

Southwest Airlines Co. NYSE:LUV

Company Conference Presentation

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Call Participants

EXECUTIVES

Robert E. Jordan
President, CEO & Vice Chairman of the Board

ANALYSTS

Ravi Shanker
Morgan Stanley, Research Division

ATTENDEES

Unknown Attendee

Presentation

Ravi Shanker

Morgan Stanley, Research Division

Great. So let's pick up the airlines track. Again, I'm very happy to welcome back to Laguna. Southwest Airlines and CEO, Bob Jordan. Bob, thanks so much for being here.

Robert E. Jordan

President, CEO & Vice Chairman of the Board

Thank you for having me.

Question and Answer

Ravi Shanker

Morgan Stanley, Research Division

I hope you have been getting some sleep. It's been a ...

Robert E. Jordan

President, CEO & Vice Chairman of the Board

Do I look like sleepy?

Ravi Shanker

Morgan Stanley, Research Division

No. I'm saying you've just had an insanely busy 12 months since the Laguna of last year, obviously launched so many idiosyncratic initiatives, so much going out of the macro. So maybe a great place to start would just be kind of, how are you spending your time? And how have things gone so far? And kind of how does the airline look where you sit right now?

Robert E. Jordan

President, CEO & Vice Chairman of the Board

Well, what I'm really pleased, a lot of things. But yes we introduced a whole suite of initiatives at Investor Day last year, led by assigned seating, and the introduction of extra leg room, but a number of things. A \$500 million cost takeout plan. And then in March of this year, we introduced another set of bag fees, the introduction of basic economy and a new set of fair products. We introduced changes to maximizing the earn and burn on Rapid Rewards tickets, and changes to flight credit expiration and so many more. And what I'm really happy with, among many things is the execution. So all that stuff, 11 months later, is complete.

So everything that we promised is done. We're waiting on the operation of assigned seating, which starts on January 27. We're selling it now. So I think, number one thing, I'm just really pleased with the organization, the way the company has responded, the way our people have responded, and the -- not just the ability to get all of these initiatives done, but to do it with quality, do it on time. We're seeing really good results. I mean it's early. We're seeing really good results already. If you take this bag fees, for an example, bag fees are actually outperforming. And it will be about \$350 million this year. It will be about \$1 billion run rate top line.

And we just aren't seeing a lot of customer pushback. We're not seeing any evidence of book away those kinds of things. So I think the main thing is this is the biggest transformation in the history of Southwest Airlines. It's all meant to meet the needs of our customers today and in the future. It's all on track. And I'm just really excited about where we're headed.

Ravi Shanker

Morgan Stanley, Research Division

Got it. Can you give us a little bit of a peek behind the scenes? You said biggest transformation in the history of Southwest Airlines. How do you compartmentalize to ensure that the operation remains on track while these bunch of massive changes going on as well? Kind of how do you spend your time? How the executives divide it? Kind of just what's that setup like?

Robert E. Jordan

President, CEO & Vice Chairman of the Board

It's all going well. So execution of the initiatives is going very, very well, and execution of the operation on a daily basis is going very, very well. We have invested a lot of technology, infrastructure, procedures, people in the operation in the last 3 years. And we're just -- really have become a stellar operator.

So you look at -- we use something called the Wall Street Journal rankings because it's the best composite of how are you doing. It basically takes your ranking in a bunch of categories. On-time performance, the percent of cancel flights, the percent of long delays, bag mishandling, and it aggregates all that and -- we were #2 last year, missed it barely and we are sitting at #1 this year. So the operation is running very, very well.

I don't think they're mutually exclusive. So I think a company can be great at running the airline day to day and running the initiatives. I've really seen a change in thinking at Southwest Airlines. A lot of focus on agility, a lot of focus on pace and quality. The -- again, I

think I already mentioned it, but the ability to put in bag fees, and basic, and all the things that we mentioned in March. And from the day we decided to the day they were in was 91 days. And I'm just impressed with the agility and pace of the company.

We did go through our first corporate layoff, which was very tough. It was focused on overhead. About 15% of our corporate employees -- we did not do the traditional thing and go in peanut butter and everybody cut 15%. We basically said, hey, if we were starting this airline over would we fund this department? Would we do this thing?

We have things that are -- we have communications in three different departments. And you step up to do the hard things and you stop doing things that are just not something you would fund today. You put like things together. And we also went in and took out leadership that had low spans.

So 38% of leaders had three or fewer direct reports. Today, that is 2%. And that change has produced an incredible level -- and again, the layoff is really tough. It's a very hard decision because it's people. But that change has produced an incredible level of agility because decisions are going through far fewer layers. There's far fewer meetings. It's far fewer PowerPoints. So I think that -- I think while the layoff was very difficult, it's had a huge impact on the agility and pace of the company.

Ravi Shanker

Morgan Stanley, Research Division

Got it. Let's take a little bit of a step back here. Obviously, Southwest incredible history, incredible brand, incredible loyalty. Customers love you guys. This is a very, very dramatic change for how good everything was, right? And it's one of those, don't fix something that is not broken.

What drove that? Like what structural changes in the industry did you see coming out of the pandemic, that made you think that you need to make these dramatic changes and now is the right time to do it?

Robert E. Jordan

President, CEO & Vice Chairman of the Board

Were you -- I think in hindsight is 2020. So I'll just admit for me, I spend 0% of my time thinking about how we got here. It's in the past. I spend 100% of my time about thinking about how we're going to get to where we need to be. And I think we have been successful for a long time and financially successful. And when you're financially successful, I think it just -- there's just far less pressure to think about change because you're doing just fine.

But we clearly had work to do to meet the evolving needs of our customers. The good thing, and the bad thing, of data telling us that 85% of customers wanting assigned seats, that's awesome, tells you that's an easy change. The bad thing is, well, if it's 85% maybe we should have done that 2 years ago, 5 years ago. And -- so I think we had things that we needed to do to meet the needs of our customers even ahead of the pandemic.

And then coming out of the pandemic, it's just different. You've got a -- you've got this rise in premium, which appears to be -- never say never, but it appears to be more permanent than I would have thought. Obviously, a lot of desire for long-haul international. And what we know is our customers love us. But -- and we're big in so many cities. 18, 20 cities we're very large. And if you're in Nashville, and you love Southwest Airlines, but you want a lounge, you want premium, you want extra leg room, you want to fly to London, whatever the list is, and we can't provide it, you are going to pick another carrier.

So we're going to force you to split your wallet. We're going to force you to carry another carrier's co-brand card, simply because we can't serve you. And that's the gap that we're closing. If we're going to continue to drive relevance, even as the largest domestic carrier, we've got to continue to meet the needs of our customers.

Ravi Shanker

Morgan Stanley, Research Division

Got it. Based on that note, we didn't even touch on some of the upcoming initiatives. You just put in place the initial blocks to start long-haul international. So can you talk about what the plan is there and kind of how that might roll out over time?

Robert E. Jordan

President, CEO & Vice Chairman of the Board

Well, we've continued to add things like Getaways by Southwest. So that came online in the last 45 days. So packages and groups, and it's a wonderful product. If you haven't tried it. We've added now airline partnerships. So we have a new partnership with Icelandair.

We have a partnership with China Airlines, one with EVA and there are -- I can't tell you which ones, but there are many in the pipeline right now. So that's a way to get you to the world served by somebody else.

And -- but at some point, we want to serve those destinations as well. I've been not too coy about the things that we're looking at. What is it customers would want? Well, lounges are certainly on the list. Not just because customers want it, but the lounge access as a card benefit is what allows you to have -- to offer a \$495, \$595 a year card because it provides lounge access. So it's a huge potential additive to the Rapid Rewards program.

But we are looking at things like premium, lounges, long-haul international served by Southwest Airlines. We're at the very beginning of that. And -- but the main point there is we have done an awful lot in the last 11 months. And you're going to see that contribution in EBIT really come online in 2026.

But we're not stopping here. We're already hard at work on the next strategy. And of course, long haul it brings the need to build a lot of capabilities. It brings the need for a different kind of aircraft because the 737 cannot serve those markets. And we'll have to look at things like, obviously, a wide-body could serve those markets, but that's a lot of seats. It's a lot of cost. So don't be surprised if we go a more risk-tolerant route at first, and choose a narrow-body as an example, to serve those routes. But we're at the very beginning of that. No one -- I feel like every time we talk about this, I end with no announcement today. So...

Ravi Shanker

Morgan Stanley, Research Division

Fair enough. A lot of bread crumbs, no loaf just yet. But -- so just to kind of put this in context, right? So Alaska has started to fly kind of the international long-haul. JetBlue started a couple of years ago. Now they are starting their own lounges. So it does appear that there is this cohort of not ultra low cost, but the regional low-cost carriers who are trying to maybe reinvent themselves a little bit and become more like the legacy mainline carriers in terms of the offerings and the customers they're going after, right? Is that a fair characterization? And so I don't know, 10 years from now, 15, 20 -- don't give me a time line. But at some point in the future, does Southwest look more like one of the more mainline carriers?

Robert E. Jordan

President, CEO & Vice Chairman of the Board

I think I would separate what do we offer and who are we. We're going to stay true to what Southwest Airlines has always been and has always been good. We have so many core strengths and those are not going to change regardless of the customer experience that we -- or the product that we may offer.

I mean we have the best network. We offer the most non-stops. We have the very best domestic network. We have terrific operational reliability, like I was talking about earlier. We have the most rewarding loyalty program. I mean we have -- I mean, I think the biggest differentiator, we have the best service, offered by the best people on the planet. And not just in aviation, but by the best people on the planet, and we offer terrific fares, and we offer terrific fare sales.

If you don't know, we have a 50% off sale going right now. So book your ticket. But the core strengths of Southwest Airlines are not going to change. And what we stand for is not going to change, while the products and the offerings may change. Now there's this discussion out there that those that offer premium are separating themselves, which I kind of find funny. Nobody is going to separate themselves from Southwest Airlines, period.

Ravi Shanker

Morgan Stanley, Research Division

Understood. Kind of just talking about the success of the initiatives so far, you noted in the 2Q call that the bag fee implementation is running higher than expected. I think you said \$350 million EBIT contribution by '25. \$1 billion run rate. What are the learnings from this that you can apply to future initiatives?

Robert E. Jordan

President, CEO & Vice Chairman of the Board

I think the big learning is that even at our -- even at 54 years old Southwest Airlines, we had some things to learn around agility and pace and execution. We -- I've been here 37 years, and we're moving at a pace even at our size and scale, that I have never seen at this company. And you don't need the 99.9% answer a lot of times. You need the 80% answer because you know where you're headed. But I think the biggest learning is that we can do hard things, we can do them quickly. We can do them with quality, and we can move at a much faster pace than we have moved historically.

Ravi Shanker

Morgan Stanley, Research Division

Got it. Understood. So maybe for now let's shift gears and talk about the macro and what you're seeing out there. Obviously, I think you said on the 2Q call that demand has stabilized at a lower level, but with recent signs of improvement, and you did guide to a pretty robust recovery in the back half. So how are things trending relative to the expectation?

Robert E. Jordan

President, CEO & Vice Chairman of the Board

The beginning of the year, obviously, was tough on everyone. We -- I think every carrier has reported at least for domestic, that they saw a roughly 5 to 6-point decline from what they expected at the beginning of the year. You saw a dip down in February, another dip down in April, and maybe another dip down early June. And I think it's just the backdrop of uncertainty caused that. The consumer can tighten their belt pretty quickly.

We saw an inflection begin in late July. So that began to turn and that's continued. I would say that's stable. We are certainly not all the way back, but we've seen that inflection in demand, and we've seen stability, which is terrific. We've also seen that in business sectors. So health care, technology, professional services. We've seen a better trajectory in July than June, August than July. So we're seeing a pickup there.

If you look at the fourth quarter, while it does imply a pretty stout sequential increase in RASM. If you break it down, I think it makes a lot more sense. So two points are just due to the kind of the implementation things that we had to do around basic, cost us about 1 point in the third. CrowdStrike a year ago, about 1 point. So 2 points of the 6 are really those. 2 points are the initiatives. A lot of that is bag fees, which are in place and they're at the -- actually better than the run rate that we expected.

And then this change to the earn and burn on our Rapid Reward seats that we book. And then about 2 points a predicted improvement in the macro. So that's really to me where your risk is. We've seen that macro inflection, and we need to see that continue to reflect into the fourth quarter. But sitting here today, I mean, we're not -- there's no 8-K out today because everything is on track. That's the report today. Third quarter on track, fourth quarter on track. The full year EBIT guide on track. So while we do need to see this 2-point inflection in the macro, sitting here today, we're on track.

Ravi Shanker

Morgan Stanley, Research Division

Got it. So you're saying that the 4Q implied guide does not necessarily need some kind of big hockey stick improvement in the macro to get there?

Robert E. Jordan

President, CEO & Vice Chairman of the Board

Yes. What's implied is there's roughly 2 points, and we are seeing an inflection.

Ravi Shanker

Morgan Stanley, Research Division

Got it.

Robert E. Jordan

President, CEO & Vice Chairman of the Board

And I think the other thing, too. If you think about -- the macro isn't just the economy. The macro is the backdrop. So the macro is the economy, but it's also what's going on in the sector. So you're seeing constructive changes to capacity.

If you look at Spirit as an example, and who knows what's going to ultimately happen with Spirit, but they are radically cutting capacity. So -- and my apologies if I already mentioned this. But our overlap with Spirit in the second quarter was about 31%. Our overlap with Spirit in the fourth quarter will be about 21%. So a 1/3 drop in overlap. So that's macro in my mind. So it's not just the economy, it's the sector and other things that are going on.

And at the same time, we've really boosted our external channels that you can buy Southwest with Expedia and Priceline and Google Flight Search and Skyscanner. And right here, sitting here today, Expedia is about 5 points of the business on its own, and about half

of that 5 points are customers that we don't think we would have seen, but for Expedia. So I park that into the backdrop as well. So it isn't just an expected inflection in the economy. It's all of these things that come together the 2 points.

Ravi Shanker

Morgan Stanley, Research Division

Got it. Just a follow-up there, a good segment, next question. There's a lot of focus on the internal initiatives going on right now. But coming out of the pandemic, you guys had your own very radical initiatives, which were the GDS and the corporate launch, right?

So with several years of now some level of normal growth, how has that turned out relative to your initial expectations? Kind of how has that corporate rollout been? I think -- kind of what innings are you in there?

Robert E. Jordan

President, CEO & Vice Chairman of the Board

Yes. I think overall, we are -- I would just say we're on track. I'm pleased with the results that we've seen, the tools that we are providing to our corporate partners, we still have work to do. But no, I think that initiative is fully on track, and I'm pleased. There are things that we need to do in maybe the technology area and service area for corporate partners, but we've seen share shift, which I'm pleased with.

Ravi Shanker

Morgan Stanley, Research Division

Got it. Before you delta, I'd also said that they're seeing an improvement in corporate demand going into the fall. You said the same thing just now.

Can you just elaborate on a little bit kind of which segment is that coming from? And does it feel like it's sustainable into the year end?

Robert E. Jordan

President, CEO & Vice Chairman of the Board

It feels like it is broad-based, but then also specific to certain sectors. So again, we're seeing a steady improvement month-to-month in areas like health care, technology, professional services. It's all the areas that tend to perform first and a little bit of geography in there. The Southeast, the Midwest. Cities like Nashville where we're seeing performance. But we are seeing a good inflection back in corporate right now. No reason to believe that, that won't be sustained.

Ravi Shanker

Morgan Stanley, Research Division

Understood. So maybe switching gears a little bit, but still talking about radical change for Southwest.

Robert E. Jordan

President, CEO & Vice Chairman of the Board

That seems to be the full theme.

Ravi Shanker

Morgan Stanley, Research Division

It's absolutely the theme, right? It's going to be the title of our note. Your capacity growth, right? So you've obviously historically grown very, very quickly. You were one of the first, a couple of years ago, to come out and say, hey, that's not the model going forward. And you have committed to just 1% capacity growth for 2025.

How do you see that evolving over the next maybe 2, 3 years? Is that just a function of aircraft availability and kind of stabilization of the industry? Or is this a new normal for Southwest?

Robert E. Jordan

President, CEO & Vice Chairman of the Board

I think it's both. So we're committed to growing modestly, call it, 1% to 2%, until we have the returns back to where we want, our shareholders want, and our investors want and need them to be. So we'll stay roughly in that range. At the same time, we are constrained because of the limited number of Boeing delays -- deliveries as compared to what is in our plan.

Now Boeing is better. Boeing has continued to get better, where we've continued to boost our delivery expectations for this year. But we are absolutely constrained because of that. But that aside, I think we still need to grow modestly until we can demonstrate the appropriate returns.

You're going to see a couple of tenths of capacity here in the fourth quarter from something that we've done. The retrofitting of the aircraft for extra legroom. I am really impressed with our operation. They have already moved through more than half the fleet in terms of getting ready for January 27. And they're doing those on overnight. It's going extremely well.

Because of that, we've been able to push out the retrofit of many of the 700s, now -- because you're going to lose a row. That's the only aircraft where you're going to lose seats. You're going to lose 6 seats. So we can get more of those done later because we have confidence in the operation and the conversions. So delaying those allows us to hold on to those basically free 6 seats to sell as we get into the peak holiday periods.

So it's just -- it's a small revenue play and really cost the company nothing. We'll still be ready for the assigned seating rollout. But it's just on the margin, it's a play for revenue, and I'm really pleased that we can do it. But it will add a couple of tenths to the capacity in the fourth quarter. But again, these are free seats.

Ravi Shanker

Morgan Stanley, Research Division

Got it. Speaking of tiny bumps to revenue, I wanted to go back to your comment earlier about the partnerships you signed with China Airlines and EVA Air and Icelandair.

Remind us again kind of how those are going to work specifically for Southwest? And kind of are we likely to see any kind of revenue benefit for that in the next couple of quarters?

Robert E. Jordan

President, CEO & Vice Chairman of the Board

It's -- I think in the grand scheme of things right now, it's modest. It's a modest number of customers. It's as much about for the partner being able to connect their customers from a gateway to our vast network here in the United States. And for us, it's about the ability to tell our -- especially our Rapid Rewards customers, hey, you have the credit card, you have points. Look where we can get you.

Now it's going to come on in steps. Today, it's basically interline. And we're -- I don't have an exact time frame yet, but the next iteration would be the ability to burn your Rapid Rewards points for those itineraries. The ability to go Dallas, Love Field, L.A. to Taipei as an example. But we have three partners today. I'm really pleased, and we are on the verge of announcing more partners. And we're also expanding the network.

You've seen us add a -- over the summer, we added more international destinations ourselves. We added St. Thomas, we added St. Martin. It's not international, but we added Knoxville. And -- and we just announced Santa Rosa in the wine country. So we're continuing to expand our offerings as well. And I think those are exciting destinations for our Rapid Rewards customers, in particular, that aspire to go in places like St. Martin, St. Thomas.

Ravi Shanker

Morgan Stanley, Research Division

Got it. Just on the topic of unthinkable things that may no longer be unthinkable, would you consider joining an alliance?

Robert E. Jordan

President, CEO & Vice Chairman of the Board

An alliance?

Ravi Shanker

Morgan Stanley, Research Division

Yes.

Robert E. Jordan

President, CEO & Vice Chairman of the Board

I wasn't sure where you were going when you said unthinkable. That was worried me for a second. But the -- I think that is a more difficult question given the composition of the Alliances, the dominant carriers in the Alliance. My guess is, in many cases, they would prefer to keep Southwest Airlines out of that Alliance for a lot of reasons. So I think that's just a -- much more complex.

Ravi Shanker

Morgan Stanley, Research Division

But do you feel like you're going to achieve a lot of the benefits by reaching agreements with...

Robert E. Jordan

President, CEO & Vice Chairman of the Board

I don't -- there are a lot of carriers that are unaffiliated. I think we can reach our -- we don't need an Alliance to reach our goals.

Ravi Shanker

Morgan Stanley, Research Division

Understood. Any questions from the audience?

Unknown Attendee

Lot of changes. Southwest has always been in a net cash position. Recently, you switched to a net debt position to buy back shares. That's quite a change. A lot of risk you're taking?

Ravi Shanker

Morgan Stanley, Research Division

Keeping with the theme.

Robert E. Jordan

President, CEO & Vice Chairman of the Board

We have -- we've not always been net cash. We're certainly net cash coming out of the pandemic because of the amount of cash that we raised during the pandemic. And I would say a lot of the -- the share buyback that we just completed in July really was taking out the dilution during the pandemic where we issued shares. I would think about those two as an offset.

We're close to net cash today. We've set strong guardrails. We've always had a strong balance sheet and philosophy, and we always will. We've set strong guardrails around debt-to-EBITDAR between 1 and 2.5. We've got a strong cash target and position at \$4.5 billion, including the revolver. So we're going to stay very conservative. We're going to stay within the guardrails.

As you think about uses, if you think about things like share buyback, or investing in the business. I mean, our goal is to invest in the business as those opportunities present themselves. Certainly to manage debt, take out debt, to maintain a strong balance sheet, to stay within the guardrails. And then third, return cash to our shareholders in the form of dividends and share buybacks. So yes, our philosophy has always been a very strong balance sheet and a very conservative position, and you're not going to see us vary from that.

Ravi Shanker

Morgan Stanley, Research Division

Now there's been a lot of changes in the last 11 months that you guys already implemented. But maybe more forward-looking thinking. How do you seize a lot of the initiatives on Gen AI and a lot of the changes in AI impacting the business, both from the operational side, but also maybe on the consumer discovery side? More agentic commerce, how that stuff -- how you see that developing?

Robert E. Jordan

President, CEO & Vice Chairman of the Board

There's a lot of opportunities on AI. If you just think about what are we doing today? It is all at the very beginning and forefront. So we're using AI as an example. So obviously, we began charging bag fees and some number of bags have now moved to the gate, and then in the cabin. And we're using AI. We've got a tool that the operations agent and customer service agent before the flight ever begins to board, they have a predictive tool that tells them the number of bags that they think will need to be checked before they get into the cabin. They keep the problem out of the cabin. And that's an AI tool. It learns. It understands loads and history.

And just an example of being able to use data to manage a problem and keep it away from the customer. We are using AI right now, also a tool that understands who is on -- you take an airport like Chicago that often has a congested ramp. Small footprint, lots of aircraft. And we're using an AI predictive tool that knows who is on every aircraft, customers and crews. It knows who is connecting. How tight those connections are. It knows that there's a crew member that's on a flight that needs to get off and connect to another flight that can't leave until they get over there. And it takes all of that data and it chooses the gating order of the aircraft, and it chooses to gate aircraft close to each other that will minimize connect times.

Obviously, generative AI can be used on the customer service front. We're using it there to take in customer information, understand what they're asking us, serve up a suggested response, even serve up a suggested letter as an example, or a response, and then what to do to handle the customer. And then an agent looks at all that and agrees, or disagrees. So there's a ton of opportunity.

And -- now AI is not going to replace our awesome folks that are serving our customers in the airports, and serving our customers on the aircraft. But I think we're at the forefront of the opportunity here. And I gave you just a couple of examples, but we're using it all across the airline.

Ravi Shanker

Morgan Stanley, Research Division

Any more questions?

Unknown Attendee

Could you just talk about what you're seeing in the Southwest consumer? Delta was here earlier talking about the high-end consumer. We've seen that in our own surveys, too. But just curious like what you're seeing in your consumer segment?

Robert E. Jordan

President, CEO & Vice Chairman of the Board

Are you thinking about just buying patterns and -- Yes. Obviously, maybe I'll separate that in two pieces. There is obviously demand for a wider variety of products. Things like extra legroom, maybe even more premium. And again, it's a minimal amount of data for what we have sold after January 27 when extra legroom and assigned seating goes into place. But the data that we have in place would tell you, yes, there is strong demand to buy up and buy into those. Kind of our version of premium today.

If you just look across the broad consumer, I don't see necessarily weak segments. There seems to be demand across the spectrum from -- sort of across all FICO scores as an example. So I don't -- I'm not detecting anything that says there's a worry at this consumer level or this consumer level.

We need the economy to inflect back those couple of points. We had a down draft of about 5 points at the beginning of this year. And I'd love to get those 5 points back broadly in the economy. But I don't see anything within any particular consumer that worries me.

Ravi Shanker

Morgan Stanley, Research Division

Just kind of finishing up on the topic of radical change. Another big change for you guys that you don't hedge any more, hedge jet fuel. But with fuel where it is right now, any temptation to maybe go back there? And maybe talk about the decision to do that and kind of how you see that going forward?

Robert E. Jordan

President, CEO & Vice Chairman of the Board

You bet. And the decision was really just based on data. So we went back and maybe it started with just the cost of hedging. So the volatility in the market across the last, call it, 5 years, has made hedging much more expensive. So our hedging cost was approaching \$150 million a year. Where historically, it was just nowhere near that. So just the cost to run the program, it was very expensive.

So then the need for the gain in the hedge program was higher, just to overcome the cost. And so if you look back across the last 10 to 15 years, we've had a couple of good years. Outside of those every year, basically, you're just spending the premium. And so it's just a bet. But the analytics told us that the spend, because of the cost and the -- and that risk level, it just got out of balance, and it just didn't make sense to hedge. So we unwound the hedges and unwound the program.

And you look at the initiatives that are going to come online, and the \$4.3 billion in EBIT that we're going to put on the company here next year from these initiatives, the company doing well, having the right margins is really the layer of protection against volatile fuel

prices. And we brought up the share buybacks. But if you can't tell -- I mean we completed our \$2.5 billion authorization from last fall. We completed that in the third quarter by finishing the last \$1.5 billion. We -- the Board has authorized a new plan, \$2 billion over 2 years. And it's all because we -- I, the leadership team, the board, we believe in this plan. We believe in the financial success that this plan will drive. We believe in the fact that the customers want the things that we are now selling to them.

So we're confident in the plan, and therefore, we're confident in the fact that Southwest Airlines is undervalued right now. Our stock is undervalued compared to what we see in terms of future earnings generated by this transformational plan. So nothing to report, but we're buyers at this level. That's why we completed the \$2.5 billion in the last quarter.

Ravi Shanker

Morgan Stanley, Research Division

Understood. It's a great place to wrap all. Thanks so much for being here.

Robert E. Jordan

President, CEO & Vice Chairman of the Board

Thank you. Appreciate it.

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