

# Call Participants

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## ATTENDEES

# Presentation

## Operator

Hello, everyone, and welcome to the Southwest Airlines Third Quarter 2023 Conference Call. My name is Jamie, and I will be moderating today's conference. This call is being recorded, and a replay will be available on southwest.com in the Investor Relations section. [Operator Instructions]

At this time, I would like to turn the floor over to Ms. Julia Landrum, Vice President of Investor Relations. Ma'am please go ahead.

## Julia Landrum

Thank you so much, and welcome, everyone, to our third quarter 2023 conference call. In just a moment, we will share our prepared remarks and then jump into Q&A. On the call with me today, we have our President and CEO, Bob Jordan; Executive Vice President and CFO, Tammy Romo; Executive Vice President and Chief Commercial Officer, Ryan Green; and Chief Operating Officer, Andrew Watterson.

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. We also reference our non-GAAP results, which exclude special items that are called out and reconciled to GAAP results in our press release. Please refer to the disclosures in our press release from this morning and visit our Investor Relations website for more information.

With that, Bob, I'll turn it over to you.

## Robert E. Jordan CEO, President & Director

Well, thanks, Julia, and good morning, everyone. Before we jump into the financials, I wanted to acknowledge that there have been heart-wrenching challenges around the world the past several months, and we've had natural disasters in the communities that we serve. Earlier this quarter, I visited our team in Maui and witnessed firsthand the impacts from the catastrophic wildfires on the island. Our hearts go out to all those who are suffering, and we're really proud of the support we are providing, including the volunteer efforts of our employees.

Now moving to the results. Operating revenues for the third quarter were just over \$6.5 billion, up nearly 5% from the same period last year and a third quarter record. Despite the recent uptick in fuel prices and other inflationary pressures, we are again profitable with net income of \$240 million, excluding special items. Revenue strength was driven by solid leisure demand throughout the quarter and by managed business continuing to come in largely as expected. And Ryan will share more details with you, but overall, demand remains healthy.

As we close out this quarter and look ahead to the end of the year, we are very pleased with our accomplishments. We are running a great operation, reaching significant milestones, completing important initiatives and delivering great customer experience enhancements. We're making great progress on labor agreements, including yesterday's announcement of a tentative agreement with our incredible flight attendants. The team will walk you through many of these accomplishments, but for now, I want to talk to you about immediate actions we are taking to adapt to the current demand environment and solidify our path to operational and financial excellence.

Perhaps our biggest milestone is completion of our network restoration plan in the fourth quarter of this year. Reaching this milestone has obviously been a year's long effort and has taken heroic coordination across the entire organization. It's just incredibly challenging, and I am so appreciative of every single employee. It truly was a whole company accomplishment.

With this behind us, however, we are set up really well to focus on optimizing our business. That starts with reflowing the fleet order book to support orderly growth. And to that end, we just announced a new order book with our partner, Boeing, yet another milestone. This sets us up for orderly and measured growth and gives us flexibility to adapt in a dynamic environment and we have a lot of options as we move forward, and we will plan in a way that allows us both the flexibility to move up or down, and this order book, combined with opportunities to retire -700 and modernize our fleet supports that really well.

Finally, as we move into 2024, we are carefully evaluating the current macro environment and post-pandemic travel behaviors to create the best possible plan for the company. We are now planning for a sequential quarter-over-quarter decline in nominal ASMs in the first quarter of 2024. This will result in capacity growth on a year-over-year basis of approximately 10% to 12%, all of which

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is carryover from growth this year. Note that this is a reduction from what we shared in July, which was an expectation to grow approximately 14% to 16% on a year-over-year basis. In the back half of 2024, we expect a nominal decline in seats relative to the same period in 2023. Therefore, the full year -- for the full year, our network plan will focus on absorbing current capacity, maturing development markets and designing schedules for current travel patterns.

This plan offers us the ability to redirect the teams that have worked so effectively to get a staff and restored to now focus on better optimizing the operation. We will be relentless in our focus to wring out inefficiencies, drive productivity, increase reliability and our goal to return margins to historic levels. We are still hard at work on both our 2024 and long-term plans, but we are building them with a priority and a focus on generating value, value for employees, value for our customers and, of course, value for our shareholders.

And with that, I will turn the call over to Tammy.

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

Thank you, Bob, and hello, everyone. First, I'd like to extend another thanks to our wonderful employees for their continued hard work this year, especially in a challenging environment. Ryan and Andrew will speak to our revenue trends and operational performance, so I will jump right to cost.

Beginning with fuel, our third quarter jet fuel price was \$2.78 per gallon towards the higher end of our guidance as crude oil prices consistently rose throughout the quarter, peaking to nearly \$100 per barrel in late September and rising refinery margins added further pressure to our third quarter fuel price.

Moving into fourth quarter, we currently estimate our fuel price to be in the \$2.90 to \$3 per gallon range, which includes an estimated \$0.19 of hedging gains. We now estimate our full year 2023 fuel price to be in the \$2.85 to \$2.95 per gallon range, including \$0.14 of hedging gains. The total fair market value of our fuel hedge portfolio for fourth quarter through 2026 is \$538 million. We added modestly to our fuel hedge position for 2026 during third quarter. We continue to be roughly 50% hedged in 2023 and are currently 55% hedged in 2024, in line with our goal to be roughly 50% hedged in each calendar year.

While we are not immune to rising oil prices, I am grateful that our hedging positions relieve some of the additional pressure. We continue to look for prudent opportunities to build out our hedge positions for future years.

Moving to nonfuel costs. Our third quarter year-over-year CASM-X increase of 4.4% was right in line with our previous guidance range driven primarily by higher labor rates for all employee work groups and the timing of planned maintenance expenses.

Looking ahead to fourth quarter, we currently estimate our CASM-X to decrease significantly year-over-year. There is a lot of noise in the year-over-year comparisons and the magnitude of the decrease is primarily due to impacts from elevated operating expenses and lower capacity levels in fourth quarter 2022 as a result of last year's operational disruption. Our guidance range is inclusive of wage rate increases associated with the recently announced tentative agreement with our flight attendants. You can find additional details in this morning's press release.

Given inflationary pressures, particularly labor rates, combined with moderated capacity growth, we are expecting increased headwinds to our 2024 year-over-year cost. While we hit major milestones this year, our margins are not where they need to be and we intend to be relentless until we deliver. We therefore plan to adapt our network and capacity plans to support both a reliable operation and improved returns on investments. Given our company's commitment and history towards maintaining a competitive cost advantage, our goal will always be to manage costs accordingly.

Now turning to our fleet. During the third quarter, we received a total of 18 -8 deliveries and retired four -700s, ending the quarter with a fleet of 817 total aircraft. And we just finalized a new order book with Boeing, which funds our long-term mid-single-digit growth plan and provides us the ability to phase out the -700 fleet over time. But really, it gives us just a lot of flexibility. We provided full details on the new order book in this morning's release. We now expect to receive 85 -8s this year and plan to retire 41 -700s. This leaves our net expected increase of 44 aircraft unchanged from our previous guidance. Taking all this into consideration, our 2023 CapEx outlook remains approximately \$3.5 billion.

Looking to 2024, reiterating what Bob shared, we are planning for capacity levels that better match the current environment. We now expect 2024 capacity to be up 6% to 8% year-over-year. With our new order book, we have the fleet flexibility we need to organize the company around a disciplined financial plan, one, that we can adjust up or down to adapt to the current environment. We continue to expect our 5-year capital spending on average to be in line with our previous guidance of roughly \$4 billion per year.

Lastly, our balance sheet remains strong. We are the only U.S. airline with an investment-grade rating by all 3 rating agencies. We have \$11.7 billion in cash and short-term investments, and we continue to be in a net cash position. Year-to-date, we have returned more than \$400 million to our shareholders through dividend payments and made debt repayments of nearly \$80 million. Closing out the year, we expect to pay a modest \$7 million in scheduled debt repayments and continue to expect our 2023 interest income to more than offset 2023 interest expense.

Let me close by saying, I am tremendously proud of our people and their hard work. As we look ahead, it is imperative we remain focused on building our 2024 plans and beyond to provide a resolute path to prosperity for our company, our employees and our shareholders. We have a history that proves we do not rest on our laurels, and I'm confident we have all the elements needed to bring about the success you should expect from Southwest Airlines.

And with that, I will turn it over to Ryan.

**Ryan C. Green**

*Executive VP & Chief Commercial Officer*

Thank you, Tammy. I'm going to walk through a review of our third quarter revenue results, provide context for our fourth quarter outlook and share some exciting commercial updates with you today. For additional detail on our revenue performance, please see this morning's earnings release. Starting with third quarter. Demand continues to be healthy. Operating revenue was a third quarter record of just over \$6.5 billion. And on a year-over-year basis, operating revenue was up nearly 5%, and that's on a tough compare period given pent-up domestic travel was still underway last year. When you compare revenue performance versus third quarter of 2019, operating revenue is up nearly 16% on 12% capacity growth. Also, average fares were up 2.6% year-over-year and are up over 7% over third quarter 2019. So while we have work to do to cover our unit cost challenges, I am pleased we are moving in the right direction.

The nearly 5% operating revenue growth year-over-year on a capacity increase of 12.5% had unit revenue or RASM declining 6.8% for the third quarter of 2023. July 4 and Labor Day travel came right in line with our expectations. However, bookings for nonpeak August and September, while stable came in at the lower end of our expectations. This performance aligns with fall start dates for primary and secondary schools continuing to shift earlier in much of the country. For example, in our markets, 1/3 of schools were back in session by the second week of August, which is nearly double what it was pre-pandemic, and nearly 95% of schools were back before the Labor Day weekend.

We are planning for these back-to-school trends to continue as we work on our August 2024 capacity plans. In addition, we had multiple records set from our ancillary products and our loyalty program. We had an all-time best quarter for ancillary revenue with 24% year-over-year growth and Rapid Rewards set a third quarter record for revenue generated from the program. New Rapid Rewards member acquisitions were a quarterly record, and the number of engaged members grew 10% on a year-over-year basis.

Rapid Rewards point redemptions were up 16% compared to the same period last year, and retail spend on our co-brand Chase credit card was also a third quarter record. Our customers love the benefits they get from the card as evidenced by our low cardholder attrition, which continues to be below pre-pandemic levels. Overall, we see a resilient consumer and high engagement with the Southwest Airlines brand. Consumer spending trends still favor services, particularly travel experiences, and we expect that will continue.

Moving to the fourth quarter. We're seeing a continuation of healthy leisure booking demand and stable business travel patterns. As a result, we expect a nominal sequential increase in operating revenue resulting in record fourth quarter revenue and passengers, which would bring us to 3 consecutive quarters of record operating revenue. October performance has been strong to date, and bookings for the holidays as a whole are also strong.

RASM, however, continues to be impacted by higher than seasonally normal capacity, driven by our network restoration plan, a larger-than-normal investment in development markets, and business travel that while improving is still below historical levels. We also expect the close-in leisure trends we saw in non-peak August and September will persist into the non-holiday periods of the fourth quarter and our guidance range does contemplate potential challenges from this year's holiday placement, including the expectation that a portion of return travel will spill into January.

I am encouraged, however, that we have higher booked load factors for the December holiday period this year than we had at the same point last year, which indicates to me we're not experiencing significant book away as a result of last year's operational disruption. All in, we expect RASM in the fourth quarter to finish down 9% to 11% on a year-over-year basis on capacity up approximately 21%.

Again, we are steadfastly committed to addressing RASM performance to ensure a revenue plan that is appropriate for the current demand and cost environment. In the near term, we are continuing to execute a strategy of fair sale campaigns to address low-demand flights with meaningful advanced purchase requirements. This helps build load factor and suboptimal capacity without impacting higher demand flights or diluting close-in yield strength.

Looking to 2024, as Bob mentioned, we will address RASM by moderating capacity to better match demand and optimizing our schedules to accommodate current travel behaviors. Our current set of strategic initiatives, including GDS participation and the new revenue management system, will also contribute incremental pretax profits to 2024 as they mature and hit their full run rates.

Finally, we're tireless in working to make customer experience on Southwest Airlines even better and drive even more loyalty from our customers. Earlier this month, we announced several exciting updates and the first involves several enhancements to our award-winning Rapid Rewards program. We will add the ability for customers to combine Rapid Reward points with cash next spring, which increases the ubiquity of our loyalty currency and makes it easier to book additional flights on Southwest Airlines. We also made it easier to reach our A-List and A-List preferred levels in 2024, and are looking to reward our customers for their loyalty and entice them to fly with us whenever they travel. We have an imperative to win more customers and drive more travel from our most frequent travelers and these enhancements are designed to give them even more reasons to choose Southwest Airlines.

We also launched a new product for our corporate customers last week that will help us continue to grow our market share in the managed travel space. Our new product streamlines the process to book group travel for meetings, incentives and conventions, which is one of the fastest-growing segments in the managed travel space. I'm very pleased with the response of the product so far, as we already have millions of dollars in travel booked on the new tool in just the first few days.

Finally, we recently introduced customer bag tracking, which gives our customers the ability to track their checked bags throughout their day of travel both at the airport and in flight. This improvement was one of the investments we accelerated following last December's disruption. By providing additional transparency and information to customers about where their bags are during their travel journey, we're elevating the travel experience and removing friction for our customers. This enhancement is an early release of our larger digital hospitality modernization plan. So congratulations to the teams that worked so hard to bring these great enhancements and solutions to market for our customers.

Ultimately, we have to continue to win customers while taking into account the challenges of higher cost inputs as we build both our long-term commercial strategies and our near-term revenue plans, and we're committed to doing just that.

With that, I'll turn it over to Andrew.

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

Thank you, Ryan, and hello, everyone. I'm going to wrap up our prepared remarks with a brief overview of our operational performance, an update on our winter operations action plan and some additional details on our capacity and network plans for next year.

Before I dive into those details, I want to commend both negotiating committees that work diligently on a tentative agreement just reached with our flight attendants, which will be voted on by our employees soon. This agreement offers industry-leading compensation increases and quality of life enhancements. I'm very pleased with our strong improvements in operational performance and very appreciative of our Southwest warriors. We saw broad-based improvements in our operating metrics, which are recognized by our customers through increased trip Net Promoter Scores. Our early morning originators, turn compliance and turn differential, completion factor, mishandled bag rate, long delay rate and on-time performance, all showed substantial year-over-year improvement.

If not for longer-than-anticipated block times from congestion, weather and runway construction, our performance would have been even better. All of this resulted in a trip Net Promoter Score that is nearly 4 points higher than last year. That is certainly driven by our proven reliability, but also our customer experience initiatives, including our improved WiFi. We're excited about the solid trend in the right direction. It gives us lots of reasons to be optimistic about 2024.

And speaking of the right direction, I'm excited to share an update on our winter preparedness. The disruption we had last winter was really hard on our customers and our employees. It weighed heavily on all of us here at Southwest Airlines. We have a lot of pride based on our 50-plus year history. So preparing to prevent something like that from happening again was and is imperative.

Of course, the disruption was triggered by an unprecedented storm that simultaneously hit several of our most critical stations. But there were many causes, not just one that led to it. As a result, our action plan is divided into 3 categories: winter operations, cross-team collaboration, and accelerating operational investments, which were already on our road map, including technology.

One thing that really impacted us with Elliott is that 25% of our crew are based in Denver and Chicago. When we are unable to maintain sufficient throughput during winter operations, we can't get our crew out into the network. When this happens, it puts great stress on our crew network, which is what happened with Elliott. So a key part of our action plan is to have more robust winter operations, so we can be confident that we get our crews out in the network to operate through bad weather. So we invest in key stations. Based on calculated throughput needed to maintain our crude network, we have added deice pads, deice trucks, increased glycol storage and mixing stations, increased snow removal, heater carts and other equipment to operate safely and effectively in winter weather.

We have been conducting deicing summer school to make sure we have plenty of ramp agents trained and ready to go for deicing. That's just a few examples of tangible things we have done. We are now so much better prepared for these extreme weather events. Moving to cross-team collaboration, we now have our network planning and network operations teams under the same organization allowing them to work together to make the best decisions quickly. We have formed a special operating group called the network disruption pod to coordinate decision-making in our control center when there are high-risk disruption events, and I've used this group for events of summer.

Additionally, we have conducted multiple operations wide tabletop exercises, often called war games involving winter weather scenarios to prepare our teams for the season. And we have talked a lot already about the immediate modernization of an enhancement to our systems. Early on, there was a misconception that technology problems caused an operational disruption. It was the opposite. Operational problems caused technology problems.

Since the disruption, we've bolstered those systems with upgrades to address the specific issues we experienced during winter storm Elliott. We're also rolling out a proprietary new system that is unique in the industry. I take the crew-first approach when developing solutions to large-scale irregular operations. I share all that detail and really those are just a few examples to demonstrate the level of action we have taken were set-up better than ever and feel confident as we go into the holiday -- winter holiday travel season.

Finally, I'll wrap up by talking a little bit more about what we're doing with capacity and the network next year to ensure that we're on a path to operational and financial excellence. Going back to April, we committed to orderly and measured growth. Stable growth helps us regain efficiency, absorb our hiring, mature our workforce and improve our operational performance. We also have to take into consideration demand levels and travel patterns as we determine our growth and build our network. As we develop our 2024 capacity set, we are doing exactly that. In the past couple of years, we focus on growth to restore our network and fully utilize our fleet. That, combined with business travel trends and our investments in Hawaii in new cities has created challenges to our current unit revenue performance. Therefore, as we look to 2024, we are moderating our capacity, which will allow the growth to be absorbed.

And as we shared last quarter, we are taking actions to accelerate the maturation of our developing markets and to optimize our schedules to current travel patterns. The most recent examples at today's announcement, they were shifting the bulk of the international service in Fort Lauderdale to Orlando. This will offer better connectivity in our domestic network via the nearly 140 daily departures at MCO.

We are fully committed to delivering on a plan that enables operational excellence, improves operational efficiency and reiterating what Bob said at the beginning of the call, that generates value for our employees, customers and shareholders.

And with that, I'll turn it back over to Julia.

**Julia Landrum**

Thank you, Andrew. We have analysts queued up for questions. [Operator Instructions] Please go ahead and begin our analyst Q&A.

# Question and Answer

## Operator

[Operator Instructions] Our first question comes from Savi Syth from Raymond James.

### **Savanthi Nipunika Preli-Syth**

*Raymond James & Associates, Inc., Research Division*

Good afternoon. If I might, on the 2024 plan, you talked about inflationary kind of headwinds to unit costs. And you historically don't necessarily adjust capacity once kind of schedules are loaded. I was wondering if you could provide a little bit more color on how we should think about unit costs in 2024? Is this going to be up year-over-year and just some of the kind of the bigger drivers of the unit cost trends?

### **Robert E. Jordan**

*CEO, President & Director*

Savi, it's Bob. Thanks for the question. And I want to start just first with just kind of how -- where we are with the quarter. I mean, the quarter was really solid. I mean, record operating revenues, passengers, Rapid Reward program revenues, retail spend on the card, new members in the program. So I mean, just really pleased with the quarter. And obviously, another accomplishment was restoring the network and getting all of our aircraft flying. So we do have higher sequential capacity and just higher capacity general than typical.

And as you know, travel patterns are changing for -- while it's still strong, they're changing for leisure, but they're also changing for business as the -- we're seeing gains, but that last 10 to 15 points of business recovery is a little bit stubborn here. So we are working on capacity. Don't want to be slaves to capacity here. So we're going in and we are reducing the first quarter.

The shoulder periods are just tougher, January and February. We're not ready to talk about the whole 2024 plan. We're working on that right now very diligently. But our overall planning capacity for the year has come down to the 6% to 8% range which is essentially all carryover from the restored capacity in '23, just carrying over into '24. But that's going to result in things like nominal seats in the back half of next year that will actually be down as compared to 2022.

So I just want to set the -- sort of lay the groundwork for how we're thinking about capacity, it's all about 2 things. It's about maturing and absorbing the capacity that we have restored in '23 and in '24. That's really how we're thinking about capacity. As you pull down capacity, that will create pressure, obviously, on cost. It always does. We're still working on our plan. We're going to work both sides of the equation. We're going to work on the cost and the efficiency plan here. We've got a lot of opportunity to drive out efficiencies as we slow the growth and focus on pulling down our hiring and getting folks out of training, all those kinds of things. But we're going to work the revenue side as well. But yes, I just would admit that does put a little bit of pressure on our cost as we pull down capacity always does.

Tammy, if you want to say -- add anything?

### **Tammy Romo**

*Executive VP & CFO*

You covered everything really well, Bob. Just, Savi, to give you maybe just a little more color on where we're seeing the obvious cost pressures. Clearly, as we've wrapped up a lot of agreements this year with our labor group, we have seen more inflation than normal in labor, and that's driven by the higher wage rates. And we've been, as you know, accruing for those throughout the year.

And then outside of our labor, where we'll see some inflationary pressures in maintenance as our 800 fleet is coming off of the holiday. So I just wanted you to keep that in mind that wind down. But we are very -- all that said, we are focused in on our 2024 plan. We are going to work really hard here to drive efficiencies and certainly leverage our network opportunities. So a little premature to give you guidance for the year, but we're going to keep working really hard on our plan here to manage our CASM-X cost going forward. And we haven't backed off of our Investor Day, what we shared with you at our 2022 Investor Day. Our longer-term goal is to grow CASM-X in the low single-digit range, and that would be on mid-single-digit capacity growth.

### **Savanthi Nipunika Preli-Syth**

*Raymond James & Associates, Inc., Research Division*

That's all very helpful. I appreciate that. Maybe kind of following up on that, just on the fleet side, I know you have a contractual fleet here. Is your kind of goal to just again take as many aircraft and then offset it with retirements? Or how should we think about the aircraft deliveries next year and maybe Boeing's ability to meet it?

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

Yes. Savi, that's goal #1 with our -- we've been talking about reflowing our fleet order book with Boeing. Goal #1 was to just get to orderly steady growth in the fleet plan. I think if you look at -- we were stacking a lot of aircraft up that were delayed, and I think it pushed beyond even what you saw the plan, delivery expectation of 143, I think, in 2024, which, of course, we're not doing.

So I'm really happy. Boeing has been a great partner. We've got a new fleet plan that takes us -- that is very orderly. It takes us through 2031 at very attractive pricing, and there is a lot of flexibility in the new order book. So we can flex up and we can flex down as you see demand trends changing both ways. Just thinking about 2023, we've been talking about, again, taking control of the order and delivery plan and planning to that in our schedules, we plan to 70 Boeing, it looks like we will now be able to take 85 this year from Boeing, and we'll just offset that directly with retirements, which, of course, is a -- that's a solid financial trade. And then our goal next year is to take 85. Tammy, do you want to add anything?

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

You covered it all.

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

But again, the new order is all about reflowing this so that the growth is orderly and steady and we have access to a lot of aircraft at attractive pricing and we have a lot of flexibility.

## **Operator**

Our next question comes from Catherine O'Brien from Goldman Sachs.

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

Maybe just a follow-up on the cost question, if you don't mind. Two things. I know you're not prepared to talk about exact guidance on 2024. I totally appreciate that the growth plans have changed. But I think last quarter, you said you were committed to driving cost down year-over-year. Do we -- are we just back at the drawing table for that? And then on the labor inflationary pressures you're talking about, I know you've been accruing this year. So what's driving that incremental into next year? Is that just wage rate increases are higher than they used to be or something else in the pay package?

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

Yes, Catie. Just to give you a little more help there. It really boils down to 2 factors. One is we have moderated our capacity growth plans, and we are continuing to see labor rate pressure. And just to really take you maybe through our fourth quarter cost profile to help you as you sort of model for first quarter, if you exclude the 15-point year-over-year disruption related impact to our fourth quarter CASM-X outlook, we would actually be down 1% to 4% year-over-year. And as Bob mentioned earlier, in terms of our cost profile, while we've had some structural cost increases here, our cost advantage relative to the industry and the legacy carriers is still very much intact.

But if you move sequentially from fourth quarter, the cost headwinds are stemming mostly from overall inflation, namely labor costs. That is our most significant inflationary factor. And despite the labor accruals, we've been recording, we still expect year-over-year pressure next year from normal annual and scale increases, as you would expect.

And then just beyond those labor cost pressures, we anticipate continued year-over-year cost pressure by the accelerated depreciation related to our fleet modernization effort and already mentioned maintenance costs. So again, the key reconciling item here is the fact that we've moderated our capacity plans for next year, which does put further pressure to our unit costs.



But we are not done with our 2024 plan, and we're not content with our cost outlook. So we are rolling up our sleeves and we're going to keep working on and proving that outlook. So that hopefully gives you a little bit more color into kind of the cost and what is sticky. And again, our focus now is on [ringing] out those costs inefficiencies and driving for better productivity as we moderate our growth plans next year. So we're going to stay hard at work on managing our costs, we have a great track record in doing that and we're determined to manage our costs as we have for our 50-plus history.

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

And of course, for everybody, I mean, the labor cost increases are -- that's a phenomenon we are all seeing as we all renegotiate contracts and some of the timing is different for folks, but those are going to be cost that I think you're going to see generally across the board. It always takes -- they're coming in a lump. And it always takes time to adapt to the higher cost structure as you move across a period of time.

The good thing is back to the network work, we are very committed to taking network action. We had already announced last quarter a full restructuring of the network that is going to yield over \$500 million in pretax profit contribution in 2024. Beyond that now, we're moderating the first quarter. We're moderating the full year. Again, you're going to have seats in the back half of the year that are actually going to be down nominally year-over-year. And all of that is designed to match the demand to the network and match the network to the demand, which should ultimately help revenue production, help RASM production.

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

Maybe just my follow-up. We're going through another earnings season where there's quite a lot of focus on premium products. I guess, is your view that those will still prove to be cyclical in the next downturn, whenever that might be? I guess, really just interested in hearing how you're assessing demand for premium products and what data points could change your mind on your current product offering?

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

Yes, I'll start, then Ryan can back cleanup with me here. But it's the -- I don't want to speak for others, and it's always hard to predict the future. But yes, there's clearly an outperformance in long-haul international and premium right now, like there was an outperformance in domestic leisure this time last year.

Typically, trends moderate. They always have been in this business for a very long time and all things tend to sort of work their way back to a trend here. We'll see. And if you think about Southwest Airlines, we've got a tremendous coach product. We've got terrific seating and great Rapid Rewards program and WiFi and all kinds of amenities, we're putting in power and larger overhead bins. We just announced bag tracking.

So we're obviously enhancing our product ourselves, which is a little different than premium, but certainly I think we have the most attractive coach product in the industry. Maybe attached to that, we're always looking at what our customers, our preferences are and what they're telling us, and we'll always study that. And if over time, those preferences change, we'll take a look at what that means for Southwest Airlines. Ryan?

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

Yes, the only thing I would add is historically, premium revenue has been one of the more cyclical items in the industry overall. So the recovery from the pandemic has been a little bit different than other periods. So we're watching it closely. If we -- if there is some shift in consumer demand here that we need to take note of and evolve the product, we will.

But I think you want to be very careful with that and study that very closely given the cyclical nature historically of premium revenue. But just like we have over our 50-year history, we listen to customers, we understand how -- what they're demanding and preferences, how those change. And we've evolved our product over time, and we'll continue to do that as we go forward as we need to.

**Operator**

Our next question comes from Duane Pfennigwerth from Evercore ISI.

**Duane Thomas Pfennigwerth**

*Evercore ISI Institutional Equities, Research Division*

Probably a question that's been asked a handful of times over the last few years. I understand the plan is to get margins up over time over the long run. But is there a specific plan to get margins up in 2024? We hear a lot of pushback from investors about your unit revenue kind of exit rate, and I think folks are kind of extrapolating that into the future and they're having a hard time seeing that path in 2024. So what does that path look like? And what will be required to get margins up next year? And is that explicitly a plan?

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

Yes, Duane, obviously, that is absolutely the plan to improve margins in 2024, and we're committed to getting back to our long-term outperformance and operating margin. We were talking about adapting to these new cost levels, that will take time, but we're moving quickly. That is a big piece of adapting the network and matching customer demand and these new demand trends to the network that we put out for our customers, both business and leisure.

We have a lot of opportunity to bring out cost and efficiency through operating leverage through new tools, through managing our headcount. We've got a lot of folks that are locked up in training as an example, as we slow our hiring and slower our growth here, that will come out in terms of costs. We have a lot of cost places that we can make.

We're still working on our 2024 plans. But yes, I can assure you that a return -- growth in 2024 and then a return to industry-leading margins and the margins that our shareholders expect is absolutely a commitment. I don't know if you want to add anything, Tammy?

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

Yes. No, I thought that was very well said. But again, we know we have work to do, and we're fully committed to delivering on a 2024 plan that enables our operational excellence. We're going to drive operational efficiency. And as I said earlier, we're both sides of the equation. So stay tuned as we work through that, we'll be back with more details.

And I just do want to remind you as we've already shared, the estimated benefit of our network optimization efforts along with the continued maturation of our development markets, we're still working on our plan. But as we've shared, we do expect that to exceed \$500 million in incremental year-over-year pretax profits next year. But clearly, more work ahead, and we'll -- we're hard at work for you.

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

I appreciate those direct answers. But maybe just to throw out an alternative, if you can't get your margins going in the right direction next year, if it's more like 25% or 26%, what might you consider strategically or put on the table that hasn't been on the table before? So if we think about things like seat assignments, base economy, bags fly free, historically, those have been sacrosanct. I mean, would there be more of an urgency to more aggressively take a look at the product and the service offering if you can't get there next year?

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

Yes. I mean, again, we're working on our 2024 plan, so we're not ready to lay all that out. The last set of initiatives that we took you through several years ago, the \$1 billion to \$1.5 billion in EBIT this year are paying off, and we'll have a next set. Some of those, I think, will make perfect sense. We have the ability to put flights into places where we can drive, obviously, operating leverage. So those flight and flight activities come on at lower CASM rates. We have some areas where we can continue to really push the generation of revenue outside the cabin.

Obviously, that centers around the Rapid Rewards program development and other areas. We have opportunities in terms of how we fly the aircraft where we can drive up utilization and generate additional ASMs without having to take on capital costs on new aircraft. I'm just not -- we're just not ready to share the whole plan with you. I'm just trying to convey that we're hard at work, and there is a lot on the table.

To your specific question about things in the cabin or boarding, I would go back to what Ryan said, which is, we are going to follow the lead of our customers. And if our customers ultimately tell us that, that is what they want, then that is what we will do. We're not ready to -- obviously not ready to say that today. But our customers will dictate what is important to them, whether that's an attribute of the product or things that are around boarding in the cabin. So again, don't read too much into that, but just understand that, that is something that we are constantly taking a look at.

**Duane Thomas Pfennigwerth**

*Evercore ISI Institutional Equities, Research Division*

Yes, I appreciate that. I guess over the years, you deserve the benefit of the doubt when you're printing industry-leading margins and saying we're going to go with what our customers want. But if you have lagging margins, it may require a harder look, but I appreciate you taking the questions.

**Robert E. Jordan**

*CEO, President & Director*

Yes, I would just add -- I understand. And just we will be absolutely relentless in meeting our goals. That includes driving out efficiency and productivity, that includes improving the revenue side of the equation, and that includes driving ourselves back to industry-leading margins. You have my commitment.

**Operator**

Our next question comes from Mike Linenberg from Deutsche Bank.

**Michael John Linenberg**

*Deutsche Bank AG, Research Division*

Two here. I guess first one to Andrew. If I caught you correctly, you had indicated that you were moving up your international service from Fort Lauderdale to Orlando. I mean, Fort Lauderdale, I think, has been one of your original international gateways. What were the factors that drove you to move up? I mean, I know you have a pilot domicile in Orlando, but it is a smaller local market. That seems to be a pretty meaningful move.

**Andrew M. Watterson**

*Chief Operating Officer*

Thanks, Mike. I appreciate the question. We -- as we mentioned earlier, we were -- we have relooked at our network and moved our capacity around. So it's both the amount of capacity and the nature of the capacity. We did both of those moves first. We kind of were doing the nature with our reconfiguration that Tammy referenced earlier.

And for Orlando, we do have a lot more northbound flights, if you will. The international destinations, even though they loom large in our mind, they actually are modest-sized markets that require a decent amount of connectivity to fill them up. And so Orlando being a little bit further north and having more flights for Southwest Airlines north of Orlando allows us to have the good complement of the local plus the flow.

So a lot of the international destinations were to take our customer base here on vacation because we are a repeat purchase business. And so we want our network in any given location to offer chances to fly for business, to go to Orlando, to go to Vegas, to go see grandma to go on vacation on the beach. And so sometimes that's non-stop and sometimes that's connecting. And for a lot of the international, it requires us to offer that as a connection for some of our kind of further northern cities.

So Orlando, the combination of the local market plus allowing us to access our big customer bases on the Upper Midwest and Northeast makes a more network sense given scarce capacity, if you will. So net-net, that made sense. And then also, as you mentioned, the crew base in Orlando also makes the cost to serve that go down because you're not staging crews down to Fort Lauderdale. So working both sides of the equation, as Bob said, revenue and costs, it made more sense for our international anchor in the Southeast to be Orlando.

**Michael John Linenberg**

*Deutsche Bank AG, Research Division*

Andrew, just to sort of follow up on that, like 1.5 years ago, 2 years ago when you guys talked about some of your initiatives. One of the focuses longer term was to increase your connectivity. Is this a bit of a trial run in sort of focusing on this one market? And if it succeeds that type of connectivity, you look at applying that to other gateway cities. Is that sort of the plan here?

**Andrew M. Watterson**

*Chief Operating Officer*

No, I think this is -- during COVID, we had a kind of -- when demand was way down and we have bigger aircraft, we don't have a lot of RJs. We had to use more than usual connectivity to fill our aircraft. And then as we went post-COVID, we moved back to our

normal, which is between 25% and 30% of our customers in our connecting itinerary, that's been fairly stable, but they're concentrated in certain areas, they help us fill up the early and late parts of the day and they also help us support certain geographies.

So going to Hawaii, we have these -- we have certain gateways there that allow us to access our customers in Island of Hawaii. The same thing for international, a combination of Baltimore plus now Orlando helps you access international from parts of our network. So connectivity has always been the icing, not the cake, but we were very intentional about how we use it.

**Michael John Linenberg**

*Deutsche Bank AG, Research Division*

Okay. Very good. And then just the second one to Ryan. When I think about the \$500 million pretax benefits coming from various revenue initiatives. As I look at loyalty and ancillary, they were both records in the quarter. Can you give us a sense of maybe where ancillary is per passenger today, where it's been historically? Where does that go? And any sort of rough numbers on just remuneration from loyalty, maybe the size of that program?

**Ryan C. Green**

*Executive VP & Chief Commercial Officer*

Yes, no problem. Yes, ancillary and loyalty were both -- we had several records in the third quarter, and I expect good performance here as we look forward into the fourth quarter. Ancillary revenue it is outpacing our passenger growth, largely on the back of our upgraded boarding benefit. We've been able to increase prices there and hold on to take rates. Early Bird as well is a strong performer. We've been able to increase price rate -- prices on Early Bird as well as some of our other ancillary products that went into effect in August. We raised prices on excess bag fees, pet fees, things like that.

So ancillary, absolutely is a standout. And I think I'm expecting it to continue to exceed passenger growth in the fourth quarter. Loyalty overall, as you -- as I'm sure you're following it, it's a very -- it's a key part of our strategy going forward. Rapid Rewards is the most preferred loyalty program in the industry on lots of different measures, primarily because customers are able to actually use the points that they're earning.

And so that's driving spend on the card. Third quarter spend on the card was a record, and we expect to continue growing the program over time. We also made some additional changes to Rapid Rewards here earlier this month that I think is also going to continue to drive engagement from our customers. And it's all about making it easier to get value out of the program for customers.

We see when customers make a redemption, after that redemption, they fly us more, they spend more on their card. It just drives further engagement with Southwest Airlines. And so doing things like adding the ability to combine cash and points. That's all about making it easier to use rapid reward points, which will then in turn provide value back to Southwest.

Same thing with lowering the tier requirements for A-List and A-List Preferred. We're kind of bucking the industry trend there. Our competitors are making it harder to access benefits. We're making it easier. And again, there's value to the consumer there, but there's also value back to Southwest.

Customers stretch to reach A-List and A-List Preferred companion pass. They fly more, they spend more on their cards as they get close to that. And so bringing those thresholds in closer makes it better for the customer, but it also drives value back to Southwest. So we'll continue to invest in Rapid Rewards in the program and ancillary overall. And I think we'll -- we should expect to see continued growth.

**Operator**

And ladies and gentlemen, we have time for one more question. We'll take our last question from Helane Becker from TD Cowen.

**Helane Renee Becker**

*TD Cowen, Research Division*

Just a couple of questions to follow up. With the changes in Rapid Rewards and making it easier to earn, what you would call status, isn't that kind of amounting to fair cuts across the board?

**Ryan C. Green**

*Executive VP & Chief Commercial Officer*

Amounting to fair cuts across the board?

**Helane Renee Becker**

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*TD Cowen, Research Division*

Yes. I mean, if it makes it easier for me to redeem my points, I mean, don't you wind up selling fewer revenue seats?

**Ryan C. Green**

*Executive VP & Chief Commercial Officer*

So the way that we've designed the loyalty program and the value exchange from the customer and the number of Rapid Reward points that it takes to redeem, we're indifferent whether or not the customer is flying for us on Rapid Reward points or paying cash. So we've taken that equation kind of off the table. The change here really is post-pandemic the same number of customers are traveling for business today than what they were before, and then leisure customers are actually up. The difference and what the gap in managed travel is, is that those individuals are flying a bit less frequently.

And so what our change to make the threshold easier to achieve is really just capitalizing on that fact, bringing the threshold in earlier. And as I was just explaining, we'll get benefit from that, too, because more customers will be able to stretch for A-List and A-List Preferred, which drives value back to us.

**Helene Renee Becker**

*TD Cowen, Research Division*

Got it. Okay. That's really helpful. And then the other question I had for my follow-up was, I think at one point, you guided to \$1 billion to \$1.5 billion in EBIT contribution in 2023. But I feel like that might be -- is that -- I guess, is that an easier comp because of Elliott last year that you'll be able to achieve that?

**Tammy Romo**

*Executive VP & CFO*

Helene, we're delivering on the initiatives. And obviously, that includes things like our fleet modernization, our investments in GDS, our new revenue management system, et cetera. And even what just -- but in terms of the initiatives, those are driving and those are tracking in line with what we've shared with you. And then we're continuing to invest, as Ryan took you through. And those investments just drive more engagement from our customers that makes them more and more loyal. So the initiatives that we've shared with you are driving incremental value and we're continuing to track in line with what we've shared with you. So those are actually delivering.

Now that said, we're not -- we've already shared with you, we're not satisfied with where we stand now going into 2024, but as we've shared, we're just not ready to lay it all out for you today, but we are working on our 2024 plan, and we'll certainly fill in more of the answers so that you can kind of see how it all weaves together here. So stay tuned and more to come there.

Okay. That concludes the analyst portion of our call. I appreciate everyone joining, and have a great day.

**Operator**

Ladies and gentlemen, we will now begin with our media portion of today's call. I'd like to first introduce Ms. Linda Rutherford, Chief Administration and Communications Officer.

**Linda Burke Rutherford**

*Chief Administration & Communications Officer*

Thank you, Jamie. I'd like to welcome members of the media to our call today. Before we begin taking questions, Jamie, we just give them instructions on how everyone can queue up.

**Operator**

[Operator Instructions] And our first question today comes from Alexandra Skores from the Dallas Morning News.

**Alexandra Skores**

I wanted to ask, obviously, the flight attendants reached their tentative agreement yesterday. And pilots were picketing at headquarters today. So I kind of wanted to ask a little bit about -- I know that NMB has meetings scheduled with you all throughout November. What -- can you give us a sense of when a pilot deal may come and what the time frame might look like on that?

**Robert E. Jordan**

*CEO, President & Director*

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Alexandra, I just want to -- I'll answer your question, I promise, but I just wanted to say I'm grateful, we all are that we have a tentative agreement with our awesome flight attendants. There's still more work to do. The union is working on materials and training and then so they can get the information out to our flight attendants here quickly so that they can then vote. But I'm just real pleased with the milestone.

Obviously, we've had a really good 12 months. I think that's our eighth agreement in 12 months and we are committed to finishing up the others. Our SWAPA agreement is -- our SWAPA by negotiations are continuing. There's progress. I believe, Andrew, we're meeting every week. And -- but obviously, we've got to get it over the finish line. Andrew, what would you like to add?

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

I think I've been really encouraged over the last couple of months with both the pace and quality negotiation with meeting every week. Sometimes that's with the mediators and sometimes that's without the mediators. And so we've made -- we've also had enhanced leadership negotiation from both sides, and leadership presence of negotiations from both sides, and that's worked out really well.

Our mediators have been quite active. And so we have to have both sides agree to get to a deal. So no one side can predict when it's going to finish, but we've made substantial progress with a small but difficult list of things remaining to close out, and I have confidence in our team and the swap and negotiating committed will be able to do that in a timely fashion.

The mediator has -- is barring no government shutdown, more date for us throughout the rest of this month and next month. And I also would say that we're also in negotiations with our ramp unit, TW555. And so hope to be engaged with them here in the next couple of weeks for next step there. So we can -- that would then be the last deal for us to close out.

**Alexandra Skores**

Yes, that was my second question was TW555. I understand they reached an agreement, but it doesn't seem like there was a ratification announcement. So I'm wondering if you all can give an update there?

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

That was a month or so ago. I can't recall exactly, Bob. But they've voted that one down. Their union as most unions do, follow-up with the survey to understand where the frontline workers, the members did not like the proposed agreement. Based on that feedback, the union will develop a slate of changes. We will do that on our side as well. And then we'll get back together in early mid-November to talk about next steps with them for the next round. We're not in mediation with them. We have I think very productive negotiations without mediators with the 555 and we expect that to continue.

**Operator**

Our next question comes from Leslie Josephs from CNBC.

**Leslie Josephs**

Just curious about your discounting strategy. You have fare sales frequently, but it seems like the fares are pretty low currently. Could you kind of put that into context with previous fare sales, how that compares and how you're thinking about the fourth quarter?

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

Yes, Leslie. We do -- we are finishing up restoration here. And so we do have more seats to fill. I would characterize our promotional activity as being slightly more than normal. It's definitely not a tectonic shift from how promotional we have been historically, but there is a little bit more. When we have been promote have -- as we have put those fare sales out there, we use some fairly sophisticated tactics and strategies to be very surgical in where we drive the demand.

So oftentimes, those sale fares -- well, always those sale fares are available when we have distressed inventory to sell. And we keep the higher demand flights. The promotion is not applicable on the higher demand flights. So it allows us to drive load without diluting yields. Yes. I would just also point out to -- relative to your comment on really low fares out there. The fares -- our average fare in the third quarter was up 2.6%. So if we were being -- if we were having to overly discount, you wouldn't expect average fares to be up.

So I think the strategy overall is working as designed. We've got a lot of seats to fill. We're selling our distressed inventory through discounting and protecting our higher-yield flights.

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**Leslie Josephs**

And are there any specific routes or regions where you're seeing you're having to discount more or even times of the week or month or recent months?

**Ryan C. Green**

*Executive VP & Chief Commercial Officer*

Yes, it's less about the markets in different geographies and more about travel patterns today. Tuesdays and Wednesdays are tougher, shoulder periods of the day are tougher. And so that inventory is a little -- that's where a lot of the discounting is actually happening. We're adapting to those travel patterns and trends as we move forward here with our network optimization starting after the first of the year to reduce some shoulder flying, reduce -- further reduce some Tuesday, Wednesday flying to help address that. But it's more that than it is in particular geographies.

**Operator**

Our next question comes from Mary Schlangenstein from Bloomberg News.

**Mary Schlangenstein**

I was going to ask a question about how you are adjusting capacity to help with the reshaping of the business travel and the way it hasn't come back as you expected. And Ryan may have just answered that question, but I wanted to see if you could put a little bit more specifics out there on those adjustments, days or weeks, times of days, cutting frequency, things like that?

**Robert E. Jordan**

*CEO, President & Director*

Yes. Mary, I'll talk and then Andrew and Ryan can finish -- obviously, correct me. But yes, that really is why we are making the -- both the network adjustment and optimization that we had already announced that is in the first quarter that's worth over \$500 million in profit next year. And then this new set of capacity adjustments, both in the first quarter and then throughout 2024 in the nonpeak period. It's really about the shoulder period to the nonpeak periods being more shoulder than before.

So for example, some of that was backfilled by business travel, which, again, business travel is rising for us, it's just steady. It's just not fully recovered to pre-pandemic levels. But as an example, this reduction in January and February of 2024 next quarter. That is really all -- that's as much about matching new business travel demand trends and patterns as it is anything. So that carries through 2024, but yes.

**Andrew M. Watterson**

*Chief Operating Officer*

You heard Bob. Now it's Andrew say that -- overall business travel is down maybe 10% or 15% versus 2019. So it's not like a guardrail to guardrail move. It's just more a modest recalibration on network. So it is geared less -- little bit less towards business, little bit more towards leisure or mixed leisure business. Tuesday, Wednesday, which historically has been a more business travel heavy day will be much lower versus kind of Monday, Thursday, Friday. So that was one big part of it. And also, if you look at certain cities, if you look at the route combinations, some routes would have predominantly business travel on it. And so we've replaced those routes in those cities, ones that have kind of either pure leisure or mix of leisure and business. So it's really a modest adjustment of the portfolio of routes as well as a kind of Tuesday, Wednesday reduction in overall capacity.

**Operator**

Our next question comes from David Slotnick from TPG.

**David Slotnick**

I was wondering if you could just expand a little bit on the lower-than-expected close-in bookings. Do you think this is a lengthening of the booking curve again, sort of a return to the pre-pandemic booking trends? Or is this a one-off that maybe have something to do with the present element?

**Ryan C. Green**

*Executive VP & Chief Commercial Officer*

David, I would just characterize it as we are moving back towards more pre-pandemic norms. Of course, managed business travel remains down relative to pre-pandemic levels. It's -- the baseline in managed business is kind of slow and steady recovery, and we're picking up market share with our initiatives in the managed business space. And so we feel good about that.

But when you turn to the leisure piece of this, there is still more close-in leisure today than there was pre-pandemic, but it is not at the level of what we saw earlier this year, at the end of last year. So I think it's more of a reversing of trends here back to norms as kind of -- return to office trends and things like that also begin to change here a bit.

I called it out in my prepared remarks, but specifically, in the third quarter, there's other things that would have impacted close-in leisure, the school calendar changes are pretty significant in August specifically. And 1/3 -- in our markets, 1/3 of schools were back in session the second week of August. That's double what it was pre-pandemic. And anybody that has kids, usually don't travel the week before your kids go back to school. So that kind of wipes almost all of August out there for 1/3 of travel in our market.

So there's some things moving around in the macro environment that's impacting it. But I think just generally characterizing, we're kind of reverting back to norms.

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

And there is the risk of being redundant, which I probably am. All of these things are about tweaking the network and the business for new demand trends and behaviors that are caused by things like business being just below and not fully recovered or new trends coming out of the pandemic.

There -- it's not about there is a demand problem. So again, at Southwest, we're seeing, again, record operating revenues, record passengers, record Rapid Rewards participation on revenues, record retail spend on our card, record new members on and on and on, and we're expecting record operating revenues and passengers again in the fourth quarter.

So it's not as if we're not generating demand. Southwest is generating a strong demand. It's about getting that aligned more precisely with the new travel patterns and also just absorbing the rapid growth that we saw because we restored our network here in the back half of the year, and that just drove sequentially more seats, more capacity than normal.

And now it's time to mature that, absorb that, which is really why we're stepping down and slowing our growth rate in '24 so that we can take the time to do that. But I just want to point out to me, a lot of this is -- while there's work to do, a lot of this is tweaking and adjusting to the new trends. It's not about we have a demand problem.

**David Slotnick**

Got it. And then just following up, you excluded the holiday specifically when you mentioned this during your prepared remarks. What's the booking curve looking like for that? Where do you think we are in the curve sort of right now?

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

Yes, holiday bookings are strong. I made the comment earlier that if you look at where we sit today versus last year at this point in the curve for the December holiday period, specifically, were booked ahead, which I think is a vote of confidence that customers are beyond our operational disruption, and we're not suffering any sort of demand weakness for the December holiday period. And I would just characterize the Thanksgiving period as strong as -- well, we've got a lot of capacity here over the -- in the fourth quarter that we'll have to absorb. But I'm pleased with how the holidays are booking.

**Operator**

And our next question comes from -- is a follow-up from Mary Schlangenstein from Bloomberg News.

**Mary Schlangenstein**

I appreciate the extra question. I wanted to ask, in the order book, the new order book that you laid out today, you're taking an additional aircraft over 200 additional aircraft over that time frame. And I wanted to see if you would comment on why you decided to do that now because it hasn't been that long since you placed an order for MAXes?

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



Yes, Mary, I'll start and then Tammy can add on. But I think it's really about a couple of things. Again, the delivery, Boeing is a great partner. We've all suffered supply chain and other issues. So the delivery challenges have just pushed a lot of aircraft forward, and we just want to make sure we got back to clean all that up, and let's get back to where -- the order book reflects orderly and appropriate growth.

So that's why you see a pretty normal sort of 80, 85, 90 number year to year to year. That was number one. Let's just clean all this up.

Number two, the aircraft -- the new aircraft market is tight. And we want to ensure that we have access to aircraft into the future. And we've done that through 2031. We want to make sure that we locked in very attractive pricing, which we have with Boeing, again, as a great partner, and we've accomplished that.

And then last, again, sort of -- there's been more variability in our industry than I think I've ever seen. And so because of that, you just need to make sure you've got plenty of flexibility, and that's flex up and that's flex down level of options and other things, we have plenty of opportunity to move those annual numbers up and down as demand dictates. So it was really -- it was as much about sort of taking the uncertainty out of the future, but also locking up access to those aircraft that attracted pricing. Tammy?

**Tammy Romo**

*Executive VP & CFO*

Yes, you hit it all, Bob. But yes, we're very thrilled to have wrapped up our discussions with Boeing. It's everything Bob covered. And certainly, one of our key initiatives just to add on is our fleet modernization efforts. So again, we believe this order book supports our orderly growth plan and our fleet modernization initiative provides significant flexibility for us and also gives us a great path to retire our -700 fleet over the coming years. So I think we are just thrilled to have a cost-effective order book that meets our needs going forward.

**Operator**

And ladies and gentlemen, this will conclude our question-and-answer session. I'd like to turn the floor back over to Ms. Rutherford for any closing remarks.

**Linda Burke Rutherford**

*Chief Administration & Communications Officer*

Thank you all for being with us. Members of the media, if you have any follow-up questions, you can obviously reach out to our communications team at (214) 792-4847, or on our media website at [swamedia.com](http://swamedia.com). Thanks so much for joining us.

**Operator**

Ladies and gentlemen, the conference has now concluded. We thank you for attending today's presentation. You may now disconnect your lines.

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