

**Southwest Airlines Co. NYSE:LUV**

# **Analyst/Investor Day**

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# Table of Contents

Call Participants	.....	3
Presentation	.....	4
Question and Answer	.....	16

# Call Participants

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# Presentation

## **Ryan Martinez**

*Vice President of Investor Relations*

All right. Well, it's right at noon, so we'll go ahead and get started. Thank you all for joining us today. I'm Ryan Martinez, Vice President of Investor Relations at Southwest. And not only thank you to who attended here in person today, but also to our webcast listeners, thank you for joining as well.

Thank you to our friends here at the New York Stock Exchange for letting us host here again, another beautiful room, just a great time to be in New York. And also, a big thank you to the Southwest Investor Relations team. In addition to myself, [ Lauren, Micah and Natalie ] just did a great job, and thank you to all of our helpers for helping with today.

You probably saw, we filed our presentation slides this morning, attached to an 8-K. We also put out a press release reinstating and announcing a quarterly dividend, and we'll walk you through our slides and give you more color on what you saw this morning.

So we will hear prepared remarks from Bob Jordan, our CEO; Tammy Romo, our CFO; Ryan Green, Chief Commercial Officer; and Andrew Watterson, Chief Operating Officer. And then following that, we'll take a short break, and then we'll get into Q&A. And we'll run Q&A as long as we can, probably until about 2:45, and then we've got some media obligations downstairs.

We also have several other Southwest officers you may have met in the back of the room and sprinkled throughout, so feel free to introduce yourselves and thank you all for being here as well.

And I'll just quickly mention that in our remarks today, we'll have forward-looking statements. Those are based on our intentions. They're not guarantees of future performance, and a variety of factors could cause actual results to differ materially. And we'll also make reference to non-GAAP results. So please see the presentation and the Investor Relations website for more information.

And with that, we'll kick it off, and I'm pleased to introduce our CEO, Bob Jordan.

## **Robert E. Jordan**

*CEO & Director*

Hey, everybody. Hey, everybody. Sorry, we're just going to wake everybody up here. Hey, it's good to be with you all today. I really appreciate you being here. I know you're busy. It feels like we were just here talking about 2022, and it's been a heck of a year.

We started the year with the Omicron wave in January -- then February, then we had a surge in demand in March that has kept pace since, and business demand has improved meaningfully as well, which is very welcome. And our operational performance has really improved since May, and that just makes everything so much more stable. And all those things in part to our hiring efforts because we're just so much better staffed.

We had record quarterly profits and revenues in the second quarter. We had a solid profit, record revenues in the third quarter, and our outlook here for the fourth quarter is very healthy, which is just terrific.

We paid down a significant amount of debt. And this morning, our Board announced their approval to reinstate our quarterly dividend of \$0.18 per share or \$0.72 annually, reflecting confidence in our strategy and in our plans. And that is actually a reinstatement of our full pre-pandemic dividend level.

We've got a lot of momentum here in Q4 and headed into '23, and I'm just really grateful for the dedication of the people of Southwest to get us here. And in the next few slides, I'll provide an update on the progress we've made in our focus areas, which I laid out last year at Investor Day.

So moving on. Southwest has a history of unmatched financial performance, and our proven business model remains intact. We have an unrivaled domestic network, market share, breadth and expanded our route network during the pandemic by opening 18 new cities and expanding our Hawaii service. That was more than any other carrier.

We maintain an investment-grade balance sheet and advantaged cost position. And while 2022 was another year of recovery, '23 is shaping up to be a very strong year with the opportunity to return to pre-pandemic profit levels. And that's based on our current plan, which, of course, bars any unforeseen events. But I mean, absolutely what a year -- what a difference a year makes in terms of our results and our outlook.

Next slide, I'll just talk about our purpose. Our purpose is simple, and it represents the why behind what we do, which is to connect people to what's important in their lives through friendly, reliable low-cost air travel. Our vision is aspirational, is to be the world's most loved, most efficient and most profitable airline. And our 5 strategic priorities are the how behind that, that drive us. Those aren't new, and I shared them last year, but they are the key priorities that will guide us through 2026.

We remain focused on: one, reinvigorating our winning culture; two, winning more customers and growing revenues; three, modernizing the operation, which Andrew is going to talk a lot about; four, maintaining or improving our low-cost advantage; and then elevating our ESG efforts by being a good citizen.

2022 has been about focusing on 5 basics in order to stabilize the airline. In fact, we named the year, the theme was back to the basics, and we are tracking really well against all 5 objectives. First, we're on track to hit our goal of increasing staffing by more than 10,000, 10,000 employees this year, with the exception of pilots. We are pretty well staffed all across the board at this point, I would say, surpassing 2019 staffing levels in May of this year.

And I just want to really make the point that we are doing very, very well in our pilot staffing. The constraint there is not our ability to hire pilots. We are getting excellent pilots. The constraint is our training capacity. Our classrooms are full, our simulators are full. So the constraint is training, it is not hiring. We are getting plenty of very well-qualified pilots.

Second, we continue to focus on our people and our culture, engaging with them, visiting with them across the country, hosting rallies, spirit parties, and we even brought back our famous Southwest Halloween this year. I had the chance to be Mario -- one of the Mario Brothers from Nintendo, which is interesting. I think Gary was Luigi. I'm not sure what that means, but the 2 of us had a really good time.

Our people and the service that they provide is our secret weapon and the key differentiator and ensuring that they are engaged is critically important, especially as we add thousands of new employees to the Southwest family.

And then third, we made significant operational performance improvement since May, making great progress towards our historic operational reliability and efficiency. We maintained our commitment, and I think this is very important. We maintained our commitment to not republish our flight schedule since the summer, and that has paid off in operational reliability. As one example, our Thanksgiving holiday period was one of the best operational performances in our history with on-time performance over 86% and a completion factor of 99.7%, which means we only canceled about 70 flights out of 26,000 that were operated in that week, which is just incredible.

Fourth, we returned to our #1 customer service position among marketing carriers and remain in the lead this year per the most recent DOT reporting.

And fifth, we wanted to return to consistent profitability. While the impact of the Omicron variant disrupted those goals in January and February, we returned to profitability in March and have been profitable ever since then. I'm just immensely proud of the progress. That's just so -- that is just so much progress in a year, and it is all because of the people of Southwest Airlines, and I'm just so proud of them.

So turning to '23. We're ready to move past the basics, so to speak. We're planning a strong outlook next year. '22 was all about stabilizing the airline, and our goal for '23 is to thrive once again. To start, we'll focus on our living our Southwest Way values. Our values revolve around how each of it shows us to work, how we treat each other every single day and how the company succeeds. And with all of our new people, the 10,000 folks that I talked about, we want to renew our focus there to ensure that they understand what it means to be part of Southwest Airlines and our mission. We win as a company when we support each other, serve each other and work together as a team.

Secondly, we intend to build on our legendary hospitality. Customer loyalty is created when a Southwest employee -- and you see this all the time, when a Southwest employee goes above and beyond to meet a customer's needs. We want our employees to feel empowered and proud of the service that they provide, ensuring it is a service level that our customers can trust day in and day out.

Third way to be consistently reliable and to operate with excellence. We are modernizing tools and procedures to better serve our customers and our employees, creating an energetic pace, further improving our famous short-term times all the while keeping safety as our #1 priority. And we intend to stay very well staffed and plan to hire a net 8,000 employees in 2023, including 2,100 pilots.

Fourth, we'll focus on restoring our network and flying the full fleet, with a goal to have the network fully restored, to have the network fully restored by the end of next year. And fifth, we will focus on producing strong financial results and improving our low-cost edge.

We have great profit momentum currently, and Tammy will share, we are in a great spot with our competitive cost position in the industry. We have an opportunity to be even more efficient, and we can accomplish that by working as a team by eliminating waste and by modernizing our tools and procedures.

I also want to give you an update on the strategic revenue initiatives we shared with you last year in addition to our fleet modernization efforts. We made tremendous progress this year, and they're producing significant value and remain on track to produce the value that we expected and our financial benefits this year and into next year.

As you all know, our GDS expansion fully launched in 2021 in our Southwest business efforts to grow our domestic business market share, are all paying off. As a recent example, and I'm just so proud of this and our team, we came in second in the most recent Business Travel News, so BTN, business travel survey. We have never been higher than fourth, and we rose from fourth to second in that survey, and that is our highest ranking ever, and I think it's completely due to our GDS efforts and our Southwest business team efforts.

We launched the new fare product, the Wanna Get Away Plus in May of this year that offers customers even more flexibility for a modest buy-up, and the new fare is performing well and in line with our expectations. We continue working towards the launch of a new revenue management system and expect a mid-2023 launch, while further boosting revenue opportunities through new capabilities both in managing inventory and in managing pricing. And while also continuing to see additional benefits from the Chase co-brand credit card agreement that went into effect in December 2021, we are seeing card acquisitions and card spend well above pre-pandemic levels. These initiatives, combined with our flight credits that don't expire policy, create a product that is very attractive to our customers and further strengthens our value proposition.

These initiatives, including our continuous fleet modernization plans, are expected to generate a combined EBIT contribution of roughly \$700 million this year, and we remain on track to hit our annual goal of \$1 billion to \$1.5 billion EBIT contribution in 2023.

Finally, I'll close with an update on our diversity, equity and inclusion and our environmental sustainability initiatives. In 2020, we set specific goals to further enhance our diversity, equity and inclusion efforts at Southwest Airlines, including a Board of Directors' commitment to increase their diverse representation by 2025.

To highlight just a few of our efforts, we launched an inaugural DEI report to grant transparency with enhanced disclosure around our demographics as it relates to race and to gender, along with our DEI programs and progress. We partnered with our diversity council. That's the council made up of 135 employees who serve as our DEI champions across the company. We bolstered our diverse talent pipeline and implemented 9 leadership hiring requirements consistent with our DEI goals. And I'm just so proud that Southwest was recognized by Forbes as one of the best employers for diversity in America this year, a huge accomplishment. Our continued investments in DEI will bolster our strong culture, and they go hand in hand with our core values at Southwest Airlines.

Turning to environmental sustainability. We've also made meaningful progress there as well. Most notably, we launched the use of sustainable aviation fuel, or SAF, in our operations in January, and we're the first commercial airline to bring SAF to the Oakland Airport in August. We developed and published a formal SAF policy that guides our procurement of SAF and puts us on the right path towards replacing 10% of our total fuel consumption with SAF by 2030. We secured SAF offtake agreements, and we're investing in SAFIRE Renewables as a part of a department of energy-backed project to develop and produce scalable SAF.

We remain committed to reducing our carbon emissions intensity by at least 20% by 2030 as well as maintaining carbon-neutral growth each year, all relative to 2019 levels. And a huge part of that is modernizing our fleet with more fuel-efficient MAX aircraft. In addition, we're matching customer offset purchases through our Wanna Offset Carbon program and we recently purchased offsets equal to the carbon emissions generated by our employee business and charitable travel for 2021.

Lastly, we continue to evaluate opportunities to further strengthen our ESG-related disclosures. As such, work is underway to report to the TCFD framework for the 2022 reporting year. We've been very busy in the environmental space, and we plan to continue investing in this very, very, very important area.

So in closing, I'm just very, very proud of the progress we've made this year to get the airline stable and to get back to the basics. And barring any significant unforeseen events, we expect to finish the year very strong. We expect to carry that momentum into 2023, where we expect to not only grow, but to thrive.

Make no mistake, as always, Southwest is ready. Our leadership is ready. A lot of those folks are here today. Our employees are ready, and our employees are the greatest asset of Southwest Airlines. They are the key difference, and they are the heart of our success in every way.

And last, I just want to say thank you to my friend, Mike Van de Ven. Stand on, Mike, if you don't mind? Go on. I won't embarrass you. Mike's obviously here today, and there just aren't enough ways to say thank you, my friend. Mike has been our Chief Operating Officer for the past 16 years. And there's almost no way to describe how hard of a job that is. You lived the operation from the time you wake up to the time you go to bed every single day. A lot of times you lived that overnight when you get phone calls and texts. And Mike's had a 30 -- almost 3-decade career at Southwest, and he's just served excellently that entire time. Mike's a tremendous leader, and it's just been a joy to serve alongside, Mike. So I'm just humbled by your efforts, and I appreciate you, my friend, and I love you, and I just want to say thank you. Thank you, Mike.

And with that, I will turn it over to Tammy. Thank you.

**Tammy Romo**  
*Executive VP & CFO*

Thank you, Bob, and thank you, Mike.

All right. Hello, everyone. It's really great to be with you here in New York. And thank you to our webcast listeners for joining us as well. And also, I just want to give a quick thanks to our Southwest team here in the room with us as well as back in the office at Dallas for pulling together today's events. And a big thanks to you, Mr. Ryan Martinez. You are awesome.

As Bob mentioned, this has been quite a year. I think we all agree with that. Despite a rocky start due to Omicron, we have made tremendous progress this year. We set several quarterly records, including all-time high quarterly revenues in second quarter. We have performed within our full year 2022 cost guidance that we provided back in January, the only U.S. airline to do so.

Adjusting for the impacts from Hurricane Ian, we have been right on our full year 2022 capacity guidance as well. That speaks to better stability with our trends, but it also speaks to the tremendous work of our planning teams at Southwest. I want to thank them for their efforts and countless scenarios that ensured we are making the best possible business decisions, even in this volatile environment. And I see some of them in the room smiling now. Thank you.

Barring any significant unforeseen events, we expect to finish this year very strong, with another quarterly profit and with great momentum going into 2023.

Jumping into our fourth quarter investor update. I'm pleased to say that our guidance remains largely unchanged, with just an update to our fuel price guidance as market prices have come down just a bit. Our operating revenue outlook remains strong, unchanged at up 13% to 17%. Leisure revenue trends continue to be strong, both in load factors and in yields for both holiday and non-holiday time periods.

Managed business revenue trends remain strong as well. Unchanged at down 20% to 25% or 75% to 80% recovered versus fourth quarter 2019 levels. Our available seat mile outlook remains unchanged. And on the cost side, our CASM-X outlook also remains unchanged. Based on current market prices, our fuel guidance is down roughly \$0.05 to the \$3.10 to \$3.20 range.

The story behind our fourth quarter outlook reflects just a really nice job by our employees who continue to execute well. Our commercial initiatives, which Ryan will cover in a moment, are contributing to these strong results, and our sequential revenue outlook remains and continues to outperform the industry here in the fourth quarter.

Moving to our 2023 outlook. We shared a preliminary view as part of our October earnings call, and I am excited to round out our outlook for you here today. First, our overarching financial goals for next year are to grow profits, margins and return on invested capital versus 2022. Based on current trends and barring any unforeseen events, we believe we have a solid financial plan to accomplish all 3. While we are mindful of concerns about economic weakness, so far, we are seeing no signs of a slowdown in travel demand in our current trends.

I can tell you, we have run multiple scenarios to feel good about our 2023 plan. I won't go through each item on this slide, but I want to provide some additional color. And just a reminder that we will be guiding to year-over-year trends for 2023. I know you will miss all of those comparisons back to 2019, but I think you should read that as a sign of progress.

As is typical, we will provide first quarter revenue guidance as part of our January earnings call. However, based on current bookings, first quarter 2023, revenue trends appear strong, and we currently expect a significant operating revenue increase year-over-year. We will monitor trends over the next several weeks and provide more specific guidance on our fourth quarter earnings call.

On aircraft, we continue to expect to end 2022 with 768 aircraft. I will cover more on our aircraft order book in a few slides, but we expect to end next year with 841 aircraft. This 73-aircraft net increase year-over-year consists of our planning expectations of 100 MAX deliveries from Boeing and 27 retirements of -700.

In terms of capacity plans, we continue to expect first quarter 2023 ASMs to increase approximately 10% year-over-year. No change from what we previously shared. We also previously shared that we expect second quarter 2023 ASMs to increase approximately 14% year-over-year, and that still stands even though it's not shown on this slide.

Based on some analyst reports that I've seen, some of you may have missed in our third quarter earnings release that we expect our second half 2023 capacity growth year-over-year to be higher than our first half 2023 capacity growth rate year-over-year. As such, we expect our full year 2023 capacity to increase approximately 15% versus full year 2022. As Ryan will cover, network restoration continues to be a key priority next year, and this level of capacity growth will allow us to be fully restored by the end of 2023.

Our aircraft plans also support this level of capacity growth. In fact, with pilot training constraints for the majority of next year, we believe we could execute our capacity plan with roughly 40 to 50 fewer aircraft than planned for the majority of next year. So we believe our growth plans are reasonable and align with our intent to fully utilize our fleet by year-end 2023.

Moving to cost. I'll start with fuel, which represents roughly 25% of our operating costs. Current fuel prices for first quarter are estimated to be a bit lower than what we are experiencing here in fourth quarter. These projections are based on the forward curve. But if that holds, we could see some helpful fuel relief as we move throughout next year.

Included in our estimated fuel hedging gains, that would result in a current estimated range of \$3 and \$3.10 per gallon for first quarter and \$2.85 to \$2.95 per gallon for full year 2023. I will cover our 2023 fuel hedging positions in more detail on the next slide.

We recently shared our first half and second half 2023 expectations for CASM, excluding fuel special items and profit sharing. We continue to expect first half CASM-X to be flat to up 2% and expect second half CASM-X to decrease in the 4% to 6% range, both year-over-year. Consistent with our first half outlook, our first quarter CASM-X is expected to be in the range of flat to up 2% year-over-year. Based on our 2023 capacity plans, our full year 2023 CASM-X is expected to decrease in the range of 1% to 3% year-over-year. As a reminder, we expect continued cost headwinds next year due to operating at suboptimal productivity levels as well as significant inflationary cost pressures. Like this year, our 2023 cost guidance includes estimated accruals for all open labor contracts.

Moving down our guidance chart, our scheduled debt repayment obligations for 2023 are modest, only \$80 million for the full year. Our 2023 interest expense is estimated to be approximately \$250 million. Based on our scheduled debt repayments and current interest rates, however, we expect 2023 interest rates to more than fully offset 2023 interest expense. And lastly, we expect our 2023 capital spending to be in the range of \$4 billion to \$4.5 billion, including roughly \$1.2 billion in non-aircraft CapEx. This is higher than previously estimated, primarily due to aircraft delivery delays from Boeing this year, which is pushing additional aircraft deliveries into next year.

We continue investing in our route network and top priority initiatives with a focus on generating revenue, increasing operational efficiency and enhancing the customer experience. And Ryan will cover the latter in terms of the additional investments we are making in our aircraft cabin experience.

We continue to have a very solid fuel hedging position in 2023, which covers roughly 50% of our expected fuel consumption. As you can see from the table on this chart, at current market prices, our first quarter 2023 fuel hedge would provide a benefit of \$0.16 per gallon. For full year 2023, our hedging gain would be \$0.13 per gallon at current prices. Our 2023 fuel hedging gains begin at Brent [ group ] crude equivalent prices in the high \$60 per barrel range. These gains become more meaningful the higher prices get. And on the flip side, our fuel hedging premium expense is around \$0.06 per gallon in 2023. As a reminder, our hedging gains and premium expense are included in our fuel price guidance.

We will continue to build out our 2024 and beyond fuel hedging position as the market allows us to systematically build the best fuel hedge portfolio at reasonable premium cost. Our goal is to construct a total hedge position for each calendar year at, at least 50%. And we are at that level for 2023, and the current value of our entire fuel hedging portfolio is roughly \$625 million. What this means is we are in solid shape with meaningful insurance against material jet fuel spikes heading into 2023.

Taking a look at our Boeing order book. We have a robust firm order and option schedule that is very cost effective. It supports our growth aspirations, our fleet modernization efforts and our retirement plans through the end of the decade. We remain in ongoing discussions with Boeing on firming up new MAX delivery schedule that incorporates supply chain delays and estimates on the MAX 7 certification.



In terms of a fourth quarter update through the end of November, we have received 15 MAX 8 aircraft this quarter. We continue to plan for 31 MAX 8 aircraft deliveries from Boeing here in fourth quarter for a total of 66 MAX 8 aircraft this year. As you can see in the slide, since our October earnings release disclosure, we converted 4 MAX 7 firm orders to MAX 8 firm orders in 2023 and exercise 8 MAX 7 options for delivery in 2024.

As I mentioned earlier, we plan to retire 27 737-700 aircraft in 2023, which is a bit lower than our annual target of 30 to 35 retirements per year. Given the aircraft delivery delays and uncertainty around the timing on the MAX 7 certification, it makes sense for us to hold on to a few more 700s to provide more optionality in the near term.

With regard to the MAX 7 delays, we have tremendous flexibility, which allows for a mix of -7s and -8s and the ability to switch between the 2 as we firm up each year's orders. While we desire a mix of -7s and -8s over the long term, we are not at the point where our fleet mix is being skewed by taking more -8s through 2023.

Based on our current assumptions, it will likely be into 2024 before we have an opportunity to be fully caught up on aircraft deliveries versus our contractual order book. I am thankful for the flexibility in both our order book and our retirement plans that allow us to keep on track with our network restoration goal for next year. Further, this puts us in a position to adjust fleet and capacity plans, should the environment dictate.

Turning to our relative cost position in the industry. I want to point out an encouraging trend. Sustaining a meaningful cost advantage to our peers is key to our business model of low cost and low fares. As you can see from this chart, we have not lost ground in that regard. And in fact, our cost position has improved relative to legacy carriers, other low-cost carriers and even the ultra low-cost carriers.

Comparing pre-pandemic second quarter 2019 to second quarter 2022, which is the latest DOT data available, our nonfuel unit comparisons are 3 points improved compared with legacies, 6 points improved versus LCCs and 4 points improved versus ULCCs. These improvements are despite the fact that our second quarter 2022 unit costs included labor accruals for all open contracts, unlike most of our competitors.

Our cost position remains very strong. And as Andrew will cover later, we have operations initiatives that are designed to maintain or hopefully widen our industry cost position in the years to come. This should be affirming to you all that our business model of an all-Boeing 737 fleet point-to-point high utilization route network and short turn times continues to provide us with a sustainable structural unit cost advantage.

While there remains some uncertainty regarding the economic environment next year, we are in a much better position this year to articulate our long-term financial goals. Looking back a year ago, we were still facing significant uncertainty around profit levels and the severity and duration of the pandemic and further COVID waves. In the midst of that uncertainty, we provided a tactical framework that wasn't meant to be annual guidance. Since then, over the past year, we had the Omicron impact in first quarter, Boeing delivery delays, a full training pipeline governing how quickly we can bring in pilots, slower network restoration, et cetera.

Our 2023 guidance is still within the spirit of the framework we outlined last year and directly aligns to our enduring annual financial goals. However, we have had to adjust along the way. Based on where we are today, here is a higher-level framework for how we are managing the business. These goals should be relevant year-end and year out, and they are. We plan to continue to grow the route network and to do so in a disciplined way to grow profits while generating industry-leading margins and returns.

For capacity, we plan to pursue modest new market growth and leverage our robust network to add depth and breadth and stronghold Southwest markets. For nonfuel costs, we plan to maintain a competitive cost position and continue managing inflationary cost pressures as we grow. For revenue, we plan to generate RASM growth in excess of CASM growth, powered by a robust set of initiatives. We intend to produce industry-leading pretax margins and generate returns well in excess of our weighted average cost of capital.

Our balance sheet remains an enduring strength, and we intend to maintain our investment-grade rating by all 3 rating agencies with modest leverage. Though the individual metrics may vary by year, hopefully, this provides you all with more helpful and higher-level framework that speaks to our longer-term annual financial goals for Southwest.

Before I turn it over to Ryan to discuss our commercial outlook. I want to conclude with a look at our capital allocation priorities. In addition to our balance sheet strength in terms of credit ratings and leverage, we intend to maintain a minimum cash target of at least \$6 billion while earmarking a portion of our current excess cash for additional debt repayments as opportunities arise. Important to our business model is investing in the business to fund profitable growth. And in addition to the CapEx guidance for next year, we expect our average CapEx in 2024 through 2026 to be in the \$4 billion range annually.

As I mentioned, we aim to reduce our debt and leverage levels over the next several years. We have been diligent with repayment opportunities this year, having repaid \$2.6 billion of debt. We intend to continue to be prudent in paying down our debt with roughly \$3.5 billion of debt to pay off from 2023 through 2026. Once we get to that point, we are targeting a leverage ratio in the low to mid-30% range. We are also very focused on investing in our people in getting labor agreements in place as we think about the first half of 2023.

And lastly and importantly, we want to enhance our returns to shareholders beyond the value we intend to deliver through growing returns on capital. In that regard, I am thrilled at our Board's decision to reinstate and approve our pre-pandemic quarterly dividend of \$0.18 per share or \$0.72 per share annualized, which currently represents a roughly 1.8% dividend yield.

In closing, all of these plans assume that the travel demand environment remains steady, and we continue producing consistent profits and healthy free cash flow. As we close out 2022, I am grateful we are in a strong position with terrific momentum heading into 2023.

And on that note, I am going to turn it over to Ryan Green.

**Ryan C. Green**

*Executive VP & Chief Commercial Officer*

Thank you, Tammy. Good afternoon, everybody. It's great to be with you all today, and I look forward to meeting those of you who I haven't had a chance to meet yet.

Bob already mentioned our revenue initiatives at a high level, so I'll walk through each 1 in more detail and highlight a few other commercial initiatives that we have underway. You may recognize the first 6 items on this slide, as Andrew outlined these last year, and I added a couple of items that are aimed at enhancing the customer experience. And to orient you to the list, the first 2 red items are network focused; the next 4 blue items are our revenue initiatives, which we've quantified in terms of EBIT value; and then the last 2 yellow items are focused on the customer and in-flight experience. They are all intertwined. They're all build -- they all build upon each other, and they all should be in place in 2023. So let's just jump right in.

First up is network restoration. Network restoration remains a top priority for us next year. Tammy provided our 2023 ASM growth guidance of approximately 15% year-over-year. And we view this as lower risk capacity growth given the vast majority goes back into Southwest stronghold markets and our points of strength. In fact, of our total capacity growth next year, 35% of it is carryover from 2022 capacity additions and the other 65% is earmarked to rebuild our core markets.

To decompose that a bit, the chart on the left side shows total trips in March of 2020 before the pandemic, and it roughly equals the total trips that we're flying at the end of this year. However, you can see the composition of this year's trips is made up of 85% of same-store pre-pandemic markets and 15% is made up of our 18 new airports and further Hawaii expansion.

As we look to year-end 2023, we plan to have restored the remainder of our same-store markets, and we'll still have the new markets that we added in 2020 and 2021. So altogether, at the end of next year, our trip count will be roughly 115% of what it was pre-pandemic. And based on our estimated trips by year-end 2023, we anticipate being ahead of the industry average in terms of trip growth and expanded network footprint.

In terms of how the capacity we're adding next year gets allocated, the chart on the right shows that the majority of our trip growth will be in depth, which is shown in yellow there on the chart, with the remainder allocated to network breadth, shown in black. We consider depth as adding new nonstop frequencies in same-store markets. So going from flying Baltimore to Nashville, as an example, from 4 times a day to 6 times a day.

We consider breadth as reconnecting dots in same-store markets that existed pre-pandemic, which have historically strong financial performance and they're built on strong solid customer bases in those markets, and this will restore our footprint in these key cities. As an example, we won't begin flying Indianapolis to Kansas City on a nonstop basis until April of next year, and that's a market that we flew for years prior to the pandemic.

Since the vast majority of our trip increases next year are aimed at additional frequencies in existing markets and additional breadth from historical points of strength on our network, we believe these markets will come on producing strong financial results and will also provide additional recoverability options for our operations team.

And then in our new markets -- maturing our new markets, as we opportunistically accelerated new airport growth during the pandemic to access new revenue pools and manage our cash burn, our percent of total capacity under development is higher than historical norms. You can see in the left chart that in 2019, our development ASMs were less than 5%. The red bar shows 2022 levels.

And by the end of '23, we expect to still have 11% of our capacity under development. That's -- this higher-than-normal level is going to continue into 2024, but we're very pleased with how our portfolio of new markets is performing.

While these markets are currently a revenue drag to system averages because they're still new and they're ramping up, they are performing ahead of where we would expect them to be at this point in their maturation curve. On the right, you can see our current Hawaii mainland and interisland footprint, which we are also very pleased with, following our last round of investments this summer, this puts us in a great spot in Hawaii and capacity changes from here likely will be more tactical in nature as we would do with most markets.

We've talked a lot about our expansion into global distribution systems and investments in Southwest business, and we continue to see the benefits -- it puts us in a great position going into 2023 as we expect business travel to continue its recovery, and we expect to gain a bigger share of the managed business pie. And in order to illustrate our progress to date, we pulled market share data from top corporate travel agencies who settle in ARC where the vast majority of managed business travel transactions are settled and displayed it in the graph on the left-hand side of this slide. The progress is clear. In a very short period of time, we have grown our market share in ARC from virtually nothing in 2019 to 10% of domestic managed business passengers in fourth quarter of this year. And we believe that we still have a large opportunity in front of us over the next several years.

The top 100 corporate buyers alone spent over \$11 billion in domestic travel in 2019, and we were only able to pursue a very small percentage of that travel back then. Positioned now on 3 GDS platforms and with a world-class sales team in place, we're excited about our ability to continue to grow this business. And this isn't just our opinion, the individuals who are responsible for procuring the managed business travel around the country, the corporate travel agents and travel buyers are surveyed annually by the Business Travel News, as Bob mentioned.

On the right-hand slide, we have plotted our progress in this survey since 2017. And if you follow that red line, that's the results over time for Southwest. We're very proud that in just the past year, we jumped from #4 in the industry to #2. And we were also the only airline to have improved our score year-over-year. And if you decompose this composite score we have on the slide into its components, we improved year-over-year in every single category. I'm especially proud of our progress in areas like overall price value, where we scored first in the industry and how much the travel buyers value their relationship with our awesome account managers, and that saw our largest year-over-year improvement. So I'm very proud about that.

As business travel continues to rebound, we have a great opportunity to increase our corporate travel market share further with the vast majority of domestic business travel flown in coach. And it is clear that corporate travel managers, again, the buyers of corporate travel are taking note of our strong value proposition. And you may have noticed on your table there, we provided you with the Southwest business stress ball that said, make shift happen. Well, that's exactly what's happening there, and that chart shows that.

We launched our new fare product, Wanna Get Away Plus, in May. We've been very pleased with the performance thus far, and we're seeing more buy up from our lowest price Wanna Get Away fares to higher-priced fare products, including Wanna Get Away Plus. The left side of the chart shows our 4 fare categories and the attributes of each, and one of the key items that we added to Wanna Get Away Plus is transferable flight credits.

Flexibility, a long-standing theme for Southwest, has been a clear driver of customer behavior since the pandemic began. And this is another way that we were able to provide product enhancements that customers are willing to pay for. And this is additive to the brand, not taking things away like some of our peers, and we continue to stay true to that philosophy. We are also optimistic about the long-term prospect of this fare product because based on our internal customer research, customers that purchase the Wanna Get Away Plus fare product have an 85% likelihood to repurchase that fare product when they fly again in the future.

While we have evolved it over time, the core of our current revenue management system has been in place for many years. Revenue management science has improved over that time. And we are in the process of modernizing our current system with improved capabilities to forecast demand and optimize revenue. And to update you on our progress here, we continue to test improved science techniques and respective workflows in 2 production pilots, and we expect to implement the best performer in those pilots by mid-2023. Today, again, both pilots are in production, and they are managing the full network for a set of travel dates throughout the booking curve. In monitoring the early revenue performance of the pilots, we remain encouraged that we can achieve the value we are expecting from this initiative and that we remain on track for our midyear implementation timeline.

As we shared last year, we secured a new co-brand credit card agreement with Chase and it continues to produce value. What I want to call out on this slide is that we've seen significant growth in credit card acquisitions, up 32% from pre-pandemic levels recently, and the demand for our loyalty program credit card has remained robust and attrition in the portfolio has been at record low levels. And both of those contribute to the overall portfolio growth rate and shows demand for the Southwest Airlines brand and travel, in general.

Spend per card member has also increased since 2019, shown on the right-hand side of this slide. And so while the improved rates from the renewed co-brand credit card agreement are certainly welcome, it is the increased engagement in our core loyalty program that is driving the double-digit growth we have experienced in other revenues this year.

I led the rollout of our current loyalty program in 2011, which was a complete overhaul of our previous program. And since then, Rapid Rewards has offered our members a combination of award flexibility, breadth and value that's just unmatched in the industry and the resulting and sustained growth of Rapid Rewards over the last decade has just been phenomenal.

The continued demand for Southwest Airlines' product, our recent expansion into the new markets we talked about and deeper expansion into the corporate travel space, should continue to fuel the growth of our loyalty program for years to come.

Earlier this year, we announced several in-flight customer experience enhancements, a wholesale WiFi upgrade, in-seat power installations and larger overhead bin installations. And we believe these enhancements to the cabin experience will benefit all travelers, but we'll especially be welcome additions for our corporate travelers as they value the ability to remain productive while they fly. We are underway with our WiFi upgrades. Roughly 1/3 of the fleet is done today. We expect to complete half of the fleet by the end of January, and we should finish all the upgrades by the third quarter of next year.

The WiFi systems that we are putting on our aircraft provide better reliability for customers today and have the capability for speeds that are more than 10x faster than our legacy system. And depending on how much bandwidth we procure from our providers, the capabilities of the new system allow for about 80% of the aircraft to stream video at the same time. We don't anticipate customer demand will require that much bandwidth today, but the upgrades we are making now prepare us well for what customer demand might require in the future. We will begin our larger bin installations early next year and in-seat power installations will begin mid-2023.

Also earlier this year, we made the decision to eliminate expiration dates on flight credits. And while this drove a temporary impact to breakage revenue in the third quarter 2022 relative to second quarter 2022, we estimate no material impact going forward here in the fourth quarter or beyond. And in terms of why we made this decision, it's part of our regular monitoring of customer sentiment. And post-pandemic, flexibility, we all know it is just more important to consumers today in all parts of their lives. More flexibility with their travel funds was a way to carve out yet another unique flexible differentiator for Southwest Airlines. And it works in tandem with our other industry-leading policies, which you can see on the right-hand side of the slide.

Our flexible policies remove anxiety associated with travel while driving brand affinity and customer loyalty, and we expect this customer-friendly policy change to also aid in our corporate travel expansion efforts. When we polled corporate travel managers, 80% of them think this policy change will be very effective in driving further engagement from them in purchasing additional corporate travel from Southwest Airlines for their travelers.

And lastly, you might recognize this slide as well from last year's Investor Day. We have a history of having a robust pipeline of initiatives to drive revenue growth. And the same goes for this year and next. The value we are expecting from these initiatives is robust, and we're not stopping there. We are already planning and sizing the next set of revenue initiatives for 2024 and beyond, aimed at driving meaningful revenue growth to assist in achieving our financial targets.

And so with that, I will turn it over to my friend, Andrew Watterson.

**Andrew M. Watterson**  
*Chief Operating Officer*

Good afternoon, everyone. Thank you for joining us here and online and those who read the transcript.

One of the great satisfaction for me with leadership is to see your successors do better than you. That's been my case throughout Southwest Airlines, and you can see that's the case today with Ryan taking over from me. It fills me with satisfaction, but it also means no going back because obviously, if you do the job better than me, I better make the current job work. So with that, I'll focus on the operation.

So as Bob mentioned, our operational performance since May has been much improved and more stable. Staffing is a big part of that, but stable flight schedules have also helped. We want to run an efficient and reliable operation, and we expect that of ourselves. But we need a few basic pieces to be in place that were missing in 2021 and early '22. We must maintain that proper staffing in order to publish flight schedules that we can sell and operate without having to continually republish and reaccommodate. And as Bob mentioned, that's what customers expect, that's what our employees expect, and that's been the case since the summer.

I feel we have the foundational amount of headcount and flight activity to be able to maintain this higher standard of operational reliability. We've been having since May, and we're on a good path here in the fourth quarter, and we intend to build upon that foundation, which is what I want to cover today.

So on this first slide, we have 4 productivity goals we outlined last year: aircraft, employee, airport and fuel efficiency goals. These represent more optimal asset utilization levels, and we have been operating below those levels during the pandemic and still today. However, by the end of 2023, we expect to achieve our aircraft, airport and fuel efficiency goals.

The one metric that we do not currently expect to achieve by the end of 2023 is employee productivity. And there are several reasons for that. First, we're still experiencing growing pains coming out of the pandemic. We have onboarded thousands of new employees, put them through training and sent them to the front lines to put their training to work and gain on the job proficiency. Since January, nearly 20% of our workforce is new and that puts a strain on the overall tempo of the operation.

Second, we are taking more MAX 8 than we anticipated as Tammy covered, which drives the need for additional flight attendants. And third, we have many initiatives underway that we'll discuss here today. And for those, we've already staffed up with our indirect headcount or non-frontline operation support staff. And as we grow our fleet and bring these initiatives online, that indirect headcount will start to move back towards historic norms. All of these dynamics drive the need for higher staffing levels to produce 2019 levels of capacity, and we expect those challenges to continue next year.

Well, that said, on the next slide, we have tangible opportunities for improvement, and I want to lay out our 4 operations focus areas for the next several years. First, aircraft productivity, which speaks to our opportunities to increase asset utilization; second, operating leverage, and we acknowledge that we have opportunities to realize better operating leverage going forward. Fully restoring the network in 2023 is foundational to better operating leverage. Third, operating quality, which is putting ourselves in a position to run a reliable operation, mitigate and recover more quickly from disruptions and strengthen our hospitality. And fourth, proper frontline staffing and equipping our employees with better tools. We will continue to hire next year and fine-tune our staffing overall and by location and provide employees with better tools in an effort to step up the operations environment for success. These focus areas are designed to build upon each other, and we intend to make progress in each area over the next several years as we prepare for future low-cost growth opportunities beyond 2023.

I'll walk you through each of these pillars over the next several pages and detail some of the initiatives that we will use to deliver upon them. I'll put this in contrast to the initiatives that Ryan covered, we waited to unveil those until they were substantially done and therefore, give you some initiative values. And here, we're in the early stages of the build, so we'll be more circumspect about the value, but they're how we'll drive the opportunities that Tammy talked about earlier.

So on the next page, I'll start about the aircraft productivity. So in terms of aircraft productivity, we essentially want to increase asset utilization through speeding up the tempo of the operation. There are 5 main areas we're focused on, with 2 of them planned for 2023 delivery, which means the initiatives will be done in 2023, doesn't miss -- mean the value will be available in '23.

Turn execution is focused on faster aircraft turns between flights through streamlined digital processes and more efficient passenger flow. Aircraft maintenance optimization refers to redesigning our airframe maintenance program such that we increase availability and decreased aircraft turn time, both of those are slated finishing in 2023. Beyond next year, we intend to make progress with flight scheduling, block execution and overnight flying.

Flight scheduling enhancements should free up additional aircraft time by adjusting scheduled design constraints. Better block execution is gained through flight plan optimization and performance-based navigation, where we're able to do so. And overnight flying refers to red eyes, and we have work streams to add these capabilities as well as unlock new flying opportunities on the same asset base.

So in operating leverage, in terms of operating leverage, we have opportunities beyond our network restoration. We have 4 areas that we're focused on, which are: target flight additions, NG engine maintenance, service modernization and growth in core cities. For target flight additions, we can selectively add flights in markets and at times of day where there are minimal incremental ground costs.

NG engine maintenance refers to optimizing our programs and activities for greater efficiency as we have transitioned from a power-by-the-hour program to time and materials program for our 700 NGs. This means less smooth maintenance costs, but allows us for our own optimization of the program going forward.

Service modernization will expand customer self-service options and improve employee tools for more efficient service delivery. As you can see in the upper right visual, we have tremendous points of strength across our route network. Southwest is #1 in 23 of the top

50 cities in the domestic U.S. and #2 in 8 of them, 3x our closest peer. That is one of the advantages to a point-to-point network, and we can leverage that to consider efficient growth opportunities in core cities across our network.

In my new role as Chief Operating Officer, I will retain oversight of network planning, which provides an opportunity for enhanced network optimization. While the primary filter remains commercial and profit opportunities, we have an opportunity to better optimize around staffing and gate capacity to pursue low-cost growth.

So in many of our larger airports such as Dallas and Las Vegas, which you see on the left-hand side, and this represents charts of aircraft on the ground, so either you're a departing flight or originating flight. And so in Dallas and Las Vegas, we have consistently high flight activity across the day, which is very efficient for the real estate, ground staff, ground support equipment. However, many of our other focus cities, like the ones you see on the right, Baltimore, Houston, Denver, Chicago, et cetera, have valleys in them throughout the day with opportunities to add flight activity with minimal incremental costs I mentioned a second ago.

And you can think about we have our crew bases. You have to have a first flight of day. You have to have a last flight of day. And you look at when your crews start, every 3 days, you have to have someone leaving from a crew base, and that creates natural peaks early and late in the day for a flight activity because of the crew network. Well, the middle of day where your highest revenue opportunities are, you often have valleys where you also have idle assets and people, and so adding activity in the middle of the day is revenue accretive and cost efficient.

And so it's -- with our unique point-to-point network, we have many points of strength across the country to scale from, not just hubs. So beyond network restoration, we have opportunities to fill these valleys in a low-risk manner. So to kind of connect the dots back to the previous chart, you saw all the places we were #1 and #2 in the country, you've built in strong customer base. If I want to fill the valley, if I were to choose BWI, said I want to fill the valley in Baltimore, Washington, where I need to fly from, we'll have an opportunity of places where I'm #1 or #2, the risk of that flight failing or underperforming is extraordinarily low. So I can choose from Baltimore to fly to a number of locations, whichever one makes sense commercially. And they come in the middle of the day, it helps us be cost efficient and productive and yet, have great revenue success since I'm flying from a point of strength. So bringing these 2 things together leads to hitting your revenue targets while also improving your cost position.

So on to operating quality. We have initiatives planned to help lessen the impact of disruptions and improve our recovery time and keep the operation better on track throughout the day. There are 4 main areas where we are focused, and 2 of them are planned for 2023 delivery. Originated performance is a focus on getting the airline started on time each day through continuous improvement. Our people do an excellent job of getting the airline up and running each morning, we have opportunities to relieve some areas of strain. It is difficult for our point-to-point network to catch-up with on-time performance if we do not begin on time.

Transfer operations is optimized in the way we handle high-volume connectivity across our larger airports, and we're trying new approaches by adding more transfer drivers, better information and transparency to manage our turn times.

Network design and recovery reverts to real-time decision-making that can take advantage of our unique network design to lessen ripple effects throughout the network. And we rolled out a limited number of station command centers a few years ago, essentially want to create an environment across more of our largest airports in an effort to maintain greater volume and complex activities in a coordinated and on-site fashion.

On Slide 38. Lastly, we are focused on frontline staffing and tools. We have 4 main areas of focus in this pillar, 2 of them again planned for 2023 delivery. Targeted staffing refers to maintaining hiring focus to close critical gaps across locations and keep the hiring pace to support future growth.

Training and proficiency is about enhancing training approaches and to shorten the learning curves and streamline the path to proficiency. Mobility and digital tools is a key area where we want to eliminate paper from our aircraft turn processes and deliver mobile functionality across the frontline.

And lastly, we want to ensure information sharing and communication between work groups to ensure we keep a focus on continuous improvement, both in processes and procedures, and our frontline employees are in the best position to help us with that. These are mainly blocking tackling items, but all important to the success and tempo of our operation.

And I'll close by saying and put this all in context is, we aren't looking to change our operating model. Our key operational strengths remain core to our business model. Our simplicity, point-to-point network, scale and breadth of operation, having the best people in the business and a strong brand value proposition. These operations focus areas that I covered are designed to sustain the high-quality daily operation and evaluate how we think about growth opportunities going forward.

Each area builds upon and enhances our existing operational strengths. We always desire to improve and have some post-pandemic challenges we're continuing to work on, but our operations are solid, and our people are doing a fantastic job. This is about the next evolution of the operation and all about building on our past success and getting even stronger.

And with that, I'll turn it back over to Bob to wrap this up -- or rather Ryan.

**Ryan Martinez**

*Vice President of Investor Relations*

All right. Well, thank you all for your attention. Before we go to break, we have 2 raffle winners. So not only are we happy to be with you, we're going to give you stuff. The first is a Southwest model airplane, and the winner is Steve Trent with Citi. Congrats, Steve. I don't have it with me, I promise I'm good for it. So we'll ship it to your home or your office. So congrats on that. And then 2 Southwest airline tickets goes to Gerald Finney with Comerica. So congrats to you guys. We'll come find you during the break. And let's take a quick 10-minute [ break ].

[Break]

# Question and Answer

**Ryan Martinez***Vice President of Investor Relations*

All right. We're going to go ahead and get started with Q&A. So we have Bob, Tammy, Ryan and Andrew here up on stage. We'll have a couple of mic runners, including myself. So if you'll just raise your hand, we'll pass the mics around and kind of go back and forth. And like I mentioned, we do need to wrap up by 2:45 to get Bob downstairs for some media. So we'll just jump right in.

And I'm just going to start with Ravi. If we can bring a mic up to him. And then like I said, we'll just kind of go back and forth. So thank you all.

**Ravi Shanker***Morgan Stanley, Research Division*

Ravi Shanker, Morgan Stanley. Two questions. First, on corporate, the business you've gained so far, the 10% share, what is the mix of that between SMB and enterprise? And where do you want that to be in the long term?

And the second question is for you, Tammy. You said you've run multiple scenarios in a bear case. Can you walk us through some of those scenarios and what the sensitivity [ to some ] numbers might be?

**Ryan C. Green***Executive VP & Chief Commercial Officer*

I'll take the first question on the corporate travel business that we've won so far. The larger corporate travel has been a little bit slower to come back than some of the small and medium-sized businesses. So that has been -- a larger share of that has been small and medium-sized businesses than kind of what the mix was pre-pandemic. But I think in the long term, I think we want to get our share of all that business. And so we're pleased with our progress. We're going to keep after it. We think that we've got a value proposition. We think we've got the best value proposition in coach. And I think corporate travel managers are starting to take notice of that, and so we're excited to continue to grow that.

**Robert E. Jordan***CEO & Director*

If I could add on, I promise I won't add on to every single answer, Ryan, okay. But I...

**Ryan C. Green***Executive VP & Chief Commercial Officer*

Somebody keep him honest.

**Robert E. Jordan***CEO & Director*

He doesn't believe me. I had a -- just being out with our corporate teams, I had a chance to be out at the asset conference talking to thousands at GBTA, talking to 4,000 or 5,000, we were with BTN, Business Travel News, on Monday night. And so we're talking to a lot of the account managers, travel procurement buyers at all levels, top to bottom, and been in this business a long time and if you dial back 5 to 10 years, the conversations were all about, we love Southwest Airlines, we love your product, but you're not [ where ] we want to buy. The back-office tools are difficult. The accounting is difficult, just all the difficulty with the process.

Now that we're in the GDS systems and other, it's just -- it's -- I don't want to overplay this, but it's just a lovefest because they love the product, but now they love our processes. They love our teams. And so whether from small to large, and there's a wide range, obviously, as you know, I was hearing praise for the product just off the charts compared to what I have heard before -- back 5 to 10 years.

And I do think this survey where we moved from 4 to 2, we've never been above 4, and we jumped 2 places in 1 year, trailing only Delta, past United, past American, I think that is a huge indicator of what's happening out there.

**Tammy Romo***Executive VP & CFO*



Okay. And on the second part of your question on just the sensitivities, we run obviously all the sensitivities on GDP, fuel, et cetera, that you all can easily do. But what I -- really, to answer your question, the approach that we took is we assume pretty tepid economic growth for next year. And we use the forward curve for fuel prices of course. So we feel like we took a reasonable and kind of center cut, maybe a little conservative with respect to the economy and sharing with you our assumptions today.

Obviously, we're mindful of what's going on in the economy. But when you kind of pair that with what feels like there are some constraints overall from a fleet perspective, getting aircraft. And obviously, we've talked a lot about pilot training, so there are some constraints at least in terms that could prove to -- could be a buffer perhaps. So taking all of that into consideration as well as just the plans that we have for growth that Ryan took you through.

Our growth plans, I believe, are pretty low risk growth plans because that -- our capacity is going into stronghold Southwest markets. We know those markets well and we're essentially just replacing capacity that we were flying pre-pandemic where we know there's demand. So we feel really good about our plan. And furthermore, we want to fly our published schedules, but when we kind of get past that. Obviously, we do have flexibility with our fleet and retirement plan, so that should we need, it can also serve as a buffer as well. But all that to say, we put a lot of thought into what we shared with you today, and we feel like it's a reasonable plan.

**Duane Thomas Pfennigwerth**  
*Evercore ISI Institutional Equities, Research Division*

Duane Pfennigwerth, Evercore ISI. Maybe just relatedly on 2023, if we look back -- if we meet a year from now in this room and we look back on 2023 and in the scenario where capacity is materially lower than the 15% you've outlined, what do you think the top 3 drivers of that will have been?

**Robert E. Jordan**  
*CEO & Director*

Well, I don't expect that, number one. We're always faced with uncertainty every year, whether it's the economic externals or it's fuel prices or whatever. So I expect to execute our plan. I think the larger question mark is just the aircraft delivery plans probably. That's probably a bigger question in my mind right now.

The good thing there, and I'm off your question just a bit, is that because of the pilot hiring doesn't catch the aircraft until probably fourth quarter of next year, there's a lot of range in those delivery plans that really doesn't affect our capacity for 2023.

It's complete speculation. So I think for capacity to come in substantially lower, it would be a very severe recession. That's probably the only case would be my guess. Obviously, if you have a very severe recession, a lot of times, that takes oil prices down with it as well. But this is all just complete speculation. We use a very top-tier set of economic experts to produce our plan. And as was mentioned, we have very tepid growth embedded in the plan already.

And the markets that we're going into, it's all basically restoring depth and breadth in markets that we had in 2019 before the pandemic. So it's low-risk growth. And it's growth that's going to mature rapidly. And we also have the 18 cities in the Hawaii that's going to mature. So it's all real speculation, but I think it would just be a very, very severe recession that is really not on the radar for most of any of the experts that we're talking about in terms of economic.

**Duane Thomas Pfennigwerth**  
*Evercore ISI Institutional Equities, Research Division*

Appreciate those thoughts. And then maybe just a follow-up for Andrew on your slide about efficient connections and improving turn times and getting back the kind of efficiencies that Southwest produced in the past, I wonder, do you have a sense for how much Bags Fly Free sort of strains the operation? And do you stress test the logic of maintaining Bags Fly Free as it relates to efficiency and sort of faster connections?

**Andrew M. Watterson**  
*Chief Operating Officer*

No problem. So the bag volume doesn't -- we don't spend a lot of time worrying about bag volume. You -- except for certain locations, certain time of day, it may restrain your operations because of bag handling system capacity. But absent that, you have ramp workers, you have belt loaders, you have a bag system, and so the amount of bags going through there is not really the issue that you're worried about.

The one that we highlighted is connecting bags that have come up. That's 2 things happening. One is our largest cities are now becoming larger than ever experienced. And even though we're not trying to drive connections, just a sheer volume of flight activity generates more connections. Then you have more leisure customers than normal during this period of time. And who checks bags? Leisure customers. And so the connecting bag growth on nominal terms was driven by being in a higher flight count we've experienced before and more leisure as a composition. And so we found that would slow us down on the connections.

And so there's a part of the business restoration - business travel restoration, which will drive down the composition, so that will help. But we still see that when we reach certain nominal flight numbers, we'll have connection bags we need to deal with. It's the icing on the cake, it's not the cake for us. But still the nominal numbers are such that we need to have a dedicated staff, processes and technology to support it so that we can do it efficiently and fast.

And so that's what we're talking about. We're just getting ahead of that. As we grow back, we can see that happening more and more. And so we'll build it before we experience it, which will happen sometime over '23 and '24.

**Robert E. Jordan**  
*CEO & Director*

And when you look at the...

**Duane Thomas Pfennigwerth**  
*Evercore ISI Institutional Equities, Research Division*

[indiscernible].

**Andrew M. Watterson**  
*Chief Operating Officer*

I mean charging for bags is -- it's not the number of bags per se that's the problem. It's -- when you reach certain nominal levels, even if you have a drop in bags per passenger, you still reach a point where we have a certain number of passengers and therefore certain number of bags that you must handle. So we need that capability, whether that's today or '23 or '24. So we need that regardless.

**Robert E. Jordan**  
*CEO & Director*

And a lot of times, when you just measure upstairs, downstairs, the constraint is actually passenger movement, it's not the bag loading. And you've seen us recently, there's some work going on in San Antonio to just think about how to maybe speed up passenger processing and loading through the jet bridges onto the aircraft. So it's typically -- even though we may have -- we may carry a larger number, it's typically not the bags that are the issue. You also -- you've seen our investment that's coming here in the larger bins where the bags can be tilted sideways and, Andrew, I can't remember the number. I think it's 35% more bags, it holds on the aircraft.

**Andrew M. Watterson**  
*Chief Operating Officer*

50 -- 50% more.

**Robert E. Jordan**  
*CEO & Director*

50%. And so the intent there is it will speed up the boarding, that passenger movement, so you're not hunting a spot. And at the same time, it should all but eliminate gate check bags, which is a lot of times the delay in the turn.

**Andrew M. Watterson**  
*Chief Operating Officer*

I won't let them charge for bags anyway.

**Robert E. Jordan**  
*CEO & Director*

Yes. Neither will I.

**Andrew M. Watterson**  
*Chief Operating Officer*

No desire really. So stop trying to vilify me.

**Robert E. Jordan**  
*CEO & Director*

We're not charging for bags.

**Helene Renee Becker**  
*Cowen and Company, LLC, Research Division*

This is Helene Becker with Cowen. I'm over here. So here's my 2 questions. The first question is how are you thinking about aircraft financing? I know you talked about the cash position coming down to closer to \$6 billion. So financing those aircraft. And I know you said that your -- you said something, Bob, that was of interest.

You're expecting 100 aircraft next year, but what are you actually planning for given delivery delays that still exist? And how are you thinking about the -7, given that the Boeing waiver, or whatever you want to call it, wasn't included in any of the bills that are in front of Congress before the year-end deadline?

**Robert E. Jordan**  
*CEO & Director*

If you don't mind, let me -- I'll talk to the plans and then come back to the financing with Tammy, if that's okay? So yes, our plan originally for this year was to take 114 aircraft, and we will likely take 66, that's in the current -- that's our current best estimate. We haven't changed the book -- the order book. The aircraft are just pushing to future period. So what we didn't take this year, we're just pushing into 2023.

The plan for 2023 right now, as we -- as I mentioned, is built around 100. We'll take 100. I think with 27 retirements, so a net of 73. So you've heard me say that would push the Boeing delivery catch-up into 2024. Just the math says that that's the case. And that's our current best guess. We're agreed with Boeing in terms of that being the best guess. And again, my guess would be when the year is done, it won't be exactly either of those numbers. It will move a little bit, just like it moved here in 2022.

The good thing is it doesn't change our ability to execute our capacity plan because the constraint is still pilot hiring. And again, the hiring is going great. Sometimes when I say that, what gets quoted or interpreted is you're having trouble hiring. We are not having trouble hiring pilots. We're getting pilots, lots of pilots, great pilots. It's the classrooms are full, the SIMs are full. But the pilot hiring doesn't cross the aircraft constraint until late next year in the fourth quarter in all likelihood. So no matter how that flushes out, it's not likely to affect our capacity in 2023.

When you think about the MAX 7, we're -- as I mentioned, we're eager to get the 7. The MAX 8 is a great aircraft, the 7 is going to be a fantastic aircraft for us. It's in Boeing's lap, really not ours. I kind of hate to speak for Boeing because the extension is really their activity. We talk to them all the time, and they're hard at work on this. I just -- this is just Bob talking, but I think we'll get the extension. Boeing will get the extension. That will take them some period of time then into 2023 to get the certification of the 7.

The time between that certification and when we would then put the aircraft into service is roughly 5.5 to 6 months. So when you hear me say we're likely to not fly a 7 in '23 or until late in '23, that's really the reason. It's just the math of a few -- of some number of months to be certified and then 6 months to put it into service. But no, we fully expect for Boeing to be granted that extension.

And then on the financing, Tammy?

**Tammy Romo**  
*Executive VP & CFO*

Yes. So Helene, obviously, we have a significant liquidity. Our cash is \$13.5 billion. Our leverage is sitting at 46%. And based on the plan that we've shared with you all today, we can easily manage our CapEx requirements. So we're actually more in the mode right now to pay down our debt and bring our leverage, ultimately, our target is in the low 30% range.

So at least for the next year and as we plan ahead, no if -- likely no financing needs. If it's an outer year, it may be modest. And just in terms of hitting the leverage target, the low 30% to 35%, 36% is kind of what we're targeting there. So we can pay for it with cash, and that's our intention.

**Michael John Linenberg**  
*Deutsche Bank AG, Research Division*

Bob, Mike Linenberg over on your right. I want to have you -- right here.

**Robert E. Jordan**  
*CEO & Director*

It's hard to [indiscernible].

**Michael John Linenberg**  
*Deutsche Bank AG, Research Division*

I know. I think we're going to go side-to-side. Mike Linenberg with Deutsche Bank, and I'm going to ask you the question since you had this slide, but anybody else can chime in and then just a quick follow-up. On the EBIT contribution of \$1 billion to \$1.5 billion, the objective this year. So, so far, we've gotten to \$700 million. And so when we look at that gap, we're somewhere between \$300 million and \$800 million in 2023.

What's getting you to the low end? What's to the high end? Is it the rollout of RMS? Is that the big driver there? Are there -- what are the other initiatives that will allow you to get to the high end?

**Robert E. Jordan**  
*CEO & Director*

It's all that, and I'll let Ryan chime in here. But the -- so first, I'm really -- I'm happy that we have, and have had for years, a commercial revenue plan that we can talk to you about in detail with targets. And I'm -- second, I'm very happy that we're executing on that plan. And as Ryan mentioned, when we meet again, in all likelihood, we'll come back with the next set of initiatives to begin to talk to you about. So I like the discipline in which we execute on the commercial side.

I think the answer is all of the above. So a part of this is fleet modernization. As we take aircraft more and more and more, that contribution shows up. So you're going to see that increase in 2023. The Chase agreement accelerates. We -- our acquisitions, the card spend, all of that is well above pre-pandemic. So as that accelerates, that contribution also accelerates. But no, you're right. The piece that is still coming in 2023 is the revenue management system, I think in all likelihood, next summer. And so that is really where the incremental -- the largest incremental contribution is.

And then on GDS, the -- we'll see a large -- I feel like -- we talked a lot about the movement in the acceptance of the program, the traction behind the GDS. You've also got the continued traction behind restoring business travel generally from the current down 20% to 25%. So that's a big driver as well. So it's really all of the above.

And yes, Ryan, do you want to add anything?

**Ryan C. Green**  
*Executive VP & Chief Commercial Officer*

Yes. Not much to add. I'll just say that we're on track and right where we expected to be. Some of it is growth that will continue. Some of these benefits are paying off here in 2022. The benefit will grow into 2023. Business travel restoration is part of that. New fare product is ramping up along its maturation curve as well. And then, of course, mid next year, we're on track to deliver the new revenue management system, and it will then begin to pay off and kind of ramp up over time.

**Michael John Linenberg**  
*Deutsche Bank AG, Research Division*

Yes. So that's my second follow-up, Ryan, just to you. When we think about the rollout of RMS, what is the -- how many years do we get to the point where we get to sort of full potential? And as I recall, at least in the past, new RMS systems, the accretion to revenue, people would throw around 2% to 3%. Is that within the ballpark? Any color on that would be great.

**Ryan C. Green**  
*Executive VP & Chief Commercial Officer*

Yes. I think the good news, I mentioned, is that we have pilots with these new RMS systems that are in production today. So we're -- they're delivering results today. If you kind of take our legacy system and then each of the 2 pilots at the end of the year, kind of each is managing a 1/3 -- at the end of 2022, each is managing kind of 1/3 of the departure days.

So we're seeing these systems, the results in kind of real time. And it's -- number one, I'll just thank our revenue management team. It's a complex task on an average day to manage -- to yield manage the network overall, much less kind of do 1/3, 1/3, 1/3. So they're doing a fantastic job. And you see the results in our revenue performance here, and that's kind of under -- way underneath.

So the good news is there will be some refinement once we get -- once we choose which direction we're going to go. Mid next year, there will be some continued refinement. But we're learning as we go here. And so I expect that the results will come on.

In terms of the size of the opportunity, those numbers are -- they're certainly possible. I don't -- we'll -- we've got a number in the EBIT value here, and we're not going to break those out. But those are not out of the realm of possibility, I wouldn't think.

**Jamie Nathaniel Baker**

*JPMorgan Chase & Co, Research Division*

Jamie Baker with JPMorgan. Question for Tammy and question for Ryan. So Tammy, there was a point in my career where modeling forward year ex-fuel CASM was comparatively easy. I would not describe the last 3 years as such. The second half guide that you gave, do you feel that, that is an adequate baseline? Is it clean, for lack of a better term, that we could then build off that for 2024? And second, have you revisited your labor accruals since Friday night?

**Tammy Romo**

*Executive VP & CFO*

Yes. So I knew you were going to ask or someone was going to ask that question.

**Jamie Nathaniel Baker**

*JPMorgan Chase & Co, Research Division*

You knew it would be me.

**Tammy Romo**

*Executive VP & CFO*

And I think you might have asked me that question on our last conference call. But as I mentioned and answered on the last is that, yes, our accruals are dynamic, and we are doing our best to capture what is the market movements. So we're obviously not going to get into the details of our accruals. But yes, I can tell you that the guidance that we shared with you today incorporates our best estimate of labor accruals on the open contracts.

And I agree with you 100%. I remember back in the day, I think when you and I were working together, when I was much, much younger, you could kind of plug in plus 2 on RASM and plus 2 on CASM, and all was good. Very, very different today.

So just to give you a little bit of color on our CASM trends, I really -- since we're here in the fourth quarter, our CASM-X is -- that our guidance is up 14% to 18%. So just dissecting that a bit, over half of that CASM-X pressure is due to suboptimal productivity, and that's both productivity and capacity. So as we restore our network and our pilot hiring catches our fleet to the fourth quarter of next year, that should address the capacity impact of that, if you will, if you're tracking me.

And then the remainder is due to change in behavior. There's some part of that, that we are working to address, and Andrew took you through a lot of the actions and initiatives we're working on there. So it does feel like a little bit of that is sticky, but we are working on that as we move into 20 -- as we move into 2023 and into 2024. So hopefully, that helps provide a little bit of insight.

Except for that piece of it, I would say it's fairly clean. And again, as you started out with your question, it does include labor accruals. And of course, those are compounding into next year from this year, and all that's been taken into the guidance that we've given you.

**Jamie Nathaniel Baker**

*JPMorgan Chase & Co, Research Division*

Very helpful. And then, Ryan, it's clear that Southwest, it's been mentioned a couple of times today, you're not seeing any unique pilot challenges just with training, not with hiring. But other airlines competitors clearly are, smaller competitors clearly are. You're obviously well aware of what's been going on with regional pay rates and the cessation of service to smaller communities.

When I think through that overall phenomenon, my conclusion is that there is a positive potential knock-on effect for Southwest. But that was not one of your slides today. Have I been wasting my time thinking in this way? And feel free to tell me that I've been wasting my time.

**Ryan C. Green**

*Executive VP & Chief Commercial Officer*

But I'm not -- what I would say to that is that, as Bob mentioned, we're not having a difficult time hiring pilots. We are an employer of choice, and we are a fantastic opportunity for pilots, and we don't expect that to change as we go forward.

So I think the way I would characterize that for you is that I don't -- I think that we are going to be able to prosecute the growth opportunities that we want to prosecute that would not be constrained by any sort of pilot capacity issue just given the fact that they want to come work for us.

**Robert E. Jordan**

*CEO & Director*

Sorry -- just I think the...

**Ryan C. Green**

*Executive VP & Chief Commercial Officer*

He is not going to answer.

**Robert E. Jordan**

*CEO & Director*

Is there a pilot shortage is a complex question because it depends who you ask and who you're talking to, that's the point of your question. So I think the -- and then what is the impact on the industry, if there is? And so we have been spending a lot of time understanding where -- what does it take to produce a pilot? Where are people in the system to become commercial airline pilots? So what all that means for the industry and what all that means for Southwest Airlines? I'm sure we're all doing that.

One thing is for sure is that -- well, I think a couple of things. I think the -- it's a great time to be negotiating because wages, you're seeing wages come up. It's a great time if you're a pilot to be negotiating. So I think all of that will, over time, bring more pilots into the system and help solve this. But it takes 3 years, maybe sometimes longer for a pilot once they enter that process to come out the back.

That would tell you that we've got a period of time here where there is a squeeze, no matter what happens. The -- which is why you've seen all kinds of things going on around bonusing and rates and, as you're already seeing, I would suspect, and I'm not trying to speak for anyone else, just more the industry dynamic, you would suspect that, that is tougher on the regionals and others and not as tough on maybe mainline Southwest obviously being one of those.

So our read of that dynamic is that we don't have an issue, which is why I always say, we are not having trouble getting -- hiring pilots. And I don't think we will have trouble hiring pilots. We're hiring 2,100 plus next year. That doesn't mean parts of the industry won't have trouble hiring pilots. So again, this is all total speculation. So you could extend that argument to parts of the industry are going to be capacity constrained, and then even parts of the industry that have feeders and connectors to that may be constrained, which I know is where you're going.

So that's -- I'll just tell you that, that shortage and the squeeze for a period of time and then that outcome in terms of the impact on the industry is not an unreasonable outcome.

**Andrew M. Watterson**

*Chief Operating Officer*

And I would say -- to try to answer your question is that our growth that we're talking about is restoration to be very low risk. So we'll be putting capacity back into the markets we were at before. So we're not necessarily going to be distracted, going out of our way to prosecute things we see off to the side. However, even though sometimes the regional capacity crunch is characterized as a small city, the large, large, large majority of regional flying in big cities, and that's flying up against us.

So there are many markets where they overlap with us is RJs. And if they can choose where they choose to deploy their RJs, but there would be less of them than they were before. And then so whether that's a positive for us, that's up to them where they deploy their RJs. We know that we'll be focused on restoration. And to the extent they can't support the flying because of the pilot shortage, yes.

**Robert E. Jordan**

*CEO & Director*

And then the last connector to that -- as you can tell, we've spent a lot of time thinking about this. The last connector to that, too, that is a little more of a tangent is -- I mean, during the pandemic, obviously, we opened the 18 cities, and many of those are very small, a few flights a day. So we have absolutely figured out how to connect small and very small cities into our large network and be successful.

Those are all at or ahead of the progression that we had planned in terms of their maturity. So in terms of thinking about others may pull out of things and what can we do over time, again, our focus next year is on restoration. But if you go out past that, what kinds of opportunities could we prosecute. As a commercial capability, we know how to execute small cities and very small cities now.

**Tammy Romo**  
*Executive VP & CFO*

The sky is the limit, Jamie.

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

Dan McKenzie from Seaport Global here on your right. A couple of questions. The first for Ryan. Thanks for the slide on the share shift and -- based on the ARC data. If you can also talk about share shift in the \$11 billion wallet's been to the largest 100. You shared that, that's slower to come back. What's it going to take to accelerate those volumes? Where are you today with respect to that wallet spend? What percent of this share? And if you can just remind us what percent of your flying is, say, 3 hours and less?

**Ryan C. Green**  
*Executive VP & Chief Commercial Officer*

The percentage of flying, let me take that first. You know that, off the top of your head, percentage of flying 3 hours or less?

**Andrew M. Watterson**  
*Chief Operating Officer*

These days with the networks moving around. But usually, we have 40% of our trips in kind of shorter haul and 20% in medium haul.

**Ryan C. Green**  
*Executive VP & Chief Commercial Officer*

So that's the answer there. And then on the share shift question, I think the \$11 billion that I threw out, that's just really to give you context on what the opportunity is with the top 100 buyers alone. Of course, the market itself is bigger than that.

And like I said, over time, as corporate travel continues to rebound, we want to get our share of the large corporate travel buyers and then small and medium business as well. So we're making good progress there. You can see that the progress going from, in ARC, virtually nothing in 2019 to 10% here today, and we're continuing to make progress. And we think that we're probably outperform -- probably we think we're outperforming the industry on passenger growth. And so we're really pleased with that progress.

On a revenue basis, it's interesting. The industry, it's a little bit of apples and oranges on how the industry is reporting on corporate travel recovery. The way that we have done it is that we're reporting on managed business revenues. And the revenue piece of that, that's associated with a corporate travel ID. So it's part of our managed program. That continues to recover.

We're a little bit -- on the revenue side, we don't participate really on the premium side of revenue, of which our competitors do. So they may have a little bit more of a tailwind on the revenue side, but certainly on the passenger side, we're making progress, and we're really pleased with it. And we expect to continue to make progress as we go forward into next year.

**Andrew M. Watterson**  
*Chief Operating Officer*

I correct myself, it's 40-40-20 for short, medium and long. I apologize.

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

I appreciate that. Second question here is for Tammy. The messaging today, RASM, the plan is for RASM to exceed CASM. Does that get you to -- pardon me, does that get you to free cash flow profitability this year, one? And then second, what are the larger working capital drivers that might swing that one way or the other?

**Tammy Romo**  
*Executive VP & CFO*

Yes. So with the outlook that we shared with you and as Bob alluded to, you're getting back to 2019 levels kind of profitability and very strong similar cash flows relative to 2019, in that ballpark. So the one thing on the CapEx for next year, just keep in mind that our Boeing deliveries did shift. So we are originally planning for CapEx of about \$5 billion this year. When we were here a year ago, that was the number that we shared with you all. So we're going to close out this year, call it \$1 billion less. So we've got certainly some shifting into next year. So very manageable, obviously.

And then, as I mentioned earlier, I think with Helane's question, obviously, we have a very strong cash reserves, and our long-term target there is \$6 billion. So we've got a little bit of choppiness here from a free cash flow perspective, given some of the lumpiness in our capital expenditure, the way that's moving. And the CapEx guidance that we provided for next year, it's tied to our getting 100 aircraft. And -- but just remember, our contractual order book is kind of -- it's kind of moving with that. And at some point, probably when we get into 2024, all of that should smooth out some.

**David Scott Vernon**  
*Sanford C. Bernstein & Co., LLC., Research Division*

David Vernon from Bernstein. Andrew, you mentioned we're not going to be -- quite be getting to your productivity goals in 2023. Can you talk about kind of what the runway is from 2023 going forward on productivity? Should we be expecting pilot productivity to get back to pre-COVID levels? Or do some of these never complete changes kind of constraining in some ways? And then how do you think about driving productivity in other parts of the operation outside of the flying ops?

**Andrew M. Watterson**  
*Chief Operating Officer*

Well, I would say that our pilot productivity is on the -- how much they're flying is not an issue. We're kind of maximizing pilot productivity right now. The employee productivity, I talked about the employees per aircraft, flight attendants and ground ops or the employee groups that are larger on a per aircraft basis than normal that we won't be able to get back to.

As I mentioned, the flight attendant, part of that's driven by the larger gates, the MAX 8 requires 4 flight attendants rather than 3. And so we had originally planned on taking all MAX 7s this year, now it's all MAX 8s. And so that -- and Bob talked about how next year, we're not planning for the MAX 7. So another year of all aircraft take 4 flight attendants instead of 3. So that just pushes up your nominal employee count.

And on ground operations, we have some areas that are properly staffed and some areas that are overstaffed now because people are junior and don't have the proficiency. And so as those people get proficiency over next year and into the year after, we should see ground operations generally start to normalize. I mean if more people leads to less CASM, we'll certainly make that trade-off and glad they have too many nominal heads if it leads to lower CASM-X.

But right now, we're overstaffing ground ops because of that proficiency level that I talked about, as they're out of training, and that is not as -- they can't maintain that same tempo as a tenured employee.

**David Scott Vernon**  
*Sanford C. Bernstein & Co., LLC., Research Division*

So before I get to Ryan, though, if you think about the pilots that are in training right now, when those get absorbed in, will you still be at that same level of...

**Andrew M. Watterson**  
*Chief Operating Officer*

Yes. So there is a modest number. It's not -- it doesn't really affect the big number. I talked about employees per aircraft. There are employees that are in the active -- pilots that are in the active pilot count that are in training and therefore, not flying. And so those, as our training bubble comes down, but having been pilot constrained, necessarily that implies you have a training bubble, which then normalizes to track aircraft growth after you catch up. And in that situation, it will normalize. But there'll still be people in training as a drag -- or not a drag, but it's a component of that going forward.

**David Scott Vernon**  
*Sanford C. Bernstein & Co., LLC., Research Division*



All right. And then, Ryan, just to talk a little bit about commercial for a second. The 11% to 13% of routes that are in development right now, obviously launching those routes during the pandemic. Can you talk about how they're developing relative to pre-pandemic kind of levels of maturation? And do you see any sort of risk that if there is a little bit of pent-up flying that's absorbing that, does that go away? And then how do you think about maybe curtailing some of that capacity and a down market in those development areas?

**Ryan C. Green***Executive VP & Chief Commercial Officer*

Yes. So just the markets, overall, we're pleased with where they are in the maturation curve. I think we've shared previously that we typically -- when we go into a brand-new market that it takes us about 3 years on average to mature a brand-new market. And that's just because it takes time to drive awareness, incent trial from customers, get them into the loyalty program. And then over time, we get them into our life cycle marketing and customer development efforts to kind of move them up the customer value segmentation chain. So that just takes a little bit of time.

These markets are on the same type of maturation curve, regardless of when we added them. If you look at their performance in totality, which we do, the markets are performing ahead of where we would expect them to be in their maturation curve at the moment. And the commercial teams, that doesn't just happen. The commercial teams have been actively working cross-functionally to mature those markets faster than their maturation curve, and we'll continue that work into next year.

In terms of what the impact is into next year, they'll be further along in their maturation curve. So the penalty is less next year than what it was this year. So that should be helpful regardless, and we'll continue to work on that, and it's a commercial priority and focus for us.

**Robert E. Jordan***CEO & Director*

But it's all a tailwind. I mean we've got the 18 cities that we opened during the pandemic, who are now deeper into their maturity curve. So those are close to the in-state terms of ramping up and they're all on track or ahead. Same thing with Hawaii. We've got the new Hawaii interisland service that we'll have to mature. You've got the restoration of the network depth/breadth, which is much lower in terms of its level of risk, and they will mature faster, and that will occur across '23, '24.

And then a lot of our 20 -- we haven't talked about '24 capacity. We're not going to share a number there. But obviously, with the level of '23, a lot of your '24 capacity is going to be carryover, which also carries a lower level of risk in terms of its development. So I think it's all a good story.

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

It's Conor Cunningham from Melius Research. I'm over here. Andrew, just on this concept of filling valleys, I get what you're saying on the efficiency side, but it's hard for me to understand why it wouldn't be margin dilutive overall, like they're valley for a reason. Can you just dive a little bit more into that topic and why you think it's accretive overall?

**Andrew M. Watterson***Chief Operating Officer*

Well, sure. The -- I'm assuming you're saying it is dilutive because of the revenue side, right? And they're valley only because there's a peak and not to get too cute on you, but the peak is driven by crew. And so your crew have to start the day somewhere and they start the day in their bases. So they have a 3-day trip, that means 1/3 of your aircraft have to start the day in a crew base and then end the day in a crew base that invariably leads to these peaks at the end of the day. And so you don't have to have the valley be all the way to the top.

And so you saw that in Vegas and Dallas are still peaks throughout the day. So it's just bringing the valley floor higher. It doesn't have to be all the way up. But to the extent you bring the valley floor higher, you're not -- you're doing it in a very cost-efficient manner. Then you say, well, where are you flying that flight from because if you just pile it into the same route, then yes, it's dilutive.

And the point is if you're a company that has like just 4, 5 cities where you have a strong customer base, then you're going to be flying it to those 4 or 5 cities. And the point from the other slide where there's 23 markets where we're the #1 carrier and 8 markets, we're the #2 carrier and not going to be a place like Dallas or Chicago, where we have huge customer bases.

And so you have 31 cities and multiple airports in those cities sometimes where you could fly that flight from to Baltimore to fill up that valley. And you don't have to choose one that's already well served. You can choose 1 that's modestly served and needs to be better served for the business travel or one that's unserved.

And so the way to have your cake and eat it too is to fill the valley coming from places where you're not -- you're going to minimize dilution. And when you have a starting point of 31 places to choose from, you can then avoid dilution unlike a carrier who has just 4 or 5 choices. And so that's the trick. That's why we're different. That's why we can break the trade-off curve there.

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

Okay. Appreciate that. And then, Ryan, at the end of your presentation, you talked about '24 a little bit, and I hate to go that far ahead, but I'm going to. Just a high level, like how are you thinking about those revenue initiatives that are out there that you're starting to build into that pipeline? Is it more dynamically pricing or penetration on what you're currently doing? Just again, not asking for what they are, but how are you thinking about it overall?

**Ryan C. Green**  
*Executive VP & Chief Commercial Officer*

Yes. I think we've got a lot of opportunities available to us just in general. If you think about -- there are still things that we have not prosecuted that are really kind of industry standard type things. Andrew mentioned red-eyes. There's obviously a utilization benefit to red-eyes, but there's also a revenue benefit to red-eyes. That's kind of industry standard stuff that we haven't prosecuted yet.

Interlines, codeshares, airline partnerships, things like that, we have not prosecuted those industry-standard type revenue initiatives. And so -- I think the great thing is that we've got a tremendous network and a very large revenue base. And small improvements on a very large revenue base are material to our results.

And so -- I think we've got a lot of opportunities at our disposal. It's really more about picking the ones and prioritizing them in a way that come on over time and that we can absorb from a technology and an operations perspective just that the organization itself can digest those in a reasonable manner.

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

It's Scott Group from Wolfe Research. So you talked about a plan to get back to 2019 margins next year. I'm wondering, do you need positive unit revenue to get there? And then '19 was impacted by the MAX. Do you see a path over the next few years to get to the '17, '18 kind of margin range?

**Robert E. Jordan**  
*CEO & Director*

Yes. I think if you start with how do we plan for 2023, that's -- we've gotten that question quite a bit, and got it earlier. And -- because there are all kinds of things out there. You've got recession talks at all kinds of levels. You've got fuel prices at different levels. You've got global -- potential global threats. And we'd like to plan straight down the middle.

We use -- we don't plan aggressively or conservatively. We try to plan to the best set of information that we've got. We use a set of economic advisors. I would tell you that the -- what's baked into the plan is very tepid in terms of GDP and growth. So I think we planned appropriately there.

So we've got tremendous -- and sort of back to your question, we've got tremendous revenue strength right now. There's -- our booking demand is really good as far as we can see. We have visibility kind of into February, maybe a little bit beyond that and the demand is very strong. We've got revenue momentum, we've got sequential revenue improvement here from the third or the fourth quarter. And the plan is for that to continue to some extent into 2023. But I think our plan is very appropriate.

So in other words, just to simplify it, to get back to pre-pandemic net income or profit levels, that's not a stretch in terms of the way we planned. Now plans are going to unfold however the plans are going to unfold. The year is going to unfold however the year is going to unfold. In terms of how we planned, we planned normally, and we planned basically straight up the middle in terms of the external factors, especially the economy.

Well, Tammy, if you want to add anything?

**Tammy Romo**  
*Executive VP & CFO*

Yes. No, you've covered all of it really. And then I'll just go back to the discussion you're just having with Ryan. We're not depending on just the economy, we've really worked hard to have revenue initiatives that will help, obviously, in any type of environment. So that -- we're not immune to economic weakness, but I think over the years, we're resilient because of our low-fare, low-cost brand, but we're not relying on just that. We also have the revenue initiatives that we expect will contribute very nicely.

**Robert E. Jordan**  
*CEO & Director*

You've got the revenue initiatives, you've got the continued increase in business travel, managed business. You've got whatever this business leisure, I refuse to say bleisure, by the way, combo, something is happening there, it's material in terms of the way traffic is showing up. The growth that is coming, we just talked about it, is low risk for us because you're basically putting depth and breadth and restoring markets that were successful prior to the pandemic. So you have a lot of things that provide a tailwind on top of whatever the economy is going to do, which I think is very helpful to our planning.

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

Okay. And then Tammy, just one more for you. So if I look at the back half next year, we've got capacity up high teens and CASM down mid-single. So I guess, when do you think we get back to more of a normal relationship between capacity growth and CASM? Maybe just a similar version, I guess, maybe of Jamie's question.

**Tammy Romo**  
*Executive VP & CFO*

Yes. No, that's a great question. And I think, hopefully, we've -- we're doing an effective job sort of painting the picture for you. Obviously, this year was more of a transition year coming out of the pandemic, starting off the year with Omicron. We're ending this year on a high note with strong revenue trends.

And as we move into next year, we've talked a lot about the cost pressures of which a lot of those are tied to just not having -- being back our normal productivity levels. So there's a piece of this of just getting our pilots and getting our traffic -- our staffing to the levels that we need them to be to fully fly the fleet.

And then you have the fleet question, which is likely going to carry over into 2024. So hopefully, by the time we get into 2024, maybe it's hard to say exactly when in 2024 because I don't know the answer to the fleet piece of that yet. But I would think that we'll be in a much more stable environment, and we can, finger-cross, get back to more traditional relationships.

**Robert E. Jordan**  
*CEO & Director*

Yes. And sorry to jump in again, but I think you've got a -- just simplistic, you've got this period of very abnormal inflation. And some of that is goods and services, a lot of that is wage rates, where they're moving quickly, we'll all get contracts. We've got contracts opening and voting for our customer service agents, for our flight instructors now. So we're making a lot of progress on the contract front. Obviously, our big ones are still open with our pilots and our flight attendants, but we'll get that done.

But all carriers have to get those done and then, I think, lap that period where you had that abnormal inflation of the rates moving. And so that's '24, that's some period of time there. You've got to get to that. You've also got this period of time where we -- the Southwest and all others, but I'm just talking about ourselves, we've -- as we talked about before, half of the CASM increase is due to inflation and all that other stuff, half is due to other things, most of which is we're just not flying all of our aircraft. We're just not efficient in terms of use of the network and the aircraft.

So once you get all that accomplished, which is probably fourth quarter of next year, about half of that -- half of that half goes away. So that takes you into late '23, early '24. Now you're left with 3 or 4 points of stuff to wring out, which to me, that's really back to the -- back to your question, kind of the normal CASM increases that we would be working on.

And that's really mostly all the stuff that Andrew was talking about around modernizing processes and procedures. So it feels like it's into '24 before we get back to what you're talking about, a period where that relationship with capacity and CASM is normalized again.

**Tammy Romo**  
*Executive VP & CFO*

Yes. And just you're -- the environment we're in has obviously been very dynamic, dynamic for all of us. And we -- I think the key here is we really have to balance all of this as we go. And we worked really hard to do that and then also just have a lot of flexibility in our plans so that we can adjust should we need to. And we built our plan that way. We have our Boeing order book. It has lots of flexibility in it and so forth and so on.

So we are -- the framework that we shared, updated a little bit for you today, that really is how we're looking at managing the business so that we can, year in and year out, deliver RASM in excess of CASM, and in a way that produces industry-leading returns. So the financial goals that we've long had, over the long term, those really haven't changed, and we're just going to have to adjust and adapt here as we go.

**Brandon Robert Oglenski**  
*Barclays Bank PLC, Research Division*

Brandon Oglenski from Barclays. Tammy, maybe just a follow-up on those comments and Bob, and Scott's initial question on margins. I mean it's no doubt that investors don't like volatility and just look at airline stocks this year, right? We're all worried about a recession. How do you manage earnings with downside risk? So how do you manage such that this isn't such a boom and bust business now? What are some of the tolerance levels next year that you guys will be looking at to change course? And then maybe longer term -- interest rates are higher now maybe with some duration. Is a mid-teens operating margin the right target going forward?

**Tammy Romo**  
*Executive VP & CFO*

Yes. Well, when we look at managing our business, we're obviously looking at it over the long term. And obviously, there's -- if you look at Southwest over a long period of time, there's obviously cycles. As I said earlier, we're not immune to economic weakness, but we have tried to build a lot of resiliency in our plan. And our plan, it was designed in a way to mitigate risk from the economy that the economy might present.

So our growth plans, we spend a lot of time talking to you about those today. They are designed to be low risk because we know those markets. We know what the demand is in those markets. And we're, in a lot of ways, just really simply replacing the 125 airplanes that we kind of borrowed to accelerate the growth for these 18 new cities for markets that we were flying pre-pandemic. So we can certainly adjust as we go here, but we have designed our plan with -- in a way that mitigates our risk. So that's just one example on the revenue side.

And then on the cost side, we definitely have inflationary pressures. Those are real. We've talked a lot about those. But certainly, the cost that we can control, we're working really hard to improve where we can. Fuel cost is another one. If we are in -- and I can't tell you for sure sitting here today what fuel prices will do, obviously. But that could -- we're in an environment where fuel prices, we are seeing some relief there. But if not, we've got a fuel hedge in place to protect us should we see higher fuel prices.

So we -- the plan that we have today is trying to mitigate some of those risks that we're talking about. But at the end of the day, we also have a very important strategic initiative called fleet modernization. And we have the good fortune of being able to make decisions as we go here as to whether we put that aircraft into growth or we replace the 700. The NPV on just accelerating fleet modernization efforts is very strong and positive.

So we'll make these decisions. We'll be nimble, as we always have been, but we are driving the business to achieve the kind of margins that we can all be proud of.

**Andrew George Didora**  
*BofA Securities, Research Division*

Andrew Didora at Bank of America. Tammy, just on CapEx, I know a lot of moving parts here between '22 and '23 that you outlined pretty well in your remarks. Just in terms of '24 through '26, I think your numbers came up about \$500 million a year. Is that also just shift in spend? Or is that higher non-aircraft? Just curious what accounts for that?

**Tammy Romo**  
*Executive VP & CFO*

Yes. It's largely just shift in aircraft. As I mentioned, as we've shifted the order book, that's certainly impacting 2024 as well. Our -- if you look at our non-aircraft cap spend, most of that goes into the operations, close to \$0.5 billion of that. So we'll work really hard,

obviously, to manage that as we go. And then technology is another big piece of that as well. We spend several hundred millions in technology. So we'll work really hard to keep that under control as well.

So the other really relates to airports, and that's a couple of hundred million. So we'll rein all of that in and control that as best we can, as always, but most of it certainly is the aircraft and just the shifting of the deliveries.

**Robert E. Jordan**  
*CEO & Director*

No, it is the aircraft plan. It's almost entirely that.

**Andrew George Didora**  
*BofA Securities, Research Division*

Got it. And then second question for Ryan or Andrew. I guess in the past, when Southwest has rolled out new systems, I guess, we're often reminded just how maybe all the old systems are. So when we think about the new revenue management system coming in, are there any new capabilities that you will have in that system versus what you're working on right now outside of just pure price optimization?

**Ryan C. Green**  
*Executive VP & Chief Commercial Officer*

Yes. The new systems that are in pilot today, it's really going to do 2 things. The revenue management science has evolved over time and, certainly, since we put our current system in place. And it really -- there's 2 different things. First, it just forecasts demand coming at us better. It's just more sophisticated that way. And obviously, that helps in terms of how you manage the yield and manage the individual flights.

The other key piece of it is on the optimization of the revenue front. It makes better decisions, for lack of a better word -- it makes better decisions and trade-offs at the system level on what fares to take, either on a connecting basis or on a nonstop basis or even when to sell different fares at different points in the curve. So -- and all of that just optimizes the demand and optimizes the revenue that's coming at it.

So it's just a more sophisticated system overall. The workflows, the analyst workflows are more sophisticated as well. It helps the analysts make better decisions. And all of those things together kind of provide the benefit.

**Andrew M. Watterson**  
*Chief Operating Officer*

I also would say that the fact that he has 3 systems running, 2 new systems, speaks to the technical prowess of both his team and the IT department. For most airlines having one new system implemented, it's a big deal. The fact that he already did 2, and they're running just fine, I think speaks to the technical prowess of his department.

**Savanthi Nipunika Prelis-Syth**  
*Raymond James & Associates, Inc., Research Division*

It's Savi Syth from Raymond James. A couple of follow-up questions really. On the CapEx side, it's pretty elevated here. I realize that you're kind of making up for maybe 2019, 2020, '21 of not really having much of a program. When do we kind of get past this, kind of catch-up acceleration? Or is this the kind of the roughly \$4 billion? Is that the kind of the new normal for CapEx at least in the foreseeable future?

**Tammy Romo**  
*Executive VP & CFO*

Yes. No, the -- we're in a phase where we're replacing our fleet. We have our 700s that we will be replacing over the next number of years. So it will be in that kind of \$4 billion range here for the next several years. And again, the driver of that is largely aircraft for fleet replacement and to fund our growth plans.

**Savanthi Nipunika Prelis-Syth**  
*Raymond James & Associates, Inc., Research Division*

Just I guess, fleet replacement is always something you do, right? And you've had multiple fleet replacement. I'm just wondering if this is elevated or because you didn't have the MAX grounding, you had multiple things happen over the last few years that kind of pushed out some of your CapEx investments.

**Tammy Romo**  
*Executive VP & CFO*

Yes. It's a combination, Savi, but certainly a lot of it's been pushed out on the aircraft, and that's the large majority of it.

**Robert E. Jordan**  
*CEO & Director*

And it's -- yes, it's the timing. If we were going to take 114 this year, and now that's 66, and we were going to take 90 originally next year, and now that's 100. I think if I get the math right, that pushes 50 by nature into '24, if that's what -- 2024, that's what happened. So you just have -- the numbers are just moving around a lot here, '22, '23, '24. So it's likely, I think you'll get normalized back half of '24 into '25.

**Tammy Romo**  
*Executive VP & CFO*

Yes. But the \$4 billion is from 2024 to 2026.

**Robert E. Jordan**  
*CEO & Director*

Yes.

**Savanthi Nipunika Prelis-Syth**  
*Raymond James & Associates, Inc., Research Division*

Okay. Got it. And then just on the passenger purchasing behavior, I think there's been, mostly from this kind of work from home, people taking advantage of it. You are probably seeing changes in kind of purchasing patterns. And also, I think the trend that you've seen even before is kind of the premium leisure purchasing.

I'm kind of curious as you kind of roll out or try to test these RM systems out, are you having to change maybe the learnings from the first half to the second half and how that applies to how you're thinking about like promotions and how you build load factors versus kind of pre-pandemic before we had some of these trends? And then also on the premium leisure side, what tools do you have to kind of capture that demand for that?

**Ryan C. Green**  
*Executive VP & Chief Commercial Officer*

Well, let me -- I'll take that a couple of different angles here. So the -- in terms of the changing travel patterns, leisure is -- certainly has -- certainly been stronger. Well, if you just go back to March, obviously, that's when the demand came back, and we had late spring and summer. Summer was the peak of the peak. And then we get into Labor Day, and that's when we started -- post Labor Day when we started to see real leisure strength in kind of a typically down period in terms of September. And so that was welcome.

And as you look at what the changes are there, there's definitely strong leisure demand. As we look out into the booking curve after the 1st of the year, I think I would characterize it the same way. I think there's strong leisure demand out a little bit further -- past the holidays, a little bit further out into the curve. But these are strong -- this is strong demand kind of in aggregate and overall.

When you look at kind of travel pattern changes, there's modest increases in length of stay. There's modest increases in number of trips that touch a weekend. So I would just characterize it as strong leisure travel overall. And the systems are designed and our revenue management team are designed to take the demand as it comes in and adjust and yield up as necessary.

So I think the team is watching for these changes in demand trends and adjusting all of the time. And that's no different really than how we have -- how you manage the business overall. So I think that's what we're seeing there on the -- on kind of the changing travel patterns.

In terms of premium leisure and being able to take advantage of that, really what we're -- there are a lot of ways to drive revenue growth without necessarily charging higher fares.

Obviously, the revenue initiatives are paying off very nicely for us. But one of the things that we have done here over the recent past is that we have tried to keep -- in order to attract these leisure customers, we've tried to keep, as best we can, fares in a reasonable range that would incent this travel. And when you look at our filed fares pre-pandemic to now, there are actually filed fares on average, the nominal prices that we're charging, they're actually the same or lower than what they were pre-pandemic. And we've seen very nice yield improvement.

And the way that we're getting that is we're just selling a better mix of fares all along the curve. Selling lower really, really cheap fares, lower really, really high fares and just a lot more really, really good fares kind of in the middle. And so that's one of the ways in which we're trying to make sure that we're -- that the product itself is attractive to this kind of high leisure demand environment, and we're seeing really nice results with that.

**Robert E. Jordan**  
*CEO & Director*

And Savi, I'm probably way over my skis on technology here. But I think one of your questions was the -- with a lot of these travel pattern changes going on, they are recent and then how do you adapt to those and understand what's happening.

Ryan, if I remember right, typically, a revenue management system, it obviously relies on history. A lot of times that history is old and maybe even years and then it's making assumptions around how to modify the history. So there's a lot of variability.

The systems that we are testing are much, much better at reacting to changes in demand, very close in and then adapting inventory levels and what is being sold without having to rely on year old history, for example. So I think that's one of the biggest opportunities as they react to changes in buying patterns and demand. Exactly what you're talking about, much faster without having to wait and wait and wait on history to occur.

**Stephen Trent**  
*Citigroup Inc., Research Division*

It's Steve Trent from Citi. Two questions for me. The first is actually kind of a follow-up on Savi's question. When you think about the managed business travel growth, any high-level view with respect to how that's lining up or not lining up with higher loyalty and co-branded card revenue, so someone traveling on business wants the points and they're using the card more frequently? Or is the wall between business and non-business travel too muddled down in the pandemic to have a good view on that?

**Ryan C. Green**  
*Executive VP & Chief Commercial Officer*

Well, I'm not -- if I don't answer your question, let me know. I think -- I absolutely think that when you talk about expanding our market, our share within the managed corporate travel space over time, that absolutely is -- it kind of has flywheel benefits. They -- we go out, we acquire a new account, we sign an agreement with that account. We have access to a new set of travelers. We have outreach efforts to get them into the loyalty program. And then once they're in the loyalty program, we have the opportunity. It's easier to then offer them a credit card.

So I think over the long term, I think that -- or even the medium term, I think that our expansion into the managed business travel space is allowing -- is giving us access to a new pool of travelers that we can then talk to, grow their customer value over time by selling them additional products.

This year, we've added 8,000 -- roughly, Dave (sic) [ Steve ], about 8,000 new accounts -- corporate accounts that we're managing, millions of new travelers that we didn't have access to before. So I think those are -- many of those were already in the Rapid Rewards program, but many were not. And so I think that that's an opportunity for us as we go forward.

**Stephen Trent**  
*Citigroup Inc., Research Division*

Very helpful. I appreciate the color, Ryan. And just a very quick second question for me. I saw you restarted your dividend program and congrats on that. Any sort of quantitative or qualitative reasons behind doing a divi as opposed to share repurchases? Was there some tax wrinkle for you guys on one or the other? Just curious.

**Robert E. Jordan**  
*CEO & Director*

No. I think we're committed, obviously, to the -- I mean we're committed to our priorities just like we were before the pandemic ever hit. So we want to restore value to our shareholders. Step one here was restoring the dividend. I'm just absolutely pleased that it's a full restoration and then we could be the first to do that. I think that's terrific.

Our other priorities, obviously, we need -- we talk to some about contracts. We need to invest in our people. For right now, that's getting contracts done and investing in them. We want to keep investing in the airline, obviously, as you noticed. At some point, it will be appropriate to talk about share repurchases, and that's not today, but we want to -- obviously, our priorities have not changed since pre-pandemic.

**Ryan Martinez**  
*Vice President of Investor Relations*

All right. We'll do one more question from Sheila.

**Sheila Karin Kahyaoglu**  
*Jefferies LLC, Research Division*

Sheila Kahyaoglu with Jefferies. I will never sit in the back row at an airline analyst day again because I've changed my questions about 45 times. So when we think about GDS initiative in 2023, how much of that EBIT contribution is it contributing the \$300 million to up \$800 million for 2023? If you could talk about that at all? And GDS demand trends, how that scenario planning plays into that?

**Ryan C. Green**  
*Executive VP & Chief Commercial Officer*

Well, we're not going to break out the EBIT contribution number into its individual components, but it is a component of the total pie. And it's providing value here in 2022, and we expect that value to continue to grow in 2023. And we're going to do that by continuing to go out, win new accounts, win new business and grow our share of the managed business pie.

**Sheila Karin Kahyaoglu**  
*Jefferies LLC, Research Division*

And maybe just a follow-up on the co-brand acquisition activity. It's up 32% versus pre-pandemic. So what's the real runway here? And where do you see the largest opportunity outside of corporate you just touched upon?

**Ryan C. Green**  
*Executive VP & Chief Commercial Officer*

Well, I think it's within the customer base overall. I mean we've got -- as we continue our growth in additional markets, we become more relevant in those markets overall, and we just grow over time here. We've got 18 new markets that we brought online.

And I think one of the things that's unique about the loyalty program for Southwest relative to our peers, our peers have -- they're very relevant in their hubs. And as Andrew talked about, we're the #1 carrier in '23 of the top 50 markets in the United States. So we're very relevant in a larger number of markets than what our peers are.

And so I think that there's a tremendous amount of opportunity within the existing customer base just to continue to go deeper and penetrate the customer base even further.

**Ryan Martinez**  
*Vice President of Investor Relations*

All right. Well, thank you all for the great questions. Just before we wrap up, we've shared a lot of information today. Hopefully, you found it helpful. And I just want Bob to wrap this up here real quick to make sure you guys leave with the right context.

**Robert E. Jordan**  
*CEO & Director*

Yes. I appreciate it. Look, I've just been taking notes along the way to make sure I've been responsive and I don't notice an issue sitting in the back row or not, I think that's just fine. Anyway. I mean, as Ryan said, we've shared a lot with you all today. I really appreciate you being here, number one. I appreciate your patience as we went through our presentations.



We've got a really healthy plan. We've got a lot of momentum. And here in '22, especially in the fourth quarter, heading into '23, we've got a lot of healthy growth in '23. And some of that obviously will carry over into '24. Obviously, you can tell, we look at that as much lower risk growth because it is all about getting our aircraft in the air that we're not flying today, and it's about restoring the network, which means it's lower risk.

We opened a lot of cities. During the pandemic, we opened 18. We expanded Hawaii. Those will continue to mature as well. But I think what you can expect from us is that was a lot of pull forward. So I wouldn't expect to see us thinking about adding new cities. I'm not literally, but that's probably something that is '24 -- it's a little further out because we pulled so much of that forward.

We have a lot of opportunities. We're heading to a point here in a few years where, all things go right, we'll have over 6,000 flights a day, and we will have 1,000 aircraft at Southwest Airlines. We get the question all the time, are you out of opportunities with the 737? I've been here since 1988. I got that question in 1988. Could you possibly be successful outside of the Texas region?

And I watch us -- going to other geographies, watch us more from mostly short haul, the medium and long haul as well, go it international, acquire ETOPS, go to Hawaii, all kinds of things, and you'll see those things continue. We're not ready to talk about our next set of commercial plans. We mentioned things like codeshare, red-eyes, interline, other geographies, and you know that will continue. So there are lots and lots of dots on the map that are open to Southwest Airlines. And there are other new commercial capabilities that are open to Southwest Airlines, and I am just super excited about that.

But if you just wrap it up, I feel like, again, we're in great shape. We're very well positioned. We've got a lot of momentum, and that momentum is going to carry us here into 2023. Yes, there are a lot of uncertainties, recession, fuel prices, but we are very well positioned. We have a great fuel hedge at roughly 50% right now. We have opportunities to be flexible on the fleet if we need to do that. The capacity that we're adding is lower risk because it's almost all restoration of markets that we were in pre-pandemic. So I feel like our -- the risk profile, even though we can't control those externals like the potential of a restoration, those -- our risk profile is lower just because of all the things that I went through.

Our plan is, of course, in '23 to keep growing profits, keep growing margins, keep growing return on invested capital. And I'm really pleased that after just a few years post pandemic, the plan that we have for 2023 has us restoring our net income to pre-pandemic levels. I think that's a huge accomplishment. I think the restoration of the dividend is a huge accomplishment.

But I just want to leave with one thing, and I've been in Southwest a long time. And I'm not just saying this, we have the best people in the world. I love the people at Southwest Airlines. And they are the ones that deliver, they are the ones that deliver for our customers. They are the ones that show up every single day and work hard, and we have the best leadership team, not just in the airline industry, but on the planet. And I believe in our people, and I believe in our leaders and this team can do anything. And they are ready to deliver. They are delivering today and they're going to deliver in 2023. And so I have the utmost confidence because of the people of Southwest Airlines.

And we appreciate your -- again, we appreciate you being here. I think I have to take off and go do a CNBC thing. So I'm not running away. Just we've got to go do a quick interview there. But again, I appreciate you all's time so much to be with us today. So thank you.

**Ryan Martinez**

*Vice President of Investor Relations*

Thank you, Bob. All right. That will conclude the event and the webcast. Thanks for coming.

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