

# Southwest Airlines Co. NYSE:LUV

## FQ3 2025 Earnings Call Transcripts

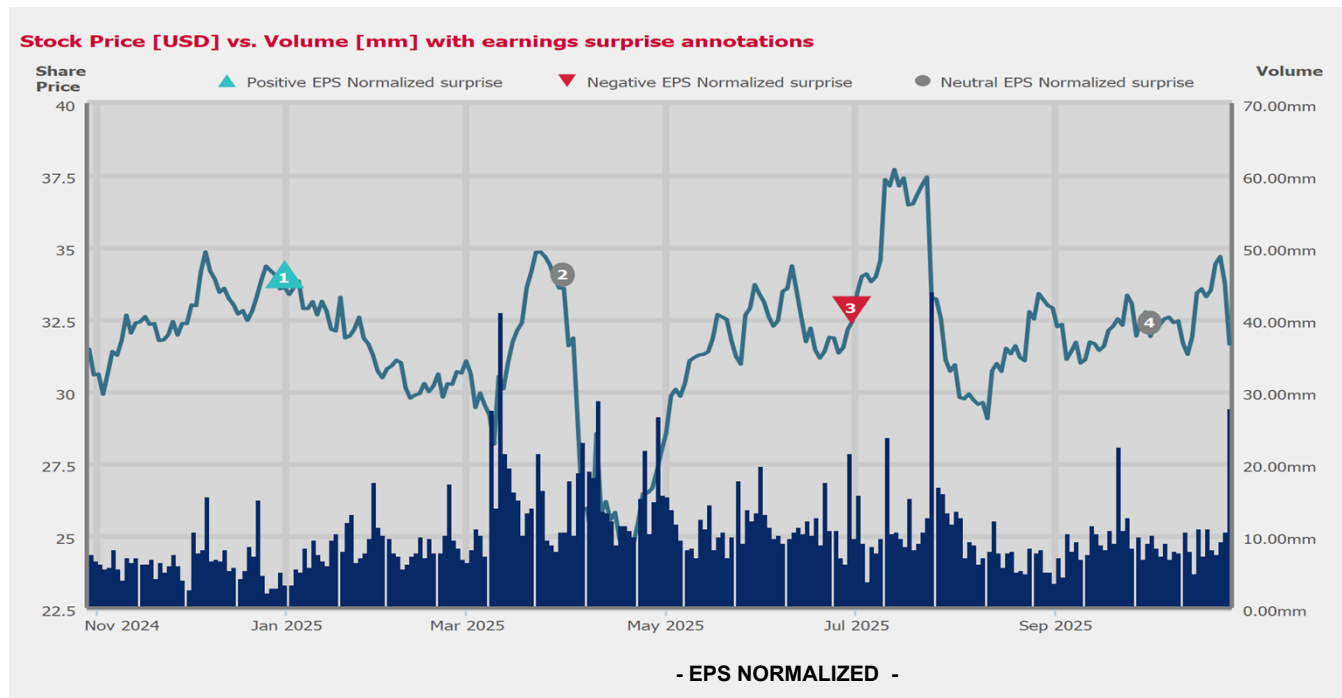
Thursday, October 23, 2025 2:00 PM GMT

S&P Global Market Intelligence Estimates

|                | -FQ3 2025- |         |          | -FQ4 2025- | -FY 2025- | -FY 2026- |
|----------------|------------|---------|----------|------------|-----------|-----------|
|                | CONSENSUS  | ACTUAL  | SURPRISE | CONSENSUS  | CONSENSUS | CONSENSUS |
| EPS Normalized | (0.04)     | 0.11    | NM       | 0.78       | 1.06      | NA        |
| Revenue (mm)   | 6933.54    | 6949.00 | ▲0.22    | 7612.64    | 28179.05  | NA        |

Currency: USD

Consensus as of Oct-24-2025 1:06 PM GMT



- EPS NORMALIZED -

|          | CONSENSUS | ACTUAL | SURPRISE   |
|----------|-----------|--------|------------|
| FQ4 2024 | 0.46      | 0.56   | ▲21.74 %   |
| FQ1 2025 | (0.19)    | (0.13) | NM         |
| FQ2 2025 | 0.51      | 0.43   | ▼(15.69 %) |
| FQ3 2025 | (0.04)    | 0.11   | NM         |

# Table of Contents

|                     |       |   |
|---------------------|-------|---|
| Call Participants   | ..... | 3 |
| Presentation        | ..... | 4 |
| Question and Answer | ..... | 8 |

# Call Participants

## EXECUTIVES

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

**Lauren Yett**  
*Advisor of Investor Relations*

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

**Tom Doxey**  
*Executive VP & CFO*

**Whitney Eichinger**  
*Senior VP & Chief Communications Officer*

**Jamie Nathaniel Baker**  
*JPMorgan Chase & Co, Research Division*

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

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*Jefferies LLC, Research Division*

## ATTENDEES

**Robert Silk**

# Presentation

## Operator

Hello, everyone, and welcome to the Southwest Airlines Third Quarter 2025 Conference Call. I'm Gary, and I'll be moderating today's call, which is being recorded. A replay will be available on southwest.com in the Investor Relations section. [Operator Instructions]

Now Lauren Yett from Investor Relations, will begin the discussion. Please go ahead, Lauren.

## Lauren Yett

*Advisor of Investor Relations*

Thank you. Hello, everyone, and welcome to Southwest Airlines Third Quarter 2025 Earnings Call. In just a moment, we will share our prepared remarks, after which we will move into Q&A. I am joined today by our President, CEO and Vice Chairman of the Board, Bob Jordan; Chief Operating Officer, Andrew Watterson; and Chief Financial Officer, Tom Doxey.

A quick reminder that we will make forward-looking statements, which are based on our current expectations of future performance, and our actual results could differ materially from expectations. Also, we will reference our non-GAAP results which excludes special items that are called out and reconciled to GAAP results in our earnings press release.

Our press release for the third quarter 2025 results and supplemental information, including our initiative highlights, were both issued yesterday afternoon and are available on our Investor Relations website.

And now I am pleased to turn the call over to you, Bob.

## Robert E. Jordan

*President, CEO & Vice Chairman of the Board*

Thank you, Lauren, and thanks, everyone, for joining us today. Third quarter was another story of continued strong execution across the board. Operational reliability, cost discipline and the delivery of initiatives against our transformational plan. Southwest continues to transform at a faster pace than ever before, and I'm pleased with the results of our strategic transformation that we saw during the third quarter and the quality of the initiatives delivered.

Both costs and revenue finished meaningfully ahead of expectations and the rollout and impact of our initiatives remain firmly on track. We began selling assigned an extra legroom seating in July, a major milestone for our customer experience and product changes. The rollout was smooth and while still early, we're right on track with our expectations and we're already seeing a 4-point improvement in customer Net Promoter Score on aircraft with this new configuration.

Additionally, we have continued to launch new products and services showing our commitment to meeting the needs of our customers, and our ability to execute quickly. Starting tomorrow, we will be offering free WiFi sponsored by our partner, T-Mobile, for our Rapid Rewards members. We continue to roll out our updated cabins with larger overhead bins, in-seat power, upgraded lighting and more.

We expanded our distribution channels, launching a partnership with Priceline. We launched our new in-house vacation product, Getaways by Southwest. We announced a new partnership with EVA Air to provide customers more connection opportunities. We announced new markets, including the additions of Knoxville, Tennessee, St. Maarten, Santa Rosa, California and our first ever flights to Alaska, servicing Anchorage all to start in 2026 and we aren't done.

While we don't have specifics to share today, we're actively looking at continued changes to widen our product offering for our customers, provide additional premium revenue opportunities and further enhance our Rapid Rewards loyalty program and co-brand economics, including things like premium seating, airport lounges and long-haul international destinations served by Southwest Airlines.

And our customers are responding to these enhancements. Our brand Net Promoter Score has returned to the level seen prior to our policy changes announced in March and we are excited to deliver further enhancements as we improve the customer experience.

Our strategic plan continues to progress well, and we're encouraged by the sustained outperformance of bag fee revenue and the momentum across other key revenue and cost initiatives. We saw a clear positive inflection in the demand environment beginning in

early July, which continued throughout the quarter, and we are proud to report record third quarter revenue performance. Looking to fourth quarter, we expect to deliver an all-time quarterly record revenue performance.

We maintained strong cost discipline across the organization, significantly beating our CASM-X guide for the quarter. We have identified additional cost-saving opportunities in the back half of the year and remain confident in our full year EBIT guidance range of \$600 million to \$800 million. We are entering the fourth quarter with confidence and anticipate meaningful margin expansion as the benefit from our initiatives continues to mature as we execute our transformational plan.

Our people delivered a strong operational performance throughout the quarter. Their dedication, their resilience and the world-class hospitality continue to set Southwest apart. We've made measurable progress across nearly every key operational metrics since January, and we continue to lead the industry as we track our performance against the Wall Street Journal airline's scorecard.

These results stand out even more given the hurdles that we faced, including summer weather, ongoing ATC constraints and the full rollout of reduced turn times across many of our stations, and it's a testament to our operational excellence and the heart of our company.

While we're not providing 2026 guidance today, we're excited about the opportunities ahead and confident in our strategy. In 2026, we expect to recognize even greater benefits from our portfolio of Southwest specific initiatives, including a full year of revenue from bag fees. We expect to deliver more than \$1 billion of incremental EBIT from assigned an extra legroom seating in 2026 and hit full run rate of approximately \$1.5 billion in 2027.

We will continue to be disciplined in our cost execution across the organization and expect that momentum to continue into 2026. It's just an exciting time at Southwest Airlines. We're transforming faster than ever before and the momentum is real.

And with that, I'll turn it over to Andrew to share more on our revenue and operational performance.

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

Thanks, Bob. I want to echo Bob's appreciation for our people. Their hard work and commitment enabled us to deliver an outstanding operation this quarter even in the face of early July weather challenges. We've come a long way over the past couple of years, working to enhance processes and technology and improve daily operations and better managed disruptions. A great example of this was in September when an external telecommunications issue in Dallas, impacted radar, radio and computer systems, triggering FAA ground stops at local airports. .

Despite our significant presence at Dallas Love Field Airport, we had just one cancellation, finishing second among all U.S. airlines for the day, including many that weren't directly affected by the issue.

Our teams particularly those in the NOC and at the station, responded quickly and effectively, keeping our operation running smoothly and reliably. We know reliability is one of the biggest drivers of customer Net Promoter Scores and a primary driver of loyalty so it's critical that we continue to innovate and invest in both our operations and our people.

The demand environment inflected up in early July and sustained momentum throughout the quarter. The improved demand environment and our execution of our initiatives contributed to our record third quarter revenue and to be in the midpoint of our third quarter guide with RASM coming in at up 0.4%. Even with increased capacity from our strong operational results and our ability to prolong the filling of the 6-to-be-removed seats on our 737-700 aircraft.

We were pleased to see load factor up year-over-year in August, September and so far in October. And corporate travel demand improved sequentially with a particularly strong September where we saw multipoint passenger growth. We're also seeing great traction with our loyalty program and co-brand credit card enhancements, which align with our new product offerings and incentivize everyday spending.

Third quarter royalty revenue was up 7% and we saw double-digit growth in co-brand card acquisitions year-over-year. Our recent 100,000 point promotion saw the highest acquisition activity in over 5 years, signaling that these enhancements are resonating with customers and driving increased engagement.

Looking ahead to the fourth quarter, we expect RASM to be in the range of up 1% to 3%. This outlook assumes the positive inflection in demand we've seen across the industry since early July remains at current levels through the end of the quarter. It also reflects the planned acceleration from our initiatives, the approximate 2-point year-over-year increase in fourth quarter capacity since July and the recent observed impact of the government shutdown.

To the extent the demand strengthens beyond current levels, it will provide upside potential to our full year EBIT guide of \$600 million to \$800 million. We're planning for fourth quarter year-over-year capacity growth of approximately 6% which compares to a relatively low base in fourth quarter 2024 compared with fourth quarter 2023, plant capacity is up about 1%.

This capacity level now contemplates further pushing out the retrofit timing of our entire 737-700 fleet to be completed in January without any impact to the planned operate date for seat assignments and extra legroom seating on January '27.

A big shout out goes to our tech ops team for streamlining the time line to complete this work. Allowing us to capture additional revenue in those 6 seats during the entire holiday period at almost no incremental cost.

On the product side, we launched the sale of assigned an extra legroom seating on July 29. While early bookings are in line with our expectations. We're seeing strong interest from customers and the trends are encouraging, including demand for our new products, fair product buy-up and ancillary seat sales. These offerings are helping us differentiate and enhance our products and drive incremental revenue.

We feel confident in our ability to deliver more than \$1 billion of incremental EBIT from assigned and extra legroom seating in 2026 and hit full run rate of \$1.5 billion in 2027. We're proud of the progress we've made and excited about what's ahead. With that, I'll turn it over to Tom.

**Tom Doxey**  
*Executive VP & CFO*

Thanks, Andrew, and hello, everyone. As you've heard from both Bob and Andrew, our initiatives are on track for this year, and we expect further acceleration in contribution from these initiatives into the fourth quarter and into next year according to our plan. As you know, our continued performance on costs is a key element of our transformation, and I am pleased to once again report that we delivered strong cost performance this quarter, with CASM-X coming in at up 2.5%, beating the midpoint of our guide by 2 points, a strong beat with or without the capacity increase we saw in the quarter.

We continue to see broad-based cost discipline across the entire business. I should also emphasize that this is more about spending smartly than it is about simply cutting costs, or simply pushing costs forward as evidenced by the customer, technology and operational investments being made across Southwest Airlines. This was a company-wide effort, and I want to thank our teams for their focus and execution.

Looking to the fourth quarter, we are expecting strong continued cost execution with CASM-X up in the range of 1.5% to 2.5% on capacity up approximately 6%, both on a year-over-year basis. Excluding the impact of expected book gains from fleet transactions in the fourth quarter of both years, which gives a more accurate view of the cost performance of the underlying base business, we expect CASM-X to be in the range of flat to up 1% year-over-year.

Turning to fleet. Boeing continues to hit their delivery plan, and we've increased our 2025 delivery assumptions from 47 to 53 Boeing 737-8 aircraft. We received 8 aircraft deliveries in the third quarter and retired 16 aircraft from our fleet, including the sale of one 737-800 aircraft and plan to sell 4 additional 737-800 aircraft in the fourth quarter. We will continue to be opportunistic as we evaluate potential sale transactions from our existing fleet.

We continue to expect full year 2025 capital spending to be in the range of \$2.5 billion to \$3 billion, which includes the additional aircraft deliveries expected this year as well as the expected proceeds from aircraft sales. We finished the quarter with \$3 billion in cash, in line with our liquidity target of \$4.5 billion, including our revolver and with a gross leverage ratio of 2.1x within our target range of 1x to 2.5x.

We also executed an accelerated share repurchase program in the amount of \$250 million under the previously announced \$2 billion authorization. We intend to continue opportunistically repurchasing shares based on market conditions. This reflects our continued confidence in our strategy and our commitment to returning value to shareholders.

Overall, our third quarter performance was ahead of our expectations for cost, revenue and net income which is another key milestone as we execute our transformational plan. We're managing costs well, executing our initiatives, investing in our product and customer experience, running an industry-leading operation, maintaining a strong and efficient investment-grade balance sheet, and we remain confident in our ability to achieve our full year EBIT guide of \$600 million to \$800 million.

And with that, I'll hand it back to Bob.

**Robert E. Jordan**

*President, CEO & Vice Chairman of the Board*

Thanks, Tom. As we wrap up, I want to leave you with a few key thoughts. First, the pace of change at Southwest is accelerating and at the same time, our execution has never been stronger. We're transforming our product, enhancing the customer experience and delivering meaningful financial improvement, all thanks to the incredible work of our people.

Second, we're confident in our ability to hit our fourth quarter and our full year guides. We built a strong foundation, and our initiatives are ramping as planned. The operational rollout of assigned an extra legroom seating has been smooth, and we're seeing encouraging early results.

Third, we're not stopping here. We've continued to evolve our product, expand our network and lean into the customer experience. Free WiFi for Rapid Rewards members starts tomorrow. New markets are launching, and we're building momentum across the business. And while we aren't ready to share specifics just yet, work on the longer-term strategy to meet evolving customer preferences is well underway.

Finally, I want to thank our employees once again. Their excellence and hospitality are unmatched, and they are the driving force behind our success. It's a very exciting time at Southwest Airlines. We're executing with urgency and purpose, and we're confident in the future we're building and the benefit it will provide for our shareholders. Thank y'all for joining us today. And with that, I'll pass it back to Lauren to start our Q&A.

# Question and Answer

**Lauren Yett**

*Advisor of Investor Relations*

Thank you, Bob. This completes our prepared remarks. [Operator Instructions]

**Operator**

Thank you, Lauren. [Operator Instructions] Our first question today comes from Conor Cunningham with Melius Research.

**Conor T. Cunningham**

*Melius Research LLC*

I was hoping you could frame up the sequential improvement that you're seeing into the fourth quarter versus what you were messaging in September. I'm just trying to understand the building blocks there. I realize that capacity is a little bit higher, but I think you knew that, that was going to be happening. And just if you could just talk about specifically around the new initiatives. Is that still 2 points? And does that carry into the first quarter of next year, just thoughts around the moving parts on unit revenue?

**Robert E. Jordan**

*President, CEO & Vice Chairman of the Board*

Yes, Conor. It's Bob. I'll give it a start. I think it's pretty simple, and it's a couple of things. We have the 2 points of added capacity that you referenced, and that's just delaying the retrofits of the -700s into January that allows us to fly those extra 6 seats through the holidays and just capture extra revenue and peak demand period. Real proud of our tech ops folks because they can get all those retrofits done now in January. So that's the 2 points of capacity.

And then we've got 2 other points and it's -- really, we just chose to not assume that the macro would inflect further from where we are. You heard we had a solid inflection in July that has maintained itself. But we didn't want to assume further macro inflection simply because you've got some uncertainty and in particular, it's uncertainty around the government shutdown, its impact and then obviously, it's duration. So we felt it was prudent to guide assuming that things are stable from here, that the demand does not inflect further.

And then yes, you've got, on the RASM front, you've got a tailwind as the initiatives continue to kick in. All of the initiatives are on track. They're on track from a benefit perspective, they are on track from a timing of delivery perspective. But it's really just those 2 points of not assuming that the macro would continue to inflect further.

**Andrew M. Watterson**

*Chief Operating Officer*

Yes. I'd say, Bob, the -- we've seen past government shutdowns, right? And we know what happens when they go on. First, you see government travel -- goes to 0 very quickly. Then it goes to government adjacent, then overall business travel then leisure travel as we saw in 2018, 2019. Obviously, like everyone else, we experienced, the government stopping travel very quickly. But last week, we did see government adjacent. This is state and local governments, depending upon government reimbursement.

These are defense contractors. These are companies that kind of do business with the government and they held up until last week, and they went down sequentially. So view that more as a canary in coal mine, it's not material numbers that we're talking about between those 2 categories that we observed but we know what happens in the future. So if you're uncertain about when the government shut down ends, that makes you less able to assume an economic inflection. And so it all is tied up, I think, when the government shutdown ends.

**Robert E. Jordan**

*President, CEO & Vice Chairman of the Board*

And Conor, just the last kind of maybe connect your tangent to that is either way, whatever happens to the macro or whatever happens with the shutdown, we're committed to hitting our 2025 reaffirmed EBIT guide. We're not sitting around waiting for the macro to show up as an example. We're going to continue to press on other areas, in particular, costs like you saw us press and beat on CASM-X in Q3 that just add more assurance around meeting that full year guide. So don't -- I wouldn't take that as we're just waiting to see.



We're absolutely working proactively to put some insurance around the guide irrespective of what the macro does, what the government shutdown does.

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

Am I allowed to follow up? Can I just follow up to that? Just on -- so I guess the pushback that I've heard is that basically, you've added 2 points to incremental capacity. And it's basically -- it's almost like that's almost a 0 revenue contribution. I mean, you're going to get a natural uplift in overall growth. I just like -- maybe you -- could you just frame up like why was it the right decision to add that incremental growth? I understand that there's a cost benefit. I would have thought costs would have moved down a little bit more. So just how you're balancing that in general on that decision?

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

Sure. I mean, first of all, it's an EBIT guide, not a RASM guide. It did imply a RASM, what you're asking about but the decision, because the tech ops team has been much more productive, we will be doing them faster. So when you do it faster, it overall costs less money and then also that lower number shifts into Q1. And then for the seats, there is incremental in the high periods during the holidays. Now we did this late in the curve, so you won't -- the non-holiday portion won't benefit that much.

So it is very RASM-dilutive, but it's very EBIT accretive because that little bit of revenue plus the cost going down, make it EBIT positive to do that, which is what our guidance is about and what our objective is about is EBIT even though it will make RASM look on flattering in Q4. And so that was the decision making behind it.

**Operator**

The next question is from Mike Linenberg with Deutsche Bank.

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

Just some questions maybe, Andrew or Tom, just some stats on some of the initiatives, even rough numbers. What we could see in the quarter we did see an inflection on at least connections. It looked like your enplanements outpaced passengers. And presumably, that helped your load factor, which was much better this quarter than where we were in the beginning of the year. And how -- and also on the basic economy rollout, what are you seeing on the buy-up? I think there was a point where maybe the majority of Southwest tickets were sold in the bottom fair bucket. I suspect that -- that's been moving up. Any color or stats that you can provide on some of the initiatives that you put in with respect to those?

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

Yes, I'd be happy to. So yes, as I mentioned in my prepared remarks, we did see, as we had predicted, that load factor would inflect positive post summer. So August, September, October had year-over-year increases in a load factor that came from the enhanced connectivity we talked about. It came from the third-party channels and also I think some of the basic rollout, which allows you to kind of have a more segmented offering, which means your highs get higher and your lows get lower. So that allows for good targeted volume.

So we're on track as far as that goes. So switching from yield driving our RASM to load factor driving our RASM, which is kind of what we indicated earlier in the year. As far as the buy-up, the buy-up out of the bottom basic, we need that to inflect really positively with seats. In the interim, we have improvements that go about mid-single-digit points of increase in optional buyup, those who decide to buy-up to the second, third or fourth, we did see a good traction with that. The big step-up will come in Q1. But in the interim, it is a positive move.

**Tom Doxey**  
*Executive VP & CFO*

And from a financial standpoint, everything is on track for the initiatives. And so everything that we're seeing for assigned seats and extra legroom is very much on track to -- still relatively early for the late January start for operating that. But all the data that we have so far shows that, that's still on track. And the other suite of initiatives, as Bob said, is also on track.

**Robert E. Jordan**

*President, CEO & Vice Chairman of the Board*

And if you look sort of getting into maybe granular, what Tom was saying, again, it's early, there are limited bookings in place post January '26 when the -- when bookings started for travel for the new assigned seating extra legroom. But both volume -- the mix of fair products is what Andrew was referencing -- basic, should fall further as an example. And then what we're seeing in terms of ancillary seat buy-up, all of those things are encouraging and on track. Again, it's early, but I'm really pleased with that.

And then again, while we're not literally selling extra legroom for assigned seating. We're selling it for after January, but we have aircraft out there that have the extra-legroom retrofit configuration and folks flying on those aircraft, we have more than 400 converted, are giving us a 4-point higher NPS score than those without and that's without being able to book yourself into extra leg room. That's just they're flying on an aircraft that has that section reconfigured. So that's very encouraging as well from a customer experience perspective.

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

And I guess to put an exclamation point to that, Bob, we see literally a knife edge on January '27 in our bookings of pre and post assigned seating, we see a knife edge yield improvement. So clearly, customers are voting with their wallets as well as the surveys that they like assigned seating extra legroom.

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

And what's great this time around versus bags where we started selling and operating on the same day, and then you were ramping up from then we've been selling the assigned seat and extra legroom since July. So when we hit the end of January we will effectively be at that run rate.

**Operator**

The next question is from Savi Syth with Raymond James.

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

If I might, just on the initiatives and kind of the unit revenue trends ask a little bit of a question on how we should think about as you head into 1Q. Just not assuming any kind of demand environment change just based on that initiative ramp-up and capacity plans. Like how should we think about the progression of year-over-year RASM? I'm not looking for a guide, but just trying to understand kind of the magnitude of how that moves from 4Q to 1Q?

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

Yes. So what we have talked about is a \$1 billion number for the extra legroom and the seat assignments. And as you think about the other initiatives, by and large, by the time you get to 1Q, those will be approaching run rate. There's some of them that still have some ramp that occurs during the first half of the year. The loyalty program, for example, continues to ramp along with the benefits that come with seating. .

But I think you can think about it in those terms. We're not guiding 2026 yet, but that \$1 billion number that we've talked about for next year and the ability for that to then grow to \$1.5 billion as we move to the following year is still very much intact.

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

And if you look at Q1 capacity, that's already published, now we're not saying it's final, but we know that when we published, we don't move it that much. It's a modest year-over-year increase. We have not -- we will still be lapping our load factor initiatives that started really in August and beyond. So that will be -- benefit should still carry on into Q1.

And as I mentioned, the knife edge improvement yield starting 01 '27 coming from seat fees and buy-up to extra to higher fare products, those, I think, 3 combinations of low capacity growth, load factor improvements going and still tracking and extra yield makes for an interesting Q1.

**Robert E. Jordan**

*President, CEO & Vice Chairman of the Board*

Well, yes and just for full year. I know we're going on a long time about this kind of a combination of what both we're talking about. If you just take the midpoint of our guide that was reaffirmed for EBIT for the year, \$600 million to \$800 million and then you stack on top of that the \$1 billion that Tom referenced around the benefit of assigned seating and extra leg room and then you stack on top of that, the incremental value of a full annualized year of bag fees, which I think is roughly \$700 million. And then we have obviously Rapid Rewards improvements and a number of other initiatives that are all maturing -- just gives you an idea of kind of the EBIT stack for the -- just sort of the EBIT stack for the year, not trying -- certainly, we're not guiding 2026 today, but it just gives you an idea of how to think basically about that EBIT stack.

**Operator**

The next question is from Sheila Kahyaoglu with Jefferies.

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

Maybe if I could ask on -- just if you could fill in the details on the corporate growth, how you're thinking about that filtering into your sales numbers and changes on that growth formula going forward given the -- given you're selling forward into January, and you're seeing a knife edge in that yield premium coming through?

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

Yes. The corporate for the new year is extraordinarily low right now. So I wouldn't give a read into that, I will say, for Q3 corporate sales for future travel kind of excluding the government and inflect it up to plus 5% year-over-year. So we're seeing corporates improving. Our trip growth was down, as I said, we shrank trips where our competitors increased.

So normally, since corporate is schedule-sensitive, not price sensitive, that should have led to kind of a reduction in share and we didn't necessarily see that. And so we see good solid trends with demand for Southwest business.

But we expect, as you hint at in Q1 with assigned seating, that will unlock additional growth. Right now, through various different measures, we think our domestic managed business share is in the mid-teens, which is below our overall capacity share. And we think extra legroom assigned seating should give us tailwinds in our corporate share, and that is not quantified in the numbers that we just gave you.

**Operator**

The next question is from Jamie Baker with JPMorgan.

**Jamie Nathaniel Baker**  
*JPMorgan Chase & Co, Research Division*

So I suppose the definition of sell-side insanity is asking the same question over and over and expecting a different response, but here it goes. Fourth quarter RASM guide, up 2% at the midpoint. But all of the tactical improvements in the bag fees, royalties and flight credit noise, that's what, 8 points of benefit. So that suggests RASM at your core.

So excluding the good stuff, is down mid-single digits. Why is this not the right way to think about it that the core is deteriorating, but new initiatives are making up for it for now. But of course, that could prove challenging when you begin to anniversary those initiatives.

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

Yes, I don't know where you're getting the 8, Jamie. I apologize not following your math. You did mention the flight credits. The way the flight credit breakage works is that when customers cancel flight or it drops to a residual travel fund than those break prospectively. So the breakage rate changing is not something that you kind of will see changing until next year. So we expect 2026 to have -- to show breakage benefits from the change in policies. So that one is coming.

But the bag fees, obviously, are a, let's call it, a 3-point benefit year-over-year. Sequential, it's less than one because most of the policy was already in place for Q3. We do have on a year-over-year basis, if you're doing that our stage and gauge is growing year-over-year,

whereas our competitors, that's going down as they restore regional. So that's about a 2-point headwind for RASM, if you did normal stage length adjusting. So I'm just not getting your 8 -- kind of walk us on it, maybe we can answer it.

**Jamie Nathaniel Baker**  
*JPMorgan Chase & Co, Research Division*

Well, let me ask it differently. In the fourth quarter guide, how much -- what is your initiative RASM then? And if we take -- so whatever your answer is, maybe it's plus 3, maybe plus 11. I mean it's not going to be. But whatever the initiative-related RASM contribution is, shouldn't we think of the difference relative to the 2% midpoint as the core and is that deteriorating?

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

I think if we look at -- I'm not sure maybe Tom can help with the initiative stuff. But if you look at others' domestic main cabin, which is clearly not their strongest, our -- you look at us as a proxy for a pure-play domestic main cabin, we see sequential improvement and theirs doesn't necessarily imply that either. And we see -- as far as the core, if you look at our core customers, as we mentioned, we see our credit card applications have accelerated with the new products and the new features. We're seeing Rapid Reward sign-ups accelerate and we're seeing the kind of our road warrior travel also improved.

So our core customers are responding back. Our brand -- our Net Promoter Scores from our customers did dip post your conference and kind of went to the bottom in June and now have returned to where they were pre your conference. So all the kind of the tell-tale signs on the micro level show our customers increasingly engage, increasingly using Southwest Airlines, whether it's a credit card or -- are traveling with us. So we see good trends in the core.

**Tom Doxey**  
*Executive VP & CFO*

And maybe what I'd add there, Jamie, as well, is as far as where you draw the line between an initiative versus the base business is not always a clear line. We knew as we announced actually at your conference, several of these initiatives, there would be an offset. And so as we guided these things, we guided them and we gave estimates for some of them, we guided those or gave those estimates as a net. And so it's not always a clear line on where you drop between base business or the initiatives.

**Jamie Nathaniel Baker**  
*JPMorgan Chase & Co, Research Division*

And then a quick second one for Bob. And thank you for all that color, by the way. So in that lounge survey that you sent around, Southwest used the word hub for what I think might be the first time in history and correct me if I'm wrong. What do you consider your hubs to be? I mean, I guess I could just look at some base level of departures, but that doesn't necessarily speak to connectivity.

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

Yes, I think that -- it's just -- it's word choice rather than intended to imply some kind of strategy change or change the way we think about cities. We have -- depending on how you count them, we have roughly 15 to 17, what we call, mega cities and they do some things that traditional hubs do. They have what we call intentional connections or banking opportunities throughout the day they are not full banks, but they also have a lot of non-banking -- banking of aircraft activity. And again, those intentional connections are just to drive connectivity across the network. So I wouldn't confuse that word choice as any change in Southwest Airlines network strategy.

Now back to the survey. Obviously, if we were to choose to go forward with lounges and we've been talking about where do we go next strategically to continue to widen our offering for our customers to continue to widen our offering of things that they desire in particular premium and then how do we do all that to impact the economics of the Rapid Rewards program and the co-brand card, we're looking at what would our customers want in a lounge, where would those lounges be located relative to where we have strong passenger strength and demand. So that's really what it was about.

And we're hopeful to -- and again, this work is not just thinking about it. There's active work in terms of developing the next strategy. And I'm hopeful to be able to lay parts of that out early in 2026.

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

I think, Bob, to put a point on that. If you -- domestic PRASM, if you index that to 2018, we're getting very close to our competitors here in Q3 and Q4 may close the gap. But what we have still a gap is the other revenue -- is our credit card hasn't done as well as others in recent times. .

Credit cards, these days, you've probably seen from your own bank and from other newspapers that it's driven by high-end, high fee credit cards that come with lounge access. So our gap in RASM is turning into now more "other revenue" driven by high-end credit cards that is what drives us to look at it as well as the customer desires that Bob talked about.

**Operator**

The next question is from Catherine O'Brien with Goldman Sachs.

**Catherine Maureen O'Brien**  
*Goldman Sachs Group, Inc., Research Division*

Maybe just a quick first one on a shareholder returns. Can you walk us through how you think about the guardrails to shareholder returns? You're within your 1 to 2.5x leverage target, 2.1x at the end of 3Q. How much headroom do you want to leave yourself on the high end of that leverage target, given there's still some uncertainty out there? I do have one quick follow-up.

**Tom Doxey**  
*Executive VP & CFO*

Yes. Thanks for the question, Catie. Yes, as we look at that, it is, I think, important to us that we do leave a little bit of headroom there, knowing that there's some uncertainty out there. And so as we look at that range of the 1x to 2x to 2.5x, we continue to believe that keeps us squarely in the investment grade and strongly within investment grade. And then we've got the \$3 billion plus \$1.5 billion revolver liquidity target as well, which we were right on for the quarter.

And so as we think of shareholder returns, it's about ensuring that we're staying within those guardrails. And then as we look at the variability that might be there within the guide that we leave room to stay within that under those different scenarios.

**Catherine Maureen O'Brien**  
*Goldman Sachs Group, Inc., Research Division*

Okay. Great. And then I had to laugh at Jamie's sell side insanity, but I'm going to keep going on in the past, so forgive me. But I just -- I think it just may be helpful to understand a little bit more as we think about next year and the initiative ramp this year. And so maybe just a question on the EBIT target rather than RASM super specifically. You reiterated your EBIT target from last quarter, but fuel is down a bit and capacity is a bit higher. Are you able to share the EBIT contribution from the initiatives that you already booked in the third quarter? And then what you're incorporating in fourth quarter? And how much of that fourth quarter figure is already on the books?

**Tom Doxey**  
*Executive VP & CFO*

Thanks, Catie. Yes, I don't know that we'll go into that level of detail with it. I think Bob laid it out pretty well as far as the initiatives that we have this year and the increment that we expect to see next year.

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

Yes. I think you can think of the -- I believe the bag -- the largest, of course, right now is bag fees and that sequential incremental improvement from third quarter to the fourth quarter's contribution is about one point or maybe a little bit less than one point. Obviously, as you get into 2026, all of the EBIT associated with assigned seating extra legroom is fully -- there's nothing today. It's a fully 2026 value then wraps to \$1.5 billion in 2027 as it matures. You've got some smaller things, as Andrew talked about, the Rapid Rewards optimization, flight credits, which that will come home as they break, which tends to be later. But yes, we'll lay all that out as we stack up the EBIT guide for 2026, we're just not ready to do that today.

**Tom Doxey**  
*Executive VP & CFO*

And there's, of course, the continued cost savings as well. I think your question was a little more focused on the revenue-related initiatives, but we've got the cost initiative that will continue to ramp up and is also on track for next year.

**Operator**

The next question is from Brandon Oglenski with Barclays.

**Brandon Robert Oglenski**

*Barclays Bank PLC, Research Division*

And Tom, maybe I'll just follow up there. You guys did reiterate \$4.3 billion, I think, in total initiatives next year, but you guys keep talking about the \$1 billion from assigned seat and premium. I get that. So maybe can you talk to the totality of the \$4.3 billion, is that still valid? And I want to keep it to one question, but I guess 2 parts here.

Can you give us a better understanding of how the buyup process is working today in the fourth quarter? And then how that potentially changes from like a basic fare to a plus fare just based on seat assignments and premium availability?

**Tom Doxey**

*Executive VP & CFO*

Thanks, Brandon. I'll start and then Andrew will take the second part of your question. The \$4.3 billion is very much still intact. We've talked about \$780-or-so million in cost savings. We've talked about \$1 billion that would come from bags. We've talked about \$1 billion that would come from extra legroom and seat assignments, which will start operating in January. We've got the earn and burn on the frequent flyer.

We've got the amendments that we've made and the enhancements that we've made to the Chase program, all of these things stack together.

And what's great is we're seeing these continue to be on track as we're ramping through this year and especially as we get into the fourth quarter and into the first quarter of next year, as you see these continue to ramp. So yes, very much still intact for the \$4.3 billion.

**Andrew M. Watterson**

*Chief Operating Officer*

And as far as the buyup process goes, right now, the buyout process is mostly about flexibility. Going from basic to choice, the primary differences are flexibility and Rapid Rewards accrual that kind of entice customers to buy up the very highest kind of entry fares are no longer basic. So if you think about a \$350 fare as an entry point for a flight, that's not basic because it's a pretty high fare to be basic.

And so all that to say that about 80% of our tickets were Wanna Get Away last year and a little bit less than 50% are buying basic. A portion of the remainder are people who have choices like a stand-alone, that's the first entry point for them.

And then you have, as I mentioned, a mid-single-digit composition increase of those who voluntary who presented with a low fare and can buy up for the additional features, those is a mid-single-digit increase right now. Now we go into next year with seat assignments, that is much bigger. The booking curve is such that people buy early are generally less elastic. As the booking growth goes along, you have more elastic demand at the end, it's also again inelastic.

And so right now, we're seeing strong buy-up in fare products in the kind of Q1 period with seat assignments. We expect, as we get into the meat of the booking curve for Q1 that we have more and more seat only sales that people add in as well. So that composition will mix a little bit.

But given the different entry points customers can have into it is all about giving choice as our fair product indicates and that's led to, as I said, a quite strong increase in yields this point in the booking curve.

**Robert E. Jordan**

*President, CEO & Vice Chairman of the Board*

Well, I think the other thing to note, I know we've said many, many times, is -- there are so many transformational initiatives that are underway. And between what we laid out in September, a little more than a year ago, what we laid out in March, all of that stuff is complete. The only thing that is still to come home is the operation of assigned seats, but we're selling those, and that huge change has been really, really smooth.

So number one, everything that we laid out as a contributing initiative is done. Second, they're done as in high-quality, ready to go and on time and is expected to or already showing signs that is contributing the value that was expected or in the case of bags even greater.

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So you've got initiatives on time, they'll start as planned, and they are in line right now to deliver the value that we expect as we have high confidence in both the -- in both that total value of EBIT to be delivered through initiatives and then our EBIT guide in the fourth quarter of this year and for the full year and then our -- the EBIT guide that we'll put in front of you in 2026. But the -- I mean, the execution of all this has just been stellar.

**Operator**

The next question is from Duane Pfennigwerth with Evercore ISI.

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

I'm going to keep it to one, I think we're struggling a little bit with that request. So anyway, I assume some of these initiatives have a learning curve associated with them from a revenue management perspective. And I wonder if you have any anecdotes about early learnings or tweaks you have made since the early rollout? Maybe some of these items were disruptive initially but are settling down as we get more fully baked into the booking curve?

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

Certainly, I think Tom made a good contrast of bags and basic was kind of all at once because you started selling and operating right away, whereas assigned seats, we have a long run up to it. So we mentioned last time that we saw a customer reaction to bags to basic, which affected the third quarter by one point. That since has been resolved, and that basically comes down to -- you have a much wider set of price points. As an earlier question implied, the number of people who buy just your lowest entry point used to be so high and now it's a lot wider.

And so you did see different reactions from customers in June and July as they've learned it, we saw that stabilize by mid-July, and the customers are kind of buying like normal, if you will, for that. For -- so I consider all the revenue management stuff doing very well on that. And then for Q1, we have a long run up. And so the tweaks are small in nature as you're looking at who buys a seat only, who buys the buyups, tweaking those, high-demand, low-demand flights. We have a long runway to do that. So we feel very comfortable about how that's going.

Now there still is an overall ramp-up in that -- in my prepared remarks, I told you that the '26 number, the '27 number, the difference is an implied ramp-up in the value. So to the extent we go faster, obviously, the number gets bigger next year.

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

Yes. I think that's a really important point is that the -- Andrew, I don't want to -- sorry to just to say the same thing you just did, but I want to make sure everybody hears that, that the \$1 billion contribution from assigned seat and extra legroom next year contemplates time to do exactly what you said, which is ramp up the value.

Some of these things like seats are dynamically priced, learn, tweak and so the \$1 billion contemplates a ramp-up time versus we've got a guide for EBIT for that initiative and there's risk because there's going to be ramp up. We've actually -- that's contemplated in the value that we've given you.

**Operator**

The next question is from Chris Stathoulopoulos with SIG.

**Christopher Nicholas Stathoulopoulos**  
*Susquehanna Financial Group, LLLP, Research Division*

I'm going to be compliant as well here and keep it to one. United gave a CASM-X algo last week over the midterm to help us think about all the moving pieces here as it relates to capacity and their investment here in the product and other areas here. So I realize you're still in your budgeting plan for next year, but any thoughts on how we should frame that, whether you want to describe that as your mid- to long-term algo versus what you've given, I guess, your guide on low single-digit capacity over the midterm.

Just wanted to understand the moving pieces around that, and I think we can all do the math on the EBIT side and what that might mean for unit margins and things like RASM?

**Tom Doxey**

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*Executive VP & CFO*

You're right that we're still working through the planning process for 2026. So at our next call, we'll have more detail on next year. What you've seen from us is strong cost performance quarter after quarter, a strong beat this last quarter with or without the incremental capacity that came from operating the 700 seats, it was broad-based.

There's work that we're doing on small things and discretionary spending. There's things we're doing on large things around supply chain and optimizing our retirement plan and the component maintenance work that goes along with that, the way we're looking at real estate and technology. So we're looking everywhere. And we've talked about being on track this year, next year and to the \$1 billion in 2027 for the cost savings initiatives that we have, and that will roll in and again, we'll put that into the context of 2026 at our next call.

**Operator**

The next question is from Scott Group with Wolfe Research.

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

So when I think about the \$1.8 billion of initiatives this year. The guide has \$300 million of incremental EBIT. So call it, \$1.5 billion gap. Like do you think we should contemplate something similar next year with a sizable gap between the initiatives and the actual EBIT? Or I mean, is there a reason to think the gap widen is there -- could the gap potentially go away? I guess you're not ready to give '26 guidance, but just at a high level, like how do you think about like that gap and how that develops into next year?

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

Yes, Scott, you're right. We're not ready to guide 2026. The gap is simply the macro and what happens to the macro inflection like we talked in Q2. And we were down sort of from where we thought the beginning of the year, we would be down roughly 6 points. We've seen, obviously, some of that come back. And it's -- I think absent maybe the uncertainty of the shutdown impact, there would be more certainty that continued macroeconomic inflection would continue.

You've heard some others say that macro inflect back is going to be completely back to pre -- before the issues by the end of this year. You've heard others say close. You just don't know. And so I think that's really what the gap is. It is how much does the macro claw back the gap from where we thought we would start to -- where we thought we would be when we started this year. We got down [ 6 points ]. We've come back a material piece of that, but we're not all the way back.

**Tom Doxey**  
*Executive VP & CFO*

The other piece of it too, Scott, as you think about the initiatives, what we've done is we have put everything into the initiative bucket that we're doing to counter what would be sort of typical increases in cost in the business. As we move into next year, we've talked a lot about moving more to an EPS guided range. Of course, everything nets into that number.

We'll still talk about the initiatives and what they are and what they're doing. But as we guide, likely, we move more toward kind of an EPS range where everything is netted. And as we talk about these initiatives, hey, this particular cost savings initiative kind of in a year where we're not so initiative heavy with the transformation that we have, those types of things just find their way into the sort of typical efficiencies that you're -- that you're building into your budget as you're moving forward.

And don't confuse my word typical of anything other than just talking about kind of standard budgeting practices. We're going to continue to be really focused on the efficiency coming out on the cost side.

**Operator**

The next question is from David Vernon with Bernstein.

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

So Andrew, I'd love to kind of narrow in on that comment around the knife edge improvement in yields with bookings for the assigned seating in January. Can you get -- is there a way to dimension it and to talk a little bit about how much of the schedule sold at this point in time whether the sell-through rate is being affected by the higher yields? Or any additional commentary you can give us on what that knife edge comment was would be great?



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

Yes. Well, I apologize in advance, I'm going to do my best not to because it's early -- it's early in the curve and so this is our first time doing the assigned seats and stuff like that. So we have studied others. We've scoured for good industry data. We think we have good compares. We have -- our models are trained on how we sell early bird and stuff and upgrade boarding. So we think we have good context. And so I'm not going to give you the number because I don't know how long they'll persist in the booking curve.

But when you do see a knife edge, it's clearly a change in customer reaction. You really see knife edges. And when you do see a knife edge, something happened. In this case, we see a disproportionate customer reaction to the ability to buy an assigned seat or upgrade to a fair product that includes it. And so that gives us confidence that we will see a revenue positive customer reaction as we go throughout the booking curve. It's just the amount being different than our business case is something where it's just too early for us to hint at.

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

Okay. And then maybe just as a quick follow-up, Tom. I applaud the desire to get out of initiative jail here because the incremental math from this side is really tough to get to. But if you think about the cadence of what you guys have in your initiative plan, can you tell us kind of what quarter we hit peak initiatives, is it Q1, Q2, Q3? Like where in the way you guys have done the math around the initiatives, do we kind of get the max contribution from the initiatives?

**Tom Doxey**  
*Executive VP & CFO*

Yes. And of course, the -- and I'm not sure if your question is the quarter where most of the inflection occurs or if it's when you're hitting peak contribution from? Yes, peak from would be -- tell me your time horizon, it should be the last quarter. We should continue to build and build and build on these.

The big inflection that we have as we continue to move forward, of course, is what Andrew just described, as we move into first quarter where you have that big positive inflection where we've had a full booking curve to be able to sell into that again, contrasting that to what we did with bags. But from there, it should continue to build. We have structured the amended Chase agreement around the attributes of this new program. And so as we have bags, as we have seat assignments, these are things that then you have entitlements to as you have the card.

And we talked about other -- Andrew and Bob both talked about other things that we're looking at around the potential for clubs and what that might mean for the ability to buy up. And so the short answer to your question is tell me your time period, and it's going to be the last quarter of your time period, we're going to keep building.

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

I'm going to do exactly what the Andrew and Tom probably don't want me to do. But if you just sort of speculate on that, I think if given that -- if you just know how the booking curve works, and where the meat of the booking for folks that are now booking the new products at assigned an extra legroom of seating, I think that would tell you somewhere around early third quarter that peaks would be my guess. The only -- and I think you'll have annualized the ramp-up of the new voucher expiration policies, those kinds of things would.

The only thing that I can think of that will continue to ramp, obviously, that the policy changes -- well, and then especially the changes in values of the card related to assigned seating benefits, boarding benefits, those should continue to ramp all year as that causes customers want to get the card, engaged with the card, the co-branded card, spend on the card. So I would think that initiative continues to ramp throughout the entire year. But the big one, which is assigned an extra legroom seating based on the booking curve, that would tell me at somewhere around early third quarter, you get to peak value.

**Operator**

The next question is from Andrew Didora with Bank of America.

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

So maybe I'll ask a non-initiatives question to close it out here. But your fuel guidance on -- in this environment was a little bit surprising. I know it's been volatile, but also West Coast crack spreads have been high for several weeks now. I guess a quick 2-parter here. I guess one, Tom, just curious if you're able to give us what your exposure is to West Coast crack spreads? And then two, Bob, what levers do you have in your business that you think could help offset potentially higher fuel from your guidance?

**Tom Doxey**  
*Executive VP & CFO*

Yes. For us, West Coast is probably somewhere around 30% or so. Gulf Coast were probably more like about half or so of the exposure.

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

And then just on levers, and I think not just fuel I think just -- you saw us -- I think, really good work and have what I think for -- is really good cost discipline in the third quarter. And that cost discipline is not -- it's sustainable. It's not just shoving cost out to the future. So we're going to work the same way in the fourth quarter and the first quarter and the second quarter to do exactly the same thing. And that is everything from just managing sort of traditional costs and departments. We have some opportunities to continue to work on fuel efficiency which obviously is material given the amount of fuel.

We have efficiency work in a lot of departments that are back office, sort of the everybody is throwing AI around, but it is the ability to automate transactions, that kind of thing, and we're seeing good results there. And then we have large efficiency programs in the operation. Some of those take longer.

But my point is that this cost work is really -- it's across the board. It's every discipline within the company and we'll just keep working there. To me, that's the best insurance around whether it's fuel or whether it is the macro or it's the government shutdown impact or whatever it is, the best insurance around hitting our EBIT guide is to just keep putting manic pressure on cost and efficiency and continue to beat those numbers.

**Lauren Yett**  
*Advisor of Investor Relations*

That wraps up the analyst portion of today's call. We appreciate everyone joining.

**Operator**

Ladies and gentlemen, we will now transition to our media portion of today's call. Ms. Whitney Eichinger, Chief Communications Officer, will lead us off. Please go ahead, Whitney.

**Whitney Eichinger**  
*Senior VP & Chief Communications Officer*

Thanks, Gary. Welcome to the media on our call today. Before we begin taking your questions, Gary, can you please remind us how to queue up for a question?

**Operator**

[Operator Instructions] Our first question comes from Robert Silk with Travel Weekly.

**Robert Silk**

So what I wanted to ask is, during the last quarter, you talked about your check baggage, you made about \$300 million -- you were estimating \$350 million for this year. Is that number still on course? And the rate of check bags, how is that weighing in compared to the industry and compared to expectations?

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

Yes. The financials are right on top of what we have been giving you a little ahead of what we thought. So it's still -- that's right. And then puts the annualized contribution from check bags at right around \$1 billion. And the reduction in lobby bags, so check bags is -- Andrew can give you better -- it's about 30%. We are seeing a modest increase in gate check bags. So gate -- bags that show up at the gates that have to be handled there. But overall, our bags are down and down materially.

**Robert Silk**

So how does it compares to an industry standard?

**Andrew M. Watterson**

*Chief Operating Officer*

It looks like our check bag revenue per passenger is right along the same lines as the big 3. So it seems like it's a very similar rate that we're getting.

**Operator**

This concludes our question-and-answer session for media. So back over to Whitney now for some closing thoughts.

**Whitney Eichinger**

*Senior VP & Chief Communications Officer*

If you have any further questions, our communications group is standing by. Their contact information and along with today's news release are all available at [swamedia.com](http://swamedia.com).

**Operator**

The conference has concluded. Thank you all for attending. We'll meet here again next quarter.

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