Alaska Air Group Inc. Pitch

Winter 2015
April 2nd, 2015

Edouard Charles Gaudry, Senior Analyst
Jordan Owen, Junior Analyst
Eugene Fedorinov, MBA Analyst

Disclaimer

The print and digital material ("the material") for this presentation was prepared by the analyst team of Desautels Capital Management (“DCM"). The qualitative and statistical information ("the information") contained in the material is based upon various sources and research believed to be reliable and DCM makes every effort to ensure that the information is accurate and up to date, but DCM accepts no responsibility and gives no guarantee, representation or warranty regarding the accuracy or completeness of the information quoted in the material. For reasons of succinctness and presentation, the information provided in the material may be in the form of summaries and generalizations, and may omit detail that could be significant in a particular context or to a particular person. Any reliance placed on such information by you shall be at your sole risk.

Opinions expressed herein are current opinions as of the date appearing in this material only and are subject to change without notice. In the event any of the assumptions used herein do not prove to be true, results are likely to vary substantially. All investments entail risks. There is no guarantee that investment strategies will achieve the desired results under all market conditions and each investor should evaluate its ability to invest for a long term especially during periods of a market downturn. No representation is being made that any account, product, or strategy will or is likely to achieve profits, losses, or results similar to those discussed, if any. This information is provided with the understanding that with respect to the material provided herein, that you will make your own independent decision with respect to any course of action in connection herewith and as to whether such course of action is appropriate or proper based on your own judgment, and that you are capable of understanding and assessing the merits of a course of action. DCM shall not have any liability for any damages of any kind whatsoever relating to this material. You should consult your advisors with respect to these areas. By accepting this material, you acknowledge, understand and accept the foregoing.

No part of this document may be reproduced in any manner, in whole or in part, without the prior written permission of DCM, other than current DCM employees. Should you wish to obtain details regarding the various sources or research carried out by DCM in the compilation of this marketing presentation please email mcgillhim@gmail.com.

Table of Contents

Industry Overview

Alaska Air

Edouard Charles Gaudry, Senior Analyst
Jordan Owen, Junior Analyst
Eugene Fedorinov, MBA Analyst

DESAUTELS Capital Management
Gestion de capitaux

Airline Industry Primer: Four Types of Airlines

Different Categories of Airlines

Alaska AIRLINES

International

- 130+ seat planes that have the ability to take passengers just about anywhere in the world
- Typical annual revenue over $1B

National

- Usually these airlines seat 100-150 people
- Annual revenues $100M - $1B

Regional

- Companies that focus on short-haul flights
- Revenues less than $100M

Cargo

- These airlines generally transport goods

Airline Industry Primer - Key Ratios and Terms

Key Terms

- Available Seat Mile (ASM): The Basic Measure of Capacity - One seat (empty or filled) flying one mile is an ASM
  *Example: A 140-seat MD-80 flying a 500-mile segment creates 70,000 ASMs (140 * 500)*

- Revenue Passenger Mile (RPM): The Basic Measure of Production - A paying passenger flying one mile creates an RPM
  *Example: 100 passengers flying 500 miles generates 50,000 RPMs (100 * 500)*

- Load Factor: RPM / ASM
  Example: 50,000 RPM / 70,000 ASM = 71.4%

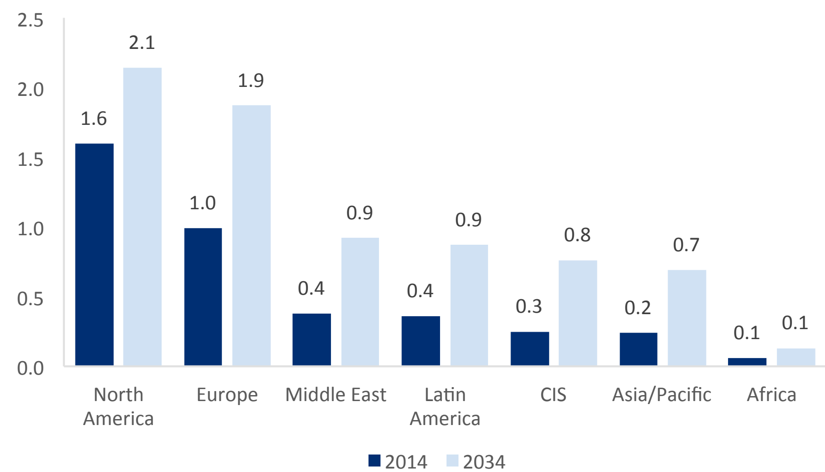
Global Outlook

Industry Trends

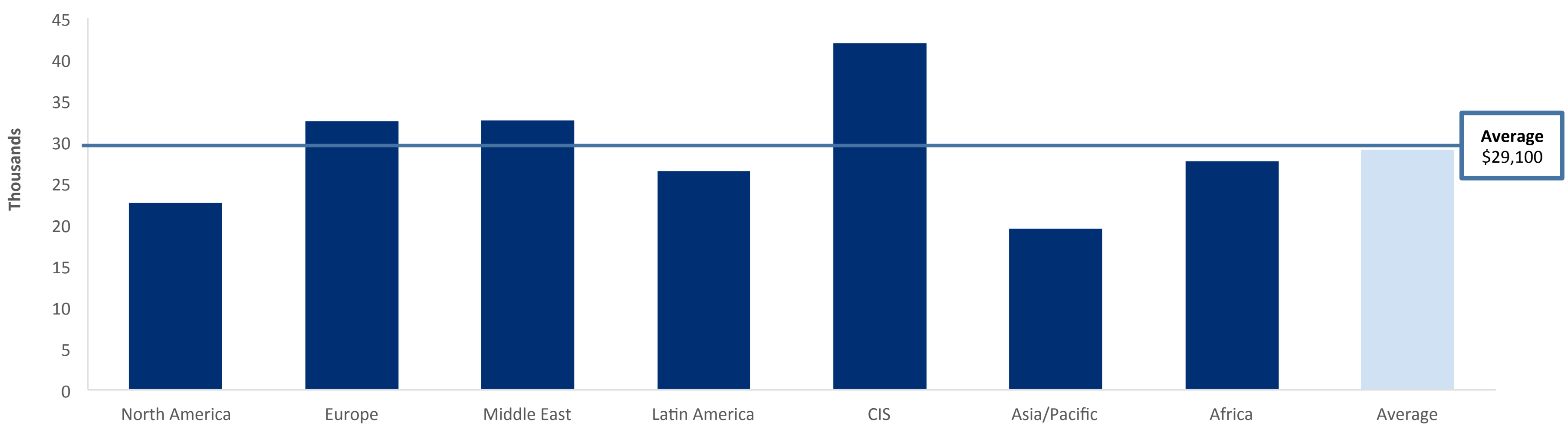
Global Industry Developments

- Drop in fuel prices leads to lower costs and increased margins (assuming no hedging)
- Low-cost debt financing allows for fleet expansion
- Intense competition in a very saturated industry, particularly for regional airliners
- Little pricing leverage
- New regulatory changes regarding pilot flight hours and rest times will affect bottom line
- Currency fluctuations affect profitability

Average Trips per Capita



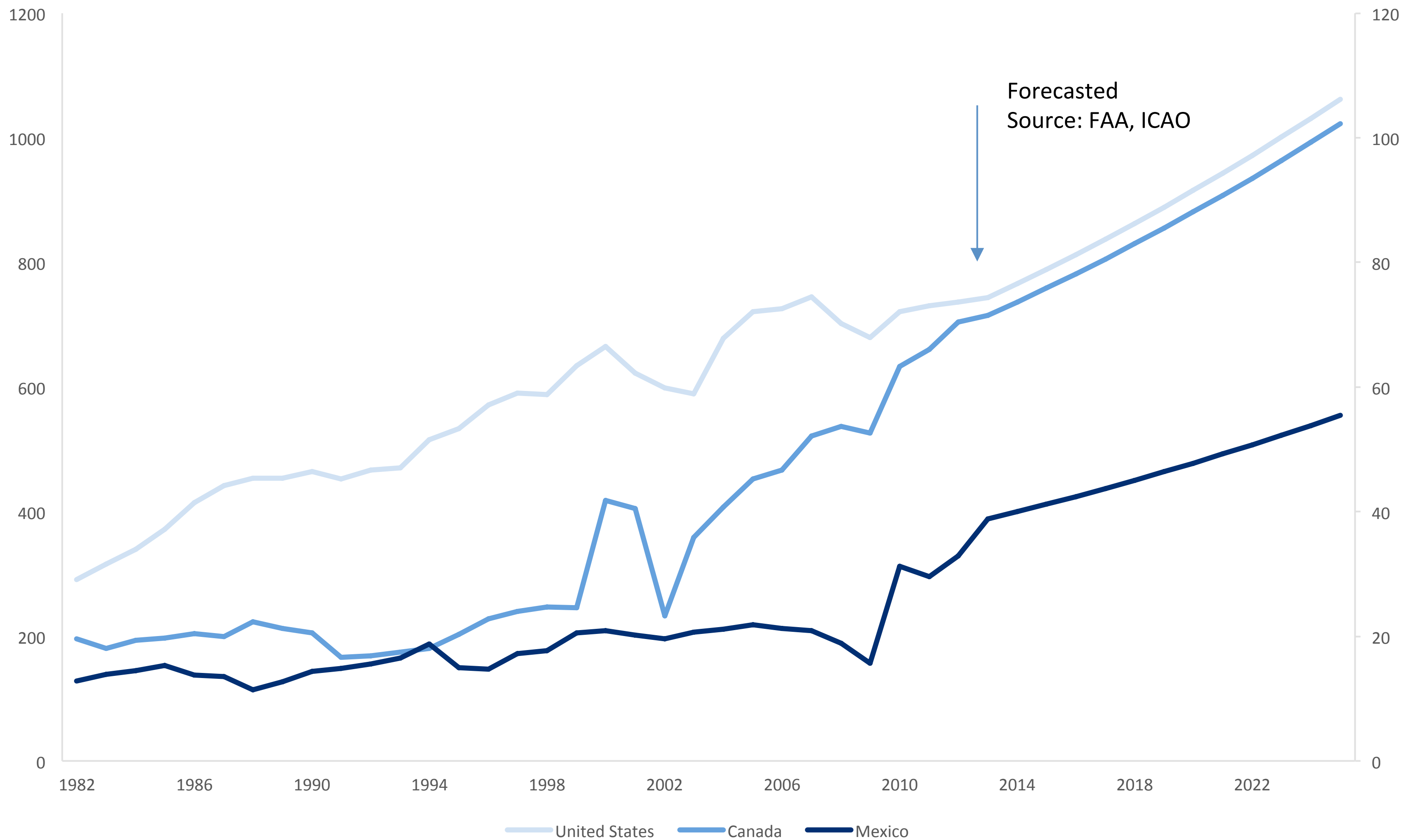
Normalized GDP/Trips



Passenger Trend Analysis

The Airline Industry is a Volatile Industry

Passengers Carried (Millions)



Company Overview

Alaska Air Group Inc.

Edouard Charles Gaudry, Senior Analyst
Jordan Owen, Junior Analyst
Eugene Fedorinov, MBA Analyst

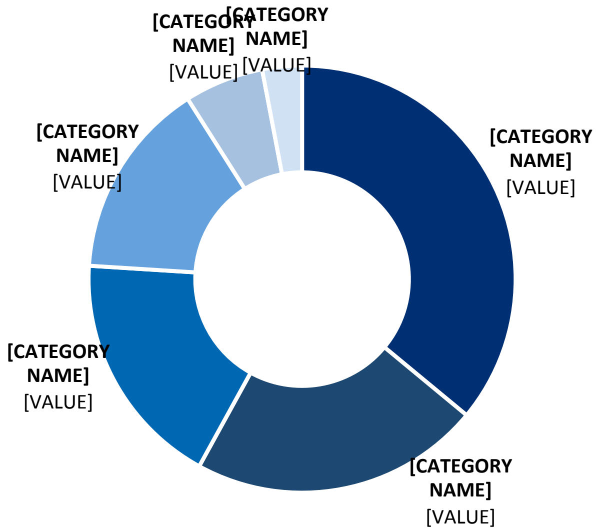
Company Description

Alaska Air Group Inc.

Company Description

- Alaska Air Group Inc. is currently the 7th largest U.S. air carrier and is based in Seattle, Washington
  - The airline's origins date back to McGee Airways, formed in 1932, founded by Mac McGee
  - A merger with Star Air Service in 1934 created the largest airline in Alaska
- The firm now serves more than 100 destinations in the U.S., Canada, Mexico and four Hawaiian Islands
  - ALK owns and operates a fleet size of 188 aircrafts

Geographic Distribution



Public Market Overview	
(values in $M, as of March 16th, 2015)	
Share Price	$68.68
S/O (mm)	131.3
Market Cap	$9,870.0
+ Total Debt	$803.0
+ Minority Interest	$0
+ Preferred Shares	$0
- Cash	$1,217.0
Enterprise Value	$9,456.0
Beta	0.92
Dividend Yield	1.16%
Return on Common Equity	29.10%
52-Week High	$71.4
52-Week Low	$40.7

Finacials & Multiples	LTM	FY2015E	FY2016E
(values in $M)			
Revenue	$5,368.0	$5,620.0	$6,028.0
%Growth		*5%*	*7%*
Operating Income	$1,003.0	$1,299.0	$1,355.0
%Margin		*23%*	*22%*
Adjusted EPS	$4.42	$6.1	$6.46
% Growth		*38%*	*6%*
P/E	*13.5x*	*11.1x*	*10.5x*
P/B	*3.7x*	*3.3x*	*2.7x*

(Source:Thomson One)

Business Plan Overview

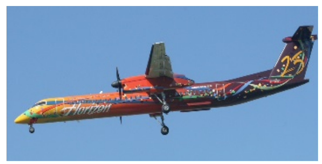
How the firm generates its cash

Horizon vs. Alaska

Alaska Airline

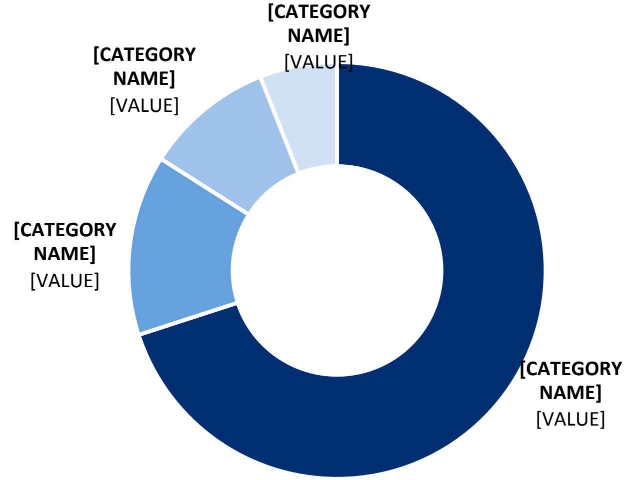
Horizon Air

Over 100 seats and operates under the mainline segment

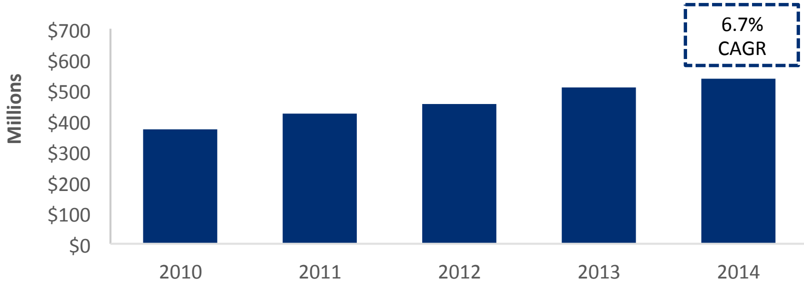


Close quarters flights and operates under the regional segment

Business Segments

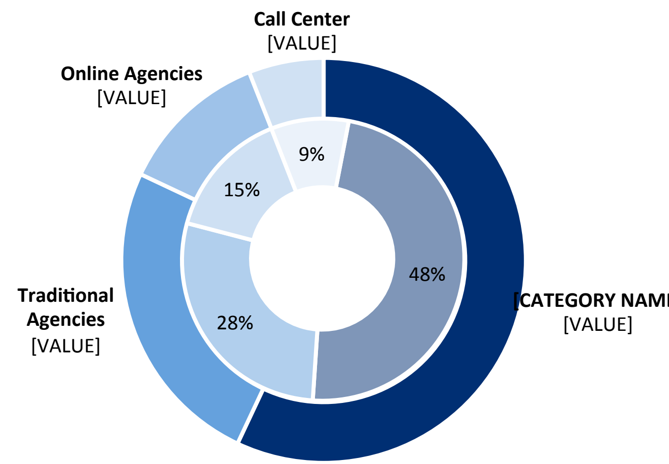


Mileage Plan Revenue



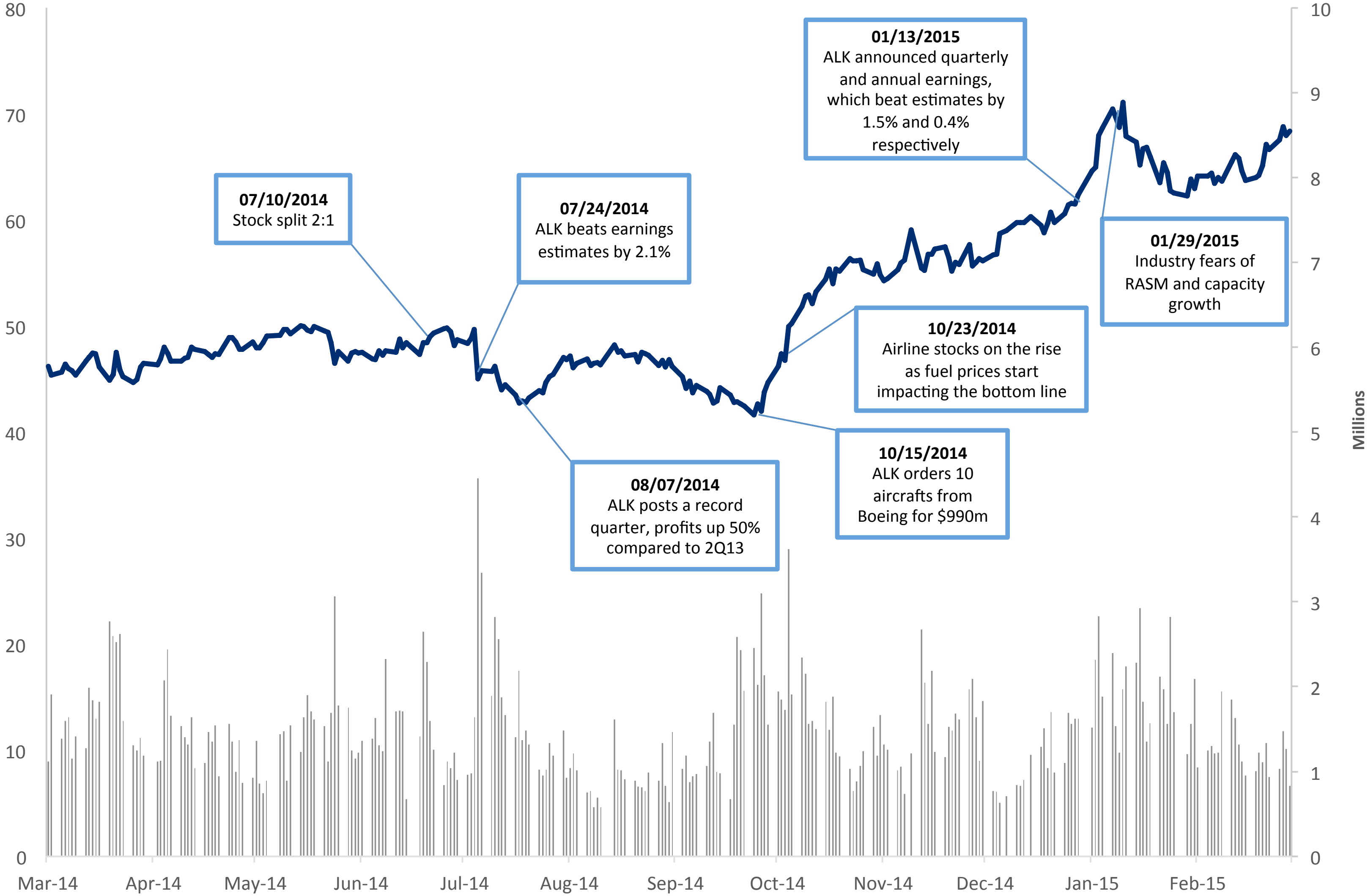
	Alaska Airlines Signature Visa	Platinum Select Aadvantage	Southwest Rapid Rewards Premier
Bonus miles upon approval	Yes	No	No
Bonus miles awarded	25,000 upon approval	30,000 after spending $1,000	50,000 after spending $2,000
Annual fee	$75	$95	$99
Companion fare	Yes - $99+Tax	No	No
First bad free	No	Yes	No bag fees

Ticket Sales Distribution 2010-2014



Annotated Stock Chart

Share price appreciation of 47.91% in past year

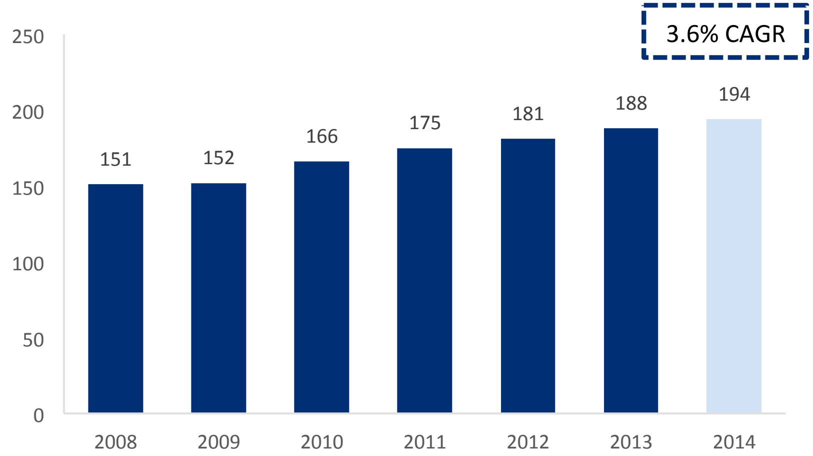


DESAUTELS Capital Management Gestion de capitaux

Expanding Markets and Employee Efficiency

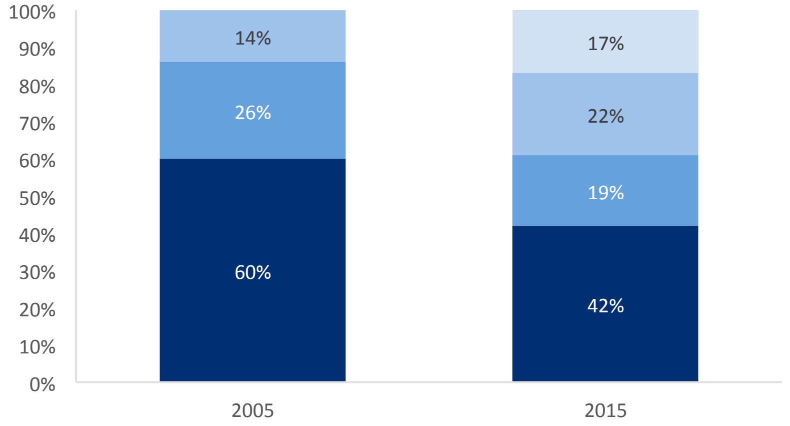
Improving the company through customer satisfaction

Passenger per Full Time Employee



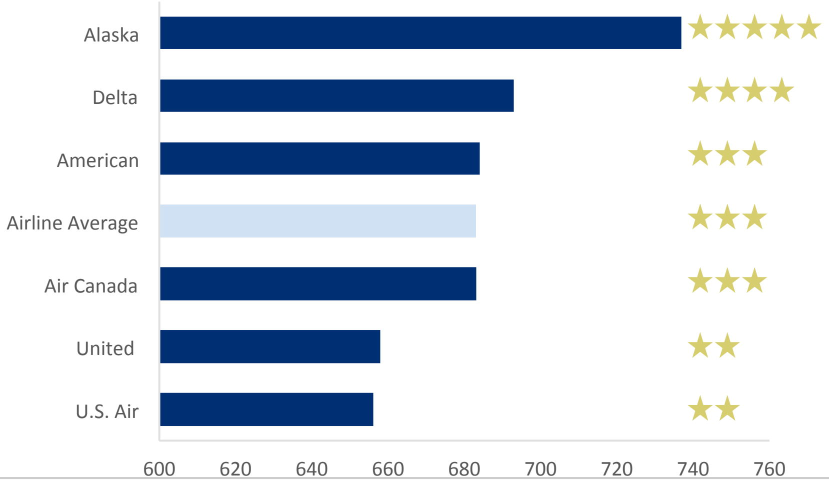
Every 1% Improvement in Productivity = $11M Annually

ALK Continues to Grow and Diversify

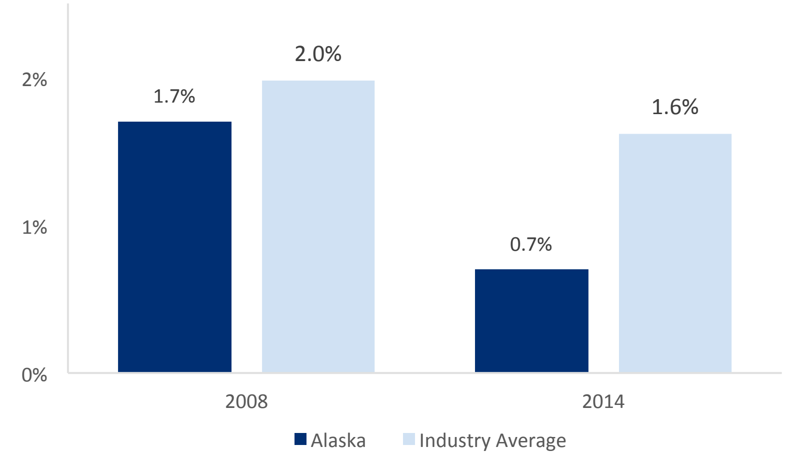


3.45% CAGR ASM 2005-15

J.D. Power Satisfaction Study



ALK Cancellation Rate vs. Industry



Investment Thesis

Attractive valuation upside & further growth opportunities

Investment thesis

Good company, great investment

1 Best Operator in the Industry	• Strongest operating margin in the industry, undertaking new initiatives to further improve
	  • Upside potential from ancillary revenue: introduction of preferred seating, retrofit program and mileage plan
	• ALK outperforms the industry in terms of PASM, aircraft utilization and ancillary revenue growth
	  • Ancillary revenue growth serves as protection against oil price volatility and ALK is well positioned against peers

2 Less Vulnerable To Market Downturns	• Alaska's fleet is one of the youngest in the industry, which results in material increases in fuel efficiency
	  • On average, legacy carriers have the oldest fleets as well as lowest fuel efficiency, which results in material cost disadvantages
	• ALK's aggregate fleet fuel efficiency is expected to increase by about 10.5% in the next two years, which will result in approximately $57M in annual cost savings on $605M in profit
	  • ALK's optimal fuel efficiency will result in reduced fluctuations in EPS and EBIT in 2015-2016 bear and bull oil price expectation

3 Poised For Significant FCF Generation & Returning Capital	• Alaska Air is rolling out a revenue plan, rather than a mileage plan, in 2015, which is the only frequent flying program that rewards clients based on all spending
	• ALK is increasing their share buyback and dividend distribution plan at an accelerating pace
	  • In 2014 alone, ALK returned more capital than the cumulative return between 2007-2012
	• ALK's fleet is one of the least weighted towards leasing as a percent of total fleet
	  • Studies have shown that airlines that own a higher percent of their fleet generate higher FCF yield

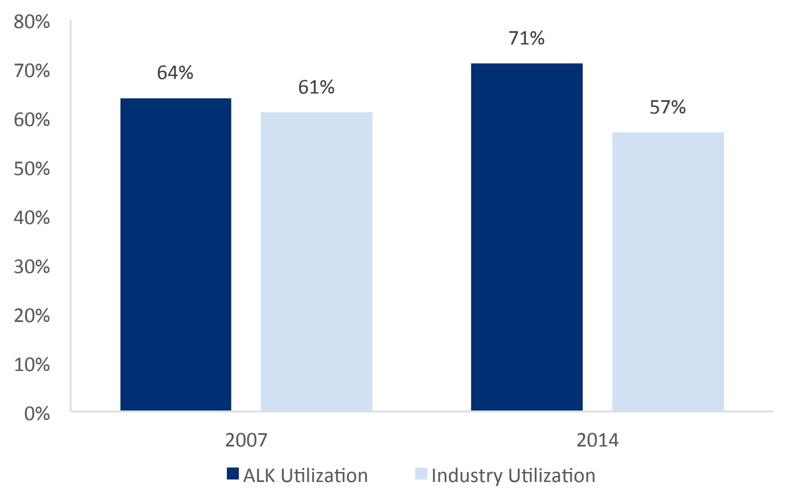
4 Valuation	• Multiple Re-Rate as ALK Becomes a LCC
	  • Investors have placed ALK in the Legacy Carrier bucket, which does not depict the actual cost & revenue structure of the firm and a multiple re-rate will generate significant share appreciation
	• ALK warrants premium compared to the industry based off the P / E and EV / EBITDAR multiples
	  • 2015 P / E and EV / EBITDAR for ALK is 16.5x and 5.4x respectively, while the industry is trading at 23.9x and 14.1x
	• DCF model yields a base case value of $81.59, which represents 26.5% upside potential

1 Best Operator in the Industry

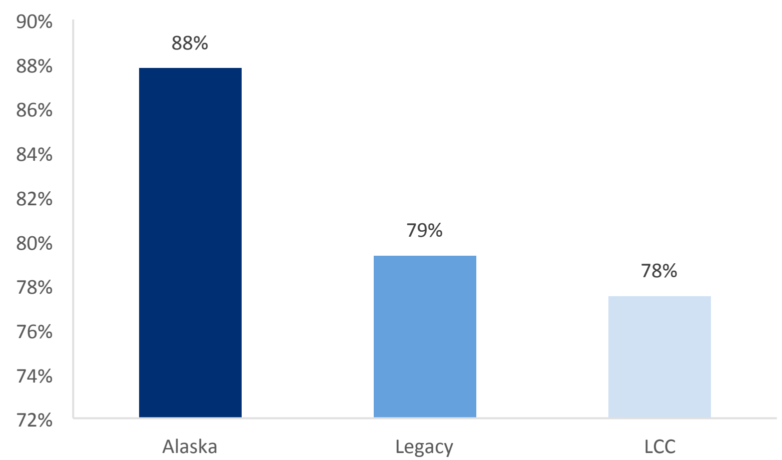
Alaska outperforms in terms of fleet utilization and profitability

Alaska AIRLINES

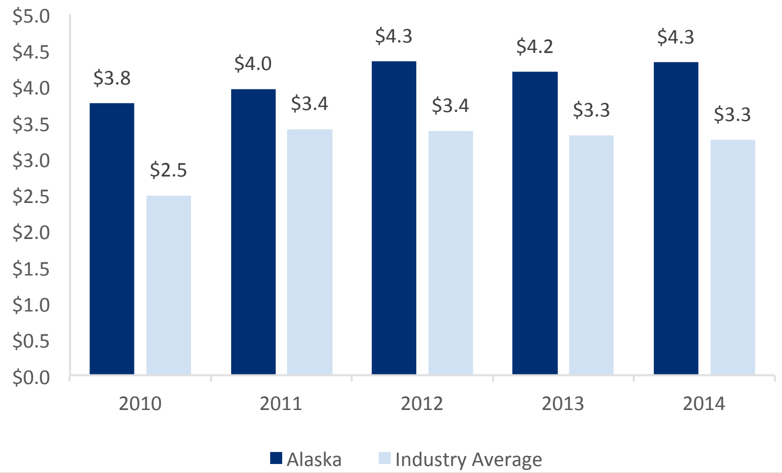
Take-Off Time / Block Time= Utilization



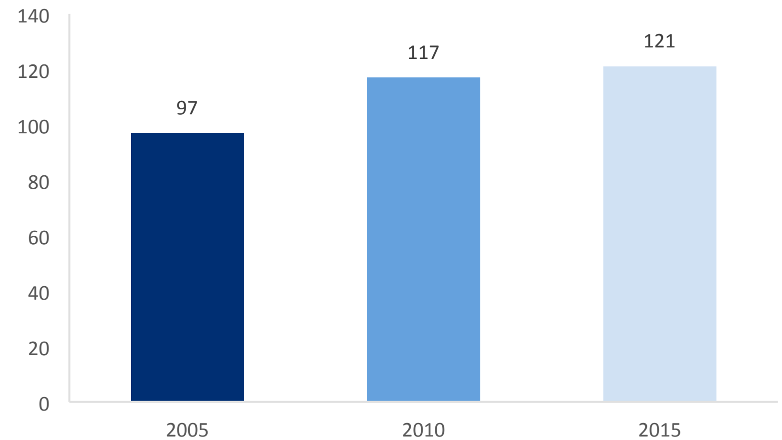
On-Time Performance



Profit per Available Seat Mile (PASM)



Seats per Departure



1

Best Operator in the Industry

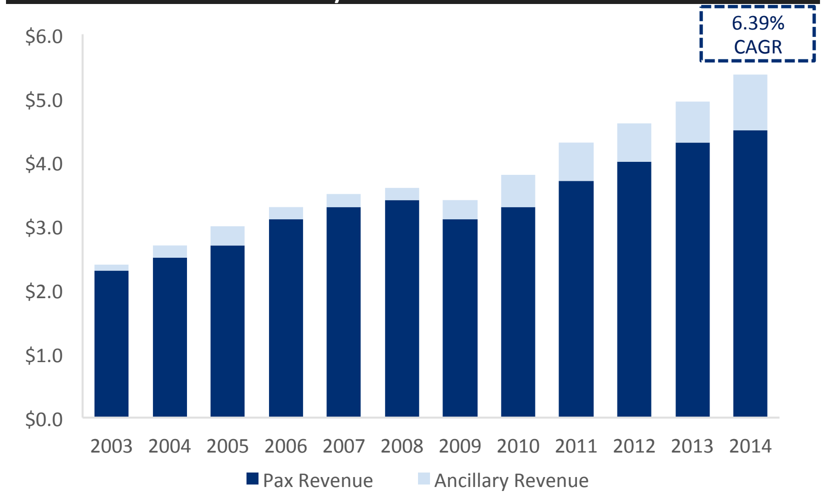
Revenues grew by 8.4% in 2014 and 4.4% of it came from ancillary revenues

Alaska AIRLINES

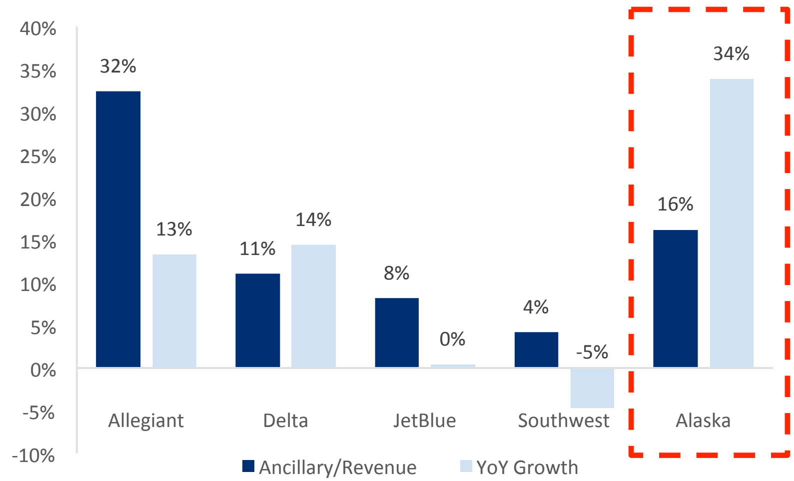
Three Initiatives

- ALK modified the affinity card agreement with Bank of America, through which Alaska sells miles to BAC
  - Resulted in an increase in the mileage plan revenue by $17M, representing a 4.2% increase
- Adding six seats to B737's via the seat retrofit program
  - These seats are now fitted on all 60 B737-900ER's and is expected to generate $25M per year
- Preferred seating plan, expected to be rolled out in Q1/Q2 of 2015, is an innovative way to add higher profit margin seats, providing more leg room at a slight premium
  - Management expects premium seating to generate 0.72% benefit to profit in 2015

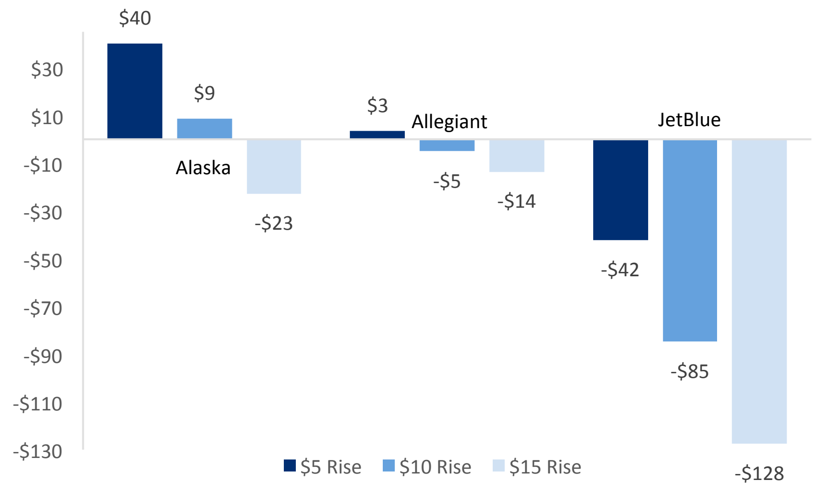
Ancillary Revenue Growth



Ancillary Revenue YoY Growth



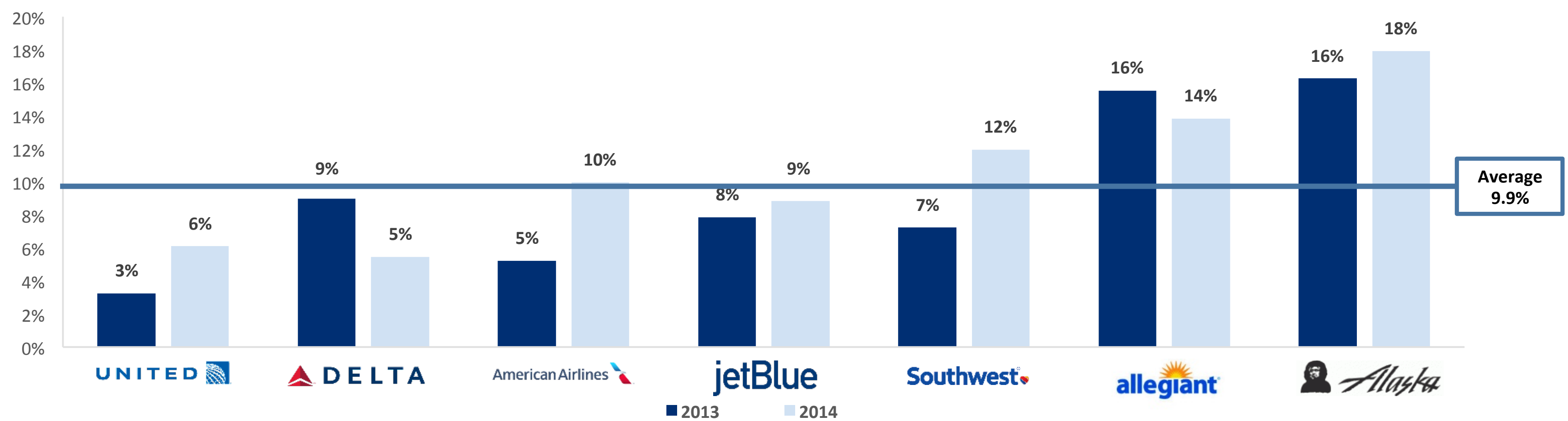
Ancillary Protects Against Oil Volatility



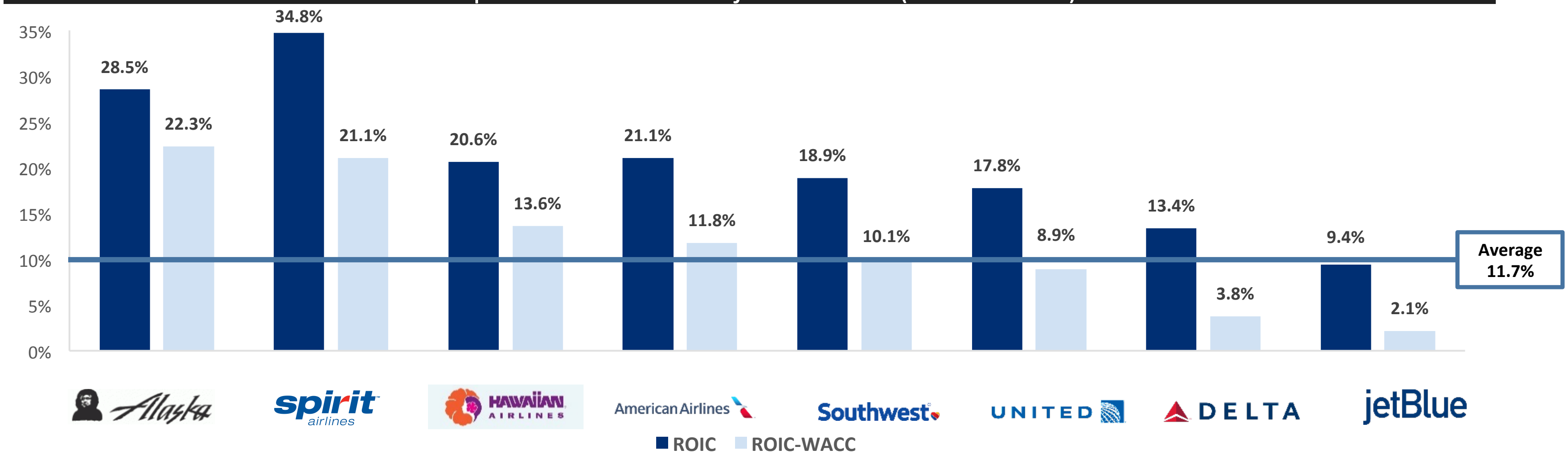
1 Best Operator in the Industry

Leading in Terms of Operating Margins and Risk Adjusted ROIC

Industry Leader in Operating Margins



Outperforms in Risk Adjusted ROIC (ROIC-WACC)

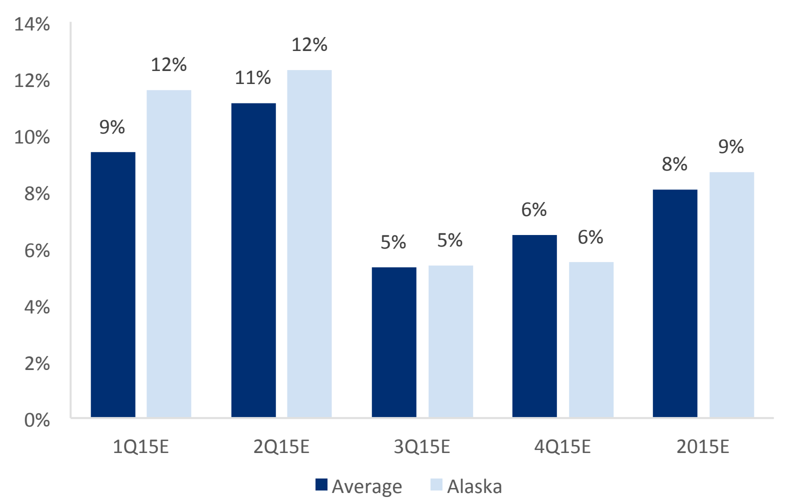


2

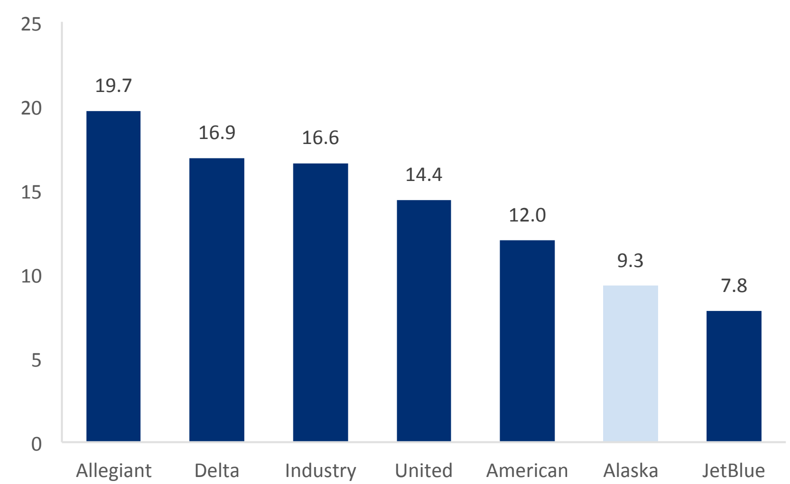
A Prudent Operator in a Risky Industry

ALK is focusing on optimizing fleet efficiency and growth

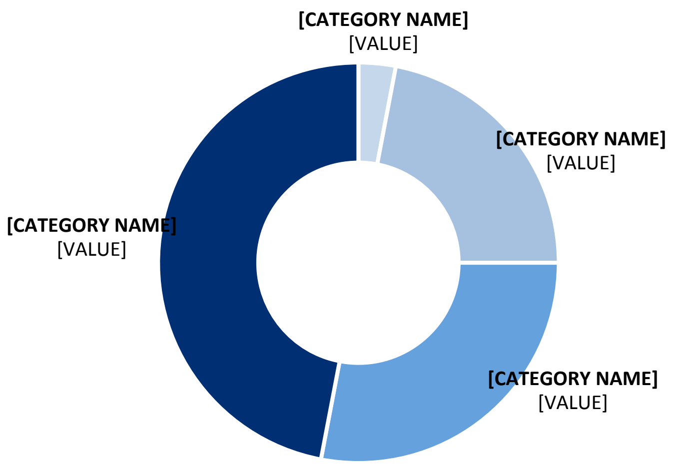
ASM Growth (Fleet Growth)



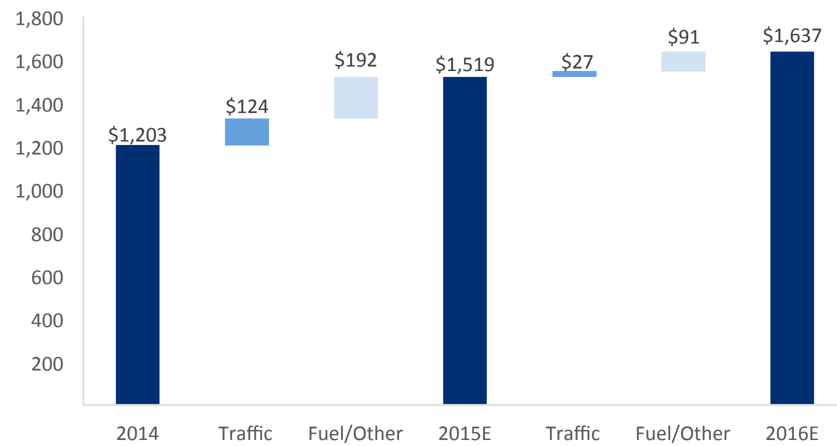
Average Age of Fleet



Fleet Structure



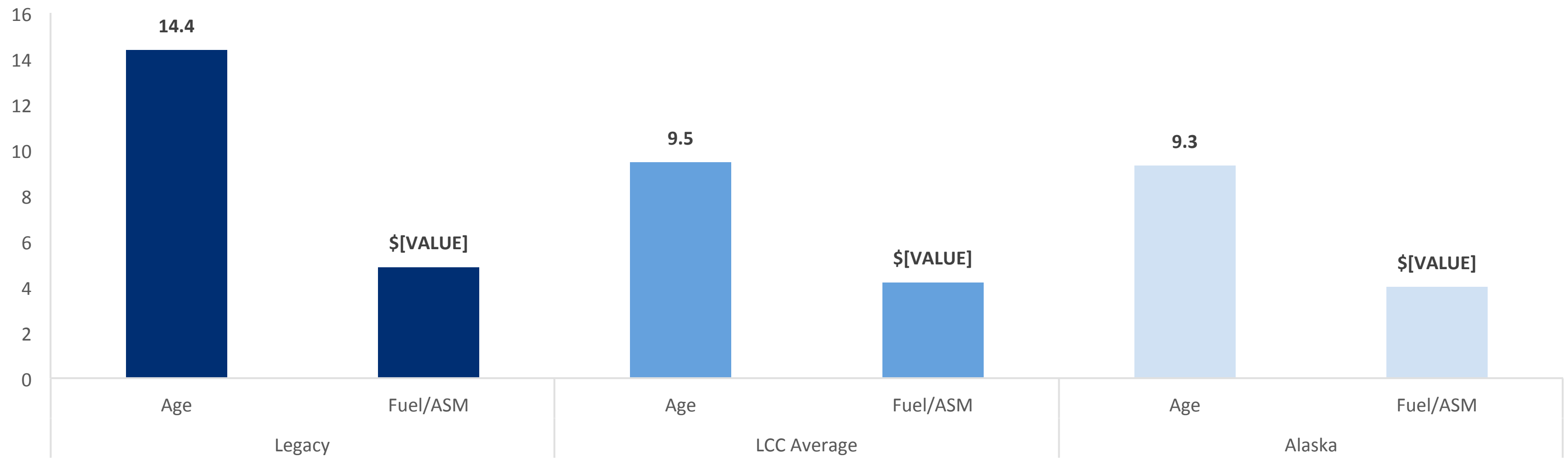
EBIT Growth and Deliveries



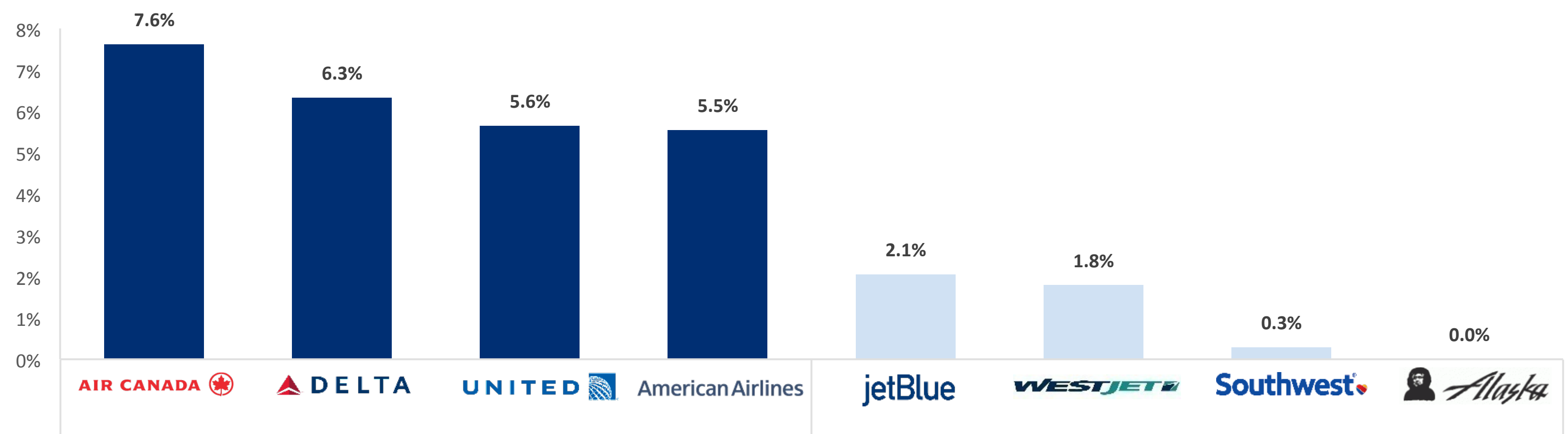
2 A Prudent Operator in a Risky Industry

Old fleets results in material cost disadvantages

Age of Fleet vs. Fuel Efficiency



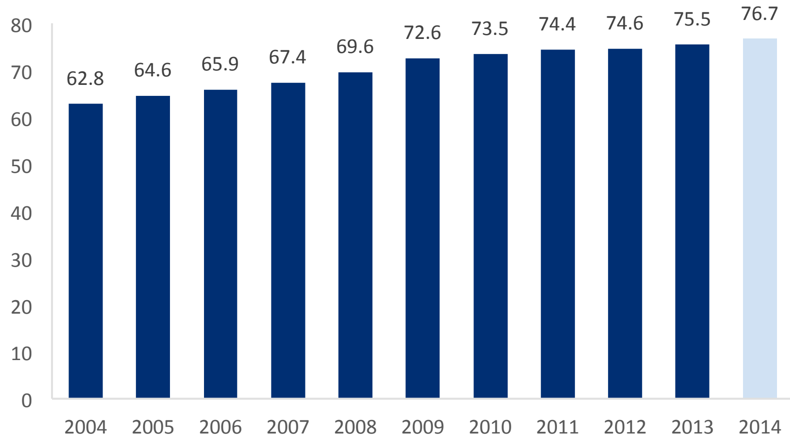
Incremental Fuel Cost as a Percent of Revenue



2 A Prudent Operator in a Risky Industry

Fuel efficiency leads to significant cost savings

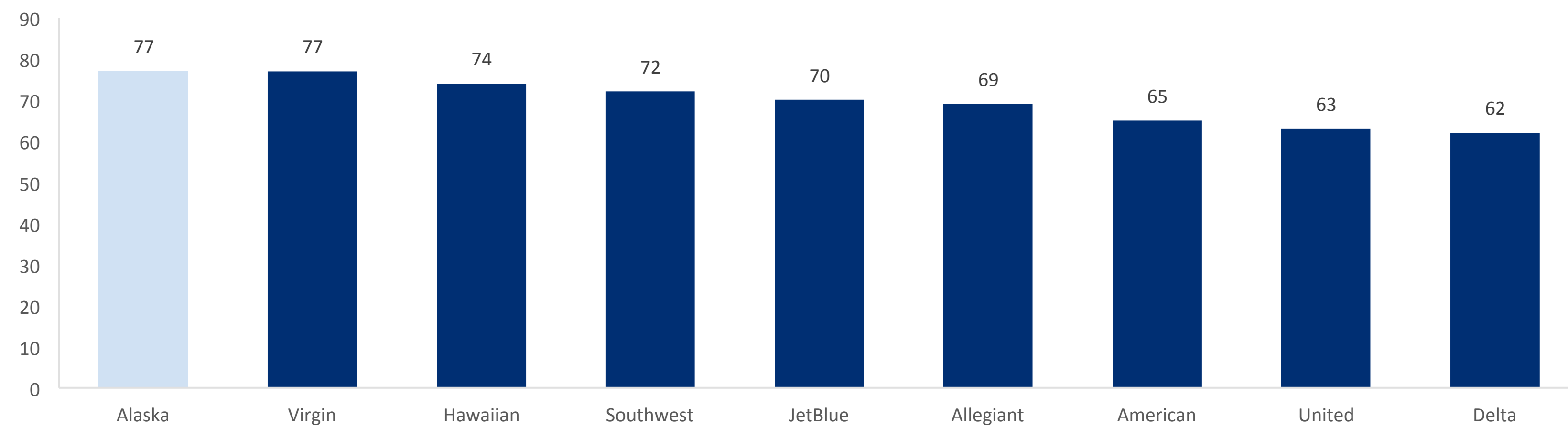
Fuel Efficiency ASM / Gallon



Fuel Efficiency Affect on Profit Margin

- A 1% increase in fuel efficiency yields ~27M in savings annually on 605M in profits
  - Over the period analyzed, fuel efficiency increased by 1.8% annually, yielding total savings of ~300M
- In 2017, fuel efficiency is expected to increase by 5.1% annually, which is expected to generate ~28M in annual savings
  - This is expected to improve net profit margins by 3.5% in 2015

ASM / Gallon



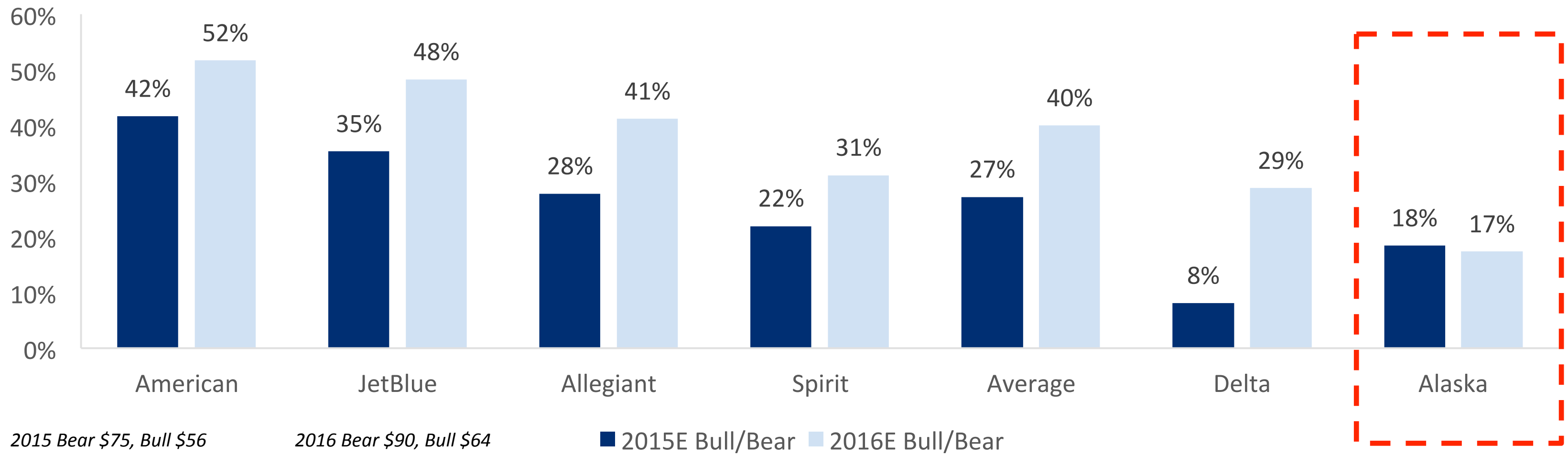
~57M incremental savings at $3/Gallon by 2017

A Prudent Operator in a Risky Industry

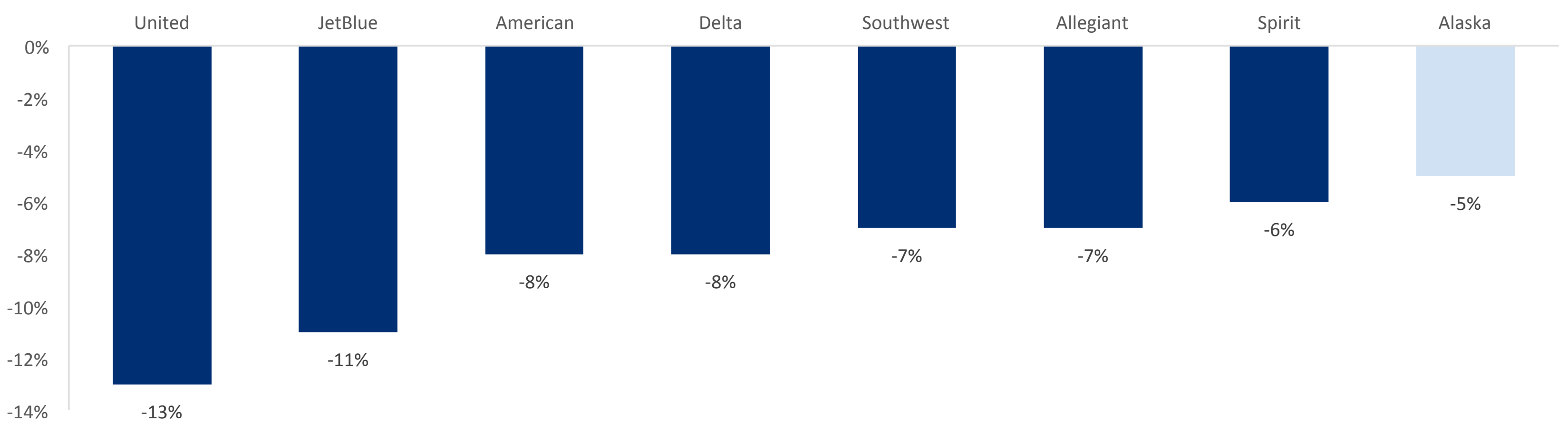
2

ALK is affected the least by oil price fluctuations

EPS Sensitivity on Oil Price Fluctuation



EBIT Margin & Sensitivity to $5 Oil Price Increase

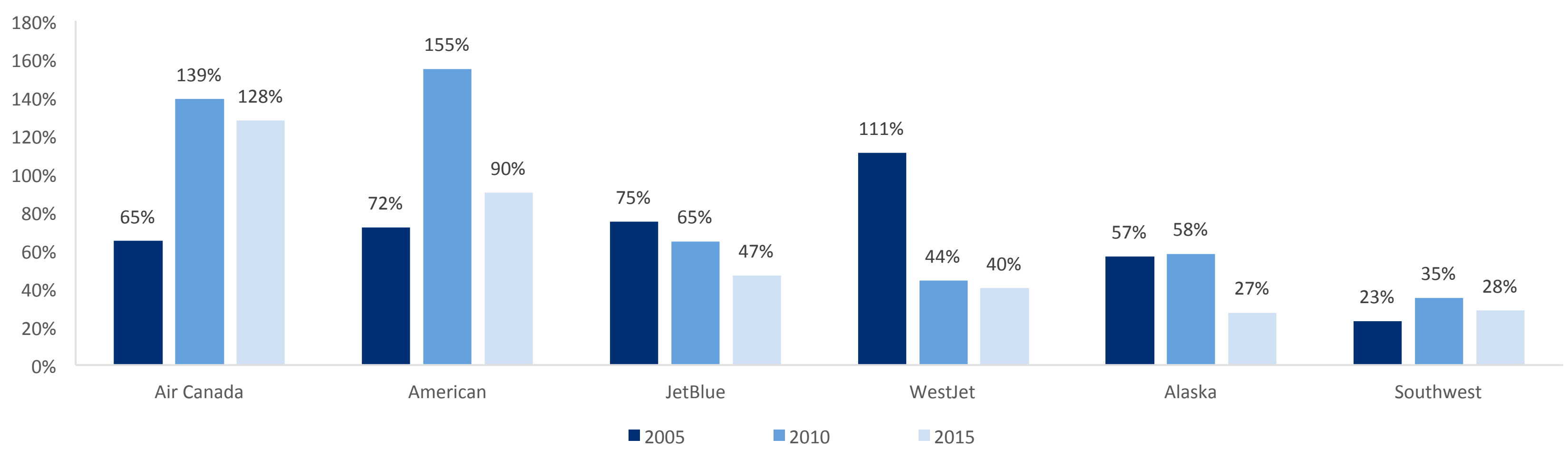


A Prudent Operator in a Risky Industry

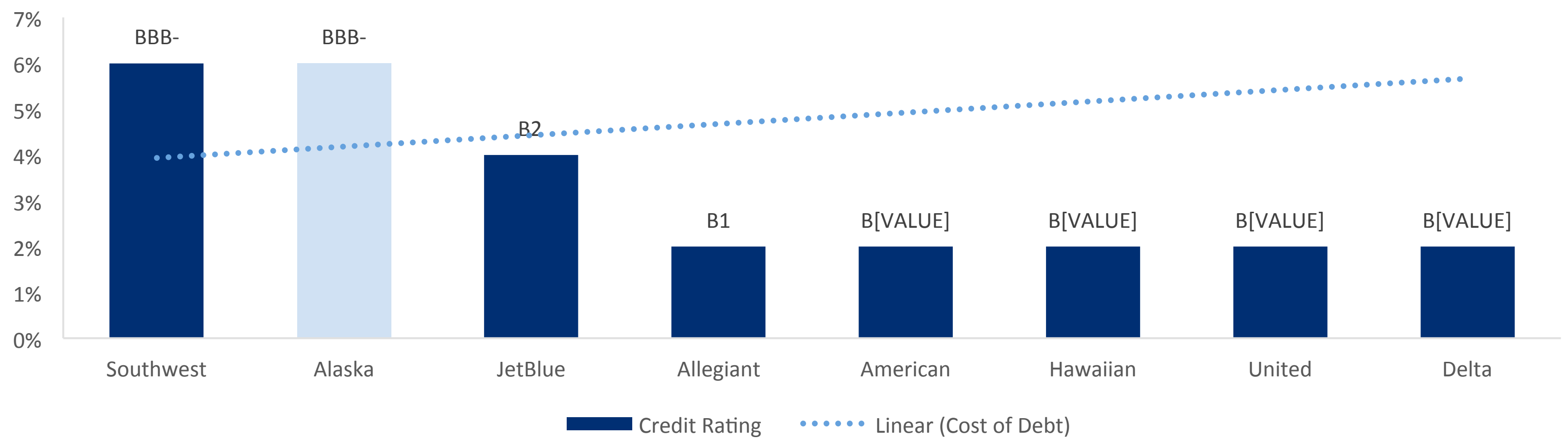
2

ALK is less levered than peers

Debt to Market Cap



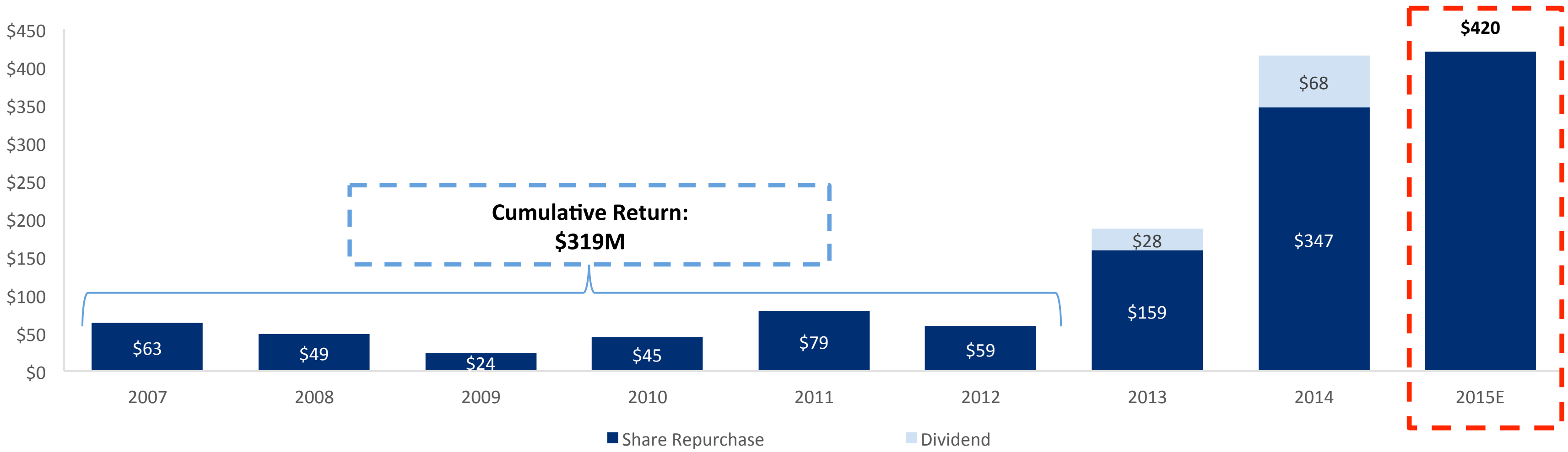
Credit Ratings in North America



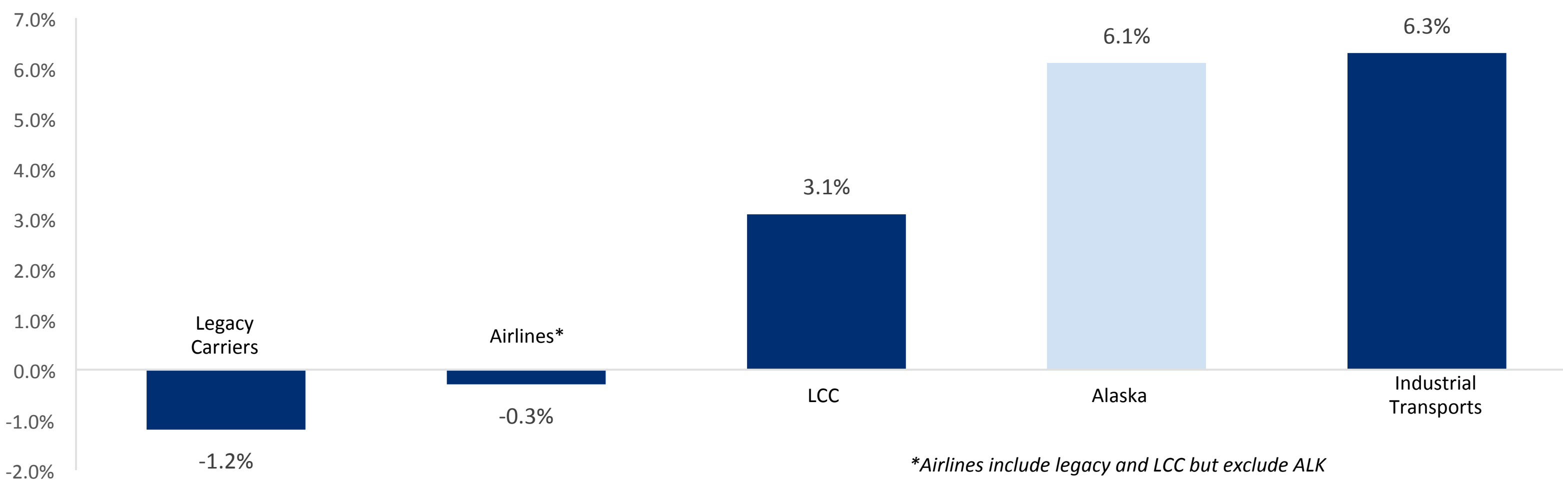
3 Poised for Free Cash Flow Generation & Returning Capital

Expanding Share Repurchase and Dividend Plan Aggressively

Returning Capital to Shareholders



Free Cash Flow as a % Revenue

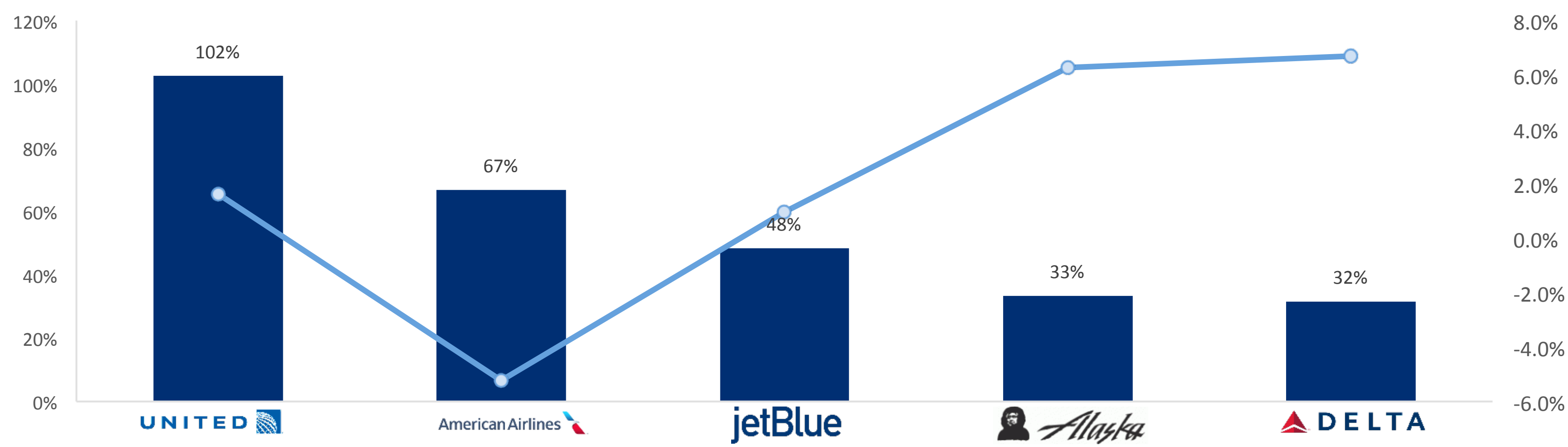


**Airlines include legacy and LCC but exclude ALK*

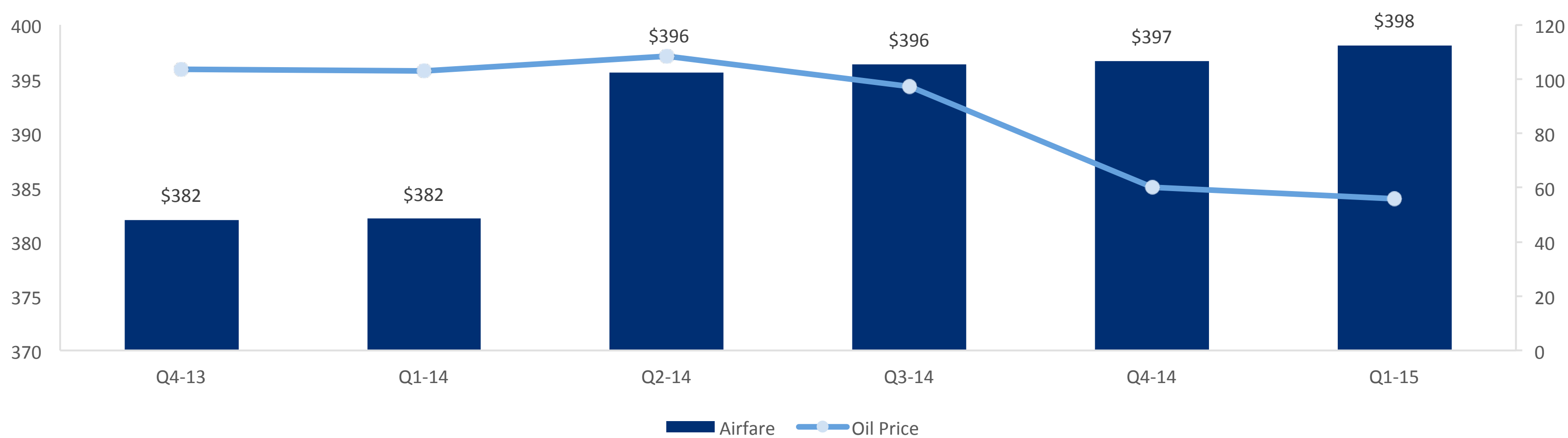
Poised for Free Cash Flow Generation & Returning Capital

ALK leases less than peers which is highly correlated to FCF yield

Aircraft Leases as a Percent of Owned vs. FCF Yield



Ticket Prices vs. Oil Price



Valuation

Edouard Charles Gaudry, Senior Analyst
Jordan Owen, Junior Analyst
Eugene Fedorinov, MBA Analyst

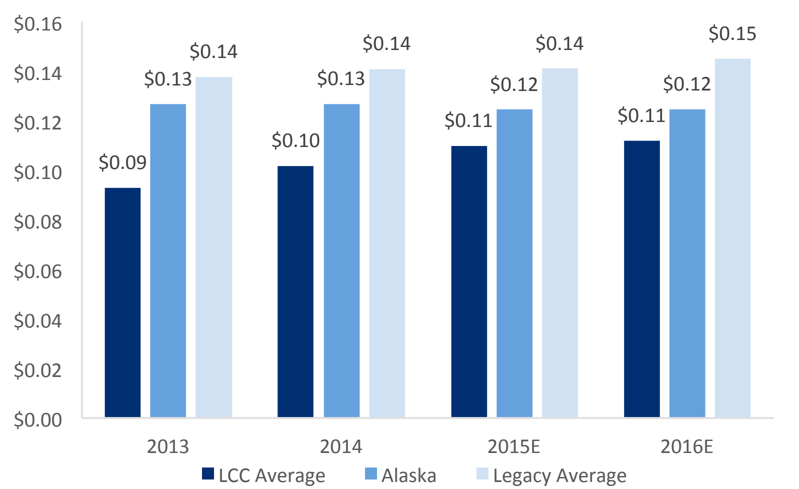
DESAUTELS Capital Management
Gestion de capitaux

4

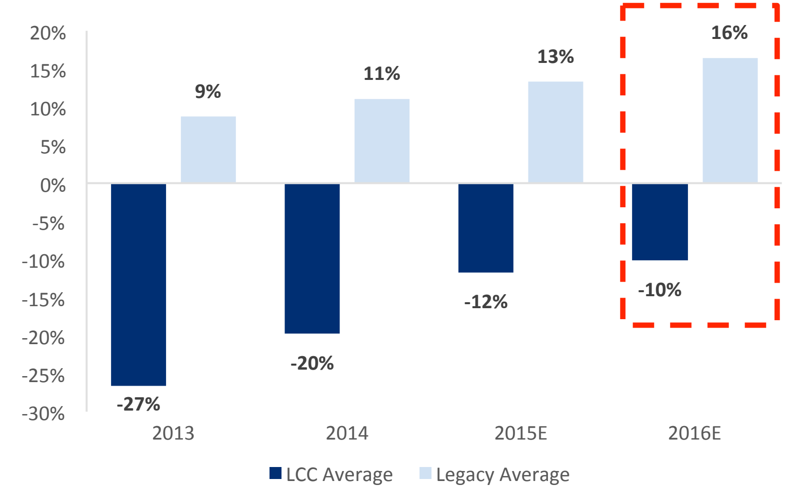
Market Re-Rate as ALK Becomes a LCC

Operating metrics converging towards LCC averages

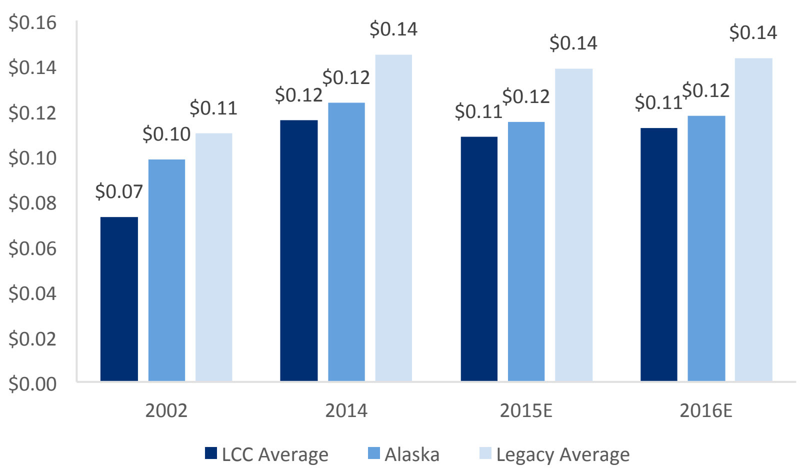
PRASM Evolution of Legacy and LCC's



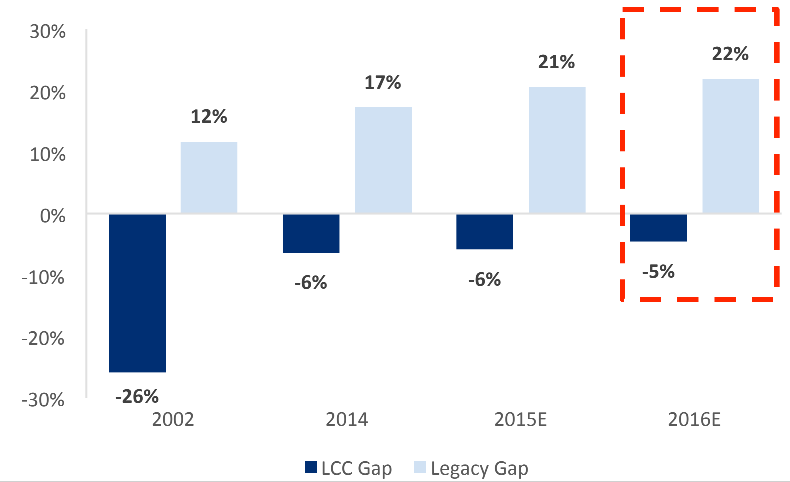
ALK PRASM Gap vs. LCCs & LCs



CASM Evolution of Legacy and LCC's



ALK CASM Gap vs. LCCs & LCs



DESAUTELS Capital Management Gestion de capitaux

Market Re-Rate as ALK Becomes a LCC

4

Upside from multiple re-rate

ALASKA AIRLINES

				P/E		EV/EBITDAR						Load	Fuel /	
Company	Ticker	Mkt Cap	Beta	2015	2016E	2015	2016E	ROA	ROE	ROIC	NPM	Factor	Sales	PRASM
Legacy Carriers		**$Bn**												
United Continental	UAL	26.7	0.76	19.0x	6.4x	NA	4.5x	3.1%	42.1%	18.1%	0.3%	81.7%	30.0%	$0.13
Hawaiian Air	HA	1.1	0.92	13.9x	7.9x	4.3x	3.5x	2.9%	18.0%	13.1%	1.9%	82.2%	29.3%	$0.12
Delta Air	DAL	39.1	0.95	25.6x	8.3x	11.3x	4.6x	1.2%	6.4%	9.7%	-7.4%	82.8%	28.9%	$0.14
American Airlines	AAL	38.8	0.89	10.9x	6.4x	6.1x	5.1x	6.7%	NA	19.2%	5.9%	80.1%	29.5%	$0.14
Average			**0.88**	**17.4x**	**7.2x**	**7.2x**	**4.4x**	**3.5%**	**22.2%**	**15.0%**	**0.2%**	**81.7%**	**29.4%**	**$0.13**
Low Cost Carriers		**$Bn**												
Southwestern Airlines	LUV	31.3	0.94	22.9x	12.4x	30.2x	5.9x	5.7%	16.1%	11.8%	4.1%	82.0%	28.4%	$0.14
JetBlue	JBLU	6.1	1.23	25.4x	10.8x	6.4x	4.9x	5.3%	17.2%	6.0%	6.1%	82.1%	32.9%	$0.12
Spirit Airlines	SAVE	5.8	1.01	26.1x	13.5x	8.4x	6.6x	16.2%	25.4%	22.2%	11.8%	84.8%	31.7%	$0.06
Allegiant Travel	ALGT	3.4	0.71	21.4x	16.3x	11.5x	7.7x	8.0%	25.8%	12.4%	1.7%	85.1%	34.1%	$0.13
Selected Comp Average			**0.97**	**23.9x**	**13.3x**	**8.8x**	**6.3x**	**8.8%**	**21.1%**	**13.1%**	**5.9%**	**83.5%**	**31.8%**	**$0.11**
Alaska Air	**ALK**	**9.0**	**0.92**	**16.5x**	**10.6x**	**5.4x**	**5.1x**	**10.1%**	**29.1%**	**17.0%**	**11.3%**	**83.4%**	**26.8%**	**$0.12**

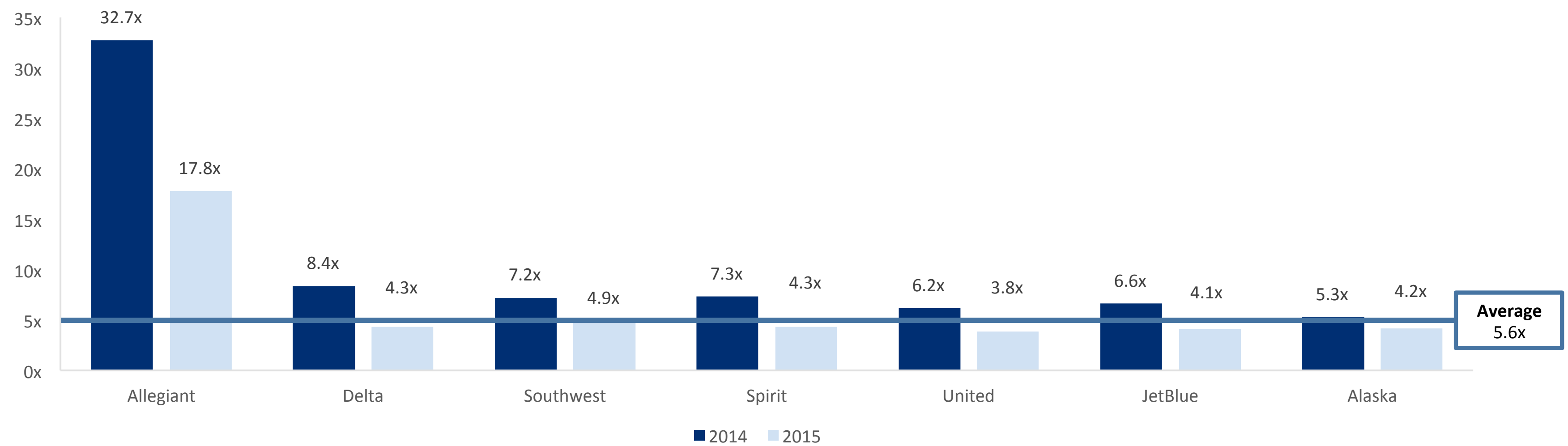
Multiple re-rate would suggest EV / NTM EBITDAR multiple accretion from **5.4x** to **~8.0x** as Alaska Air is considered as a Low Cost Carrier.

Valuation

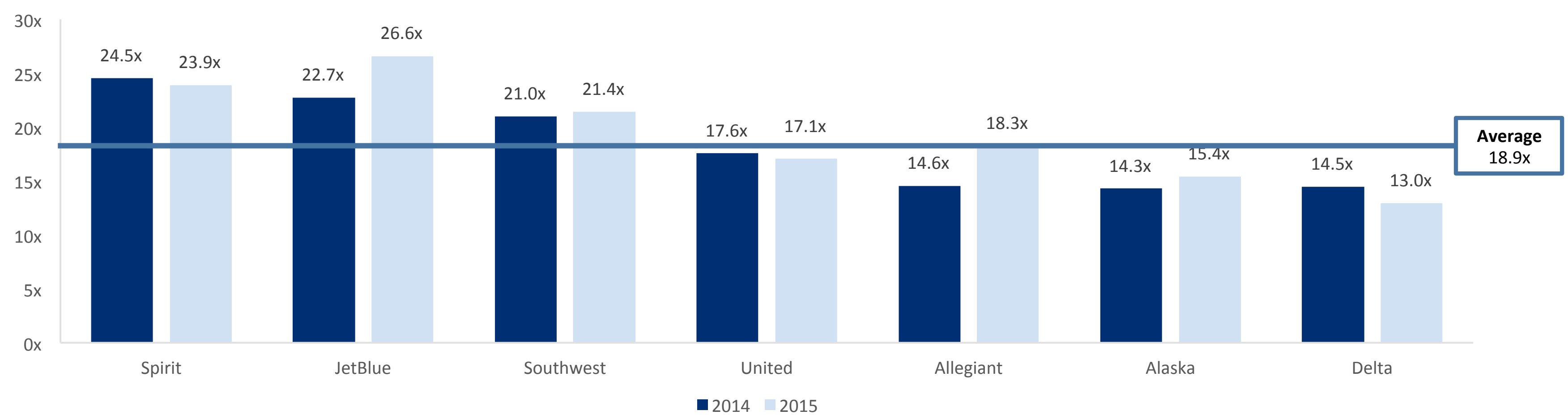
4

Alaska Air is undervalued based on the selected comp group

EV/EBITDAR Comparable Analysis



P/E Comparable Analysis



4

Valuation

DCF Output and Operating Assumptions

Bear

Revenue
Underperforms the market by **2%** in 2015 and rises to **3%** industry growth in 2021

Operating costs
Outperforms the industry by **7.3%** in 2015 and drops to a **2.5%** outperformance in 2021

Terminal EBITDA Multiple
4.0x EBITDA

Price Target: $56.94
Downside: -11.0%

Base

Revenue
Constant **3%** industry growth throughout

Operating costs
Outperforms by **7.9%** in 2015 and falls to **6.7%** outperformance in 2021E

Terminal EBITDA Multiple
6.0x EBITDA

Price Target: $79.42
Upside: 24.1%

Bull

Revenue
Outperforms the market by **5%** in 2015 and drops steadily to **3%** market performance by 2021

Operating costs
Maintains **8.1%** outperformance throughout

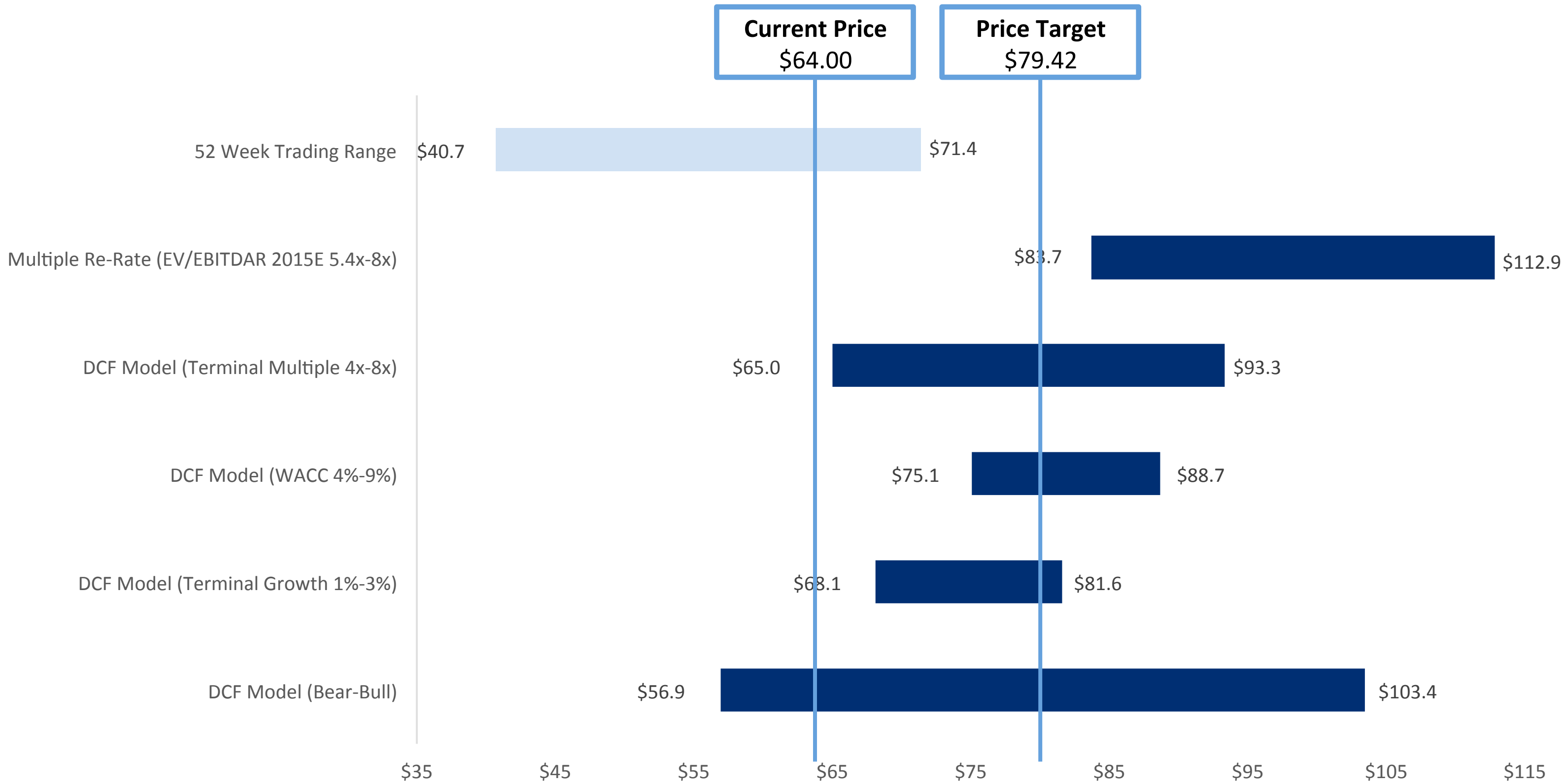
Terminal EBITDA Multiple
8.0x EBITDA

Price Target: $100.38
Upside: 56.8%

Valuation

4

Football field analysis



Price target of **$79.42** represents **24.1% upside based** on the Base Case of our DCF.

4 Valuation

Sensitivity analysis terminal EBITDA multiple

Sensitivity Tables

Current Price: $64.5		WACC						
		4%	5%	6%	7%	8%	9%	10%
Terminal EBITDA Multiple	4.0x	6.4%	2.9%	-0.4%	-3.5%	-6.4%	-9.1%	-11.6%
	4.5x	12.4%	8.5%	4.9%	1.5%	-1.7%	-4.7%	-7.5%
	5.0x	18.4%	14.2%	10.2%	6.5%	3.0%	-0.2%	-3.3%
	5.5x	24.4%	19.8%	15.5%	11.5%	7.7%	4.2%	0.9%
	6.0x	30.4%	25.5%	20.8%	16.5%	12.4%	8.6%	5.0%
	6.5x	36.4%	31.1%	26.1%	21.5%	17.1%	13.0%	9.2%
	7.0x	42.4%	36.7%	31.4%	26.4%	21.8%	17.4%	13.4%
	7.5x	48.4%	42.4%	36.7%	31.4%	26.5%	21.9%	17.5%
	8.0x	54.4%	48.0%	42.0%	36.4%	31.2%	26.3%	21.7%

After analyzing the terminal EBITDA multiple sensitivity tables, we realized ALK is undervalued in most cases

Risks

Typically a cyclical industry

Alaska Air's Destination Map

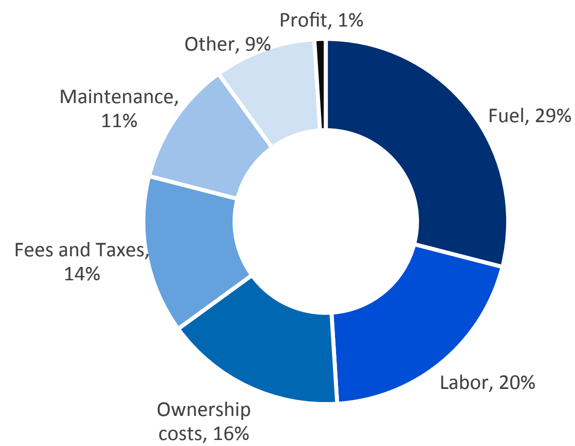
Ebola, Seriously….

- Infectious diseases such as Ebola may cut airline traffic, expressed as global RPM's, as fear reduces demand for air travel
    - As discussed in our industry review, a 3% decrease in global RPM's led to airline stocks plummeting by over 50%
- On the positive side, ALK is affected the least by Ebola because of the ALK has minimal exposure to Africa

Multiple De-Rating

- RASM is expected to weaken in the next year as well as capacity growth expressed as ASM growth
- Capacity growth in North America over the next year is expected to outpace demand growth
    - This may lead to a situation where airlines are forced to cut prices and lower already slim margins
    - Lower demand also leads to lower revenue, expressed as RASM
- This fear has caused airline stocks to trade at lower 2015 multiples, however it seems to be priced in

Airline Cost Breakdown

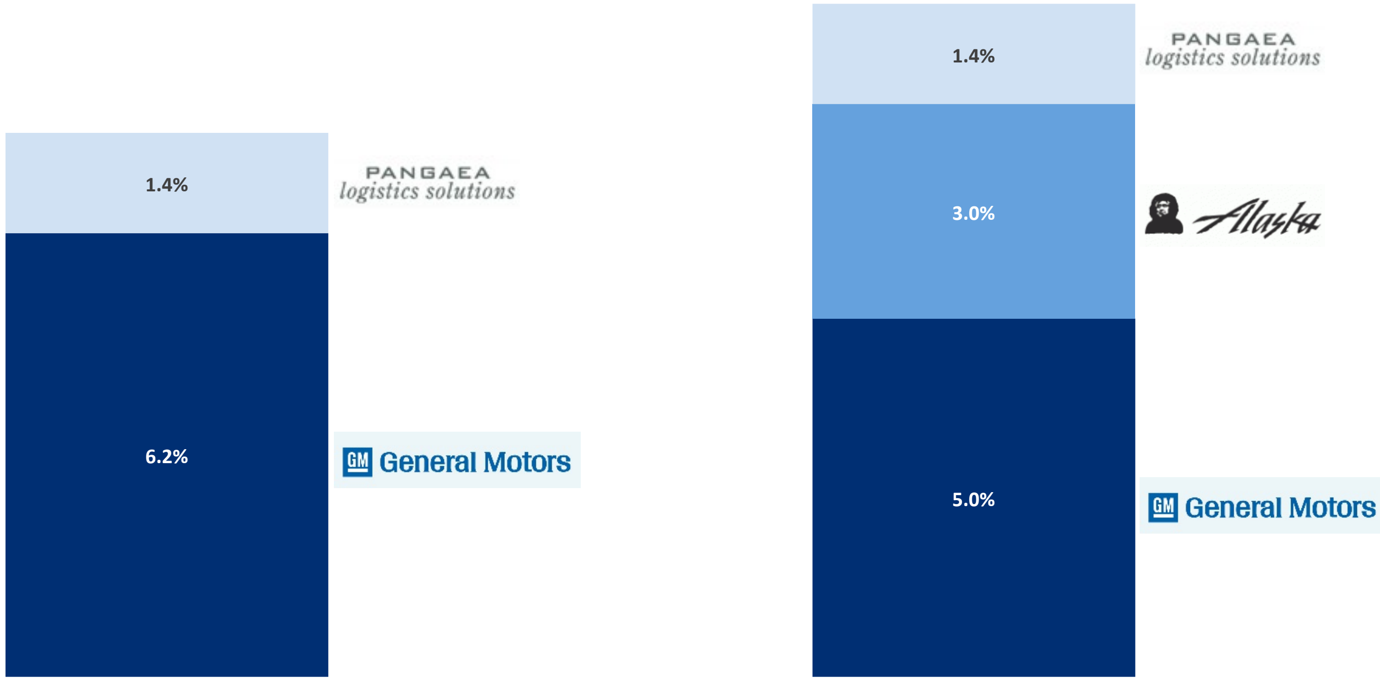


Recommendation

The Industrials Team recommends a **BUY,** and initiating a 3% position at a price of $64.00 / share.

Industrials Sector Allocation

Trim GM to 5% and initiate a 3% buy position in ALK



The Industrials Team suggests DCM enters a 3% buy position

Appendix

Edouard Charles Gaudry, Senior Analyst
Jordan Owen, Junior Analyst
Eugene Fedorinov, MBA Analyst

DESAUTELS Capital Management Gestion de capitaux

Revenue Assumptions

Bear, Base, Bull

Revenues

Bull

Segment Revenue Growth	2012A	2013A	2014A	2015E	2016E	2017E	2018E	2019E	2020E	2021E
ALK	5%	8%	2%	5.0%	5.0%	4.5%	3.5%	2.5%	1.5%	0.0%
Industry Growth	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Total	**7.9%**	**10.8%**	**4.8%**	**8.0%**	**8.0%**	**7.5%**	**6.5%**	**5.5%**	**4.5%**	**3.0%**

Terminal Multiple
8.0x

Base

Segment Revenue Growth	2012A	2013A	2014A	2015E	2016E	2017E	2018E	2019E	2020E	2021E
ALK	5%	8%	2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Industry Growth	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Total	**7.9%**	**10.8%**	**4.8%**	**3.0%**	**3.0%**	**3.0%**	**3.0%**	**3.0%**	**3.0%**	**3.0%**

Terminal Multiple
6.0x

Bear

Segment Revenue Growth	2012A	2013A	2014A	2015E	2016E	2017E	2018E	2019E	2020E	2021E
ALK	5%	8%	2%	-2.0%	-1.5%	-1.5%	-1.0%	-1.0%	-0.5%	0.0%
Industry Growth	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Total	**7.9%**	**10.8%**	**4.8%**	**1.0%**	**1.5%**	**1.5%**	**2.0%**	**2.0%**	**2.5%**	**3.0%**

Terminal Multiple
4.0x

Cost Assumptions

Bear, Base, Bull

Costs										
Bull										
	2012A	**2013E**	**2014E**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**	**2020E**	**2021E**
Expenses as % of Revenue:										
Industry Average	87.0%	84.0%	81.6%	84.2%	83.2%	83.0%	83.5%	83.2%	83.2%	83.3%
ALK Performance	-7.8%	-6.0%	-8.1%	-8.1%	-8.1%	-8.1%	-8.1%	-8.1%	-8.1%	-8.1%
Total	79.2%	77.9%	73.5%	76.1%	75.1%	74.9%	75.4%	75.1%	75.1%	75.2%
Base										
	2012A	**2013E**	**2014E**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**	**2020E**	**2021E**
Expenses as % of Revenue:										
Industry Average	87.0%	84.0%	81.6%	84.2%	83.2%	83.0%	83.5%	83.2%	83.2%	83.3%
ALK Performance	-7.8%	-6.0%	-8.1%	-7.9%	-7.7%	-7.5%	-7.3%	-7.1%	-6.9%	-6.7%
Total	79.2%	77.9%	73.5%	76.3%	75.5%	75.5%	76.2%	76.1%	76.3%	76.6%
Bear										
	2012A	**2013E**	**2014E**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**	**2020E**	**2021E**
Expenses as % of Revenue:										
Industry Average	87.0%	84.0%	81.6%	84.2%	83.2%	83.0%	83.5%	83.2%	83.2%	83.3%
ALK Performance	-7.8%	-6.0%	-8.1%	-7.3%	-6.5%	-5.7%	-4.9%	-4.1%	-3.3%	-2.5%
Total	79.2%	77.9%	73.5%	76.9%	76.7%	77.3%	78.6%	79.1%	79.9%	80.8%

Valuation

Base case Gordon growth method

	2015E	2016E	2017E	2018E	2019E	2020E	2021E	TV
Yr	--	0.50	1.50	2.50	3.50	4.50	5.50	6.50
PV Factor	1.00	1.03	1.10	1.17	1.24	1.32	1.41	1.50
PV of FCF	147.25	168.21	260.20	328.03	318.20	284.84	269.77	5,557.35
% of EV	*2.0%*	*2.3%*	*3.5%*	*4.5%*	*4.3%*	*3.9%*	*3.7%*	*75.8%*
Operating EV	**$7,333.85**							

Bridge To Adjusted EV

Excess Cash & Marketable Securities	1217
Illiquid Investments	4299
Adjusted EV	**$12,849.85**

Bridge to Equity

Total Debt	$803.00
Financial Lease	$1,577.60
Pensions	$133.00
Employee Options	$0.00
Minority Interest	$0.00
Equity Value	**$10,336.25**
Share Outstanding (M)	130.14
Implied Value per Share	$79.42
Current Share Price	$64.50
(As of 03/26/2015)	
Implied Upside	**23.1%**

Valuation

Base case terminal multiple method

	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Yr	--	0.50	1.50	2.50	3.50	4.50	5.50
PV Factor	1.00	1.03	1.10	1.17	1.24	1.32	1.41
PV of FCF	147.25	168.21	260.20	328.03	318.20	284.84	269.77
% of EV	*8.3%*	*9.5%*	*14.6%*	*18.5%*	*17.9%*	*16.0%*	*15.2%*
Operating EV	**$1,776.50**						

Operating EV	**$1,776.50**
Terminal EBITDA	$1,300.14
Terminal Multiple	6.0x
Terminal Discount Factor	1.50
PV Terminal EBITDA	$5,202.34
Terminal EV	**$6,978.85**

Cost of Equity	
Risk Free	2.2%
MRP	6.0%
Beta	0.92
Cost of Equity	8.0%
Terminal Growth	3.0%
Terminal EBITDA Multiple	6.0x

Cost of Debt	**3.50%**
Short Term Debt	117
Long Term Debt	686
Total Debt	803
Total Equity	2127
WACC	**6.4%**

Bridge To Adjusted EV

Excess Cash & Marketable Secu	1217
Illiquid Investments	4299
Adjusted EV	**$12,494.85**

Bridge to Equity

Total Debt	$803.00
Financial Lease	$1,577.60
Pensions	$133.00
Employee Options	$0.00
Minority Interest	$0.00
Equity Value	**$9,981.25**
Share Outstanding (M)	130.14
Implied Value per Share	$76.69
Current Share Price	$64.50
(As of 03/26/2015)	
Implied Upside	**18.9%**

Valuation

Sensitivity analysis Gordon growth

Sensitivity Tables

Current Price: $64.5		WACC					
		4%	5%	6%	7%	8%	9%
Terminal Growth	1.0%	11.1%	7.7%	4.6%	1.6%	-1.2%	-3.8%
	1.5%	15.4%	11.9%	8.5%	5.3%	2.4%	-0.5%
	2.0%	20.5%	16.6%	13.0%	9.7%	6.5%	3.4%
	2.5%	26.4%	22.3%	18.4%	14.8%	11.3%	8.1%
	3.0%	33.6%	29.1%	24.9%	20.9%	17.1%	13.6%
	3.5%	42.4%	37.4%	32.8%	28.4%	24.3%	20.4%
	4.0%	53.3%	47.8%	42.6%	37.7%	33.1%	28.8%

Current Price: $64.5		WACC					
		4.5%	5.0%	5.5%	6.0%	6.5%	7.0%
Scenario	Bear	-7.0%	-8.3%	-9.5%	-10.7%	-11.9%	-13.0%
	Base	31.3%	29.1%	27.0%	24.9%	22.9%	20.9%
	Bull	67.0%	63.9%	60.9%	58.0%	55.2%	52.5%

After analyzing the Gordon growth sensitivity tables, we realized ALK is undervalued in most cases