful. Thanks, Shane. And finally, on the new product launch, you're not taking away seats, but in fact, you might be actually adding a few seats. So is that -- should we think of that being kind of a unit cost and unit revenue guy as we kind of look to the next 18 months or so?

Shane R. Tackett - *Alaska Air Group, Inc - CFO & Executive VP of Finance*

Absolutely. And I think I mentioned that, I think, it was the last couple of words in my prepared remarks that, yes, we're not losing seats one fleet. We're adding two seats to the other. We're going to get premium revenue into all of those seats and we'll have slightly more seats to spread costs over.

Savi Syth - *Raymond James - Analyst*

Appreciate it. Thanks.

Shane R. Tackett - *Alaska Air Group, Inc - CFO & Executive VP of Finance*

Thanks Savi.

Operator

Tom Fitzgerald, Cowen, and Company.

Tom Fitzgerald - *Cowen and Company. - Analyst*

Hi, everyone. Thanks for the time. Most of it might have been answered and maybe this is too granular, but I'm just curious on the new routes into Mexico. Is -- do you have like -- is that all just pretty much US point-of-sale leisure or do you have -- do you participate in any of the VFR traffic that goes back and forth between the two countries? Thanks very much.

Andrew Harrison - *Alaska Air Group Inc - Executive Vice President and Chief Commercial Officer of Alaska Airlines, Inc.*

Yes. Hi, Tom. Most of it, if you look at the cities, it's just expanding our core US leisure side point-of-sale, which have done well. And again, the good thing about these is that these are 100% new revenue sources and while we trim capacity in other areas, this, again, you'll see the 18 routes. This is -- a lot of this doesn't start until December or even January and a lot of this is focused on the depths of the winter in the first quarter. So we feel really good about these changes.

Benito Minicucci - *Alaska Airlines Inc - Chief Executive Officer*

And Tom, welcome to the earnings call. Thanks for being on, and we won't do this again. But please send our best to the new, I guess, Managing Director and mentor, Helane who will miss on these calls for sure.

Tom Fitzgerald - *Cowen and Company. - Analyst*

You got it. Thanks very much, everyone.

Benito Minicucci - *Alaska Airlines Inc - Chief Executive Officer*

Thanks, Tom.

Operator

Stephen Trent, Citigroup.

Stephen Trent - *Citigroup Inc. - Analyst*

Yes. Hello, everybody, and thanks for taking my question. Just a follow-up if I may. Appreciate the color on the premium increase, and forgive me if I miss this, but do you see any parallel adjustments that you might make to your app, or for example, any pivots in your thinking on changes in the distribution channel as you increase that premium? Thank you.

Andrew Harrison - *Alaska Air Group Inc - Executive Vice President and Chief Commercial Officer of Alaska Airlines, Inc.*

Yes. Steve, that's a great question. And as I shared earlier, we now have on our website full category of premium. And our web, excuse me, our app will be updated here in the next month or so, as well as some other significant changes to our app. So we have upside in distributing our products through our app, which is increasingly where bookings are going.

Stephen Trent - *Citigroup Inc. - Analyst*

Oh okay. I appreciate that, Andrew. And just one other quick question. I appreciate what you have mentioned on the Boeing deliveries and what have you. Over the long-term, do you see any possibility that perhaps the Embraer E2 could potentially play a bigger role in your fleet, depending on what happens with supply from the larger OEMs?

Andrew Harrison - *Alaska Air Group Inc - Executive Vice President and Chief Commercial Officer of Alaska Airlines, Inc.*

Hi, Steve. I don't have -- we're not looking at that aircraft today. I think we're really excited about the order book we have with Boeing. We want to get the 10 into the stable of aircraft and that's really our focus. We've got a great arrangement and deal with them. They do a great job for us and we're really focused on executing that fleet order over the next several years.

Stephen Trent - *Citigroup Inc. - Analyst*

Okay, appreciate that. And thanks for the time.

Benito Minicucci - *Alaska Airlines Inc - Chief Executive Officer*

Thanks, Steve.

Andrew Harrison - *Alaska Air Group Inc - Executive Vice President and Chief Commercial Officer of Alaska Airlines, Inc.*

Thanks, Steve.

Operator

Chris Stathoulopoulos, Susquehanna Financial Group.

Christopher Nicholas Stathoulopoulos - *Susquehanna Financial Group, LLP - Analyst*

Good morning, everyone. Thanks for taking my question. I want to go back to, I think, it was Duane's question on competitive capacity. You did give, I think, a number for 2Q and 3Q. I think you said that you would expect, I'm not sure for 3Q whether you were referencing that competitive capacity drop versus your network or sort of domestic as a whole.

I'm just trying to kind of localize as we think about potential opportunities for yield acceleration, whether it's broad-based or we look at your network map and see potential opportunities around hubs and things like that? Thank you.

Andrew Harrison - *Alaska Air Group Inc - Executive Vice President and Chief Commercial Officer of Alaska Airlines, Inc.*

Hi, Chris. It obviously varies by carrier, by hub, I will say, at the higher level. The amount of competitive increase in seats in our core hubs at the highest level is extremely low single-digit on average as we go into September and October, and we continue to see adjustments to the further out. So, I would just say, they're somewhat flat to marginally up.

Christopher Nicholas Stathoulopoulos - *Susquehanna Financial Group, LLP - Analyst*

Okay. And the second question, I realize you don't want to speak to or explicitly give any color on capacity here for next year, but as we think about the goal of expanding margins here and you have fewer deliveries, so should we think about the pieces of capacity, departure stage and gauge as sort of more stage-engaged, dependent or positive or accretive for next year?

I just wanted to understand sort of at a high level how you're thinking about that because each of those pieces do come with margin profiles? Thank you.

Andrew Harrison - *Alaska Air Group Inc - Executive Vice President and Chief Commercial Officer of Alaska Airlines, Inc.*

Yes, hi Steve. Look, I think, -- sorry, I think, it's -- I think the growth next year is likely to be really similar to the number of units we take on. We have one of the longer stage lengths in the domestic industry because off where we fly off the West Coast.

Most of the places people are going to three, four, five, six hours away, which is also one of the reason our segmentation and premium configuration works so well for us. The real next opportunity for gauge growth is when we have the MAX 10 come in. And that seems to be -- it's not next year, so maybe in 2026, we get to see a benefit from that. But we are excited to see a pickup gauge once we start to take the 10, probably in '26.

Okay. Thank you.

Benito Minicucci - *Alaska Airlines Inc - Chief Executive Officer*

Well thanks, Chris, and thank you, everyone, for joining us. We'll talk to you next quarter.

Operator

This concludes today's conference call. Thank you for attending. The host has ended this call. Goodbye.