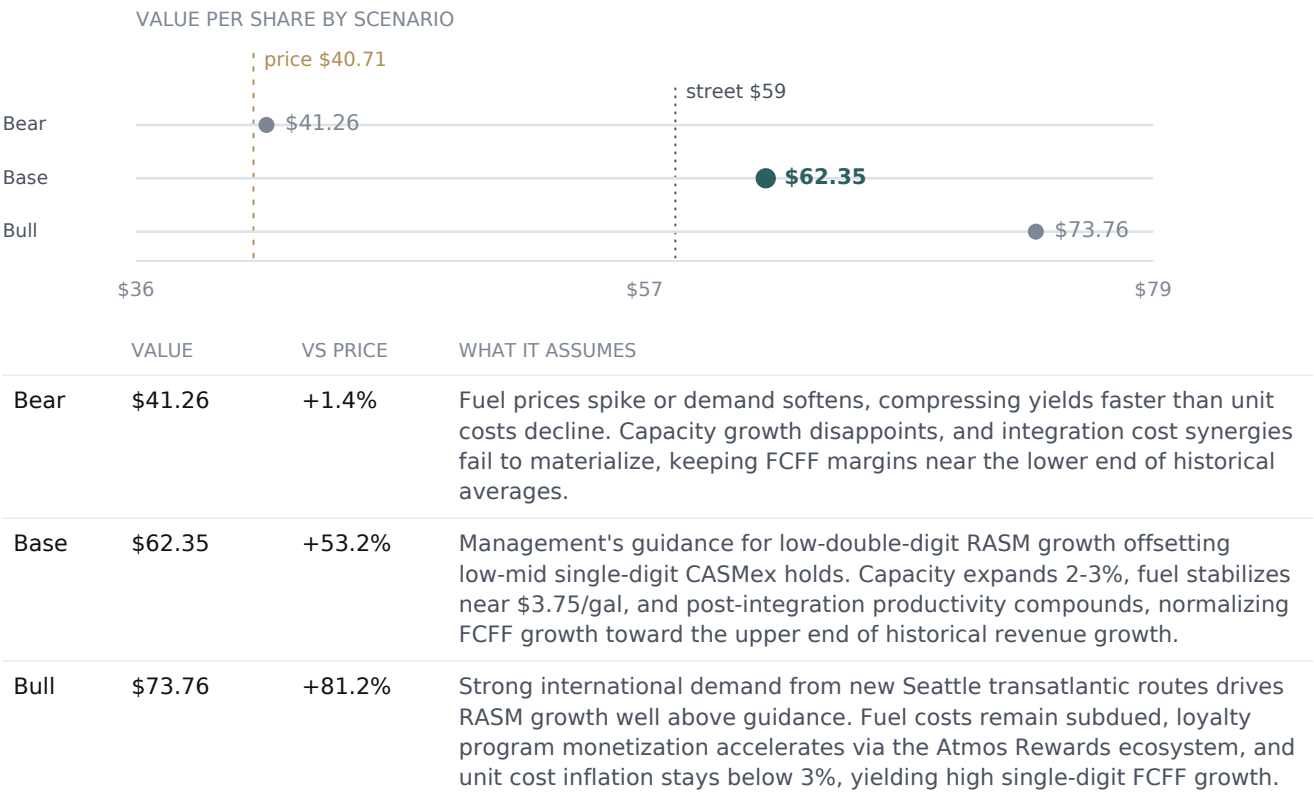


EQUITY RESEARCH / ALK

Alaska Air Group Inc

LONG CANDIDATE · historical study through 2026-09-14 · horizon 540 days · DCF

PRICE	BASE CASE	UPSIDE	PROB-WEIGHTED	MARKET CAP	TRAILING P/E
\$40.71	\$62.35	+53.2%	\$58.30	\$4.54B	n/a



STREET CHECK

Street target **\$59** (+43.8% vs price) · 14 buy / 2 hold / 0 sell · forward P/E 7.6x · EPS estimates \$-1.91 this year, \$4.93 next

Our base case is **1.07x** the Street target: within the Street's range.

Consensus is shown for calibration only. The model never receives it.

Thesis

Alaska Air Group (ALK) is trading at a significant discount to its discounted cash flow value due to a temporary but severe drag from an 85% YoY surge in fuel prices and post-Hawaiian Airlines integration costs. With fuel hedges fully settled, unit cost growth guiding to a low-mid single-digit step-down, and major integration milestones complete, the company is positioned for a meaningful financial inflection in Q3 2026. Capacity expansion of 2-3% YoY, compounding productivity gains, and revenue leverage from the new Atmos Rewards ecosystem and transatlantic routes will drive RASM growth well above CASMex, restoring FCFF margins and supporting the base-case valuation.

What the market may be missing

The market prices ALK as if the current GAAP operating loss and depressed valuation multiple reflect a permanent structural decline, but the filing demonstrates these headwinds are transitory. The 85% YoY fuel price spike is isolated and hedging is inactive, while the single operating certificate and unified passenger service system have removed Hawaiian integration uncertainty. The cash-generative recovery inherent in the business is being unfairly discounted, creating a clear entry point ahead of the guided Q3 EPS inflection.

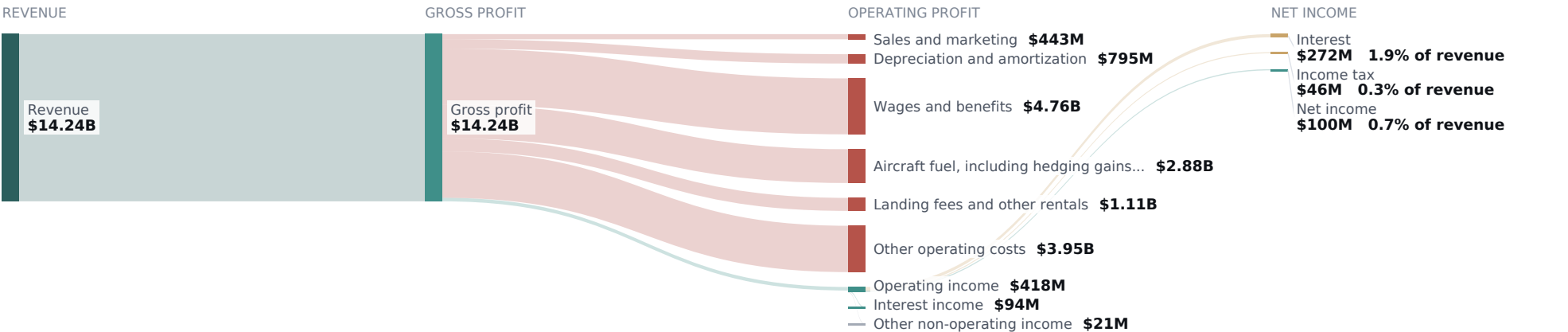
Why the opportunity exists

A transient setback. The market is pricing ALK as if the current GAAP losses and depressed valuation reflect a permanent structural decline, ignoring that the drag is driven by a transitory 85% YoY fuel price spike and one-time integration costs. Once these temporary headwinds fade, the underlying cash flow generation and margin expansion from integration will drive a significant re-rating. Evidence: Business read notes that fuel hedges are fully settled, unit cost growth is guiding to a step-down, and integration milestones (single operating certificate, single PSS) are complete. Fact sheet shows TTM operating margin of -1.52% but historical FCFF margins have frequently exceeded the current 6.57%.

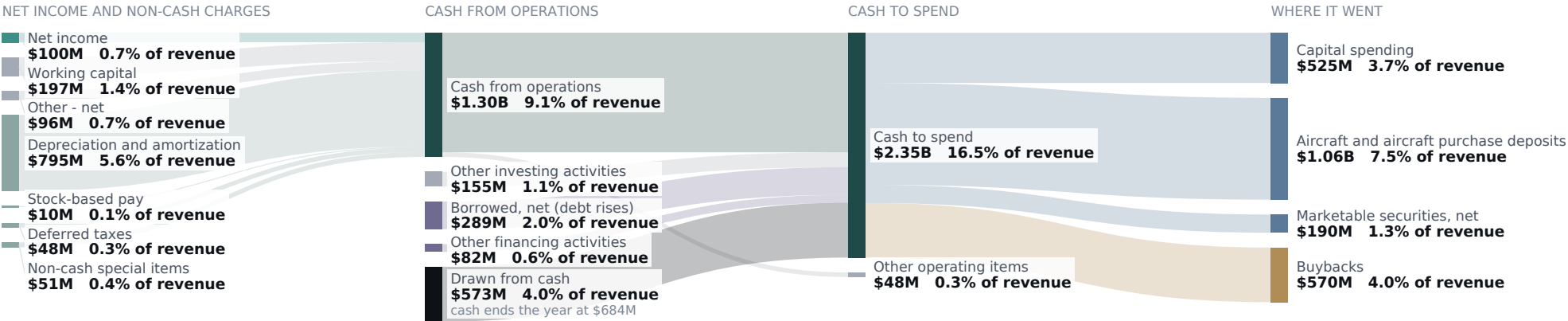
Follow the money: fiscal 2025

Of every \$100 of revenue, \$0.0 went to cost of revenue, \$98 to operating costs and \$2.2 to interest and tax, and \$0.7 became net income. Operations turned that into \$8.8 of cash; \$4.0 back to shareholders.

1 WHERE EVERY DOLLAR OF REVENUE WENT



2 HOW PROFIT BECAME CASH, AND WHERE THE CASH WENT SHOWN 8.2 TIMES LARGER THAN PANEL 1



From the 10-K for the fiscal year ended 2025-12-31, XBRL accession 0000766421-26-000010. Every band ties to a reported figure; where the tagged lines do not add up, the difference appears as an explicit other or working-capital band. Lines outside the standard set are placed by the filing's own calculation links, under the company's labels; borrowing and investment flows are netted by instrument.

The business

Alaska Air Group operates scheduled passenger and cargo airlines (Alaska, Hawaiian, Horizon) across the Americas and Pacific, generating revenue primarily from tickets, loyalty programs, and cargo while emphasizing fleet efficiency, direct sales, and cost discipline.

What it sells

Scheduled air transportation of passengers and cargo on Boeing 737/787/717, Airbus A330/A321neo, and Embraer E175 aircraft; loyalty program membership and point redemptions; freight and mail services via freighters and belly capacity; ancillary services including lounge memberships, hotel/car commissions, and travel insurance. Passenger air transportation, cargo and freighter services (including under an ATSA with Amazon), loyalty program memberships and co-branded credit card partnerships, and aircraft leasing/rental operations. Passenger air travel across domestic, Latin American, Pacific, and newly launched Atlantic routes; loyalty program revenue from the Atmos Rewards program and co-branded credit cards; cargo and other revenue including the Air Transportation Services Agreement with Amazon; and premium ancillary services such as cabin upgrades, lounge access, and enhanced passenger service systems.

Customers and channels

Primarily leisure and business travelers. Tickets sold 74% direct via websites/apps and 26% through traditional and online travel agencies. Revenue also flows from co-branded credit cards, partner airline codeshares, and cargo clients like Amazon. No material dependency on a single customer. Passengers book directly via airline platforms and through travel agents; corporate travel and leisure travelers are primary end-users. Loyalty revenue is generated from bank card and third-party partners, notably through the Atmos Rewards co-branded credit card with Bank of America. Cargo revenue comes primarily from Amazon under the ATSA. Leisure and business travelers booking directly via alaskaair.com and hawaiianairlines.com, third-party travel agents, and managed corporate travel programs; financial partners issuing co-branded Bank of America and Visa Infinite cards; cargo shippers under long-term Amazon ATSA; and premium guests utilizing Alaska Lounges.

Unit economics and costs

High fixed cost structure where expenses do not vary significantly with passenger count, making results highly sensitive to load factors and fares. Wages/benefits represent ~46% of non-fuel operating expenses. Fuel accounts for ~21-22% of operating expenses, driven by crude oil (62%), refining margins (27%), and taxes/fees. Fleet renewal yields 15-25% better seat-by-seat efficiency. Unit metrics tracked include PRASM, RASM, CASM, and CASMex. Pro forma RASM was 15.32¢ and PRASM 13.81%. CASMex increased 4.7% to 11.42¢/ASM. Economic fuel cost decreased 8.0% to \$2.52/gal. Load factor was 82.9% (down 1.0 pts). Wages and benefits rose 10% to \$4.763B. Non-fuel operating expenses rose 7% to \$10.807B, driven by higher rates, capacity growth, maintenance, and landing fees. Fuel hedges are fully suspended and settled, eliminating hedge volatility from reported results. RASM increased 8.6% in Q2 (6.3% H1) while CASMex rose 6.5% in Q2 (6.4% H1). Non-fuel unit cost growth was aided by 2.5 points of transitory factors including a \$20M one-time employee recognition award and the absence of a \$25M prior-year B737-900 aircraft sale gain. Fuel cost per gallon was \$4.43 in Q2 (85% YoY increase), averaging \$3.74 in H1 (50% YoY increase). Economic fuel cost is projected at \$3.75/gal in Q3 as refining margins moderate. Core non-fuel cost management is improving with a guided step-down to low/mid single-digit growth in Q3.

Segments

- **Alaska and Hawaiian (Mainline)** - Scheduled air transportation of passengers and cargo across North America, Latin America, Asia, and Pacific on Boeing and Airbus aircraft.
- **Regional** - Scheduled passenger service via Horizon and SkyWest on E175s under capacity purchase agreements, primarily in Western North America. Regional operations primarily through Horizon Airlines and a capacity purchase agreement with SkyWest.
- **Loyalty Program** - Points redemption, partner sales, co-branded credit card interchange, and non-airline transactions. Revenue from the Atmos Rewards program, co-branded credit cards, and bank card/tiered partner commissions.
- **Cargo and other** - Freight/mail via belly and dedicated freighters, plus lounge/hotel commissions and other ancillary items. Freight revenue under the Amazon ATSA and other international cargo/connectivity services.
- **Alaska Airlines** - Core legacy carrier operating a hub-and-spoke and point-to-point network. Reported pretax profit (excl. special items) of \$526M in 2025, down from \$744M in 2024.
- **Hawaiian Airlines** - Hawaii-based carrier fully integrated under a single operating certificate. Reported pretax loss (excl. special items) of \$189M in 2025, improved from \$359M loss in 2024 pro forma.
- **Passenger** - Core ticket sales for domestic, Latin American, Pacific, and Atlantic routes.

Revenue drivers

- Passenger volume (RPMs)
- Available seat miles (ASMs)
- Yield/PRASM/RASM
- Fuel price volatility
- Loyalty program partner revenue and redemptions
- Cargo contract volumes

- Ancillary fees and premium cabin adoption
- Direct vs agency distribution mix

Competitive position

Fourth-largest U.S. carrier with a concentrated West Coast and Pacific network. Differentiates via a unified loyalty program (Atmos Rewards), non-expiring points, co-branded credit cards, operational reliability, oneworld alliance benefits, and a disciplined cost structure. Faces intense competition, particularly from Delta (78% Seattle overlap), Southwest, and United, especially in Hawaii and California. Operates in a highly competitive U.S. airline industry characterized by high fixed costs. The integration with Hawaiian Airlines under a single FAA operating certificate strengthens network optimization and market position, particularly in Hawaii and the Pacific. The company focuses on disciplined cost management and productivity to navigate competition and realize integration synergies. Ranked as the fourth-largest global airline in the U.S. with hubs in Seattle, Honolulu, Portland, Anchorage, Los Angeles, San Diego, and San Francisco. Achieved #1 industry on-time performance for YTD H1 2026. Successfully integrated Hawaiian Airlines, joined the oneworld alliance, expanded premium lounge infrastructure, and launched transatlantic routes, reinforcing network scale and loyalty program value.

Industry direction

Industry-wide shift toward unified loyalty ecosystems, single operating certificates post-merger, direct sales optimization, and sustainability mandates. Airlines are investing heavily in fleet modernization for fuel efficiency, expanding premium products, and targeting net-zero emissions by 2040. Regulatory focus remains on consumer protection, ancillary fee transparency, and antitrust scrutiny of consolidation. The industry faces fuel price volatility, labor cost inflation, and potential delivery delays from OEMs like Boeing. Airlines are integrating to realize synergies, growing loyalty program monetization, and managing capacity cautiously amid macroeconomic uncertainty. The sector remains sensitive to irregular operations and IT infrastructure resilience. Fuel costs remain highly sensitive to geopolitical disruptions in crude oil supplies and refining margins, keeping prices elevated and volatile. Capacity growth is expanding (~1% YoY in Q2) with a strategic shift toward long-haul international routes out of Seattle. Demand remains resilient across diversified revenue streams despite regional weather impacts, while airlines focus on cost discipline and productivity post-integration transitory expenses.

Recent developments

- Q2 2026 GAAP loss before tax of \$214 million primarily driven by an 85% YoY spike in fuel prices.
- Successfully implemented a single passenger service system, marking the final major Hawaiian Airlines integration milestone.
- Launched first transatlantic routes from Seattle to Rome, London Heathrow, and Reykjavik.
- Issued \$1 billion in new financing (\$500M 6.5% senior notes, \$500M term loans secured by Atmos Rewards assets) in Q2.
- Executed leases for four B737-800 freighter aircraft post-quarter to double cargo fleet capacity, entering service in H1 2027.
- Amended 2026 Amazon ATSA agreement, improving cargo economics and revenue.

- Appointed Shane Tackett as President and CFO and Mike Sievert to the board of directors.
- Q3 2026 adjusted EPS guidance set at \$0.00 to \$1.00, reflecting expected H2 inflection.

Management outlook

Management expects a meaningful inflection in financial performance starting Q3 2026, with capacity up 2% to 3% YoY (nearly all from long-haul international Seattle departures), RASM up low double digits, CASMex up low to mid single digits, and economic fuel at \$3.75/gal. Adjusted EPS is guided at \$0.00 to \$1.00 for Q3. The company targets a liquidity range of 15% to 25% of trailing-12-month revenue; excess liquidity will be used to pay down debt and return to the midpoint as fuel stabilizes. Full-year 2026 capital expenditures are guided at \$1.4 billion to \$1.5 billion. Transitory integration costs are behind, and productivity improvements are compounding. Management expects to continue realizing value from Alaska Accelerate initiatives and Hawaiian integration synergies, which remain on track or ahead of plan. For 2026, capacity growth is expected at 2% to 3% versus prior year. The company will maintain focus on disciplined cost management, strong productivity, and initiative execution despite macroeconomic uncertainty. Management is focused on the Alaska Accelerate vision, emphasizing safety, care, and performance. Plans include achieving joint CBAs over the next few years, fully transitioning to a single PSS in spring 2026, and maintaining a competitive cost structure to deliver targeted returns on invested capital. Long-term commitment to net-zero carbon emissions by 2040, supported by fleet renewal, operational efficiency, and SAF adoption.

Accounting flags

- Use of non-GAAP measures (CASMex, adjusted EPS, adjusted capex) to exclude fuel, freighter costs, performance-based pay, and special items.
- Debt-to-capitalization calculation changed to exclude the current portion of operating and finance lease liabilities.
- EBITDAR adjusted to reflect the fixed portion of operating leases rather than total aircraft rent.
- Special items include integration costs, a \$20M one-time employee recognition award, and prior-year B737-900 sale gains.
- No material changes to critical accounting estimates reported for Q2 2026.
- Atmos Rewards deferred revenue (\$2.9B balance, ~480B points) requires significant management judgment for standalone selling price allocation and breakage estimates; a 1% change in breakage assumptions impacts annual revenue by ~\$17M.

Key figures

KEY FIGURES	TTM TO 2026-06-30	FY2025	
Revenue	\$14.76B	\$14.24B	+21.3% y/y
Operating income	\$-224.0M	\$303.0M	-1.5% margin
Net income	\$-175.0M	\$100.0M	
Diluted EPS	\$-1.61	\$0.83	
Operating cash flow	\$1.02B	\$1.25B	-14.7% y/y
Capital spending	\$289.0M	\$309.0M	2.0% of revenue
Unlevered FCFF	\$969.6M		21.3% yield
Cash and short-term investments	\$2.66B		
Net debt	\$3.57B		6.1x EBITDA
Share repurchases	\$285.0M	\$570.0M	6.3% yield
Market capitalisation	\$4.54B		

Figures from the filings' XBRL; definitions in the method section. Flows are trailing twelve months to 2026-06-30 (fiscal year 2025 plus year to date less the same period a year earlier, from the 10-Q filed 2026-08-04). Balance-sheet items are as of 2026-06-30 from the quarterly report. Interest tax shield uses the 21.0% statutory rate from the filing's rate reconciliation. Current debt of \$452.0M (Current portion of long-term debt and finance leases) falls due within twelve months of 2026-06-30; the price date is 76 days later, so check in the filing whether any of it matured or was refinanced before 2026-09-14. WACC anchor 11.9%; cost of equity 13.7% (risk-

The counter-case

The bear case assumes a prolonged macroeconomic slowdown or further fuel price spikes that compress yields faster than unit costs can be managed, preventing the anticipated Q3 inflection. If Boeing delivery delays worsen, forcing reliance on leased or older aircraft, CASMex could remain elevated. Additionally, if Hawaiian integration fails to deliver targeted synergies, persistent operational disruptions could keep margins below historical averages, leaving the airline trapped in a low-margin environment despite the completed structural overhaul. The airline's high fixed-cost structure makes it extremely sensitive to fuel price volatility and macroeconomic demand shocks. A \$1/barrel change in oil equates to ~\$27M in annual raw fuel expense, directly eroding margins. Intense competition in core West Coast and Hawaii markets limits pricing power, and Boeing delivery delays could constrain fleet efficiency gains. Furthermore, the company's synthetic CCC credit rating, derived from a low 1.1x interest coverage ratio, highlights refinancing risk on the \$6.2B debt load, which could limit financial flexibility if demand softens or unit cost discipline fails.

Valuation

Positive trailing FCFF (\$969.6M) and a clear recovery path post-integration make discounted cash flow the most reliable valuation approach. Earnings multiples are infeasible due to negative TTM diluted EPS (-\$1.61) and volatile historical net income, making forward-looking cash flow generation the appropriate anchor.

SCENARIO	ASSUMPTIONS	VALUE	VS PRICE
Bear	FCFF growth -8%, -5%, +0%, +1%, +1%; WACC 11.9%; terminal growth 2.0%	\$41.26	+1.4%
Base	FCFF growth +5%, +4%, +3%, +2%, +2%; WACC 11.9%; terminal growth 2.0%	\$62.35	+53.2%
Bull	FCFF growth +8%, +7%, +6%, +5%, +4%; WACC 11.9%; terminal growth 2.0%	\$73.76	+81.2%

- Discount rate: the model used 11.9% against an anchor of 11.9% (risk-free 4.96%, beta 1.74, equity risk premium 5.0%, cost of equity 13.7%, after-tax cost of debt 10.6% on a synthetic CCC rating from interest coverage, debt 58% of capital).
- The price implies constant five-year FCFF growth of -2.9% at the base-case WACC and terminal growth.
- Anchors from the company's own history: base-case growth band -14.7% to +31.9% a year; worst revenue decline -59% (2019-2020); own trailing P/E 13.82-95.42x (median 21.35x) over the last five fiscal year ends.
- Sensitivity to discount rate: 9.9% gives \$86, 10.9% gives \$73, 11.9% gives \$62, 12.9% gives \$54, 13.9% gives \$46.
- Sensitivity to terminal growth: 1.0% gives \$56, 1.5% gives \$59, 2.0% gives \$62, 2.5% gives \$66, 3.0% gives \$70.
- Per-share values use 111,603,120 shares as of 2026-07-31; the fiscal-year diluted average differs by +7.5%.
- Probability-weighted value \$58.30 (+43.2% vs price) at 30%/50%/20% weights.

Bear case assumes fuel prices spike or demand softens, compressing yields faster than unit costs decline, with capacity growth disappointing and integration synergies failing to materialize, keeping FCFF margins near the lower end of historical averages. Base case assumes management's guidance for low-double-digit RASM growth offsetting low-mid single-digit CASMex holds, capacity expands 2-3%, fuel stabilizes near \$3.75/gal, and post-integration productivity compounds. Bull case features strong international demand from new transatlantic routes driving RASM well above guidance, subdued fuel costs, accelerated loyalty monetization via Atmos Rewards, and unit cost inflation staying below 3%, yielding high single-digit FCFF growth.

What breaks the case

SHOCK TO THE BASE CASE	VALUE	VS PRICE
Base case as planned	\$62.35	+53.2%
WACC 100bp higher	\$53.68	+31.9%
Pre-tax cost of debt 200bp higher	\$54.37	+33.6%
Every year's FCFF growth 5 points lower	\$44.79	+10.0%
Every year's FCFF growth 5 points higher	\$83.29	+104.6%
Starting FCFF 10% lower	\$52.91	+30.0%
Starting FCFF 10% higher	\$71.78	+76.3%

The base case equals the price at a 14.9% WACC or if every annual FCFF growth rate were -6.3% points different. These are thresholds, not forecasts.

Comparable companies

COMPANY	CORRELATION	REVENUE GROWTH	OPERATING MARGIN	FCF MARGIN	TRAILING P/E
ALK (this company)		21.3%	2.1%	n/a	49.0x
DAL Delta Air Lines Inc	0.73	2.8%	9.2%	6.1%	10.4x
UAL United Airlines Holdings Inc	0.72	3.5%	8.0%	4.3%	10.7x
AAL American Airlines Group	0.66	0.8%	2.7%	-1.2%	77.1x
LUV Southwest Airlines Company	0.58	2.1%	1.5%	-3.0%	50.0x
JBLU JetBlue Airways Corp	0.52	-2.3%	-4.1%	-12.9%	n/a
SKYW SkyWest Inc	0.58	15.0%	15.2%	22.4%	9.4x
ALGT Allegiant Travel Company	0.62	4.8%	1.6%	3.2%	n/a

Comparables' trailing P/E 9.4-77.1x, median 10.7x from 5 with positive earnings.

Judged not comparable: CCL, NCLH, RCL, TNL, SYF, BC, PPG, EVR, TKR, AVNT, AXP, LAZ, DOV.

Against seven airline comparables (DAL, UAL, AAL, LUV, JBLU, SKYW, ALGT) with trailing revenue growth of 0.2% to 15.0% and operating margins of -4.1% to 15.2%, ALK's trailing revenue growth of 21.3% and price-to-earnings multiple of 49.1x reflect near-term recovery expectations. However, its trailing operating margin of 2.1% and price-to-sales ratio of 0.34x remain below the peer median, indicating that the multiple pricing assumes future margin expansion rather than current profitability.

Profiles are computed identically for every company from its own annual reports and latest close; they are not adjusted for one-off items or fiscal-year timing.

What would change the view

Key debates

- Fuel price trajectory: Fuel is ~21-22% of operating expenses; volatility directly impacts unit economics and FCFF margins in a highly leveraged cost structure. (Fact sheet: operating_margin -1.52% TTM, historical fuel sensitivity disclosure.)
- Hawaiian integration execution: Transitory integration costs and operational synchronization dictate near-term CASMex trends and capacity utilization; failure would compress margins permanently. (Business read: single operating certificate achieved, transitory costs behind, productivity improvements compounding.)
- RASM vs CASMex spread: The gap between revenue per available seat mile and cost per available seat mile ex-fuel determines profitability; management guides RASM up low-double digits vs CASMex low-mid single digits, a ~200bps improvement that unlocks significant FCFF leverage. (Business read: RASM increased 8.6% in Q2; CASMex rose 4.7% year-to-date.)

Exposures (verified against the filing)

- Commodity and input costs, negative for the equity: Rising crude oil or refining margins increase raw fuel expense, which is a direct pass-through to unit costs but can lag yield adjustments, compressing operating margins.

Sensitivities the company discloses

- Crude oil price: \$1 per barrel gives approximately \$27 million change in raw fuel expense annually based on 2025 consumption levels.
- Fuel price per gallon: one cent per gallon gives approximately \$11 million change in 2025 raw fuel expense.
- Variable rate debt interest: hypothetical 10% change in average interest rates gives approximately \$13 million change in net earnings and cash flows.
- Short-term interest rates: average one point higher than 2025 gives approximately \$14 million increase in interest income.
- U.S. dollar vs major foreign currencies: 10% depreciation or appreciation gives approximately \$35 million change in annual pretax income or loss.

Catalysts

- Q3 2026 earnings release confirming adjusted EPS within the \$0.00-\$1.00 guidance range and validating the CASMex step-down.
- Full integration of Hawaiian Airlines under the single operating certificate and new passenger service system.
- Execution of leases for four B737-800 freighter aircraft and expansion of the Amazon ATSA agreement entering service in H1 2027.
- Launch of transatlantic routes from Seattle to Rome, London, and Reykjavik driving international demand.
- Return to share repurchases as excess liquidity exceeds the targeted 15-25% of trailing revenue range.

Invalidation

- Fuel prices remain elevated or spike further, negating the benefit of settled hedges and keeping CASMex growth above RASM growth.
- A severe macroeconomic recession significantly reduces leisure and business travel demand, lowering load factors and yields.
- Hawaiian integration fails to deliver targeted synergies, causing persistent operational disruptions and higher-than-guided unit costs.
- Boeing delivery delays worsen, preventing fleet efficiency improvements and stranding capital in less efficient aircraft.
- Interest rates rise sharply, increasing debt service costs and compressing equity value given the synthetic CCC rating.

Risks

- Fuel price volatility and availability.
- Intense price competition and capacity overhang in core markets.
- Execution risk in integrating Hawaiian Airlines operations and culture.
- High market concentration in the West Coast and Hawaii exposes operations to localized economic and weather shocks.
- Labor cost pressures and union contract negotiations under the Railway Labor Act.
- Regulatory changes regarding consumer protection, fees, and environmental mandates.
- Boeing aircraft delivery delays and certification issues.
- Macroeconomic downturns reducing discretionary travel spending.

Short side

Not interesting. Shorting ALK carries unbounded loss risk and relies on a prolonged deterioration in fundamentals that contradicts the near-term inflection guidance. While the synthetic CCC rating and high leverage (\$6.2B total debt) present credit risk, the airline's substantial cash and short-term investments (\$2.66B) provide a buffer. Borrow availability is typically adequate for regional carriers but can tighten during stress; however, the asymmetric payoff heavily favors the long side given the base-case upside to \$62.35 and the transitory nature of the current headwinds.

Open questions

What is the trajectory of economic fuel costs for H2 2026 and 2027 given geopolitical risks? (forecast uncertainty)

Monitor quarterly fuel cost per gallon and economic fuel guidance relative to the \$3.75/gal Q3 projection. Watch: Reported CASMex growth exceeding low-mid single-digit guidance for two consecutive quarters.

At what rate are Hawaiian integration synergies materializing in cash flows? (forecast uncertainty)

Review quarterly earnings for specific synergy dollar contributions and cost discipline metrics post-PSS go-live. Watch: Operating margin contraction despite stable RASM growth.

How will Boeing delivery delays impact fleet efficiency and unit costs? (forecast uncertainty)

Track fleet renewal announcements and leasing costs for interim aircraft replacements. Watch: Announcement of extended lease terms for less efficient narrow-body aircraft.

Limitations

The DCF model uses a starting TTM FCFF of \$969.6M, assuming the 6.57% margin is representative of normalized post-integration unit economics. The model applies a constant WACC of 11.92%, derived from a synthetic CCC rating due to a 1.1x interest coverage ratio; this may not fully capture potential credit rating improvements as earnings recover and net debt is paid down. The terminal growth rate is capped at 2.0%, which is below the risk-free rate, potentially understating long-term inflationary pass-through capabilities in the airline sector. Per-share values use point-in-time shares outstanding; the fiscal-year diluted weighted average differs by +7.5%. This historical count difference also reflects timing and share repurchases; it is not an estimate of future dilution. Outstanding options, RSUs or convertibles require a separate analysis. Software checks raised during valuation: the bear case's cumulative FCFF change over the forecast (-11%) is milder than the company's worst historical revenue decline (-59%, 2019-2020); a bear case should at least revisit history or say why this time differs. This memo is an initial research product from a frozen historical filing and price; it is not investment qualification.

Software flags: bear shallower than history; exposure quote unverified:consumer demand; exposure quote unverified:refinancing.

Sources

10-K for the fiscal year ended 2025-12-31, filed 2026-02-12 (accession 0000766421-26-000010).

10-Q for the quarter ended 2026-06-30, filed 2026-08-04 (accession 0000766421-26-000041).

8-K for the earnings release dated 2026-07-21, filed 2026-07-21 (accession 0000766421-26-000036).

- Price: historical close of \$40.71 on 2026-09-14.
- 8 cited claims and 16 recorded calculations; every figure in the key-figures table is bound to a tagged XBRL fact, and every calculation reproduces independently.
- Street consensus from the market-data vendor on the same date, shown for calibration only.

Model: Qwen3.6-35B-A3B-NVFP4 · run discovery-20260911 · job 71 · memo SHA-256 79dbf6d08f87353d... · full memo and audit attached as JSON.

This note was written by a model from a single annual filing and a closing price. It is a starting point for human research, not a recommendation; nothing here has been investment-qualified.