Alaska Air Group, Inc.

Recommendation	**Price**	**12-Mo. Target Price**	**Investment Style**
BUY ★★★★☆	$62.38 (as of Nov 09, 2017 4:00 PM ET)	$90.00	Mid-Cap Blend

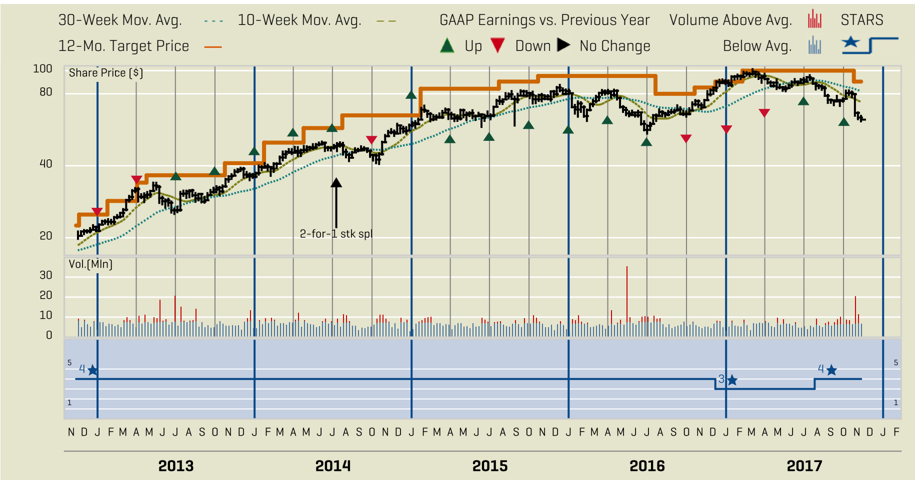
GICS Sector Industrials
Sub-Industry Airlines

Summary This company operates Alaska Airlines, the sixth-largest U.S. airline, and is the largest airline providing service in Alaska. The company acquired Virgin America.

Key Stock Statistics (Source: CFRA, S&P Global Market Intelligence (SPGMI), Company Reports)

52-Wk Range	**$101.43 - 62.65**	Oper. EPS 2017**E**	**7.25**	Market Capitalization(B)	**$7.676**	Beta	**1.01**
Trailing 12-Month EPS	**6.22**	Oper. EPS 2018**E**	**7.57**	Yield (%)	**1.92**	3-Yr Proj. EPS CAGR(%)	**12**
Trailing 12-Month P/E	**9.98**	P/E on Oper. EPS 2017**E**	**8.56**	Dividend Rate/Share	**$1.20**		
$10K Invested 5 Yrs Ago	**$34,325**	Common Shares Outstg.(M)	**123.05**	Institutional Ownership (%)	**92**		

Price Performance



Source: CFRA, S&P Global Market Intelligence

Analysis prepared by Equity Analyst **Jim Corridore** on Oct 25, 2017 04:20 PM, when the stock traded at **$68.92.**

Highlights

- After rising 5.9% in 2016, ALK revenues will likely increase 34% in 2017 (4% excluding Virgin America) and 8% in 2018. We look for ALK to benefit from capacity growth that is above the industry average. For 2017, we see capacity (ex-Virgin) climbing 8%, yields falling 4%, and passenger load factor down about one percentage point. Much of ALK's capacity growth is likely to come from additions on the west coast. The addition of Virgin America increases Alaska's network on the west coast.
- Operating margins are likely to be hurt by higher fuel expenses and higher wages and benefit costs on pay increases to pilots and flight attendants. We also expect higher maintenance expense and costs related to integration of Virgin America. Offsetting this, we see unit costs being leveraged over increased flying. We see EBITDA margins of 27.8% in 2017 and 27.3% in 2018, versus 32.5% in 2016.
- We estimate 2017 EPS of $7.25, a decline versus 2016 operating EPS of $7.32. We see 2018 EPS of $7.57. ALK cut its share count by 2% in 2016, and we see a similar level of buybacks in 2017.

Investment Rationale/Risk

- ALK's business model is less seasonal than in the past. This, combined with faster revenue growth and a better cost structure than the average of peers, argues for a premium valuation. We see the stock as likely to outperform the market over the next 12 months. We are positive on ALK's acquisition of Virgin America, despite what we see as a steep price tag, reflecting the increased size and scale we think the deal provides. However, ALK's rapid growth has drawn a price response from competitors, which has pressured unit revenues.
- Risks to our recommendation and target price include the possibility that oil prices will move notably higher, which we think would increase negative investor sentiment toward airline stocks. In addition, ALK's high percentage of leisure travel could lead to worse performance than the rest of the industry due to the price sensitivity of leisure travelers to higher fares.
- Our 12-month target price of $90 values ALK at an enterprise value-to-EBITDAR (EBITDA plus aircraft rent) multiple of 7X our 2018 EBITDAR forecast, above peers, and above the mid point of ALK's historical range over the past decade.

Qualitative Risk Assessment

LOW | **MEDIUM** | HIGH

Our risk assessment reflects the cyclicality of the airline industry in general, volatile and historically high oil prices, and operations that are more seasonal than those of most peers, which reduces revenue and earnings visibility. Offsetting this is a balance sheet with less debt than most peers, and a strong cash balance as a percentage of revenues.

Revenue/Earnings Data

Revenue (Million U.S. $)

	1Q	2Q	3Q	4Q	Year
2018	--	--	--	--	--
2017	1,749	2,102	2,120	--	--
2016	1,347	1,494	1,566	1,524	5,931
2015	1,269	1,437	1,515	1,377	5,598
2014	1,222	1,375	1,465	1,306	5,368
2013	1,133	1,256	1,365	1,210	4,964

Earnings Per Share (U.S. $)

	1Q	2Q	3Q	4Q	Year
2018	**E** 0.94	**E** 2.45	**E** 2.49	**E** 1.71	**E** 7.57
2017	0.79	2.38	2.14	**E** 1.69	**E** 7.25
2016	1.46	2.10	2.07	0.91	6.54
2015	1.12	1.79	2.14	1.51	6.56
2014	0.68	1.19	1.45	1.11	4.42
2013	0.26	0.74	2.04	0.56	3.58

Fiscal year ended Dec 31. Next earnings report expected: Late Jan. EPS Estimates based on CFRA's Operating Earnings; historical GAAP earnings are as reported in Company reports.

Dividend Data

Amount ($)	Date Decl.	Ex-Div. Date	Stk. of Record	Payment Date
0.275	Nov 02	Nov 10	Nov 15	Dec 01 '16
0.30	Feb 07	Feb 16	Feb 21	Mar 09 '17
0.30	May 05	May 19	May 23	Jun 08 '17
0.30	Aug 04	Aug 18	Aug 22	Sep 07 '17
0.30	Nov 03	Nov 20	Nov 21	Dec 07 '17

Please read the Required Disclosures and Analyst Certification on the last page of this report.

Alaska Air Group, Inc.

Business Summary October 25, 2017

CORPORATE OVERVIEW. Alaska Air Group is the holding company for Alaska Airlines (82% of revenues in 2016) and Horizon Air (18%). Alaska Airlines primarily offers long-haul, full-service flights along the Pacific Coast. Horizon offers short-haul commuter service in most of the same markets.

Alaska Airlines, the fifth largest U.S. airline following the purchase of Virgin America, primarily serves North-South routes along the Pacific Coast. It serves destinations in the state of Alaska and North/South service between cities in the Western U.S., Canada, and Mexico. Alaska Airlines also provides East/West service to Hawaii and 12 cities in the continental U.S., principally from Seattle. In 2016, Alaska Airlines carried 25 million passengers, up 9% from 2015. Alaska Airlines carries more passengers between the state of Alaska and the U.S. mainland than any other airline. West Coast passenger traffic accounted for 36% of 2015 revenue passenger miles; passenger traffic within Alaska, and between Alaska and the U.S. mainland 15%; transcontinental 22%; Mexico 6%; Canada 3%; and Hawaii 18%. Alaska's leading airports are Seattle, Los Angeles, Portland, and Anchorage. Alaska Airlines has code-sharing arrangements with American, Continental, Delta, Northwest, and Hawaiian Airlines.

Horizon Air, which provides regional airline service, was acquired in 1986. In 2016, Horizon carried about 9.4 million passengers, primarily in the states of Washington, Oregon, Idaho, and California. Alaska Air and Horizon integrate their flight schedules to provide connecting opportunities between most points in their systems.

On January 25, 2011, ALK announced that it would retire the Horizon external brand and move Horizon over to Alaska Air's livery (paint color and design) and logo, in an effort to more closely align Horizon with the rest of the regional airline industry. Also, on January 1, 2011, Horizon transitioned to a new capacity purchase agreement with ALK similar to the model used in the rest of the industry, under which ALK will reimburse Horizon for certain costs including fuel. Horizon is responsible for operating its fleet, while Alaska Air would be responsible for scheduling, marketing, and pricing all flights.

CORPORATE STRATEGY. Alaska Airlines was the first airline to offer Internet bookings, and it has embraced electronic ticketing. In 2014, 57% of Alaska Airlines' ticket sales were made through its website, up from 55% in 2013 and 45% in 2009. Alaska Airlines passengers can obtain boarding passes through their PCs or airport kiosks. In Anchorage, passengers can tag and check in baggage at special kiosks.

At April 14, 2016, Alaska Airlines operated 152 mainline jets, 15 CRJ-700 regional jets and 52 Q400 Turboprop planes (average age 8.7 years).

About 83% of the work force of Alaska Airlines and 48% of Horizon's is represented by unions. A new contract with pilots was ratified in 2013 and becomes amendable in 2018. The contract with flight attendants becomes amendable in 2019. A contract with mechanics becomes amendable in October 2016.

The U.S. airline industry is a $200 billion market, according to 2013 data from industry lobbying group Airlines for America. With 2013 revenues of $5.1 billion (which grew 4% to $5.4 billion in 2014), Alaska comprised about 2.6% of the total U.S. market. The 10 largest carriers reported net income of about $4.0 billion in both 2012 and 2011, versus $1.8 billion in 2010. However, it is only recently that the industry has been able to report consistent profits. The 10 largest U.S. carriers posted a net loss of $4.7 billion in 2009 and $24 billion in 2008. This group had a net profit of $6.3 billion in 2007 and $1.6 billion in 2006. Total combined losses in the five years from 2001-2005 at the 10 largest carriers were $58.6 billion, as estimated by S&P Capital IQ.

UPCOMING CATALYSTS. As of late-October 2017, the average price of oil was near $52 a barrel, well below the 2008 average of about $108 a barrel, but up from lows in 2016 under $30 a barrel. ALK says that a $1 rise/fall in the cost of a barrel of oil equates changes the annual cost of fuel by approximately $9 million.

On December 14, 2016, ALK annnounced that it had completed its acquisition of Virgin America, a west coast airline with $1.5 billion in annual revenues, 200 daily departures and 63 aircraft, for about $4.0 billion, including the assumption of debt. ALK's agreed upon price of $57/share was over an 80% premium to Virgin's trading price prior to news that they were in talks to be acquired. However, we are positive on the deal, which we think increases ALK's size and scale while eliminating a very low-price competitor.

FINANCIAL TRENDS. Over the 10-year period through 2016, revenues rose at a compound annual growth rate (CAGR) of 5.4%. Net income fluctuated from a high of $848 million in 2015 to a loss of $136 million in 2008. Long-term debt rose from $690 million in 2015 to about $3.0 billion in 2016. ALK's adjusted debt to capital ratio was 59% at the end of 2016, up from 27% at the end of 2015.

Corporate Information

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Officers

Chrmn, CEO & Pres	**Chief Acctg Officer**
B.D. Tilden	K. Thiel
CFO	**Treas**
B.S. Pedersen	M.G. Eliasen
General Counsel	
K.B. Levine	

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P.M. Bedient	D.F. Madsen
J.A. Beer	H.K. Sandvik
M.C. Blakey	J.K. Thompson
P.J. Campbell	B.D. Tilden
D.R. Fonseca	E.K. Yeaman

Domicile
Delaware

Founded
1932

Employees
19,723

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Alaska Air Group, Inc.

Quantitative Evaluations

Fair Value Rank 4

1	2	3	4	5
LOWEST				HIGHEST

Based on CFRA's proprietary quantitative model, stocks are ranked from most overvalued (1) to most undervalued (5).

Fair Value Calculation **$69.57** Analysis of the stock's current worth, based on CFRA's proprietary quantitative model suggests that ALK is slightly undervalued by $7.19 or 11.5%.

Volatility LOW | AVERAGE | HIGH

Technical Evaluation **NEUTRAL** Since October, 2017, the technical indicators for ALK have been NEUTRAL.

Insider Activity UNFAVORABLE | NEUTRAL | FAVORABLE

Expanded Ratio Analysis

	2016	2015	2014	2013
Price/Sales	1.86	1.86	1.52	1.05
Price/EBITDA	6.08	6.31	6.80	5.73
Price/Pretax Income	8.21	7.94	8.38	6.38
P/E Ratio	13.57	12.27	13.52	10.25
Avg. Diluted Shares Outsg.(M)	124	129	137	142

Figures based on fiscal year-end price

Key Growth Rates and Averages

Past Growth Rate (%)	1 Year	3 Years	5 Years
Sales	5.95	6.11	6.55
Net Income	-4.01	17.02	27.14

Ratio Analysis (Annual Avg.)			
Net Margin (%)	NM	NM	NM
% LT Debt to Capitalization	44.83	29.08	29.91
Return on Equity (%)	30.48	32.32	30.15

Company Financials Fiscal year ending Dec. 31

Per Share Data (U.S. $)	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Tangible Book Value	6.92	19.26	16.18	14.76	10.10	8.27	7.69	6.13	4.56	6.74
Free Cash Flow	5.73	5.87	2.48	2.97	1.27	1.39	2.37	-1.03	-1.65	-2.20
Earnings	6.54	6.56	4.42	3.58	2.20	1.67	1.71	0.84	-0.94	0.77
Earnings (Normalized)	7.28	6.50	4.20	2.70	2.37	1.96	1.80	0.68	-0.55	0.81
Dividends	1.10	0.80	0.50	0.20	NA	NA	NA	NA	NA	NA
Payout Ratio (%)	17	12	11	6	NA	NA	NA	NA	NA	NA
P/E Ratio: High	14.1	13.3	13.8	11.0	10.3	11.6	8.7	10.9	NM	14.5
P/E Ratio: Low	8.3	8.8	8.2	6.1	7.1	7.7	4.6	4.1	NM	6.9

Income Statement Analysis (Million U.S. $)										
Revenue	5,931	5,598	5,368	4,964	4,657	4,318	3,832	3,400	3,663	3,506
Operating Income	1,453	1,330	909	638	570	518	489	223	-88	225
Depreciation + Amortization	363	320	294	270	264	247	230	219	205	177
Interest Expense	30.0	8.0	28.0	35.0	46.0	75.0	102.0	96.7	81.6	60.2
Pretax Income	1,345	1,312	975	816	514	394	406	203	-213	201
Effective Tax Rate	39.5	35.4	37.9	37.7	38.5	37.8	38.2	40.1	36.3	38.0
Net Income	814	848	605	508	316	245	251	122	-136	124
Net Income (Normalized)	905	841	575	384	341	288	265	98	-81	131

Balance Sheet and Other Financial Data (Million U.S. $)										
Cash	1,580	1,328	1,217	1,330	1,252	1,141	1,208	1,192	1,077	713
Current Assets	2,050	1,663	1,639	1,762	1,737	1,596	1,662	1,634	1,509	1,390
Total Assets	9,962	6,530	6,064	5,838	5,505	5,167	5,017	4,996	4,836	4,491
Current Liabilities	2,535	1,805	1,671	1,580	1,501	1,510	1,425	1,270	1,361	1,374
Long Term Debt	2,645	582	699	764	898	1,123	1,316	1,699	1,596	1,125
Total Capital	5,900	3,112	2,949	2,917	2,486	2,510	2,648	2,727	2,503	2,326
Capital Expenditures	678	831	694	566	574	496	214	440	413	834
Cash from Operations	1,386	1,584	1,030	981	753	696	553	293	173	482
Current Ratio	0.81	0.92	0.98	1.12	1.16	1.06	1.17	1.29	1.11	1.01
% Long Term Debt of Capitalization	44.8	18.7	23.7	26.2	36.1	44.7	49.7	62.3	63.8	48.4
% Net Income of Revenue	13.7	15.1	11.3	10.2	6.8	5.7	6.6	3.6	-3.7	3.5
% Return on Assets	11.01	13.20	9.55	7.03	6.68	6.36	6.10	2.84	-1.18	3.28
% Return on Equity	30.5	37.4	29.1	29.4	24.4	21.5	25.4	15.9	-16.1	13.0

Source: S&P Global Market Intelligence. Data may be preliminary or restated; before results of discontinued operations/special items. Per share data adjusted for stock dividends; EPS diluted. E-Estimated. NA-Not Available. NM-Not Meaningful. NR-Not Ranked. UR-Under Review.

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Alaska Air Group, Inc.

Sub-Industry Outlook

We have a positive fundamental outlook for the airline sub-industry for the next 12 months. While unit revenues weakened throughout 2016, they showed improvement in the fourth quarter, and turned positive in the first quarter, which we expect to continue though the summer. After adding too much capacity for 2015-16, airlines have been trimming excess capacity, which we think will allow for better pricing power in 2017. We think the U.S. airline industry is seeing good demand, which should strengthen further as the U.S. economy accelerates. We think the industry should be able to raise fares as passenger travel demand improves, and hold the line on fares if demand weakens. Oil and jet fuel prices have risen from lows in January 2016, which is providing a cost headwind to start 2017, but have recently receded somewhat.

Investor sentiment on airline stocks has improved on better unit revenue results in the past two months.

The bankruptcy filing of AMR Corp., parent of American Airlines, led to some domestic and international capacity cuts as American restructured. American's subsequent merger with US Airways was completed in December 2013, and drove further capacity rationalization, in our view.

The industry successfully instituted a number of fare hikes in 2011 and 2012, but was somewhat less successful in hiking fares in 2013-2016. However, we think they will likely look to continue to raise fares in 2017. Many of the shares warrant added risk premiums, in our view.

We estimate that the largest U.S. carriers earned $30 billion in 2016, $12 billion in 2015 and $10.0 billion in 2014. The industry has been profitable every year since 2010. The industry last lost money in 2009, losing a collective $5 billion. Results in 2016 benefited from sharply lower oil prices, while increases in ancillary fees such as baggage, change fees and premium seating slowed. We think cuts to domestic and international supply over the past three years improved airlines' pricing power.

Total revenue passenger miles (RPMs) rose 3.6% for the trailing twelve month period ending in October 2016. Available seat miles rose 3.8%. The passenger load factor fell by 0.1 percentage points to 83.0.

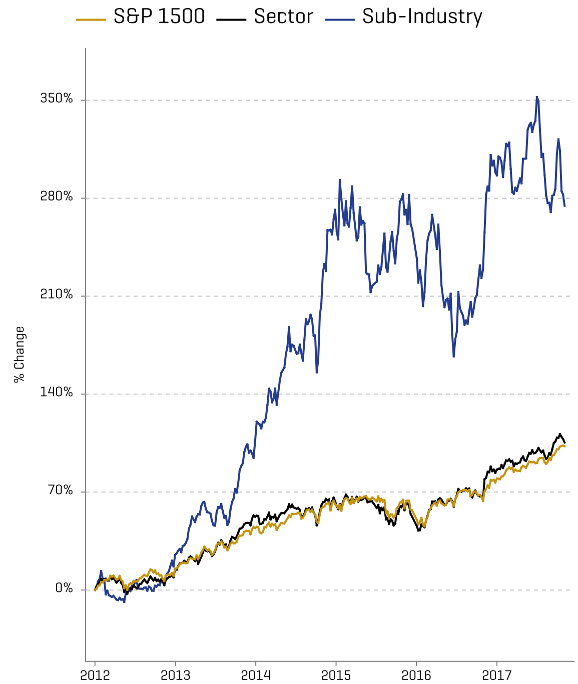
Year to date through June 16, the S&P Airlines Index rose 7.2% versus an 8.2% rise for the S&P 1500. In 2016, the S&P Airlines Index rose 10.0% versus a 10.6% rise in the 1500. The 5-year compound annual growth rate for the S&P Airlines index through June 16, was 32.9%, versus 12.4% for the S&P 1500.

--Jim Corridore

Industry Performance

GICS Sector: **Industrials**
Sub-Industry: **Airlines**

Based on S&P 1500 Indexes
Five-Year market price performance through Nov 10, 2017



NOTE: All Sector & Sub-Industry information is based on the Global Industry Classification Standard (GICS).

Past performance is not an indication of future performance and should not be relied upon as such.
Source: S&P Global Market Intelligence

Sub-Industry: Airlines Peer Group*: Airlines

Peer Group	Stock Symbol	Exchange	Currency	Recent Stock Price ($)	Stk. Mkt. Cap. (M $)	30-Day Price Chg. (%)	1-Year Price Chg. (%)	P/E Ratio	Yield (%)	Return on Equity (%)	LTD to Cap (%)
Alaska Air Group, Inc.	**ALK**	**NYSE**	**USD**	**62.38**	**7,676**	**-22.7**	**-14.8**	**10**	**1.9**	**30.5**	**44.8**
Air Canada	ACDV.F	OTCPK	USD	18.51	5,055	-15.6	90.8	4	Nil	NM	72.4
Air France-KLM SA	AFLY.Y	OTCPK	USD	12.99	4,875	-17.1	118.7	4	Nil	66.5	40.0
Cathay Pacific Airways Limited	CPCA.Y	OTCPK	USD	7.962	6,266	3.0	18.7	NM	Nil	-0.5	28.7
China Southern Airlines Company Limited	ZNH	NYSE	USD	37.05	11,742	6.2	30.3	9	2.0	11.3	11.5
Copa Holdings, S.A.	CPA	NYSE	USD	124.32	3,857	-4.5	33.4	16	2.4	19.5	17.6
JetBlue Airways Corporation	JBLU	NasdaqGS	USD	18.83	6,038	-6.9	1.9	10	Nil	21.0	19.8
LATAM Airlines Group S.A.	LTM	NYSE	USD	13.30	8,121	-5.2	36.1	NM	0.3	3.1	47.1
Qantas Airways Limited	QABS.Y	OTCPK	USD	46.10	8,224	-4.3	105.6	13	2.3	25.1	NA
Singapore Airlines Limited	SING.Y	OTCPK	USD	15.92	9,552	5.9	13.1	28	1.9	3.3	NA
easyJet plc	ESYJ.Y	OTCPK	USD	16.66	6,617	0.6	29.5	5	4.0	17.2	16.2

*For Peer Groups with more than 10 companies or stocks, selection of issues is based on market capitalization.
NA-Not Available NM-Not Meaningful.
Note: Peers are selected based on Global Industry Classification Standards and market capitalization. The peer group list includes companies with similar characteristics, but may not include all the companies within the same industry and/or that engage in the same line of business.

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Analyst Research Notes and other Company News

October 25, 2017
03:58 pm ET... CFRA KEEPS BUY OPINION ON SHARES OF ALASKA AIR GROUP, INC. (ALK 68.63****): We cut our 12-month target price by $10 to $90, an Enterprise Value to EBITDAR multiple of 7X our '18 estimate, in line with peers. We cut our '17 EPS estimate to $7.25 from $8.15 and '18 to $7.57 from $8.76. Q3 EPS of $2.24 vs. $2.20 missed the $2.26 consensus on weaker-than-expected revenues. ALK saw pressure on unit revenues, which we attribute to rapid growth and price competition, both of which we expect to persist. We think this growth will eventually drive sustained market share gains for ALK. Shares down sharply on weak unit revenues, which we think is an overreaction. /Jim Corridore

September 13, 2017
Alaska Air Group, Inc. announced that Jeff Butler has been named company's new vice president of inflight and call center services, succeeding Andy Schneider, who was named vice president of people last month. Butler, who previously led inflight and later airports and customer service at Alaska, has been in an interim role as vice president of guest and inflight services at Virgin America for the past year.

September 11, 2017
Joe Sprague left Alaska Air Group Inc. on Sept. 1, 2017 after 17 years with the airline. The senior vice president of external relations' duties will be assumed by former Kaiser Permanente executive Diana Birkett Rakow, hired by SeaTac-based Alaska as vice president of external relations. Sprague will become the executive director of the Washington State Catholic Conference on Sept. 29, 2017. In her new role with Alaska Air, Birkett Rakow will lead the airline's government affairs, corporate communications and community relations teams in Seattle, Alaska, Hawaii and San Francisco.

August 03, 2017
Alaska Air Group announced the appointment of James Beer, executive vice president and chief financial officer of McKesson Corporation, to the company's board of directors. Beer will join the compensation and leadership development and safety committees. Since 2013, Beer has led the financial functions for McKesson. He is also a member of the company's executive committee.

July 26, 2017
10:40 am ET... CFRA LIFTS OPINION ON SHARES OF ALASKA AIR GROUP TO BUY FROM HOLD (ALK 85.33****): We keep our 12-month target price at $100, an enterprise value to EBITDAR multiple of about 7.3X our '18 estimate, above the peer average of about 6.5X based on '18 estimates. We think this premium is warranted by likely faster-than-peer revenue growth, and we also expect the entire group to see multiple expansion. We raise our '17 EPS estimate to $8.15 from $7.94 and lift '18 to $8.76 from $8.60. ALK posts Q2 EPS of $2.51 vs. $2.12, in line with the consensus. Integration of Virgin seems to be on track, and the combined company has more scale to compete. /J. Corridore

June 14, 2017
On June 9, 2017, in order to dedicate more focus to his role as managing director of Knight Angels Consulting LLC, a private equity and philanthropic organization, Jessie J. Knight, Jr. voluntarily resigned from the boards of directors of Alaska Air Group, Inc. (the Company") and its subsidiaries Alaska Airlines, Inc., Virgin America Inc. and Horizon Air Industries, Inc., effective June 9, 2017. Mr. Knight will relinquish seats on the Governance & Nominating Committee and the Safety Committee of the Company's board of directors.

May 09, 2017
Alaska Air Group Inc. has hired Lyft attorney and executive Annabel Chang to be its new vice president in the San Francisco Bay Area. Chang will help Alaska Airlines shape and execute its strategic external relations, local government advocacy and community relations in the Bay Area. She will also provide what the airline called "local support and insight" for Alaska's sales and marketing efforts in the Bay Area after its $2.6 billion takeover of California-based Virgin America in late 2016. Chang has worked at Lyft since 2014. Chang starts at Alaska Airlines in June. She will be based at Virgin America's office in Burlingame, California, a suburb near San Francisco International Airport. Alaska Air said Chang will work closely with Ben Minicucci, chief operating officer and president of Alaska Airlines and CEO of Virgin America, and Virgin America President Peter Hunt.

April 26, 2017
10:20 am ET... CFRA KEEPS HOLD OPINION ON SHARES OF ALASKA AIR GROUP (ALK 89.52***): We keep our 12-month target price at $100, an enterprise value to EBITDAR (EBITDA plus aircraft rent) multiple of 8.2X our '17 EBITDAR estimate, above the peer average of 7X. We raise our '17 and '18 EPS estimates to $7.94 and $8.60, from $7.58 and $7.81. ALK Q1 EPS of $1.05 vs. $1.45 beat the consensus of $1.00. Revenues grew 30%, largely on the addition of Virgin America flying, but was slightly below our target. Integration appears to be going well. However, merger integration risk, plus higher-than-peer valuation, keeps us from being more bullish on the shares. /J. Corridore

February 16, 2017
Alaska Air Group, Inc. named Chris Berry as vice president of finance and controller of company. Berry joined Alaska Airlines in 2005 as director of financial reporting. Before joining Alaska, Berry worked in public accounting for Arthur Andersen and KPMG.

February 08, 2017
04:08 pm ET... S&P CAPITAL IQ KEEPS HOLD OPINION ON SHARES OF ALASKA AIR GROUP (ALK 96.7***): We raise our 12-month target price to $100 from $90, an Enterprise Value to EBITDAR multiple of 9X our '17 estimate, above peers, and toward the higher end of ALK's ten year range. Given this high end valuation and integration risks related to the acquisition of Virgin America, we do not see the shares outperforming the S;P 500 over the next year. We raise our '17 EPS estimate to $7.58 from $6.88 and start our '18 estimate at $7.81. ALK Q4 adjusted EPS of $2.20 vs. $2.16 beat the Capital IQ consensus of $2.06 on revenues slightly above expectations. /J. Corridore

December 14, 2016
09:47 am ET... S&P CAPITAL IQ KEEPS HOLD OPINION ON SHARES OF ALASKA AIR GROUP, INC. (ALK 86.87***): ALK has completed its purchase of Virgin America, adding size and scale on the west coast, and moving ALK ahead of JetBlue to become the fifth-largest U.S. airline. The deal removes a discount competitor on transcontinental routes, and should allow for better pricing power industry-wide. We are positive on the combination, but ALK has to prove it can integrate operations seamlessly, which has been a challenge for some other merger/acquisitions. We expect ALK to grow EPS faster than peers, but we think its premium valuation on an Enterprise Value to EBITDAR basis reflects this. /J. Corridore

Note: Research notes reflect S&P Global Market Intelligence's published opinions and analysis on the stock at the time the note was published. The note reflects the views of the equity analyst as of the date and time indicated in the note, and may not reflect S&P Global Market Intelligence's current view on the company.

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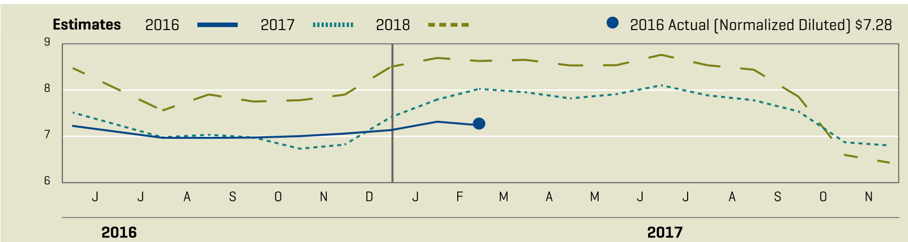
Alaska Air Group, Inc.

Analysts' Recommendations

	No. of Recommendations	% of Total	1 Mo.Prior	3 Mos.Prior
Buy	8	57	8	7
Buy/Hold	3	21	4	4
Hold	3	21	2	2
Weak Hold	0	0	0	0
Sell	0	0	0	0
No Opinion	0	0	0	0
Total	**14**	**100**	**14**	**13**

Wall Street Consensus Estimates



Fiscal Years	Avg Est.	High Est	Low Est.	# of Est.	Est. P/E
2018	6.43	7.00	5.75	14	9.7
2017	6.80	7.05	6.67	14	9.2
2018 vs. 2017	▼ **-5%**	▼ **-1%**	▼ **-14%**	**0%**	▲ **5%**
Q4'18	1.37	1.65	1.17	9	45.5
Q4'17	1.00	1.23	0.88	14	62.1
Q4'18 vs. Q4'17	▲ **37%**	▲ **34%**	▲ **33%**	▼ **-36%**	▼ **-27%**

Wall Street Consensus Opinion

BUY/HOLD

Wall Street Consensus vs. Performance

For fiscal year 2017, analysts estimate that ALK will earn USD $6.80. For the 3rd quarter of fiscal year 2017, ALK announced earnings per share of USD $2.14, representing 31.5% of the total revenue estimate. For fiscal year 2018, analysts estimate that ALK's earnings per share will decline by 5% to USD $6.43.

Forecasts are not reliable indicator of future performance.

Note: A company's earnings outlook plays a major part in any investment decision. S&P Global Market Intelligence organizes the earnings estimates of over 2,300 Wall Street analysts, and provides their consensus of earnings over the next two years, as well as how those earnings estimates have changed over time. Note that the information provided in relation to consensus estimates is not intended to predict actual results and should not be taken as a reliable indicator of future performance.

Note: For all tables, graphs and charts in this report that do not cite any reference or source, the source is S&P Global Market Intelligence.

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Glossary

STARS

Since January 1, 1987, CFRA Equity and Fund Research Services, and its predecessor S&P Capital IQ Equity Research has ranked a universe of U.S. common stocks, ADRs (American Depositary Receipts), and ADSs (American Depositary Shares) based on a given equity's potential for future performance. Similarly, we have ranked Asian and European equities since June 30, 2002. Under proprietary STARS (Stock Appreciation Ranking System), equity analysts rank equities according to their individual forecast of an equity's future total return potential versus the expected total return of a relevant benchmark (e.g., a regional index (S&P Asia 50 Index, S&P Europe 350® Index or S&P 500® Index)), based on a 12-month time horizon. STARS was designed to meet the needs of investors looking to put their investment decisions in perspective. Data used to assist in determining the STARS ranking may be the result of the analyst's own models as well as internal proprietary models resulting from dynamic data inputs.

S&P Global Market Intelligence's Quality Ranking

(also known as **S&P Capital IQ Earnings & Dividend Rankings**) - Growth and stability of earnings and dividends are deemed key elements in establishing S&P Global Market Intelligence's earnings and dividend rankings for common stocks, which are designed to capsulize the nature of this record in a single symbol. It should be noted, however, that the process also takes into consideration certain adjustments and modifications deemed desirable in establishing such rankings. The final score for each stock is measured against a scoring matrix determined by analysis of the scores of a large and representative sample of stocks. The range of scores in the array of this sample has been aligned with the following ladder of rankings:

A+	Highest	B	Below Average
A	High	B-	Lower
A-	Above Average	C	Lowest
B+	Average	D	In Reorganization
NR	Not Ranked		

EPS Estimates

CFRA's earnings per share (EPS) estimates reflect analyst projections of future EPS from continuing operations, and generally exclude various items that are viewed as special, non-recurring, or extraordinary. Also, EPS estimates reflect either forecasts of equity analysts; or, the consensus (average) EPS estimate, which are independently compiled by S&P Global Market Intelligence, a data provider to CFRA. Among the items typically excluded from EPS estimates are asset sale gains; impairment, restructuring or merger-related charges; legal and insurance settlements; in process research and development expenses; gains or losses on the extinguishment of debt; the cumulative effect of accounting changes; and earnings related to operations that have been classified by the company as discontinued. The inclusion of some items, such as stock option expense and recurring types of other charges, may vary, and depend on such factors as industry practice, analyst judgment, and the extent to which some types of data is disclosed by companies.

12-Month Target Price

The equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics, including Fair Value.

CFRA Equity Research

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Abbreviations Used in Equity Research Reports

CAGR - Compound Annual Growth Rate
CAPEX - Capital Expenditures
CY - Calendar Year
DCF - Discounted Cash Flow
DDM - Dividend Discount Model
EBIT - Earnings Before Interest and Taxes
EBITDA - Earnings Before Interest, Taxes, Depreciation & Amortization
EPS - Earnings Per Share
EV - Enterprise Value
FCF - Free Cash Flow
FFO - Funds From Operations
FY - Fiscal Year
P/E - Price/Earnings
P/NAV - Price to Net Asset Value PEG Ratio - P/E-to-Growth Ratio PV - Present Value
R&D - Research & Development ROCE - Return on Capital Employed ROE - Return on Equity
ROI - Return on Investment
ROIC - Return on Invested Capital
ROA - Return on Assets
SG&A - Selling, General & Administrative Expenses
SOTP - Sum-of-The-Parts
WACC - Weighted Average Cost of Capital

Dividends on American Depository Receipts (ADRs) and American Depository Shares (ADSs) are net of taxes (paid in the country of origin).

Qualitative Risk Assessment

Reflects an equity analyst's view of a given company's operational risk, or the risk of a firm's ability to continue as an ongoing concern. The Qualitative Risk Assessment is a relative ranking to the U.S. STARS universe, and should be reflective of risk factors related to a company's operations, as opposed to risk and volatility measures associated with share prices. For an ETF this reflects on a capitalization-weighted basis, the average qualitative risk assessment assigned to holdings of the fund.

STARS Ranking system and definition:

★★★★★ **5-STARS (Strong Buy):**
Total return is expected to outperform the total return of a relevant benchmark, by a notable margin over the coming 12 months, with shares rising in price on an absolute basis.

★★★★☆ **4-STARS (Buy):**
Total return is expected to outperform the total return of a relevant benchmark over the coming 12 months, with shares rising in price on an absolute basis.

★★★☆☆ **3-STARS (Hold):**
Total return is expected to closely approximate the total return of a relevant benchmark over the coming 12 months, with shares generally rising in price on an absolute basis.

★★☆☆☆ **2-STARS (Sell):**
Total return is expected to underperform the total return of a relevant benchmark over the coming 12 months, and the share price is not anticipated to show a gain.

★☆☆☆☆ **1-STAR (Strong Sell):**
Total return is expected to underperform the total return of a relevant benchmark by a notable margin over the coming 12 months, with shares falling in price on an absolute basis.

Relevant benchmarks:

In North America, the relevant benchmark is the S&P 500 Index, in Europe and in Asia, the relevant benchmarks are the S&P Europe 350 Index and the S&P Asia 50 Index, respectively.

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STARS Stock Reports:

Qualitative STARS recommendations are determined and assigned by equity analysts. For reports containing STARS recommendations refer to the Glossary section of the report for detailed methodology and the definition of STARS rankings.

Quantitative Stock Reports:

Quantitative recommendations are determined by ranking a universe of common stocks based on 5 measures or model categories: Valuation, Quality, Growth, Street Sentiment, and Price Momentum. In the U.S., a sixth sub-category for Financial Health will also be displayed. Percentile scores are used to compare each company to all other companies in the same universe for each model category. The five (six) model category scores are then weighted and rolled up into a single percentile ranking for that company. For reports containing quantitative recommendations refer to the Glossary section of the report for detailed methodology and the definition of Quantitative rankings.

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STARS Stock Reports:

Global STARS Distribution as of June 30, 2017

Ranking	North America	Europe	Asia	Global
Buy	37.4%	25.9%	36.6%	35.4%
Hold	55.1%	56.1%	39.4%	53.5%
Sell	7.5%	18.0%	24.0%	11.1%
Total	100.0%	100.0%	100.0%	100.0%

Analyst Certification:

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