

Call Participants

EXECUTIVES

Andrew M. Watterson
Chief Operating Officer

Julia Landrum
Vice President of Investor Relations

Robert E. Jordan
CEO, President & Director

Ryan C. Green
Executive VP & Chief Commercial Officer

Tammy Romo
Executive VP & CFO

Whitney Eichinger
Senior VP & Chief Communications Officer

Ravi Shanker
Morgan Stanley, Research Division

ATTENDEES

ANALYSTS

Brandon Robert Oglenski
Barclays Bank PLC, Research Division

Alison Sider

Leslie Josephs

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

Rajesh Singh

Daniel J. McKenzie
Seaport Research Partners

Duane Thomas Pfennigwerth
Evercore ISI Institutional Equities, Research Division

Helene Renee Becker
TD Cowen, Research Division

Jamie Nathaniel Baker
JPMorgan Chase & Co, Research Division

Presentation

Operator

Hello, everyone, and welcome to the Southwest Airlines Fourth Quarter 2023 Conference Call. My name is Gary, and I will be moderating today's call. This call is being recorded, and a replay will be available on southwest.com in the Investor Relations section. After today's prepared remarks, there will be an opportunity to ask questions. [Operator Instructions]. At this time, I'd like to turn the call over to Ms. Julia Landrum, Vice President of Investor Relations. Please go ahead, ma'am.

Julia Landrum

Vice President of Investor Relations

Thank you so much. And welcome, everyone, to Southwest Airlines Fourth Quarter 2023 Conference Call. In just a moment, we will share our prepared remarks. After which, we'll be happy to take your questions. 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 expectation of future performance. And our actual results could differ materially from expectations. Also, we will reference our non-GAAP results, which exclude special items that are called out and reconciled to GAAP results in our press release. So please refer to the disclosures in our press release from this morning and visit our Investor Relations website for more information. With that, I'm pleased to turn the call over to you, Bob.

Robert E. Jordan

CEO, President & Director

Thank you, Julia, and thank you, everyone, for joining the call today. As we close the books on 2023, I want to take a moment to reflect on how far we've come. And more importantly, I want to thank the people at Southwest Airlines for their dedication, their warrior spirit, their heart and, ultimately, for their incredible resilience.

At this time last year, we were getting back on our feet from the disruption following Winter Storm Elliot. We quickly mobilized to put immediate mitigation efforts in place while simultaneously building a robust plan to prepare us for future extreme winter weather disruptions. We were also working to restore our network, address our staffing needs and return our aircraft to full utilization. And of course, we were in the middle of negotiations with the majority of our labor unions.

I'm incredibly pleased to be on the other side of 2023 and to be able to share all the progress we made last year. We completed a comprehensive winter weather action plan, which has already been successfully tested in multiple weather -- winter weather events, including the extended nationwide winter storms we experienced this month, but also with other types of disruptions such as hurricanes, severe fog in Chicago and the Maui fires. Through all of those events, our aircraft and crew networks remained stable. We recovered quickly, and we were able to minimize the impact on our customers. We also got fully staffed, restored our network and reached full utilization of our fleet.

Our network is in a healthy place, and it shows in our operational improvement. In fact, we improved in nearly every operational metric. Our completion factor performance, in particular, was fantastic at 99% for the full year, with fourth quarter being our best quarterly performance in more than a decade at 99.6%. We also made significant progress on our labor agreements, including the ratification earlier this week of an agreement that secures industry-leading pay for our best-in-class pilots. We have now successfully reached ratification on nine contracts in a little over a year, demonstrating our commitment to providing competitive market compensation packages for our people. This is a huge accomplishment, and I would like to thank all those who have tirelessly supported those negotiations.

Of course, all this was in addition to a host of other accomplishments, the rollout of a new revenue management system, the launch of multiple customer experience improvements, and the negotiation of a very cost-effective order book with Boeing. The order book allows us to continue the modernization of our fleet and provides the opportunity to flex our growth plans up or down over the long term.

We also made rapid adjustments to capacity for both 2023 and 2024 and put in place significant network adjustments in response to changing demand patterns. These changes reduced our planned 2024 year-over-year capacity increase to roughly 6%, all of which

is carryover from 2023 network restoration. So there will be no net new additional capacity in 2024 as we work to mature our route network.

Moving to our performance. We continue to be very pleased with the core demand for our product. We saw close-in performance strength in November and December for both leisure and corporate travel. This led fourth quarter 2023 to be yet another record at just over \$6.8 billion in operating revenue. And we are seeing that strength continue into 2024. This demand strength, combined with about \$1.5 billion in incremental year-over-year pretax profit from our network optimization efforts and the contributions from our portfolio of strategic initiatives, is driving us to expect additional revenue records and year-over-year operating margin expansion despite cost pressures from new labor agreements and increased aircraft maintenance expense.

Our network changes are materially in place with the March schedule, where we expect to hit a profitability inflection point. While still early in the quarter, our initiatives are delivering towards our revenue target. And we expect to exit the quarter with a strong operating margin for the month of March.

While we have significant inflationary pressures from our new labor agreements, we have initiatives underway that will begin to help counter these pressures with efficiency improvements. These include everything from scheduling techniques to digital modernization, and we planned in 2024 with head count flat to down as compared with year-end 2023 as we slow hiring to levels that are at or below our attrition rate. That will drive efficiency gains in 2024 with more to come in 2025.

All of this supports a solid plan with a line of sight to improve our financial returns and earn our cost of capital in 2024. While this represents notable progress, I want to be clear. Earning adequate and consistent returns, ROIC well in excess of WACC is our financial North Star, and it's not negotiable. We will be relentless in executing against our plans, and we will continue to make adjustments, including capacity adjustments, if needed, until we deliver those results. Adequate and consistent returns is how we have created decades of shareholder value, and it continues to be our key focus. Our current set of initiatives is tracking nicely, and we'll provide you a lot more detail later this year at Investor Day. In addition, we're working on a next set of initiatives to support -- in support of sustainable returns over time.

In closing, we made tremendous progress in 2023, and we finished the year a much stronger company. We will finish this year stronger again. We are fully committed to improving the customer experience and delivering on our long-term financial targets, including generating returns for our shareholders. As always, I have confidence in our people and our business model, and I am particularly proud of our people for their dedication and their resilience. They remain our absolute greatest asset, the heart and soul of our company, and the ultimate source of pride for me. And with that, I will turn it over to Tammy.

Tammy Romo
Executive VP & CFO

Thank you, Bob, and hello, everyone. As Bob mentioned, 2023 wasn't without its challenges. But we are stronger and ready to take on another year, and that is all thanks to our incredible employees. We delivered \$996 million in profits for the year and our fourth quarter net income of \$233 million, both when excluding special items, was on the better side of our expectations. We prioritized the restoration of our network and operational reliability in 2023, which has taken a lot of resources and focus. With our operations now stable and the network fully restored, we can direct much more focus and energy to consistently delivering a strong financial performance, along with delivering operational excellence.

We have incredible strengths to build upon and the levers we need to optimize and regain our position as an industry leader. We will be steadfast in our efforts to make meaningful progress this year in support of our long-term goal of generating consistent returns well in excess of our cost of capital. Ryan and Andrew will cover the headway we've made with our revenue and operations performance in detail. So I'll start with our cost performance before moving to fleet and balance sheet.

Overall, our unit cost, excluding special items, were down 16% year-over-year in the fourth quarter. Our fourth quarter average fuel price of \$3 per gallon was right at the low end of guidance, primarily due to jet fuel prices in the L.A. market steadying after significantly spiking in mid-November. Thankfully, market prices dropped as we moved into this year. And our fuel price guidance of \$2.70 to \$2.80 per gallon for the first quarter and \$2.55 to \$2.65 per gallon for the full year is a welcome reduction in fuel costs compared with 2023.

We are currently 60% hedged here in first quarter and 57% hedged for the full year with more meaningful hedge protection kicking in at Brent prices around \$90 per barrel. That's a higher strike price than where our 2023 hedges began to provide meaningful protection, which was closer to \$70 per barrel. This is reflective of the current market conditions and elevated cost of hedging. We continue to prudently add to our fuel hedge position for 2026, nearing 20% hedged and are currently 46% hedged in 2025, in line with our goal to be roughly 50% hedged in each calendar year. While we are not fully immune to the volatile energy market, I am grateful that

our hedging positions provide meaningful protection against catastrophic increases, while also allowing us to participate fully when market prices decline.

Moving to nonfuel cost. Our fourth quarter year-over-year CASM-X decrease of 18.1% was on the favorable side of our guidance range, driven primarily by elevated operating expenses and lower capacity levels in fourth quarter 2022 as a result of the operational disruption. This was partially offset by general inflationary cost pressures, including higher labor rates for all employee work groups as well as elevated maintenance expense. Both of which are sticky as we move into 2024.

I also want to congratulate our pilots on their newly ratified contract. Obviously, the market for pilot wages has increased significantly, and it is important that we keep pace to reward our employees appropriately. As a result of the new agreement, we recorded a change in estimate for the pilot ratification bonus, and you can find the details and breakout of the accounting treatment in this morning's press release.

Looking to first quarter 2024, we currently estimate our CASM-X to increase in the range of 6% to 7% year-over-year. Roughly 3 to 4 points of this estimated increase is driven by higher overall 2024 labor cost and market wage rate accruals. The remainder of the first quarter CASM-X increase is primarily due to year-over-year pressure in maintenance expense driven by rate increases as well as an increase in maintenance activity as our 800s are coming off their honeymoon period.

Speaking to full year cost. Our CASM-X guidance of a 6% to 7% increase year-over-year is also essentially driven by labor and maintenance cost pressures. Roughly 4 to 5 points is attributable to labor and roughly 2 points is from maintenance for the reasons I previously covered. While we accrue for market wage rates, the recently ratified pilot contract contributes the majority of the labor CASM-X increase this year due to a step-up in wage rates, work rule changes and enhanced benefits.

As Bob mentioned, we are steadfastly focused on regaining efficiencies to help counter some of the structural cost pressures as we look to control what's controllable. We are not satisfied with our current financial performance, and we will work relentlessly until we produce the financial strength and returns you should expect from Southwest Airlines. We have a solid 2024 plan, which includes the benefit of roughly \$1.5 billion in incremental year-over-year pretax profits from our strategic initiatives. The vast majority of the initiatives delivering value in 2024 are revenue related, contributing well over \$1 billion of the \$1.5 billion total expected incremental benefit. And our network optimization and market maturation efforts are providing the bulk of that revenue lift.

The balance of the revenue-generating benefits come from incremental managed business initiatives, primarily increased GDS participation. The incremental cost benefit relates primarily to fleet modernization and early yields from other operating efficiency efforts such as digital service modernization and our turn initiative. We will go into a lot more detail on our initiative portfolio at Investor Day later this year. While early, our plan provides significant progress towards our long-term goal to generate ROIC well in excess of our cost of capital. Again, more details to come at our 2024 Investor Day.

Now turning to our fleet. During 2023, we received a total of 86 -8 deliveries, one more than planned, and retired 39 -700s, two less than planned, ending the year with a total of 817 aircraft. We consistently mentioned the flexibility in our fleet modernization efforts being a key competitive advantage. And the minor shifting of deliveries and retirements throughout 2023 validates our ability to thoughtfully plan and execute, given the continued supply chain challenges facing Boeing.

Moving into 2024, there is continued uncertainty around the timing of expected Boeing deliveries and the certification of the MAX 7 aircraft. Our fleet plans remain nimble and currently differs from our contractual order book with Boeing. We are planning for 79 aircraft deliveries this year and expect to retire roughly 45 -700s and 4 -800s, resulting in a net expected increase of 30 aircraft this year.

Taking our current plan into consideration, we expect our 2024 CapEx to be in the range of \$3.5 billion to \$4 billion. After finalizing our 2024 plans and refining capacity levels to better reflect the current environment, we now expect full year 2024 capacity to be up about 6% year-over-year. And our 2024 capacity plans do not currently include any MAX 7 flying. So if certification of that aircraft continues to push out, our 2024 capacity plans will not be impacted. In addition, we are also reducing our total fuel expense with our fleet modernization initiatives as we continue to bring on more fuel-efficient -8 aircraft and retire -700s. We saw a nearly 3% year-over-year improvement in fuel efficiency in 2023 and expect continued improvement this year. In addition to fuel savings, our fleet modernization initiative is a key component in reaching our environmental sustainability goals.

Lastly, I am proud to report that our balance sheet strength continues to be a financial backbone as we move into another year. We remain the only U.S. airline with an investment-grade rating by all three rating agencies. We ended the year with \$11.5 billion in cash and short-term investments, returned \$428 million to our shareholders through dividend payments in 2023, paid \$85 million to retire debt and finance lease obligations in 2023, and continue to be in a net cash position. We expect to pay a modest \$29 million in debt payments this year and continue to expect interest income to well exceed our expected interest expense of \$249 million in 2024.

So we are pleased to have a plan for significant financial improvement to be made this year with some major milestones behind us, such as restoring our network, becoming fully staffed, fully utilizing our fleet and so much more. Our sites are set on expanding margins and covering our cost of capital in 2024. And as I close, I'd like to sincerely thank our people for another year of hard work and dedication to the mission and vision of Southwest Airlines. I am so grateful for each and every one of you. You were truly my heroes. And with that, I will turn it over to Ryan.

Ryan C. Green

Executive VP & Chief Commercial Officer

Thank you, Tammy, and hello, everyone. Let me start by sharing that I am very pleased with the overall demand for our business, the execution from our amazing people and the engagement of our loyal customers. Fourth quarter unit revenue finished slightly better than expectations at down 8.9% year-over-year. The improvement was driven by a strengthening of close-in revenue performance in November and December for both leisure and corporate business travel as well as the continuation of overall strong holiday performance and market share gains from our managed business initiatives.

I'm pleased to report that we saw no bookings impact from last year's operational disruption during this past holiday season, which speaks to the operational improvements we have made over the last year, as well as the enduring loyalty from our customers. In addition, fourth quarter was another quarter with multiple records set, including record fourth quarter operating revenue and passenger revenue as well as an all-time quarterly record for passengers carried.

Fares also performed well in the fourth quarter, with our average passenger fare up about 2.5% year-over-year. And all in all, our fourth quarter operating revenues were up over \$1 billion relative to fourth quarter of 2019. And while we still have work to do on our revenue performance, I remain very pleased with our progress.

Looking to our full year results. We grew 2023 operating revenues nearly 10% year-over-year to a record \$26 billion accompanied by record passengers, record Rapid Rewards revenue and record ancillary revenue. And speaking of records, we set operating revenue records in each quarter of the year and for the full year of 2023. As we move into 2024, we are seeing the momentum continue, and we're seeing early but highly encouraging benefits from our network optimization efforts. And we expect first quarter unit revenue growth of 2.5% to 4.5% when compared to the same period last year. This represents a solid sequential improvement in year-over-year unit revenue performance even when normalized for the 5-point tailwind from the prior year disruption impact.

In fact, our guide would imply first quarter 2024 nominal RASM to be about 5 points higher than our normal seasonal sequential average when compared with nominal fourth quarter 2023 RASM. We currently have about 60% of expected bookings for first quarter already in place, slightly above normal, and we are seeing better-than-normal sequential RASM performance, further demonstrating that our network optimization efforts are working.

As we refined our capacity plans for this year, we've been able to pull in even more flying out of the shoulder periods, which we believe will be a tangible contributor in boosting our performance. While our forecast doesn't assume any material increase in demand for domestic air travel in 2024, we do have a line of sight to double-digit operating revenue growth year-over-year, driven largely by the network and initiative-driven revenue that Tammy detailed.

Included in that, of course, is our efforts to drive managed business. We are very pleased with the performance of our managed business initiatives and the success of our Southwest business team. In the past year, we had a solid increase in market share, more than 3 points in the managed business space, and I'm very proud we improved our Business Travel News ranking from fourth place in the industry in 2019 to second place in 2023. We were the only carrier on the survey to receive an increased total score 2 years in a row, while each of our competitors' scores have declined over that same period. It's another example of the progress we're making against the industry in the managed business space.

Of course, we're also continuing our efforts to improve our customer experience and our Rapid Rewards program. We are seeing improved customer satisfaction scores with our WiFi product as we proceed with our infrastructure investments there. And more aircraft are joining the fleet every day with in-seat power and larger bins on board. We've made several enhancements to our award-winning Rapid Rewards program, including making it easier to reach our A-List and A-List Preferred levels. And we will soon be rolling out the ability to book travel with a combination of cash plus Rapid Reward points later this spring.

We introduced customer bag tracking to reduce friction in our customers' travel experience, and we look forward to sharing more on our larger digital hospitality modernization plan in the coming months. All of this is designed to make it easier to fly with us and give customers even more reasons to choose Southwest.

As we enter 2024, we have a very solid plan that leverages the unparalleled strength of our people, our product, our loyalty program and our route network. And we look forward to delivering on continued progress towards our long-term financial goals. With that, Andrew, over to you.

Andrew M. Watterson
Chief Operating Officer

Thanks, Ryan, and hello, everyone. I'd like to start out by recognizing our people for their efforts in successfully managing through four different named winter storms, which was spread over 11 days and impacted a wide portion of our route network with intense weather conditions and frigid temperatures this month. These overlapping winter systems definitely put our winter operations preparedness plan to the test.

Overall, I'm very pleased with how well we managed the storms. The sheer magnitude of these weather systems resulted in significant cancellations, the vast majority of which were proactive on our part. Our cancellations were made 14 hours in advance on average, and 70% were canceled with at least 6 hours in advance. As you can imagine, providing that much notice improves the customer experience. In fact, we have found that it can result in NPS scores that approximate those with customers with no disruption to their itinerary.

Overall cancellation rates were in line with the industry and were primarily isolated to the operations directly impacted by the storms, with fewer than 2% of our cancellations tied to crew scheduling challenges. This is in significant contrast to what we experienced with Winter Storm Elliot in December 2022. The improvement is directly the result of last year's winter operations investments and protocols. I echo Bob's sentiments that we are in a much better spot today than a year ago. In the past year, we not only completed the winter operations preparedness plan. We also delivered on a long list of initiatives to modernize our operation with benefits for both our customers and our employees.

Our people have the staffing, equipment, tools and infrastructure to operate safely and at pace in winter weather. The good news is that all the hard work showed up in our operational performance. We closed out 2023 with only about 1% of our total flights canceled, and we improved in basically every metric. Our completion factor, on-time performance, early morning originators, turn compliance and turn differential and mishandled bag rate, all showed substantial year-over-year improvement, which in turn led to a year-over-year improvement in our trip Net Promoter Score.

As we enter 2024, we will focus on continuing to build on our 2023 priority of operating quality. We ranked fourth place in the 2023 Wall Street Journal Airline Quality Metrics, despite several of the metrics covering the Winter Storm Elliot period. Our goal is to move up this ranking and ultimately be ranked #1. We will also double down on three additional priorities: wringing out operating inefficiencies, increasing asset productivity and creating operating leverage by reducing structural costs. These are multiyear initiative-based efforts, which will begin yielding material benefits in 2025. We'll share more on these in the coming months.

Finally, I'd like to close by congratulating our pilots on their new contract. I'd also like to thank all the negotiating teams who have worked so hard to reach nine agreements since October of 2022. These teams worked tirelessly, and I am pleased we can reward employees with well-deserved pay increases and quality of life enhancements. We remain in negotiations with two union-represented groups, TWU 555 and TWU 556, and we look forward to reaching agreements that reward those employees for their contributions. So with that, I'll turn it back over to Julia.

Julia Landrum
Vice President of Investor Relations

Thank you, Andrew. This completes our prepared remarks. We will now open the line for analyst questions. [Operator Instructions]

Question and Answer

Operator

[Operator Instructions] The first question comes from Ravi Shanker with Morgan Stanley.

Ravi Shanker

Morgan Stanley, Research Division

Maybe we can start with the \$1.5 billion kind of initiatives. Any chance you can share more detail there, kind of details on what the different contributing items are? And also, how much visibility do you have into that? Trying to get a sense of how much of that may be in the bag, so to speak.

Robert E. Jordan

CEO, President & Director

Ravi, it's Bob. I'll start, and then maybe Ryan can jump in. Obviously, a lot of the year-over-year improvement counts on the initiatives delivering, and I feel very confident about that. I mean some of this is our Investor Day initiatives continuing to perform. And then on top of that, you have new things, a lot of which -- the majority of which are the network improvements, which, as you know, were in place materially beginning in March and then fully in place by early summer. And so we have a lot of confidence in those -- certainly, the Investor Day initiatives delivering. And while it's early in the quarter, we have some line of sight into, obviously, March and how well the network change and optimization is delivering, and we're on track there. It's things like -- it's basically adjusting for new demand patterns. It's adjusting -- you know what they are. The Tuesday, Wednesday shoulder flying, those kinds of things. But no, I feel like we're on track to hit that incremental \$1.5 billion. Again, most of that is revenue. About 2/3 of that is revenue related. Ryan, do you want to add anything?

Ryan C. Green

Executive VP & Chief Commercial Officer

Yes. Of the revenue initiatives there, a lot -- most of that is the network optimization and then continuing maturation of some of our development markets. Development market percentage of mix continues to get more back to normal ranges by the end of 2024, so that certainly will help. And obviously, we've been able to watch those development markets mature throughout their curve here over the last few years.

As it relates to the other revenue initiatives that are in place, they will continue to mature and then also provide additional benefit as we -- as the airline grows. A significant portion of that is the managed business initiatives that we've been talking about. And I'm very confident in how -- that those sets of initiatives continue to perform. We're definitely on track.

Managed business got better in the fourth quarter from how it was performing in the third quarter, and then we're expecting another sequential improvement here in the first quarter with managed business. We can see that in place in how bookings are coming in, in January and as we begin to get into the February booking curve here. So yes, everything that we can see, how we finished the fourth quarter and then what we can see here in the first quarter and going forward makes me very confident.

Ravi Shanker

Morgan Stanley, Research Division

Very helpful. And maybe as a quick follow-up. I'd love to get your thoughts on the apparent premiumization of the domestic product. Obviously, you guys are committed to single cabin. But does that give you kind of more room to raise RASM across the product? Or kind of just what would your response to that be?

Ryan C. Green

Executive VP & Chief Commercial Officer

Well, premium certainly is a hot topic in the industry, and it's something that we watch -- that we're watching closely. We also talk to our customers on a regular basis. This is one of the things that we continue to get their feedback on. And I think we talked about it some on the last call. As you think about premium, historically in the industry, premium revenue has been highly cyclical. This is one of those times where carriers are adding premium seats into the cabin.

But when the economic cycle shifts, they're pulling seats, premium seats out of the cabin. And so as we see kind of the recovery here from the pandemic, we'll have to see how these trends persist and go forward. I think overall RASM, obviously, we follow that and how we compare relative to the industry. And we're working on improving that as we go forward here. I will say that ancillary revenue, the majority of which is boarding products, our EarlyBird product as well as our Upgraded Boarding product is doing very well. We're having record ancillary revenue performance. And so I think, yes, we have a single cabin, but we're able to improve RASM and grow ancillary revenue through some of those boarding products as well.

Operator

The next question is from Jamie Baker with JPMorgan.

Jamie Nathaniel Baker
JPMorgan Chase & Co, Research Division

Obviously, lots of discussion about domestic capacity -- woah, sorry, I'm still there, right?

Robert E. Jordan
CEO, President & Director

Yes. You're there.

Jamie Nathaniel Baker
JPMorgan Chase & Co, Research Division

Sorry about that. That was probably the tamest expletive that I've ever said. Lots of discussion about domestic capacity cuts, your own and others. Just curious though, in markets where you overlap with lower-cost competitors, have you seen any changes in how they're competing other than just the capacity cuts? I mean there's been speculation of lower [OA] pricing as some of those airlines try to regain profitability. I'm not seeing any of that, but it's that sort of thing that I'm asking you about.

Robert E. Jordan
CEO, President & Director

Yes, Jamie, obviously, there are -- I mean, there are probably as many moving parts right now as I've ever seen. You've got -- as Ryan talked about, you've got a focus on parts of the cabin that are outperforming our route network that are outperforming. You've got a lot of capacity moving around in the industry right now. You've got mergers, so it's tough to tell that. And on top of that, obviously, you've got capacity impacts due to aircraft delivery, the GTF issues, all those things. So I think it's tough to tease out. My guess would be that all of those factors probably get worse across the year. The impact of those are going to continue to increase, especially as you see more impacts on capacity and aircraft due to potential Boeing impacts, obviously, the geared turbofan. So more to follow.

On our end, obviously, we're focused on Southwest Airlines. I'm really pleased with 2023 and all that we got accomplished that we talked about. We ended the year a much better carrier than we were the year before. The area, of course, where I'm not satisfied is our financial performance. We're running roughly 4 points under our cost of capital right now. And that is our focus here at Southwest, and we've got a really good plan here in '24...

Operator

Pardon me. This is the conference operator. We seemed to have lost connection with the speaker's location. Please standby while we try to rejoin. Thank you.

[Technical Difficulty]

Robert E. Jordan
CEO, President & Director

Jamie, my apologies there. I don't know where we left off. But my point is we are focused on Southwest. We're focused in '24 year on expanding margins, covering our cost of capital. That sets us up for a lot of momentum to then even -- make even more progress in '25 and thinking about capacity for Southwest Airlines, our capacity. Our CapEx, as we plan forward, will obviously take into consideration the progress we are making against those financial goals. I just want you to know that. The backdrop of the industry, I think, is going to play out here across 2024, and we'll just have to see.

Jamie Nathaniel Baker
JPMorgan Chase & Co, Research Division

Okay. Helpful. And then second, you've disclosed in the past that you have seriously considered a second fleet type, but decided not to go down that path. I don't have to tell you that industry animosity towards your sole provider is obviously crescendo-ing. Would it be unreasonable to assume your single-fleet conviction might finally begin to wane from here? Or is that putting words in your mouth?

Robert E. Jordan
CEO, President & Director

Well, let me just back up a second. Obviously, there's a lot going on with Boeing. I mean, the MAX 8 is a great aircraft. We're very satisfied with it. And like Boeing, we support the work of the FAA and the oversight to improve quality, address any issues because at the end of the day, a better Boeing is good for Southwest Airlines. The -- we periodically look at aircraft manufacturers and aircraft types. That's something we take up routinely here at Southwest Airlines.

We've done that in the past. And our focus right now is on our own fleet plan, our fleet plan with Boeing. Obviously, working with Boeing to get the MAX 7 certified. But we do take that up periodically. You also have to understand, every -- I know you know this, but there isn't -- as such, there's no such thing as being able to de-risk all of this. Even if you have multiple aircraft providers, say we were 50-50, you'd have 400 aircraft of one type and 400 of another type, and so an issue still creates great risk for the company.

So the best thing that we can do is work with Boeing to make them an even better company, which is exactly what's happening. We've got great confidence again in the MAX 8, and we're eager to get the MAX 7. We're not in charge of that certification date. But no, we have confidence that Boeing will get all this figured out with the FAA and will come out a better company.

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 couple of quick ones. On unit revenue going forward, underlying your double-digit top line forecast for the year, can you just help us think about where we go from the 1Q unit revenue forecast? I'm assuming based on the full year capacity outlook, growth is going to slow from the first quarter into the remaining quarters of the year. So that would be a sequential tailwind. You'll be lapping some of that easy comp from the book away as we move through the year. How does that all impact where you think unit revenue trends quarter-to-quarter? Anything else lumpy we should be considering?

Tammy Romo
Executive VP & CFO

I'll start off and then Ryan, if you want to jump in with any thoughts that you have. Really, there -- as you pointed out, there's a bit of noise year-over-year. So probably, the best way to kind of help you think through that is sequentially. As you're aware, the first quarter is seasonally a tougher quarter just in general for the airline industry. And we will have our network changes materially in place in March. So -- and then following on into the summer, we expect to have that fully completed with our summer schedules.

And then just as we continue to go through the year, we would expect our development markets to continue to mature. You were -- 10% of our system is development market. And by the end of the year, we expect that to be more in line with our historical percentage of about, call it, 5%. And then on top of that, as Ryan covered, we are -- we believe we'll continue to grow our managed business revenue. We've been pleased with our GDS initiative, and we would expect those benefits to steadily improve as we go through the year. So we would expect, we've got a lot of momentum coming into this year. And we would expect that to continue and build...

Operator

Pardon me. This is the conference operator. We've again lost audio from the speaker location. Please standby as we try to regain it. Thank you.

[Technical Difficulty]

Robert E. Jordan
CEO, President & Director

Everybody, sorry about it. We're having some form of conference call issue here. My apologies. But I would just pile on, just simply, maybe talk to -- covering what Tammy did, which is you have decelerating capacity across the year: 10%, Q1; 8% to 10% in the second quarter, 3% to 5% in the third quarter. And then the back half of the year really is all just stage-length. Trips are down. Seats

are down. On top of that, the initiatives and particularly the network-related revenue initiatives and the development market-related initiatives accelerate because they start -- they really started in March, accelerated through the summer. So you have decreasing capacity across the year, and you have an accelerated contribution from the network initiatives across the year. That's an indirect answer to your question, but that's how I'm thinking about it.

Ryan C. Green

Executive VP & Chief Commercial Officer

Yes. And I wouldn't add anything else, other than to say that the revenue initiatives, that component of the plan, those are -- there's very little lumpiness in those as well. Those are pretty evenly spread throughout the year. So it's really about the decelerating capacity in the back half of the year and the network maturation and optimization efforts coming on.

Catherine Maureen O'Brien

Goldman Sachs Group, Inc., Research Division

Makes a lot of sense. And then maybe just for my second question. Would just like to talk about the unit cost side for this year. And I know, very early, but maybe like for first look into '25. Can you talk to us just about like some of the incremental headwinds you're expecting for 2024 versus what you were thinking back earlier in 2023, when you were targeting unit costs to be down year-over-year? Of course, at least a couple of points, that's lower capacity, the pilot contract came in higher. It would be great if you could just walk us from that, down year-over-year to up 6% to 7%. And then, again, early, but into 2025, if we've lapped the big step-up in wages and are back to something more inflationary plus, I'm guessing you're going to get more efficiency back as you go into year 2 of kind of the network recovery in your optimization phase. Like is that when we get the down year-over-year? Any color there would be great.

Robert E. Jordan

CEO, President & Director

I'll start, and then I'm sure Tammy will pile in. I mean the -- we were accrued for our labor contract increases here. We've got nine done, two to go. It's really -- for the most part, it's rate increases here in 2024. So if you take the pilots, for example, they've got a 4% rate increase. We've got some benefit increases. That's the majority of the 6% to 7%. On top of that, you have maintenance pressure that was known. It's really the 800 engines coming off holiday, and that's a couple of points.

Those are going to be things, wage rate pressure, maintenance pressure that most of the industry shares. Now on the efficiency side, as we go across the year, we've peaked our hiring, and we will -- our target is to end the year in '24 with fewer heads than we ended the year 2023, which will, of course, naturally make us more efficient with the 7% growth. It's too early to talk about 2025.

But as you maybe think about a forecast there, yes, you would naturally decelerate from the unit cost pressure this year. And our goal -- we're not ready to give you a number, of course, for '25. But our goal will be to dramatically control that headcount growth again in 2025. And we'll be sharing a lot more about that at our Investor Day later in the year. Tammy, do you want to add anything?

Tammy Romo

Executive VP & CFO

Yes, you really covered it all. But yes, the story is actually quite simple. It's labor cost, labor rate cost. Obviously, the inflation there is more than we would have anticipated initially. So we've -- with the pilot contract behind us, we've adjusted our accruals. So most of 2024 is associated with the step-up in scale increases, wage rate increases and enhanced benefits. And Bob covered the maintenance, and we'll share more at Investor Day. But obviously, we're focused on wringing out those efficiencies as we move through 2024 and to a greater degree in 2025.

Operator

The next question is from Duane Pfennigwerth with Evercore ISI.

Duane Thomas Pfennigwerth

Evercore ISI Institutional Equities, Research Division

So maybe just one more shot at this. Can you give us your best guess as to the contributors to the sequential improvement here? How much of that 5 points would you attribute to these network realignment initiatives? And how much would you attribute to just better underlying demand? It's been challenging with airlines to really make a read about the macro based on what airlines are doing in any given quarter. Just like in the third quarter of last year, I didn't think that was a particularly good read on the macro. But if you just

look at this revenue outlook here, what is your business telling you about the macro? And are you seeing acceleration? And if so, where?

Ryan C. Green

Executive VP & Chief Commercial Officer

Yes, Duane, it's Ryan. I think the macro environment for demand overall is very strong. I mean the way that we closed the fourth quarter, we saw close-in performance kind of accelerate in the holiday time period, which had us -- we came in above our expectations at that point. So I think that, that was a good sign as we got into the year.

And as you sit here in the first quarter, the beginning of the first quarter, we've got about 60% of bookings on hand. That's plenty for us to get a good read on how the macro trends are performing. I think demand looks very strong in January and February, which are typically trough periods here. We're performing just fine. As you look into the stronger periods into March, I think spring break travel and the Easter travel period, that's booking very well.

And then probably also, as it relates to the overall macro environment, if you just look at managed business trends, I think I mentioned this earlier. Fourth quarter was better than third quarter, and first quarter is expected to be better than the fourth. We've got very strong bookings in place on the managed business side here for February as we begin to get into that part of the curve. So I think the overall macro environment sets up well for us having a really good year.

Duane Thomas Pfennigwerth

Evercore ISI Institutional Equities, Research Division

Just a follow-up there. Any focus cities or parts of the country that are kind of waking back up for you?

Ryan C. Green

Executive VP & Chief Commercial Officer

Well, I would say destination-based markets are doing very well. International is doing very well. Hawaii, we beat our expectations in the fourth quarter. Phoenix, Orlando, Vegas, those markets are doing very well for us. I think when you look, California was slower to come back. It's doing -- it's improving for sure, so it's definitely pockets across the network. But again, I think overall, things continue to improve.

Operator

The next question is from Brandon Oglenski with Barclays.

Brandon Robert Oglenski

Barclays Bank PLC, Research Division

So can I come back, I think, to the first Q&A here, which was about the premiumization of the industry? Because I think what we did observe through 2023 was some growing yield differential between yourself and maybe some low-cost competitors, relative to the network airlines. And I guess, I just want to ask the question maybe more bluntly or directly. Does product matter? And does it matter as you go further in distance and longer in flight length? And I guess I'd specifically ask about your experience in Hawaii as well. And I guess how do these initiatives that you guys are talking about on the commercial side start to try to address that?

Ryan C. Green

Executive VP & Chief Commercial Officer

Well, first of all, I would say, absolutely, product matters. And I think that certainly from a coach product, Southwest Airlines has the best coach product in the industry. I would just echo what I said on the premium component, that this is highly cyclical. And I think that we want -- before we would take up that question, you would want to -- or we would want to study that very closely as we think about that.

Your question on how do we do relative in a long-haul market like Hawaii, as I mentioned, we beat expectations. We beat our own expectations for Hawaii in the fourth quarter. I think our yields continue to improve in the Mainland to Hawaii component of that franchise. And we'll continue to develop those yields further. But no, I think that our product fares very well even in long-haul markets. But yes, on the whole, I think product matters.

And I think when you look at the industry together, I think that there's at least some evidence out there today that demand for fares on the bottom end and lower -- products on the lower end of the segment, there may not be as much demand for those types of products today as what there once was.

Robert E. Jordan
CEO, President & Director

And Brandon, this is Bob. The only thing I would add is -- and this is no prediction. Don't read more into this than is there. You've got to meet your customers' demand and their expectations. So as those change over time, you want to understand that. You want to be -- you want to carefully understand that, and we have a history of demonstrating that. So you go back 10 years, we wouldn't have been talking about WiFi. We would not have been talking about power on the aircraft.

And we can go on and on and on. There was a time when we didn't even have a loyalty program here at Southwest Airlines. So as consumer demands and expectations change and you've got different generations of flyers coming into the system as well, we will constantly look at that, understand what our customers want. And then if that warrants change, we will look at that, and we will make the right decisions. Again, we have a history of doing that with our product here and our customer experience. That's no predictor regarding premium in the cabin. I'm just trying to make sure that you know that we aren't stubborn in this area. That as you see demands change, we'll understand that and we will react if needed.

Brandon Robert Oglenski
Barclays Bank PLC, Research Division

Bob and Ryan, I appreciate that. And then maybe if I can just get a quick follow-up in for Tammy. Any ability to tell us where you view your weighted cost of capital today?

Tammy Romo
Executive VP & CFO

Yes, sure. It's sitting probably -- it's the high 8s, close between 8% and 9%, so we view it at about 8.6%, 8.7%. But one thing, Brandon, just to add on. Over our longer term, it's been closer to 9%. We certainly look -- we certainly take a view, a longer-term view, when we're planning in terms of our returns on invested capital.

Operator

The next question is from Helane Becker with TD Cowen.

Helane Renee Becker
TD Cowen, Research Division

As I look at your numbers for the fourth quarter, your revenues were up about 12.5% or something, and your costs were up 10.5%. And yet you weren't able to see significant margin improvement because of the things you already talked about where you have inflationary pressure. But as we look forward to the next 1 year, how should we think about the seasonality of your business now? Because it seems like you said everything was great for the fourth quarter, and yet you didn't perform significantly better than you did last year. And I would have thought that last year, given all the issues, you would have performed a lot better. So maybe you can help me bridge beyond just the obvious labor cost inflation and other inflationary pressures. How do you get back to those margins you used to report? And then do you expect -- and then my other question is, do you expect any book away from the flight attendants asking for a strike vote?

Robert E. Jordan
CEO, President & Director

Yes. Maybe, Helane, thank you. Maybe I can start, and then Tammy can jump in.

Helane Renee Becker
TD Cowen, Research Division

That was a lot of questions.

Robert E. Jordan
CEO, President & Director

Yes, I'll try to remember everything. I think just generally, I think the biggest impact, sort of tearing everything aside in the fourth quarter, is we did choose to restore capacity quickly. So basically, that was a choice to, number one, get our aircraft back to normal utilization, fly all of our aircraft, hire pilots, all that. And so our capacity, our ramp-up was greater than normal.

And therefore, we did have -- you could see it, we had a drop in load factor. I think that's the biggest contributor in terms of the performance rate there that's different than normal. And our '24 plan, obviously, is to get back to normal in that area as we normalize capacity. So to me, that's the biggest thing. And I don't attribute any of that -- I'll get to your flight attendant question. We don't -- I don't attribute any of that to book away, in the holidays, for example, related to Elliot or something like that. I think it really was the rate of capacity restoration.

As we look at our consumer -- our customer behaviors, we look at our customer metrics, demand for Southwest Airlines, there's no indicator or indication that we saw any hangover or book away. In fact, the holiday periods were the strongest periods of the quarter. Your question about the flight attendants -- and I'm really proud of our labor folks. We ratified nine agreements in just over a year. We have two to go, one of those with TWU 556, our flight attendants. We were in federal mediation. And in federal mediation, you follow the mediator, and the mediator determines your dates and when you meet, and we're eager to get a contract done.

And just like our pilots who were in mediation, I'm confident we can do that. The SAV or the strike vote does not mean you are headed to a strike. There are many, many, many things that have to occur before we get to that point, so I'm not worried about a strike despite the strike authorization vote. When we saw our pilots take an SAV or strike authorization vote, we did not see any -- very little customer even indicator that the customers were focused on it or aware. So I don't expect any kind of hangover from that here in terms of customer demand with -- because of the flight attendant vote. Ryan, do you want to add anything there?

Ryan C. Green

Executive VP & Chief Commercial Officer

No, there's no evidence in anything that we track from a customer sentiment perspective that would make us concerned about that.

Robert E. Jordan

CEO, President & Director

That sentiment is fully recovered too at this point. And our NPS scores, our customer satisfaction, have recently have been records and certainly back to pre-pandemic levels.

Operator

We'll take that last question from Dan McKenzie with Seaport Global.

Daniel J. McKenzie

Seaport Research Partners

I guess on efficiency and further improvement to come in 2025, for investors that want -- or that would like line of sight on where FTEs per aircraft could ultimately go, what prior year could serve as a good benchmark? I guess that's first. And then secondly, is it reasonable to assume Southwest could get there fully in 2025?

Robert E. Jordan

CEO, President & Director

Yes, I'll answer it directly and Andrew, if you want to chime in. I think we're not ready to talk about it in maybe as much detail as you want until we get to our Investor Day here later this year. But absolutely, it's just like the goal of covering our cost of capital this year and getting back to our historic returns in ROIC well above WACC. Restoring efficiency is right alongside in terms of the key goal -- or a key goal.

We ramped up our hiring quickly to be able to restore the network and get all of our aircraft flying. That hiring peaked in October to November, and we have been decelerating that rapidly here in the last 60 days. The plan is to, again, to grow 6-or-so percent this year and then to end this year with the same or fewer heads than we began the year, which will obviously help our efficiency quite a bit. Not ready to discuss '25, but we would have certainly a directionally similar goal in 2025.

We also have a significant number -- hate to be -- hate to tease here. We have a significant number of efficiency initiatives that we are planning around both efficiency of the aircraft, efficiency of our people and processes, as we think about things like the turn. And we'll be sharing a lot more about that again in our Investor Day later this year.

Andrew M. Watterson
Chief Operating Officer

I'd say, Bob, one element to that on that is the same kind of cross-functional groups we used to kind of rapidly accelerate our hiring, that same team is now responsible for driving up these efficiencies. So that is something that is literally every week kind of meeting to get to achieve what you just said about where the head count should be at the end of the year.

And I'd also say that while we're conscious of the FTE per aircraft, we're actually managing to more of a labor or SWB CASM because if you think about an aircraft, I could fly that different ways. We could say you'd have two flights a day, and my ground ops needs are different if I flew it 6x a day. And then the block hours for the aircraft would change the pilot pay, if it was a longer block hours per aircraft or less -- if it was less.

So the ultimate CASM you get out of your aircraft depends on how you're flying it and how you're deploying staff against it. So the FTE per aircraft is a useful measure one can have. But it's, A, hard to compare across the airlines because of the outsourcing. But B, depending on how you fly the aircraft, it can give some -- a little bit of false signal. But you can really look at what we're going to try to do, for example, labor CASM and get that to a good order.

Daniel J. McKenzie
Seaport Research Partners

Very good. And if I could just squeeze one last one in here. It's a question on the shift to the cloud. How much of Southwest has shifted to the cloud at this point? And once you complete that endeavor, what could the savings ultimately look like once that transition is completed? Is it tens of millions, hundreds of millions? And is that an opportunity?

Robert E. Jordan
CEO, President & Director

I'd tell you what, you're stretching my technical abilities here. But I believe, like a lot of companies, we have a path to shift to the cloud. But again, it's to shift the appropriate things to the cloud. It's not as simplistic as it might sound. I think we have shifted something on the order of just below 50% is what I've got in my head, and we have a goal to shift a lot more. Some of that is cost savings, absolutely. And -- but I think that is more modest. A lot of what you gain is reliability and the ability to fail over systems and obviously support operations, support our systems, which is critical here in an airline. You have systems that can't be down 30 minutes before they cause you an operational problem. So a lot of the shift to the cloud is as much a resiliency effort and a modernization of the code base and all that effort as it is a cost savings. Certainly, you'll see cost savings. And -- but I just don't -- not -- my guess is it's more in the tens of millions than it is hundreds of millions.

Andrew M. Watterson
Chief Operating Officer

I think, Bob, we -- I mean, I doubt it's in a [fraction or size] it used to be, so very good progress. But when we talk about it internally, we're not talking so much of the cost. But you can take a hosted bigger system, break it up into micro services that are in the cloud and allows you to then get productivity in how you refresh and improve that application over time. So it's really the speed to market for these new products and support for the products is really what drives the benefit. So it's elsewhere in the business, you get the benefit. Not so much in the kind of hosting cost, if you will.

Robert E. Jordan
CEO, President & Director

The other piece of that too and then we'll -- I'll stop is the -- there is a -- it's not a tech cost, but there is a very high cost, both revenue and expense, in being down and having an issue. And you saw issues earlier this year or last year, like the NOTAM outage that really hurt the industry. And so to the extent that you can reduce issues, reduce the number of the issues, the length of time of an issue or reduce them completely, my guess is that is more powerful in terms of cost reduction than even the technology reduction because reducing IROPs is very powerful.

Julia Landrum
Vice President of Investor Relations

Okay. That completes the analyst portion of our call. A quick reminder that the transcript and a replay of the call will be available on our Investor Relations website. 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. Whitney Eichinger, Chief Communications Officer.

Whitney Eichinger
Senior VP & Chief Communications Officer

Thanks, Gary. I'd like to welcome members of the media to our call today. Before we begin taking questions, Gary, could you please give instructions on how everyone should queue up for a question?

Operator

[Operator Instructions] Our first question comes from Alison Sider with The Wall Street Journal.

Alison Sider

I just wanted to see what you made of Senator Duckworth today calling on the FAA to deny the waiver Boeing had sought for the MAX 7. With that anti-ice issue, do you think that's something Boeing should have to address before they can start delivering those planes?

Robert E. Jordan
CEO, President & Director

I'll start, and Andrew will pile in. Ali, obviously, the certification of the MAX 7 and the issue there, that's really Boeing. I don't want to speak for Boeing or get ahead here. Obviously, we want the MAX 7 and we want it on the best timing possible. So I don't want to talk for Boeing, but it is one more thing to consider here in the certification process and certification time line.

Andrew M. Watterson
Chief Operating Officer

I would say that the certification is a technical process between the FAA and Boeing. And I think they've been doing a good job. It's been slower than we would like, but it's been technically based. And it's out for public comment, so it's an opportunity for people to comment on that for technical analysis to be done. And so we're not a party to that. We want the aircraft. It's a question of when we'll get it, not if we'll get it. So we're pleased that they're taking their time to make sure it's safe, and we support whatever way the FAA wants to go.

Alison Sider

And I mean do you have any plans to increase your own oversight of Southwest planes on the Boeing production line?

Andrew M. Watterson
Chief Operating Officer

We have already done that. So in late 2022, we changed our posture out there. Previously, we had -- for a long time, we had representatives at the factory. We increased it to a team of A&P-licensed mechanics, whose job is to provide oversight of our aircraft in the production process. The -- Boeing provides customer quality people that are on their payroll but our direction, and so they inspect at places where we ask in the factory.

The few days that Boeing takes to assemble an aircraft from the wings being built to it rolling out, it's about roughly 80 areas where we have our requirements for things to be inspected. Those people inspect -- our people inspect. And then several times a year, our quality assurance team goes up and inspects our inspectors to make sure everything is going well. So that provides a really good oversight in the production process.

Once it leaves the factory, there's customary acceptance inspections that happen that the FAA oversees and gives a final certificate of airworthiness. And so -- and then it comes on to our op spec, and we -- in our maintenance program, which is quite robust. And since we're the -- by far, the largest operator of the 737, we have provided lots of data. And our continuing analysis and safety surveillance system allows for us to really understand the aircraft and make sure that it's performing and conforming as expected.

Operator

The next question is from Leslie Josephs with CNBC.

Leslie Josephs

I was wondering if you have any thoughts about how a Chapter 7 of an airline in the United States would affect the industry. Are there jobs for those employees should that happen? And then do you think that the Justice Department would ever let you buy another airline?

Robert E. Jordan
CEO, President & Director

Leslie, it's Bob. We don't -- obviously, like I said earlier, there is a lot going on in the industry. They're -- between merger -- potential mergers and acquisitions and issues with aircraft deliveries, the geared turbofan, I don't know. In all my 36 years in the industry, I've seen more moving parts as you have right now. One thing that's consistent here is we stick to our business. So we're focused on Southwest Airlines, improving Southwest Airlines, being the best carrier that we can be, improving our returns and profit margins, all the things we've talked about. It's impossible to speculate on what might happen. Our history would say that as opportunities arise for Southwest, if they make sense, we take a look at that. But I wouldn't want to speculate on anything going on in the industry, certainly around any other carrier.

Andrew M. Watterson
Chief Operating Officer

I think what's the benefit for Southwest Airlines, Bob, is that we have a plan and we control our own destiny. We hit our plan, we get our returns where we need to be. We don't need something to break our way or judge anything else or own anything. Our plan delivers our results.

Operator

Our next question comes from Rajesh Singh with Reuters.

Rajesh Singh

Andrew, do you have any update on the time line for the certification of MAX 7? Earlier, it was expected by April. So do you see any risk of the certification process getting slowed down due to the current events with Boeing?

Andrew M. Watterson
Chief Operating Officer

Well, we get weekly updates on the status of the certification process, so we know what's been submitted and what hasn't. But obviously then, the FAA is the one who oversees that and inspects it and makes the ultimate decision. Previously, we've indicated that we had -- in our internal plan and assumption, that it would be certified by April and that we would then spend time after that to get it in our op spec. And that could take us the end of the year and, therefore, it wouldn't be flying until next year. But that is -- that was only the latest assumption. We've had earlier assumptions all along this process. And as Tammy mentioned, we will modify our plan based on the new information. So should that change, we will move our assumptions and adapt our plan. So by taking this kind of conservative approach and giving ourselves some lead time, we won't let any kind of short-term ups or downs affect what we have planned for this year.

Rajesh Singh

And Bob, I have question for you. Do you have confidence in Boeing's current leadership to address issues facing the company?

Robert E. Jordan
CEO, President & Director

Raj, Boeing has been a partner with us for 52 years. And I have absolute confidence that between the FAA oversight work that's going on, the work that Boeing is doing, that Boeing will -- working with the FAA, will address the quality issues and will obviously come out of this a better company. I've talked personally to their leadership. They're committed to doing anything and everything it takes to be better and to address the problems. And as I said before, a better Boeing is very good for Southwest Airlines. So yes, I have absolute confidence that they will work their way through this and address the issues.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Ms. Eichinger for any closing remarks.

Whitney Eichinger

Copyright © 2024 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

spglobal.com/marketintelligence

Senior VP & Chief Communications Officer

Thanks, Gary. The news release and our contact information are available at [swamedia.com](https://www.southwest.com/swamedia.com). We thank everyone for joining.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

Copyright © 2024 by S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

These materials have been prepared solely for information purposes based upon information generally available to the public and from sources believed to be reliable. No content (including index data, ratings, credit-related analyses and data, research, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P Global Market Intelligence or its affiliates (collectively, S&P Global). The Content shall not be used for any unlawful or unauthorized purposes. S&P Global and any third-party providers, (collectively S&P Global Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Global Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content. **THE CONTENT IS PROVIDED ON "AS IS" BASIS. S&P GLOBAL PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION.** In no event shall S&P Global Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages. S&P Global Market Intelligence's opinions, quotes and credit-related and other analyses are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P Global Market Intelligence may provide index data. Direct investment in an index is not possible. Exposure to an asset class represented by an index is available through investable instruments based on that index. S&P Global Market Intelligence assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P Global Market Intelligence does not act as a fiduciary or an investment advisor except where registered as such. S&P Global keeps certain activities of its divisions separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain divisions of S&P Global may have information that is not available to other S&P Global divisions. S&P Global has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P Global may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P Global reserves the right to disseminate its opinions and analyses. S&P Global's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P Global publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

© 2024 S&P Global Market Intelligence.