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# Southwest Airlines Co. NYSE:LUV

# Company Conference Presentation

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## EXECUTIVES

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

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*Sanford C. Bernstein & Co., LLC., Research Division*

# Presentation

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

We're going to get started here. Thank you, everyone, and welcome to day 2 of Bernstein's 41st Annual Strategic Decisions Conference. My name is David Vernon. I cover U.S. airlines and airfreight and surface transportation and a whole bunch of other things related to the movement of goods and people.

We are privileged and pleased to have Southwest Airlines joining us here today. Bob Jordan, the CEO is here; Tom Doxey, the CFO; and the IR team, Julia Landrum and crew are with us as well. We are going to do this pretty much a fireside chat. You guys should be aware by now that there is a mechanism for entering questions in. [Operator Instructions]

I'm going to turn it over to you, Bob, but I first want to say thank you to Southwest, and thank you to you personally for coming out to support our conference. Why don't you kick us off with maybe your views on state of the industry, state of the business? Any opening remarks or key messages you want to kick us off with.

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

Yes, Dave, you bet. And thanks for the invitation. And you said you're filtering out the questions we shouldn't take, like did you lose my bags? I'm happy to take them. But I have a little experience. Anyway, so let me just -- a couple of minutes. Really a couple of things.

A lot of interest, obviously, in all of the changes that we are driving at Southwest Airlines. We have a huge plan of initiatives on the revenue and the cost side. Some of those we announced last fall, some of those we announced this March. If you're watching, we put in a huge slug of those yesterday. So we added a basic economy fare. If you go on the website, on the app, you see that today. We changed some of our fare families.

We began charging for bags. Obviously, if you're -- if you have status, if you -- all you have to do is have our credit card, you still have a free bag. And we changed some of our flight credit expiration. So a lot of the things that are in our revenue and initiative plan were either in or they went in yesterday. And then the remainder, a lot of those come in very quickly. We'll be announcing soon the date that we began selling assigned seating and extra legroom. That will come in on the sell side in the third quarter of this year for operation in the first quarter of 2026.

And our cost plan is in really good shape. Last fall, we announced a $500 million cost plan by 2027. That's now been up to more than $1 billion, and we'll actually take out $370 million in cost this year and the exit rate in cost takeout will be $500 million, which was our original 2027 target.

So the real story there is I'm just really proud of the team and the execution of the initiatives. Again, a lot is already in place. A lot went in yesterday. I'm very proud of our team in the execution of the operation. We're #1 or right at #1 in on-time performance, lowest canceled flights, lowest long delays. We're just crushing it on the operations front, very, very proud of folks.

And we are showing very, very strong cost discipline. Our first quarter results, we were well below consensus in terms of our cost execution, CASM-X. That cost execution is continuing here into the second quarter. And we are still on track to exit 2025 at a low single-digit CASM-X rate. So seeing strong execution on the operation, on the cost front and, of course, on our initiatives. And we can talk a lot more about the initiatives, $4.3 billion in EBIT value in 2026, so a very large set of items.

Maybe the one other thing everybody is, I'm sure, very interested in is what the heck is going on in the macro economy and macro demand, that's on everybody's mind. You have heard a lot of talk of stability. We're seeing stability in demand at Southwest in the last few weeks here, but it's stability at the current levels. So it's stable at levels that are obviously lower than what we expected when we set our plan in January.

When we reported fourth quarter earnings in January, that compared to today, I've said this before, demand is off kind of roughly 6 points from what we would have expected in January. It is stable. It's just stable at these lower levels. And we all can see industry data, and we don't see an inflection back in the industry data. We see stability, but we don't see an inflection just back.

But regardless, you can't control the macro economy, but you can control -- we can control what we're doing, which is execution of the operation and execution of our initiatives. So all of our focus is on that, and you're seeing very strong performance of the initiatives to drive that $1.8 billion EBIT value in 2025 and $4.3 billion incremental EBIT value in 2026.

# Question and Answer

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

Okay. So I definitely want to get into the initiatives and some of the changes that are happening at Southwest. But since you're talking about the macro, you guys do get a very good look at the U.S. consumer in terms of buying behavior, the days advance purchase.

As you think about kind of what you're seeing in the data, what does it say about the health of the consumer? Are we still in an okay shape? Or are we -- like is there anything else that you're seeing kind of in the composition of the way people are buying travel right now that gives us any insight?

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

Yes. It's -- I think it's tough. The data is a little all over the place. There's no doubt that the consumer has pulled back. That is for sure. We are seeing a couple of things that are unusual. We're seeing the booking curve come in. So it's a shorter booking curve. So it's very clear that consumers are waiting to make decisions, including for the summer. So our visibility through the summer is far less than it would be typically simply because the booking curve has moved in.

The -- and consumers can make their decisions quickly. They can turn off buying a trip very fast. So the airline industry tends to be a leading indicator. Business is actually holding up better than that, than the consumer. So we have seen some falloff in business, but it's really primarily government travel which is impacted by the executive orders and other things that you've seen. But the business seems to be holding up well.

You get into -- if we get into a recession -- but you get into a recession and you see businesses, travel is one of the first things that they can reduce, you see them lower their CapEx budgets, you see them stop hiring. And we're not seeing a lot of that just yet. So I think the indicators that business is really going to fall off, I don't see those yet, but you do see the consumer being, I would just say very cautious.

Now the consumer can turn right around and turn that back on. So when I say we don't see that inflection back yet in the industry data, that doesn't mean that, that couldn't happen. We just don't see that yet. So what it appears to me is while the economy is still in relatively good shape, the consumer sees the uncertainty and is just waiting to make some of those purchase decisions. That's what appears to be happening.

The other thing I think that's happened is with the tariff announcements, I think consumers pulled forward, there's evidence that they pulled forward purchases that they were afraid would be affected by tariffs, automobiles, appliances. You've seen a lot of reports of demand surge, especially on the automotive side. So it could be that over just sort of a week's period here, consumers have shifted their spending to some of these more durable goods that they are afraid are going to be affected by the tariffs.

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

So you're saying like a reprioritization...

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

Just a temporary reprioritization based on the fear of the tariff impact. So again, I just go back to -- it is very choppy, and the data is choppy. You're seeing these large falls in confidence of things, which again could inflect back. But we can't control that. What we can control at Southwest is what's the quality of our operation, what's the quality of our cost performance, what's the quality of executing all of these initiatives and all of our focus is on doing that because at the end of the day, the set of initiatives that we announced last fall and this spring add up to a lot. I mean we're a roughly $30 billion top line company on the revenue side. And the 2026 incremental EBIT from these initiatives is $4.3 billion. It's hugely impactful to the business and to our margins.

And again, these aren't crazy things that we've dreamed up. These are things primarily that the rest of the industry is already doing. So it's -- again, it's assigned seating, selling extra legroom, bag fees, seat assignment fees, that kind of thing, changes to the expiration date. So all very doable. So all of our focus is on driving the execution of the initiatives, doing that well, driving the financial benefit and then what that will lead to is a significant boosting of our operating margins and our ROIC and hitting our long-term targets.

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

Okay. Since we're talking about initiatives and the high-level number, the $4.3 billion you mentioned, that would work out to roughly a 10%, 11% margin. Are you -- when we think about hearing that number, right? Are you telling us that that's the number you're actually expecting to show up in EBIT? Or is that the value of the initiatives that then will offset whatever is going to happen in the underlying base business?

Because sometimes it gets a little bit confusing in terms of what we should be taking as a number to put into a guidance framework versus a net realization number, if you will, when you've actually implemented the initiatives and then the business changes and everything else happens that maybe offsets some of that.

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

Good question. The numbers that we gave you, those were net. So that was a net of any other impact that, that initiative could drive. And so no, think of that as a straight up contribution to the business. So a $4.3 billion incremental contribution -- EBIT incremental contribution to the business in 2026. And just to give you a little detail. Again, these are all things that are -- what the industry is doing, cabin segmentation. They're just things that Southwest has not done, were not part of our model until now.

And just to break real quickly, the $4.3 billion to make it real. The $4.3 billion breaks roughly into: It's about $1 billion in base business changes, so that is improvements to the revenue management system. We had some hiccups when we implemented that last year. It's changes to the -- continuing changes to the network, continuing to boost load factor, driving connectivity. So base business improvement is about $1 billion.

It's about $1.5 billion in the value of assigned seating and the extra legroom product and the sell ups, those kinds of things. So there you're at $2.5 billion. It's $1 billion in the cost initiative, which is well underway, and we'll exit this year with half of that already in place. So there you're at $3.5 billion. And then the other $800 million is the revenue contribution from things that are coming into place right now. That are already in place as of yesterday. So bag fees, flight credit expiration, changes to the loyalty program on earn and burn.

So the $4.3 billion is not complex in terms of the -- of what makes it up. And it isn't a set of initiatives that are sort of crazy things that Southwest is doing that are unique to the industry. These are really things that the industry is doing. So I look at that and I see number one, low risk of implementation. And you saw terrific implementation yesterday of what we put in place. The low risk of getting it done. And then number two, low risk of hitting the financial numbers because these are things that other -- nearly every other airline does, and it's easy to see the values that they pick up off of those initiatives.

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

So I guess when you think about that $4.3 billion hitting the -- being an incremental contribution to the business relative to the baseline, like what needs to happen to the base business in order to retain the full value of that $4.3 billion?

Are we -- does it just need to be stable? Does it need to improve? Like I'm just trying to -- again, kind of when we look back at the history of calculating the overlay in initiatives and what actually shows up in the P&L, there's usually a delta. And I'm trying to like help you explain to me what that delta is. Because I keep getting asked that question like hey, well, they come up with these initiatives. It's a big number, you add it up and then the number comes in below that and then -- but we still have the initiatives like...

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

Yes, there's -- there are probably 2 aspects to that. One is if the economic backdrop is affecting overall demand, what is that doing to your initiatives? And the way I would think about that is pretty simple, which is you're adding bag fees or seat fees or giving customers choice around buying the extra legroom section.

While again, if demand has fallen 6 points, 6 points of that demand could come off, but the rest is all incremental because these are folks that are buying, they're now just choosing to say, "Hey, you know what, I really want to buy the extra legroom section." And so a small part of that $4.3 billion in total is at risk due to demand changes simply because these are revenues on top of making the decision to fly Southwest Airlines. Again, the $1 billion that's cost, half that's already in place. And so I see very low risk there.

Maybe what you're asking me is how do you ensure that when you count a bag fee, and the value of extra legroom and the value of assigned seating, how do you know you're not double counting and do all these things stack? And we were very careful to separate and segregate the analysis on -- based on traffic, based on customers that will have a bag that's free through the credit card or free through their status, and looking at what other carriers make off of bag fees, what is that value to Southwest Airlines. The same thing with the assigned seating value.

As an example, what we didn't -- what you would be -- what I would worry about is if we said we're going to put in assigned seating and we're going to see this huge market share shift to Southwest because all these people will suddenly want to fly us because we now offer assigned seating. That is not the way we calculate it or the numbers that we provided to you. It's really the value of the seating aspect and someone buying -- basically making a seat reservation or somebody choosing to pay a little more to be in the extra legroom section.

So I'm very comfortable. Number one, that the revenue portion of the initiatives are not -- don't overlap and aren't counted in properly. And number two, they're net of any loss that you could experience in some other area. And number three, we were conservative in terms of how we created those values.

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

So Southwest historically, just as we've kind of looked at bag fees, assigned seating, those have not been things that you wanted to do. And you guys made a pretty good case a couple of years ago to not do those things, and then now we've changed. Can you help us understand the -- what shifted in terms of your thinking?

Because I mean, I remember your last Analyst Day, you guys made a pretty impassioned case that said, "Look, if we charge for bags, it's actually going to be that negative because we're going to lose out on the added premium that's already in the base ticket price because customers are coming to us without the friction." Like did it change in the spreadsheet? Did it change in the prioritization? Like how do we -- like how do I think about that...

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

It was not a spreadsheet error.

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

I'm not saying it's a spreadsheet error...

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

No, I think it's several things. Number one, we were just looking at that as a narrow bag question. As you back up and you look at it as a combination of really thinking about cabin segmentation and I'm going to have a different set of fare products with basic, and the value of buying it from basic to the next and that to the next. The bag fee, as an example, only fits very differently. If you think about it, just independently as a bag fee versus I'm going to think about it in the context of changing our fare products and what those buy-ups could look like.

Number two, we joined channels that gave us access to understanding how customers were picking us relative to other carriers. So Google flight search, Expedia, Skyscanner, Kayak and others, where we are matched up to other airlines, and we have the bags fly free policy, they do not but were matched up on price. Are we seeing literal share shift? And we did not see share shift.

So where some of the customer survey data said that we would, when you went into -- we went into channels, and you could see customers making their choice. We did not see that share shift show up. And then I think most importantly, number three, we chose to back up and rather than just answer the bag fee, no bag fee question, let's answer the question of what do customers want? And they want segmentation of the cabin. They want a variety of product offerings. They want access to premium. And it puts that question in a different context. So a lot of things changed.

And what I'm very proud of is we pivoted quickly, and what you saw go in yesterday, bag fees -- because we also said we don't need basic economy. And what became very clear is there is a segment of customers that want basic economy. You may not want basic economy and the restrictions, but we have a segment of customers that do.

And what we were doing at Southwest is we -- our Wanna Get Away product, which is the lowest fare, was typically matched up the basic economy, but we were giving you everything for that price and others were giving you very little. And so number one, we were giving you far more, which costs Southwest, at that low price. And then number two, other airlines were booking very few of their seats at that low basic economy price. What they're doing is upselling you to the next fare.

So we were losing the ability to capture that upsell revenue, number one. And then number two, we were giving you far more for that same price. So with basic economy, we can be matched up and take advantage of the ability to upsell. So a lot of things changed. What I'm proud of is we pivoted, and we worked the technology and the operational changes and as of yesterday, it's in place, and it went in flawlessly, not one single problem.

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

All right. So maybe it's a good segue into -- I'd like to get your perspective on maybe how the industry has changed in the last 10 years, right? Southwest historically has been the share taker, the margin leader, right? And some of the discount airlines would be at the same sort of area. And now that's not necessarily the case, right? You guys are under a little bit more margin pressure. The discounters are actually -- some of the unbundled carriers are losing money, whereas some of the legacy airlines, which has historically been the share donors, are now all of a sudden doing better.

You've been around this industry way longer than I have, and I'd love to understand your perspective on the big picture things that led to that shift, like what's changed in the industry profile. And I think our investors would like to understand this too, like what's really changed maybe from 10 years ago to today that's created this shift in the landscape, which seems to me to be structural, but...

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

You said I've been around a lot longer than you, which is a nice way to say I'm older. Is that right?

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

I'm not sure. I age well. So I'm...

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

No, I've been in the industry, coming up on 4 decades. And one thing you learn is things are changing all the time. But no, the last 10 years has been a time of huge change, maybe 15. I think it's -- I think several things are fundamental changes that forced the industry to change. Number one, costs have come up. Structural costs are much higher. And a lot of that are these new labor contracts and the work rules that are embedded in labor contracts. And so it fundamentally changes the industry because you've got to produce revenues that can cover those costs or you're going to end up with unsustainable margins. So that's a huge change.

Number two, consumer demand and what the consumer wants has changed materially. Some of that we saw coming out of COVID, some of that we see generationally. You see younger generations that want aspirational travel. They want premium as an example. So it isn't simply a price competition.

So number one, fares must come up to cover higher costs, which obviously impacts all layers of the industry, it certainly impacts the ULCCs and the ultra-low fare model because you pretty much got competitive industry wages and contracts at this point. And then number two, the consumer wanting a variety of things, from bare bones to premium to kind of super premium has created segmentation of the cabin because you got one tube and you're trying to carry folks that want all of those things in this one tube.

And the only way to do that and drive revenues is to segment the cabin and offer what customers want, Southwest has certainly lagged there. We've had one -- we've been extremely successful for decades, but we've had one product, one model, very egalitarian, open seating for all. And that was terrific when that was primarily what customers wanted. But today, when customers want everything from bare bones to super premium, the only way to answer that is segmentation in the tube itself.

So I think consumer expectations and desire for what they want, the rise in cost, and therefore, the rise in having to really push revenue production and then segmentation of the cabin. I think those are the three biggest changes that have really changed the industry.

**David Scott Vernon**

*Sanford C. Bernstein & Co., LLC., Research Division*

That's -- because when you were talking about like the Wanna Get Away fare at the low end being matched up to basic, like that seems to me like almost the key for the unbundlers when they came into the industry, right? They came in with a product with a lower cost structure that was at the low end. It was getting benchmarked against better products, but because consumers maybe hadn't evolved in their understanding of the distribution and what they were actually buying, there was an opportunity that almost gave them an advantage.

And then as the Delta and the other airlines have platformed that product. That advantage has fallen away, and I think that's sort of what's shifted the pendulum. What do you think about that as a sort of understanding of that concept? Is that in the ballpark?

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

Yes. There's been a lot of debate is -- has basic economy been a fundamental driver of this change that you're talking about? It's hard to know. But what we do know for sure, if you just take Southwest Airlines and so put aside the original unbundlers like Spirit, just look at Southwest Airlines, Again, we were matched up. So our Wanna Get Away fare gave you everything basically at the price that basic economy on others was giving you very little. And we were booking the vast majority -- I haven't given -- we don't give the number, but I'll just tell you, the vast majority of the aircraft was booked in -- at that Wanna Get Away fare.

So some sell up to Wanna Get Away Plus anytime and Biz Select. But what you saw in the other airlines that have developed basic economy was while they offered basic economy, somewhere in the 12% to 14% of the aircraft was booked in basic economy, a very relatively small slice. The majority was upsell from basic economy. So that's what makes it very difficult at Southwest and others to attack this question is we're selling most of the aircraft at the low fare with a lot of attributes. And I mean most of the aircraft, they're offering it at OA and selling a small slice of the aircraft at that rate and then take -- and then taking that upsell revenue.

So that's the change that it's just not tenable if you're going to maximize revenue per square foot in the cabin, and for us, you're going to get back to industry-leading operation -- operating margins and industry-leading return on invested capital. You just can't have that. What I described is just incompatible with those financial results.

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

Yes, the mix issue. So as you think about the next couple of years here in terms of implementing these changes and getting it rolled out, right? Obviously, you're still doing some additional fleet reconfiguration, right? When do you think you get to full run rate across the entire fleet of being able to offer the -- currently -- the recently launched new Southwest with the premium seating and the assigned seating, all that kind of stuff. When is that across the entire fleet?

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

Well -- and just one quick tidbit. I'll answer your question, I promise, but we've got 63 of our aircraft that are converted to the new configuration with extra legroom. So we're not selling it, but you get on and you see that extra legroom section. It looks great. And we'll do some things before we implement assigned seating, where we will tell our customers at the last minute that, hey, you're flying on one of the aircraft that's in the new configuration. And so you can do a gate upgrade, make sure you're on early and have access.

But main things what we're seeing as a proof point is the NPS score on those aircraft where -- that are outfitted already with the new configuration is running 6 points ahead of other aircraft. So without customers even knowing it, they're giving us a lot of credit for the fact that this layout is much better because that's a -- and we already have terrific in-cabin NPS scores. So 6 points is a lot.

But I think what your question though is one of the huge misconceptions. I'm very proud of Southwest. I'm proud of our plan. I'm super excited about our future. And I think we are undervalued at current levels. And I think folks are underestimating the value of these initiatives and how fast this $4.3 billion is going to come online. So -- you got -- I think we have a lot of folks going, "Well, I see the initiatives, but you got to show me. So I'll take a look, so this is a 2026-2027 story." This stuff is coming online right now. Yesterday, we implemented the bag fees and basic economy. We're months away from selling assigned seating. We're -- months after that, that we'll be operating assigned seating.

So we're well ahead of our cost plan. We'll hit our -- we'll basically exit this year at a cost run rate -- a cost takeout run rate, that is what we said we would hit in 2027. So we're not a show-me-in-2027 kind of story with our plan. This stuff is showing up right now.

And the vast majority will be in place by the first quarter of 2026, which means you'll see a lot of benefit this fall in the EBIT number. And then you'll see the majority, if not all of the rest that gets you to that $4.3 billion in 2026.

So this isn't wait 3 years and see if Southwest can do it. This stuff is coming online right now. And I think that's the biggest thing that is underappreciated by our plan as it is happening right now, that. And number two, there's low risk because we're putting in things that the industry has done forever. So there's low risk implementation, there's low risk in the financial benefit paying off.

And number three, we aren't stopping here. So putting in the things that I've described isn't the end of the journey for Southwest. We will continue to pursue the consumer. And if the consumer wants other types of premium, they want us to fly other long-haul destinations, which could lead to aircraft questions. I'm totally making all this up. This is not a plan. But the consumer demand in certain cities for us for a lounge is super high. My point is rather than say, no Southwest Airlines does not do that. You must follow the consumer, or you are forever vulnerable to others that can offer that to the consumer.

Even in cities that we are very strong, and we are the largest in roughly half of the 50 largest cities in the United States, even there in Nashville and in Austin as an example, people love us, but we also can't -- for many of our folks that love Southwest, we can't do things that -- we can't provide products that you want like a first class, we can't get you to long-haul international destinations. If a lounge is important to you, we don't have a lounge. I'm not predicting any of those things. What I'm telling you is rather than be forever vulnerable, we're going to follow the consumer and what the consumer needs.

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

But isn't -- part of the premise of the conversation we had before was the idea that the consumer does want some of those things. So are you then by extension, saying that this is on the road map that you're not ready to talk about? Or like how do we think about things like in-flight entertainment, things like power -- things like a different -- segmented actual cabin, like interior cabin modifications to kind of reinforce that red velvet rope, right, which we as humans like to pay to jump over. Like how do we think about that?

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

Well, first, the things like power on the aircraft, larger overhead bins, vastly improved WiFi, that's already coming. It's on a lot of the fleet today. Those things are already being solved.

The next set, you always -- a lot of things in the industry take a long time to implement. If you're going to go -- if you're going to make some of the changes that I described as hypothetical, it could require that you think about a different aircraft, and aircraft orders are really tough right now because of the constraint with the manufacturers and the OEMs.

So what I'm promising you is that we will never lack a where-we-head-in-5-years-from-now strategy. You must have those things because many of those things take that long to implement. We're working through that strategy question today. What -- the biggest focus is on execute what is on the plan, hit the $4.3 billion in EBIT contribution in 2026. That's number one. But a quick follow -- number two, is what's next and what's next and what's next? It's that intermediate to long-term strategy question. We're working through that right now. There's no reveal today. But just know that...

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

Just want to know where your head is at. Like...

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

Where my head is, it's very simple. As we will -- we will serve our customers, both the customers we have today and the customers that we aspire to have tomorrow.

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

And as you think about that change, right, I did notice you guys had petitioned to the DOT for broader access to international markets under Open Skies. Are you contemplating a more diverse fleet?

I think one of the things that we've sort of come to know and understand about Southwest is one of the things that makes it good is it's simple, right? The 737 and the commonality across the fleet types gives you a lot of flexibility. Your union contracts are all geared around that in terms of pay per trip and things like that. Like are you contemplating broader strategic shifts around the composition of the fleet?

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

Yes. We've recently -- yes, we had an Open Skies submission, we joined IATA, and a lot of that is just to make -- we've been serving international markets for over a decade. Again, closer in, Caribbean, Mexico, that kind of thing. But the Open Skies application is really intended just to make these processes easier. So as we decide that we want to move into other geographies, it makes that decision and then re-upping that decision just simplifies everything.

IATA is very similar. And at the same time, there are a lot -- there's a lot that we can learn by -- from our partners by being a member of IATA. So I wouldn't take those as signals of future strategy. Those are really more about being more efficient in terms of how we do apply for new markets.

Now that said, as we do think about adding, for example, long-haul international, that Open Skies application, joining IATA certainly helps those decisions. But we're going to be thoughtful. We're going to step through the strategy question carefully. The next strategy questions drag with them larger implications, things potentially like fleet.

So we'll be thoughtful, nothing to reveal today. But again, this -- we'll be ready to talk to you, I think, in 2026. This isn't years away. So there's work underway to number one, finish what we have in play, and then number two, lay out that next strategy, which I would think about that as a 2026 question.

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

And does that also include maybe looking at narrower gauge aircraft? Maybe to serve some of the markets that are harder for you to get to in a MAX?

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

You're very persistent. No, I'm kidding. The -- I think we want to -- again, no answers today, except that we are going to pursue our customer and what they want. I mentioned Nashville as an example. Here's what we want -- here's what we are doing. We are beloved in Nashville. We have a terrific schedule in Nashville. We have great service and great people and great customers. They love Southwest. I hear from them all the time.

But because we can't offer certain products or get you to certain destinations, even customers that love Southwest, we force you to fly on somebody else, and we then force you to carry somebody else's co-brand card, either -- that is something we accept forever and just say, "Well, that's part of what comes -- that's part of what comes along with the Southwest model." And we're vulnerable, or you do something about it. And my commitment is, we're going to study that. And increasingly, we want to give you as a consumer fewer and fewer reasons to not have to choose somebody else.

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

Okay. And as you think about sort of evolving the network -- I won't ask you again about different aircraft types. But as you think about evolving the network, right, one of the things that we've talked about in the past is that balance between the dots on the map and the thickness of the lines. And obviously, what I'm talking about there is in terms of like the number of markets that you're serving versus the frequency and the density of the traffic between them. 20 years ago, smaller number of dots, much thicker lines. Today, I think post-COVID pushed out a little bit more.

Like are you thinking about the airline going forward as you've made some of the product changes as still predominantly a point-to-point system? Or are you going to start -- also be looking at things like [ banking ] in flights and getting more connecting traffic to try to kind of again, protect that [ fare ] a little bit.

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

Well, a part of the change that you described was due to 9/11 and then just over years, the decline in short-haul markets. So short-haul markets are down materially from where they were in the '80s and the '90s. And some of that is pricing. But -- so I think that's a contributor to what you described.

But if you think about what does Southwest -- what are our core strengths, put aside bag fees and assigned seating and extra legroom, our core strengths are several. Number one, we have, by far, the best network in the U.S. for the consumer. We can get you to more points from more places, nonstop with the best schedule, period.

Number two, we have the best people that offer the best service. Now whatever that service is going to look like, we have the best people that offer just terrific service. Number three, we have incredible financial strength. We've always had an investment-grade balance sheet. We've always had financial discipline. Right now, we basically have sort of -- we have just barely net cash, but our -- very low leverage and we will always maintain that.

And so the core strengths of Southwest are not going to change. But you look beyond that. And again, you've got to -- you just got to serve the consumer. And naturally, as short haul has come down, and we've added more dots and we are big in -- again, we're the largest in almost half of the top 50, that's not going to change. We're more of a hybrid. We have a very strong point-to-point network. But as the network widens out, naturally, you're going to have to have more connectivity, especially if you want to drive load factor. So you are going to see us provide more connecting opportunities that push load factor.

A lot of that is coming actually in August of this year. But no, you're never going to see Southwest Airlines have 3 hubs and connect you to everywhere else. That's just not our model.

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

Okay. You mentioned before aircraft delivery constraints. What's the state of affairs with Boeing in terms of them being able to ramp up production? I know it's been a little bit of a drag on where you'd want to be from a fleet standpoint, pushing you to push some bigger aircraft in the small markets, that kind of stuff. Can you give us a -- just like an update on where you are -- how you're thinking about that ability of Boeing to meet the current state of demand and then how that also impacts the cost side of the story over the next few years?

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

Yes. Again, I don't want to speak for Boeing, but they -- I think Kelly has done a fantastic job. There are a lot of problems to be dealt with in every business unit, with the government, with each customer, so complex labor unions. And he's done an excellent job knocking those down sort of one by one. For us, we see -- well, we're not getting aircraft at the rate we would like or at the contractual rate, what we see is much better quality, much better stability of the deliveries. We're seeing the relationship between the factory floor and management really improve. So what I see at Boeing, I really like. We're counting on 38 deliveries this year. We think that could be upwards to 50 or slightly more because of the improvements at Boeing.

So they're headed in the right direction, but this is a long play. So those issues, issues at Airbus, the issues, in particular, with the geared turbofan and the restrictions there. They are year -- they are constraints that I think provide a constructive backdrop to the industry for years and years ahead of us. These are situations that take a long time to improve.

But no, I definitely see the improvements at Boeing. We're eager to get more aircraft. The good thing is we have a very, very attractive order book of a lot of aircraft at very attractive pricing. Our growth has been relatively low. And if we don't take all those aircraft for our own uses, then we will monetize those into the market. Our pricing compared to what the market pricing in -- is very strong. And whether we take the aircraft or we decide to sell the aircraft into the market, we're going to monetize every dime of value that we have in the Boeing order book.

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

Okay. I mean as you think about other constraints kind of affecting the industry, obviously, FAA and the redevelopment of an air traffic control system is very topical. What are your thoughts on the ability to actually get that done? I mean, it's been lifetimes of trying to fix this. So...

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

Yes. Fixing -- modernizing the ATC system has been a 4-decade discussion at this point. I think for the first time, I'm optimistic that we have the ability, the momentum and the support to actually get something done. I've had a lot of conversations with Secretary Duffy. And he is fully behind all of this. The administration is fully behind it.

It's a big number. This is tens of billions of dollars, and the work, I think, now is on the Hill to secure the funding and secure the funding across appropriation cycles. But I'm optimistic that we can get it done. And I'm optimistic that they're onto the right problems. And I do think that we will get there.

The United States needs it, we must have a functioning air traffic control system to allow all of us to grow, to inspire consumer confidence. But I think we'll get there.

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

And any thoughts on the governance structure, right? Because obviously, Canada went through this, and obviously, it's the size of California, not necessarily the same magnitude of population and density and complexity. But is the FAA the right agency to lead this? Or do you think some other structural reform would be required to kind of really get the problem solved?

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

Yes. These are big complex problems. And there have been times in the past where there was a run at privatization. I don't see that myself. I don't see that on the table. Number one, though, you have to have the will to go do these things. I see the will to go tackle the problems. Number two, you have to have a detailed understanding of how to tackle the problems.

Southwest, we've actually been a piece of that. We've been through modernization of our own operational systems considerably over the last 3 years. And we had a team that went to the FAA to talk to them about how we broke our issues into small problems to solve them. The FAA was very receptive. The secretary was very receptive. But I do think that you'll have to see some level of oversight to put in the proper governance to just oversee this issue because the problems are so complex. There's so much money. But again, I'm confident that we have the will, the focus and can get the funding to get this done.

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

And you mentioned earlier before, one of the strengths of Southwest is the balance sheet. You guys are taking on a little bit more debt than you have in the past. How should we think about the capital structure going forward?

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

Right now, I mean, we are -- well, first, we're not going to stray from what has made us successful. So we are committed to a strong investment-grade balance sheet. We're committed to being efficient in our capital structure and capital allocation. You're not going to see us do something crazy like lever up to do share buybacks as an example. Right now, we sit at kind of roughly -- we're slightly net cash. So we have very low debt levels. We have very low leverage and leverage targets.

So we may play on the edges there in terms of being more and more efficient in the balance sheet. But we're going to stay investment grade, and we're going to have the appropriate degree of leverage. So no, I don't see any fundamental changes coming there.

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

Okay. And you guys have been buying back stock, right, as you have been adding a little bit of leverage. So as you think about the price you're paying today, obviously, that's a statement of confidence you think, in terms of the earnings inflection. If you were to go ahead maybe 12, 18 months and look back and say, we didn't get close to the $4.3 billion or we got close to $4.3 billion, what are the things that make it not happen? Is it all macro related? Or is it also possibly some risk that -- the consumer reaction to some of these changes different than you might have expected. Like what do you worry about when you think about this? Because it is a monumental set of changes you got...

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

It is -- it's a large set of changes. Again, I think we think, obviously, again, just thinking about $4.3 billion in EBIT layered on top of where our earnings are today. So we think we are significantly undervalued, which is why we've been out there buying stock. We're finishing up the $2.5 billion share buyback authorization. We'll finish that up in July. So we don't think the market has recognized the value of our plan.

On the risk, again, these -- the risk is always going to be acceptance of the changes and implementation and execution of the changes. The execution is going just flawlessly We're seeing terrific -- just terrific operational execution, cost execution and then on the initiatives front. Again, all of this stuff went in yesterday and it went in flawlessly. And everything for assigned seating and extra legroom is on track. So I don't see risk there.

On the consumer adoption, because the things that we're doing are things that basically every other airline has done. And number two, these are things that our customers want. They want premium. They want extra legroom. They want -- 80% of our customers want to [ see ] assigned seating. 85% of the customers who won't choose us want assigned seating. And they don't choose us because number one reason we don't have assigned seating. The -- even on the policy changes, you take bag fees, all you have to do is hold the Southwest Airlines' Chase Rapid Rewards Visa to get a free bag.

And so even the policy changes, we're doing those in a way that are better than the competition. You take our basic economy fare. For others, you have to pay an exorbitant -- I can't remember if it's a change fee or refundability fee to then make it reusable. A lot of times, that fee is greater than the value of the funds you're trying to reuse. At Southwest, we're giving you 6 months of reusability even on that basic economy.

So I don't worry about customer defection. I don't worry about execution of the initiatives. I don't worry about the consumer not understanding them because they're industry standard. So what I -- it's not a worry, what I focus on is I don't think the investment community has fully valued the initiatives, $4.3 billion, number one, or the fact that this stuff is either already in or it's coming in over the next 6 months.

So I'm super bullish on Southwest Airlines, as you can tell. I'm bullish about where we're taking the company. I'm bullish about the fact that we're moving to meeting the customers' needs. And I love the fact that our employees are super excited about the changes.

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

All right. Well, I think the speed at which you guys have pivoted against some of these things is definitely admirable. We want to thank you for coming out. I think this is probably a good place to leave it, especially because we're coming down to the 10-second mark, and we like to be on time here.

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

Dave, thank you so much. Appreciate it.

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

Thank you so much. And thanks for joining us.

**Robert E. Jordan**
*President, CEO & Vice Chairman of the Board*
Thank you all.