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Presentation

Operator

Hello, everyone, and welcome to the Southwest Airlines First Quarter 2024 Conference Call. I'm Gary, and I'll be moderating today's call, which is being recorded. A replay will be available on southwest.com in the Investor Relations section. [Operator Instructions]

Now Mrs. Julia Landrum, Vice President of Investor Relations, will begin the discussion. Please go ahead, Julia.

Julia Landrum

Vice President of Investor Relations

Thank you so much. Hello, everyone, and welcome to Southwest Airlines First Quarter 2024 Conference Call. In just a moment, we will share our prepared remarks, after which we will 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 current expectations of future performance, and our actual results could differ materially from expectations. As 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.

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

Robert E. Jordan

CEO, President & Director

Thank you, Julia. Hello, everyone, and welcome to our first quarter call. Well, let me state right up front that I am disappointed with our first quarter performance. There are a lot of factors that I'll go into, and there's a lot to cover, including the latest Boeing challenges.

More importantly, there are significant efforts and progress underway as we cannot and we won't be satisfied until we are delivering the kind of returns you expect from Southwest Airlines. So before I go any further, I just want to sincerely thank our people for their extraordinary efforts as we work quickly to drive improvement.

Turning to our performance. We achieved records for first quarter operating revenues and passengers, continuing our streak of 8 straight quarters of record top line performance. We saw a nice acceleration in managed business revenues, up 25% nominally year-over-year. We also continued our streak of solid operational performance.

For a while now, we have been consistently running a great completion factor averaging right around 99%, and we continue to improve in nearly all operational and customer metrics. I'm also proud of the progress we made on our open labor agreements. It's been a long road, and I want to recognize everyone involved for continuing to work through to the finish line to reward our amazing employees for their contributions.

Ryan will go into our revenue performance in more detail in a moment. And while our revenue trends were solid in the first quarter and are expected to be a solid year again in the second quarter, we need to increase revenue production to offset cost inflation. The biggest opportunity to improve performance and profitability and urgency is continued focus on network optimization and capacity.

We opened 18 new cities during the pandemic and worked hard in 2023 to restore our network and fly our full fleet on the heels of the demand surge in 2022. While that boosted aircraft utilization, it added significant capacity. And when combined with 2023 business travel coming in below projections, has resulted in a significant number of new markets under development and a material number of markets that are not performing at the level required in this higher cost environment.

Network adjustments planned last fall are in place as of the March schedule, and they are proving to be largely on track. Those optimization efforts were primarily aimed to adjust for changing demand trends, including lower capacity on Tuesday and Wednesday, a reduction in short-haul business markets and a material reduction in flights during shoulder periods of the day.

The changes are beneficial, and they contributed to us exiting the first quarter with healthy margins for the month of March. More is needed, and we are continuing efforts to optimize the network and reduce the number of markets in development that aren't performing to more historic levels.

Along those lines, we have made the difficult decision to eliminate service in 4 cities: Syracuse, New York; Houston Intercontinental; Cozumel; and Bellingham, Washington. That is never an easy decision. We form bonds with the airports and the communities that we serve. These are wonderful communities, and we are very grateful for their support over the past several years.

In addition, we are also restructuring several other stations. Most notably, we are reducing flights in Atlanta and Chicago O'Hare. While it's never our desire to exit a city or shrink service to a market, we are committed to our financial performance goals, and network and capacity actions will continue as a lever to improve overall financial performance.

In addition to network optimization, we have a number of other efforts underway to increase revenue productivity. First, tuning our new revenue management system by better anticipating and optimizing demand and fares along the booking curve and unlocking additional capabilities that will further boost the contribution from the system.

Second, focusing on increasing passenger volume, including adding new attributes to our value proposition. We are working to ensure our current and future customers understand our terrific value proposition. That includes a significant new brand campaign, which started last week, highlighting our signature customer-friendly policies.

Separately, we are considering more transformational options and follow-on initiatives. That includes work previously underway to study customer preference around seating and our cabin. It's been several years since we last studied this in-depth, and customer preferences and expectations change over time. We are also studying the operational and financial benefits of any potential change.

We remain committed to our industry-best, customer-friendly policies, but we are also committed to understanding and meeting customer expectations. We have transformed before, adding things like WiFi, larger bins and in-seat power, and we will continue to adapt as needed. It is too early to share the specifics of what we are exploring, but I want to be transparent and let you know that work is well underway.

Of course, the biggest change we have experienced is the news from Boeing on deliveries. The Boeing issues are a significant impact, and we are taking quick action to replan based on expected 2024 and 2025 delivery delays. As I've said before, while it's impactful, I support Boeing taking the time to do the work to understand and fix the issues. A stronger Boeing company for the long term is good for Southwest Airlines.

I visited Boeing in late March. And while there is much work to do, I am encouraged by the comprehensive approach that their leadership is taking. I will be back at Boeing this summer when they complete their plan, and I will be visiting Spirit AeroSystems as well.

I won't downplay the challenges from the Boeing issues. They are a big deal and contribute to changing capacity set. They're redoing schedules and forecasting now in accurate staffing levels. All of that is costly. It pulls people away from their regular work, and it creates a significant financial drag. That said, it won't deter from our work to improve our results.

We will continue to control what we can control and work our plan as they take the time to become a better Boeing company. Boeing issues aside, we already had aggressive plans in place to further optimize the network to improve profitability, moderate CapEx and capacity to improve free cash flow and ROIC and drive staffing and operational actions to improve efficiency.

All of that work is now being accelerated. As we continue our focus on capital efficiency, free cash flow generation and aggressively restoring our returns, we will continue to moderate both capacity and CapEx until we do so. Managing our CapEx is obviously key to improving free cash flow, which, along with ROIC, we are laser-focused on.

Our bias will remain to retire aircraft, as planned. And any capacity growth that we have in the near term will come entirely from gauge and initiatives to drive aircraft utilization, including tightening turn time through process innovation and automation, and introducing a modest level of red eye flying. Both of those initiatives boost aircraft utilization and create capacity without aircraft CapEx.

The initiative to reduce turn time is going well. And as a first step, 12 stations will see a 5-minute reduction in turn time in the November 2024 schedule, with further reductions in early 2025. We will share details on the full plan, which includes these and other planned strategic initiatives at our Investor Day, now planned for September 26, and I look forward to welcoming everyone here to Dallas.

On our cost control efforts, note that we already had plans in place to end 2024 with head count flat to down through efficiency efforts like deploying automation and Gen AI solutions for greater productivity and some customer support functions, and driving organizational efficiency by combining like functions. Further capacity reductions in 2024 and 2025 create additional head count and efficiency challenges, and we are moving quickly to address those through a combination of voluntary programs.

We have essentially frozen and stopped all hiring, except for a limited number of critical positions, and now expect to end 2024 with head count down approximately 2,000 as compared to the end of 2023. Head count will be down again in 2025 through continued efficiency efforts. We are already seeing the benefits of time off without pay program that, in fact, the participation in these programs generated higher-than-expected savings in March, which was one of the factors that contributed to us beating our first quarter CASM-X guidance.

Last quarter, we laid out a plan that included providing a line of sight to cover our cost of capital in 2024. We are admittedly materially off that plan. Much of the miss comes from external factors, including headwinds from increased market prices for fuel and impacts attributable to the most recent delays in Boeing deliveries, but we aren't accepting that as our fate and are taking swift action against what we can control. So there's a lot going on right now, and we have a good grip and plan around areas of the business where we can improve.

As a recap, we are continued to be guided by our goals to drive ROIC performance by making additional network adjustments to specifically address underperforming markets and adjusting capacity, enhancing revenue performance in the intermediate term through marketing and revenue management efforts, offsetting cost pressures with efficiency initiatives and programs to reduce head count and lower discretionary spending, curbing our capacity plans and managing down CapEx and investing in initiatives that create capacity without capital investment.

And finally, by creating a new set of strategic initiatives to share with you at our Investor Day this September, we will not tolerate underperformance of any kind, and everyone is committed to doing what it takes. I am truly blessed to lead the company with such passionate and dedicated employees, and I am confident that we can and will adjust as needed, as we have in the past, and work to hit our financial targets, which are not negotiable.

So before I close, I just want to say thank you again to our employees for all that they do every single day. And with that, I will turn it over to Tammy for a more in-depth review of our financial performance and outlook.

Tammy Romo
Executive VP & CFO

Thank you, Bob, and hello, everyone. As Bob just covered, this year is not shaping up as we had initially planned. We have never, and will never, accept underperformance. There are a lot of things that contributed to our current position, the impact of continued delivery delays from Boeing, significant market-driven inflationary pressure from new labor contracts, volatile fuel prices and dynamic customer travel patterns.

Those are all very real reasons, but we will not use them as excuses. Instead, our focus is to control what we can control, to take aggressive actions, to adapt as required and to produce financial returns, period. Bob mentioned the warrior spirit of our employees. It's a very real thing, and it will be the key to our turnaround.

So before I dive in, I want to thank our incredible employees for their resilience, their perseverance and their dedication as we gear up to tackle the challenge we have before us. Ryan and Andrew will speak to 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, increased modestly, less than 1% year-over-year in first quarter. Our first quarter average fuel price of \$2.92 per gallon came in a bit below our guidance range. Market prices have been volatile. And based on the April 18 market, we increased our full year fuel price guidance by roughly \$0.15 to a range of \$2.70 to \$2.80 per gallon, and we're anticipating our second quarter fuel price to fall within that range as well.

We are currently 55% hedged here in the second quarter and 58% hedged for the full year. We continue to prudently add to our fuel hedge position for 2026, now 26% hedged, and are currently 47% hedged in 2025. Our treasury team continues to do a great job managing our program as we see cost-effective opportunities to expand our hedging portfolio, with the continued goal to get to roughly 50% hedging protection in each calendar year.

The purpose of our hedge is to provide protection from spikes when we need it most. Over the past 2 years, we have benefited significantly from our hedge portfolio, generating net settlement gains of \$872 million and \$145 million in 2022 and 2023,

respectively. For our 2024, we are currently expecting only a very modest loss, but as Brent gets above \$90 a barrel, our position would begin to materially kick in that obviously is helpful insurance to have in this volatile environment.

Moving to nonfuel cost. Our first quarter unit cost, excluding special items, were up 5% year-over-year in first quarter. Of course, that was primarily driven by pressure from new labor agreement and an increase in planned maintenance associated with the -800s coming off their engine honeymoon. This was a point ahead of our previous expectations, primarily from favorable airport settlements, but also from some early benefits from our cost control initiatives, like voluntary time-off programs.

I am very thankful to all the employees who are pitching in to help reduce costs. It's always been part of our culture. And the contributions that our people are making across the company are a sign that our culture is alive and well.

Throughout first quarter, we were reacting and adjusting to continuous information from Boeing on further aircraft delivery delays, causing some additional movement within our CASM-X guidance expectations as we quickly worked to revise our 2024 plans. While Boeing's challenges continue to significantly impact us, I am immensely proud of the way our team continues to handle such a dynamic situation, running multiple forecasting scenarios for critical decision support, including support in adjusting capacity and reoptimizing the network.

Looking to second quarter and full year 2024, we continue to expect similar cost pressures throughout the year, driven primarily by elevated labor costs and maintenance expenses. We currently estimate our second quarter CASM-X to increase in the range of 6.5% to 7.5% year-over-year and our full year CASM-X to increase in the range of 7% to 8% year-over-year, elevated from our previous full year CASM-X guidance due to lower capacity plans in the second half of the year.

The estimated sequential change in nominal CASM-X from first to second quarter is largely in line with historical norms when adjusted for capacity levels. Roughly 5 points of our full year CASM-X guidance is attributable to elevated salaries, wages and benefits expense and roughly 1 point is due to elevated maintenance and materials expense.

While we continue to expect pressure from maintenance costs this year, we have reworked our maintenance plans given our new delivery expectations, and we now expect lower full year 2024 maintenance expense compared with our previous expectations. We are also planning more voluntary leave and time-off programs to further reduce labor expenses and address current overstaffing.

Despite these added pressures, which are a direct result of the Boeing aircraft delivery delays, we are aggressively working to control costs, reduce inflationary pressures and cut discretionary spending across all cost categories. I want to reiterate, we are far from satisfied with our current financial performance, and we will work relentlessly until we return to financial prosperity with our North Star being ROIC well exceeding our cost of capital. We will go into a lot more detail on our plans at Investor Day in September of this year.

Now turning to our fleet. We have reacted quickly over the quarter to the updated Boeing delivery delays. We began the quarter with the expectation we'd receive 79 of our 85 contractual deliveries in 2024. That number dropped to an expected 46 -8 aircraft at the timing of our March 8-K, and has since reduced even further to a conservatively planned 20 -8 aircraft deliveries. Thus far, we have received 5 -8 aircraft from Boeing during the first quarter and have retired 3 -700 aircraft from our fleet.

To reduce distractions and impacts to the business and hedge against further potential delivery delays, we will now plan to hold on to an additional 14 -700 aircraft that were originally planned to retire this year, bringing our expected 2024 total retirements down to 35 aircraft, including 4 -800 lease returns compared with our previous expectation for 49 aircraft retirements.

While we remain committed to our fleet modernization, we feel it is prudent to retain some flexibility until we have better certainty around our aircraft deliveries and around the certification of the MAX-7. The updated Boeing delivery expectations has also impacted our capital expenditures and cash flow expectations for the year.

As a result of the 20 expected aircraft deliveries, we currently expect our capital spending to be approximately \$2.5 billion, well below our previous guidance of \$3.5 billion to \$4 billion. Keep in mind, our 2024 CapEx guidance includes an estimate for progress payments based on our current contractual order book. And CapEx estimates will be fluid until we finish working our plans and aligning on updated expectations for actual 2025 deliveries, which we plan to share at our Investor Day this fall.

A quick note on our capacity plans. The Boeing delivery delays did not impact our first quarter capacity, finishing up 11% year-over-year on solid completion factor. Looking ahead, as we rework our capacity plans for the year, we now expect second quarter capacity to be up in the range of 8% to 9% year-over-year.

The majority of the Boeing capacity cuts will occur over the second half of the year, with third quarter capacity expected to increase in the low single digits and fourth quarter capacity expected to decrease in the low to mid-single digits, placing our full

year 2024 capacity up approximately 4% all year-over-year. Looking beyond 2024, we plan to keep any future growth at or below macroeconomic growth trends until we reach our long-term financial goals to consistently achieve ROIC well above our cost of capital.

As a reminder, our aircraft delivery and retirement expectations are subject to Boeing's production capability. And we will react as quickly as possible if any further adjustments are needed, with the focus on taking care of our customers and aligning with our financial goals.

Lastly, I am immensely grateful for our balance sheet strength as we move through another challenging year. We ended the quarter with \$10.5 billion in cash and short-term investments, with a nearly \$1 billion reduction from the prior quarter, driven by the payout of a labor agreement ratification bonuses, which are onetime in nature.

In addition, we returned \$215 million to our shareholders through the payment of dividends, and paid \$8 million to retire debt and finance lease obligations. Finally, and most notably, I am proud to report we remain the only U.S. airline with an investment-grade rating by all 3 rating agencies. Both Moody's and Fitch affirmed our rating during first quarter, and S&P reviewed and left our rating unchanged. As ever, maintaining an investment-grade balance sheet is our utmost priority.

As I close, I want to reiterate that we are not starting the year as we had hoped, and that is undeniably disappointing. However, throughout my years at this wonderful company, I have come to know that a better Southwest is often formed on the heels of adversity. I agree with Bob, that is all because of the fight and warrior spirit of our people. And with that, I will turn it over to Ryan.

Ryan C. Green
Executive VP & Chief Commercial Officer

Thank you, Tammy. As Bob mentioned, I'm going to provide you with details on our first quarter revenue performance and base trends. I'll also share an outlook for the second quarter and full year, along with what we are assuming in the guide. And most importantly, I will give you some color on the additional actions we are taking to further improve our revenue performance.

Starting with first quarter. Unit revenue finished roughly flat on 11% capacity growth, both on a year-over-year basis. The variance to our original guidance is driven by a balance of higher-than-expected completion factor, closed-in leisure volumes that came in below our expectations in the month of March and underperformance in select development markets.

Development markets as a portfolio did not meet the maturation expectations, but the story isn't the same for all markets. Several development markets outperformed expectations, particularly Florida Beach destinations. But a few markets weighed down the portfolio. As Bob shared, we have made the difficult decision to address underperforming stations with closures effective August 4 and also to restructure and reduce capacity in other underperforming markets, which are included in our updated June schedule.

Despite coming in below our expectations, first quarter had strong demand, setting numerous records, including record first quarter operating revenue, ancillary revenue passenger revenue and record first quarter passengers carried, and we also added a quarterly record number of new Rapid Reward members into the program.

In addition to these records, we were also really pleased to see the continued incremental benefits from our investments in managed business as first quarter managed business revenue grew 25% year-over-year and was roughly flat to 2019 levels. We continue to pick up market share year-over-year as we perform in line with or above the rest of the industry. Finally, from a geographical perspective, we saw the strongest year-over-year improvements coming from the West Coast and the Northeast, regions where demand has been slower to return post-COVID.

I also want to stress that we had a better than historically normal sequential trend in nominal unit revenue. We are seeing improvement in revenue productivity and demand. Nominal RASM in the first quarter came in flat to fourth quarter, despite first quarter historically being seasonally softer than fourth quarter. And this is particularly true in a post-COVID environment, where peaks and troughs are magnified.

To illustrate this point, consider 2018 the most recent year in which Easter fell in the last weekend of March. Nominal RASM declined sequentially 5 points. So even in this seasonally challenged quarter, the sequential performance was much better than our best holiday comparison. The most significant driver of this sequential improvement was our network optimization efforts, but we also saw a benefit from our other revenue initiatives, especially managed business investments.

Looking to second quarter, we expect our ninth consecutive quarter of record revenue performance. In fact, we expect an all-time quarterly record for operating revenue. Second quarter 2024 RASM, after being calibrated for recent booking trends, is now expected to decrease in the range of 1.5% to 3.5% year-over-year. The year-over-year comparison includes a little over 1 point of headwind

for holiday timing, both from outbound Easter shifting to the first quarter and for more outbound for the July travel shifting to third quarter.

On a nominal sequential basis, this also implies another quarter of better than seasonally normal RASM improvement. Looking beyond second quarter, network planning teams are still reworking schedules in the back half of the year to accommodate Boeing delivery delays.

After adjusting expectations for both current booking trends and for Boeing delivery delays, we are forecasting 2024 operating revenue growth to approach high single digits on a year-over-year basis. This expected revenue growth implies healthy RASM growth in the back half of the year, driven by revenue initiatives as well as a reduction in year-over-year trips.

While our development market maturation efforts are off track, which I'll discuss in a moment, our other revenue initiatives are expected to continue to drive value over the balance of the year. In fact, network optimization benefits contributed roughly \$100 million in incremental revenue in March alone, primarily from reductions to shoulder flying, early morning and late evening flights and short haul flying.

For full year, the incremental year-over-year pretax profits from our strategic initiatives is now estimated to be between \$1 billion and \$1.5 billion. After being updated for first quarter actual performance, development market adjustments and capacity changes in the back half of the year. The vast majority of the initiatives delivering value in 2024 continue to be revenue related.

So while we are encouraged to see strong demand for our brand and solid sequential improvement, it is short of our goals. And as Bob and Tammy shared, it's simply not enough given the escalation of market-driven inflationary cost pressures. Therefore, we are taking actions to generate both immediate and longer-term revenue enhancements.

We have stood up cross-functional teams to focus on things like accelerating the maturation of development markets further boost the value being delivered by our relatively new revenue management system and roll out new products and highlight our superior value proposition with our new brand campaign. We also have a larger team that is finalizing a more significant set of strategic initiatives, and they're tasked with delivering transformational streams of revenue productivity. Of course, we'll have more to share on this topic at Investor Day.

As we build our plans, we will focus on leveraging our strengths, including those of our network, which, while it has optimization opportunities, remains incredibly relevant and well positioned based on size and population migration trends. We continue to hold the top position in 22 of the largest 50 domestic markets, and we are by far the market leader in that regard. Also, we're well positioned for the future as population and GDP growth trends are forecast to be strongest in the Southern and Mountain West regions of the country, regions where we have significant leadership.

We'll also lean into the customer experience we deliver. Year-to-date, our Trip Net Promoter Score is up over 5 points year-over-year. And finally, we continue to enhance our award-winning Rapid Rewards program. Just this week, we began rolling out the ability to book and pay with part cash and part Rapid Rewards points, which I expect to be very popular with our customers.

So in closing, we have a large and relevant network, a strong demand environment and a loyal and highly engaged customer base. We also have the best people whom I want to sincerely thank. And we are committed to being aggressive and innovative as we adapt, adjust and evolve to meet the preferences of our customers and to unlock the revenue productivity required to meet our financial imperatives. With that, I'll turn it over to you, Andrew.

Andrew M. Watterson
Chief Operating Officer

Thank you, Ryan, and hello, everyone. I'd like to start out by thanking our incredible Southwest employees for continuing to deliver a strong operational performance. We produced a solid first quarter completion factor of 98.5%, our highest first quarter performance over the past 5 years. We delivered year-over-year improvement in early morning originators, turn compliance and turn differential and mishandled bag rate, and again saw a year-over-year improvement in our Trip Net Promoter Score, as Ryan mentioned. Our on-time performance declined slightly year-over-year, largely due to weather challenges and delays driven by ATC programs.

However, I'm pleased to report that we improved year-over-year on-time performance for the month of March. I'm proud of the hard work and investments made to bolster our winter preparedness and modernize our operations, and I'm encouraged to see these efforts pay off in our operational performance.

Picking up where Bob and Tammy left off, I want to stress that we remain focused on wringing out operational inefficiencies, increasing asset productivity and creating operating leverage by reducing structural costs. Our Southwest Turn initiative, which Bob shared, is tracking ahead of schedule and is a critical component of these efforts.

One of the key elements include eliminating the need for printing on every flight, reducing the number of employee trips up and down the jet bridge, and recovering faster during the regular operations. We reached an important milestone in this multiyear effort just last week, with the launch of electronic flight folders, which modernized several of our flight planning processes by digitizing documents used by our pilots, dispatchers and ops agents.

We also continue to make progress on modernizing the airport experience, and that initiative is also coming together faster than originally planned. Our efforts for improving the lobby customer experience are on track to provide improvement to staffing standards ahead of the original schedule. We are working on updated schedules and look forward to sharing those with you as well.

I'd also like to highlight a new application called SkyPath we recently implemented and planned for our pilots and dispatchers to provide better awareness of turbulence along a flight path. This industry-leading system uses iPad sensors and GPS data from pilot's electronic flight bags to detect turbulence in real time, aggregating and sharing data from across -- from users across several airlines in North America.

Our teams worked cross-functionally to accelerate the launch of this app for the spring season when we intend to see more turbulence across the network. And it's another tool we can use to support employees with additional information for decision-making, improve the onboard experience for customers and reduce operational risk.

We look forward to sharing more on these and an expansive multiyear initiative-based efforts at Investor Day in September. Finally, I'd like to close by congratulating all of our employees who reached agreements on new contracts over the past year or a little bit more than a year plus. Each contract requires a significant amount of work. And as always, we remain committed to rewarding our deserving employees. With that, I'll turn it back over to Julia.

Julia Landrum

Vice President of Investor Relations

Great. Thanks, Andrew. That completes our prepared remarks. We will now open the line for analyst questions. To allow for as many calls as possible, we ask that you limit yourself to one question and a brief follow-up, if needed. We will now take the first question.

Question and Answer

Operator

[Operator Instructions] Our first question today comes from Michael Linenberg with Deutsche Bank.

Michael John Linenberg

Deutsche Bank AG, Research Division

I guess, Tammy, I just want to -- on the bonuses to the employees incurred in the March quarter, just can you remind us that number again? I thought you -- I heard it. And then is it just we're going to see another piece in the second quarter with the approval of the flight attendant contract, by the way, congratulations, but another piece in the second? And then is that it for the year? If you can just remind me of those numbers.

Tammy Romo

Executive VP & CFO

Yes. Mike, thanks for the question. First of all, we are thrilled to have an agreement with our wonderful flight attendants. And at the end of the quarter, we had roughly \$625 million accrued for labor agreements that we expect to pay out for the remainder of this year.

Michael John Linenberg

Deutsche Bank AG, Research Division

Okay. Great. And then just my second question, Ryan, I recently, I've seen you give some presentations and talk about red eyes and red eye flying coming to Southwest Airlines. And I think you said it's about a 2-year time frame. I'm just curious, what are the gating issues? What are the things that need to get done to be able to actually implement them? Because it does seem like a pretty long time, but I do realize it is something new for Southwest.

Ryan C. Green

Executive VP & Chief Commercial Officer

Yes. Mike, the -- we can move technology time lines around by reprioritizing things here and there. And so some of the gating -- there are crew scheduling changes that need to be made on a -- from a red eye standpoint. There are some changes that need to be made with some of our operational systems. And we can choose how fast or how fast to do those things and what elements go before or after them. So the 2-year was a rough estimate. We can go faster than that if we choose to do so. But it's just kind of a myriad of technology-related items.

Andrew M. Watterson

Chief Operating Officer

Yes, this is Andrew. I'll add on. Some of the kind of bigger issues that slowed us down was with our crew contracts, our reserve periods. We had 2 reserve periods, for the pilots, in particular, and didn't allow for good coverage of red eyes. And so with a new contract, we'll eventually go to 3 reserve periods and allow us to better have reserve pilots on standby should there be a problem.

So we didn't want to have those -- on a larger scale, those flights unexposed -- or exposed, rather, to no reserve. So the new contracts allow us the flexibility to have extra reserve periods, and that makes us much more comfortable proceeding.

Robert E. Jordan

CEO, President & Director

And Mike, this is Bob. You didn't ask this, but on the why, maybe not just the. Timing. But obviously, we've known for a long time, our customers want red eye flying. It's a little bit limited in scope, but there are red eye flights that are very desirable for our customers. And so we wanted to do this.

It also allows us to add capacity, just like this turn work where you can add the capacity, and there's no CapEx related. You are just using the aircraft at higher utilization. So that's something we want to do, obviously.

And then in a period here where we are overstaffed because we were shooting for a higher fleet number. Any incremental flying like that, that makes sense. Obviously, it alleviates at least a piece of that overstaffing with our pilots. So that's one to give a background on the why in addition to the long.

Operator

The next question is from David Vernon with Bernstein.

David Scott Vernon

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

So Bob or Ryan, I think last quarter, we were talking about premium on the call. And you guys had made the comment that this is something that's cyclical, it comes up, it goes down. People put too much -- too many premium products in the cabin, and then they have to take them away in the down cycle.

Is the work that you're doing now in terms of looking at the product a sign that this shift could be something more permanent? Can you guys just help us understand how your view of the market may be changing a little bit that's precipitating this sort of more strategic review?

Robert E. Jordan

CEO, President & Director

You bet, and thanks for the question. I think maybe I'd just start a little wider, which is we are always studying what our customer preferences are and if they're changing. That's now, over time -- and we're committed to meeting them. It's over time, we've added things like WiFi, and now we're adding seat power. We've added larger overhead bins, and so we're committed to meeting our customers' preferences.

And just to be transparent, we've been seriously studying this question around onboard seating in our cabin for a while. And to get at what you just said, which is an understanding of what customer expectations are today, I'm proud of our product today and our customers love it. But it was designed at a time when load factors were lower.

And higher load factors do change the way preferences work, the operation works and also our customer. The customer expectations change over time. So there's no decision. There's nothing to report, other than we are seriously looking at this. But early indications, both for our customers and for Southwest, look pretty darn interesting. So I'll just leave it there and more to follow.

David Scott Vernon

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

I appreciate that. And maybe just as a follow-up on the same topic. Is this -- if you were to go down this path, obviously, there's going to be cost of the cabin. But technologically, from a passenger service system and all that kind of stuff, like how complicated might that be to kind of think about doing things like seat assignments or segregating the cabin in some harder way? Is that a big technological challenge? Or is that something you guys already have the capability to do but just aren't doing?

Robert E. Jordan

CEO, President & Director

Well, we just don't -- I don't want to get into details because a lot of those we don't have. Again, we're looking at customer preference. Obviously, the -- how would you do it technically, how long would it, what impact, if any, would it have on the operation? Obviously, what's the financial impact?

All of those things beyond the customer preference go in to how you make your decision. So again, I'll just say we're looking at this very seriously and more to come. And we look forward to sharing where we are at our Investor Day on September 26.

Andrew M. Watterson

Chief Operating Officer

And I'd add, Bob, our PSS is the industry standard Amadeus tool, which obviously works in those environments. So the underlying system is not prohibited from doing that.

Robert E. Jordan

CEO, President & Director

That's right.

Operator

The next question is from Duane Pfennigwerth with Evercore ISI.

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Duane Thomas Pfennigwerth

Evercore ISI Institutional Equities, Research Division

Just geographically, can you speak to how much differentiation you're seeing in unit revenue trends? You have a pretty broad-based domestic network. Could you just comment on like relative strength versus relative weakness geographically across the country?

Ryan C. Green

Executive VP & Chief Commercial Officer

Duane, I think there is definitely regional performance. I mentioned in the prepared remarks that the West Coast did well. Particularly intra-Cal RASM and margins are up double digits year-over-year. Phoenix is doing really well. Vegas is doing really well. Of course, Vegas had some assistance there with the Super Bowl being there in February in the first quarter.

But all those markets performing very, very well. The Northeast performed well. In Florida, there's been a lot of talk about Florida. Florida, we have above system average RASM. In Florida, it's come under pressure with some of the capacity growth there, but still, RASM is above system averages in Florida. So there's strength across the network.

Of course, we've got some weaknesses in the development markets, which we've talked about. And we've got plans underway to address with the station closures that we've talked about. And then we've restructured some of those development markets and some of the schedules that we've had to republish here as a result of the Boeing delivery delays.

But yes, there's -- as always, with the network, the -- it's a portfolio, and you've got markets that performed better than others. We're focused on making some improvements in those development markets.

Duane Thomas Pfennigwerth

Evercore ISI Institutional Equities, Research Division

Okay. Appreciate the thoughts. And then just on your capacity exit rate, why was it down low singles, low to mid-singles by the fourth quarter. How should we be thinking about early 2025? And are we still in a dynamic, where seats are down more than ASMs. In other words, I think that was by several points, maybe 5 points or so that seats were trailing ASMs. Is that still the dynamic in the fourth quarter?

Robert E. Jordan

CEO, President & Director

Yes, Duane, thank you. And again, I'll just remind you that we're -- this is all very fluid as we work with Boeing on their delivery estimates. And obviously, '25 is more fluid than '24. And also, we are choosing how work -- so as we get some indication from Boeing, we're choosing how we're going to plan, which may be different because we don't want to have to go through this replanning the schedules over and over and over because it's very, very disruptive.

So it's early to give you a signal on '25. But that said, I just would point out again that any capacity is going to come through either gauge or initiative-based additions, again, like the turn time work or red-eye flying. And so, again, it's too early, but I think you're thinking directionally correctly. I'll just stop there. And Tammy, unless you want to add something?

Tammy Romo

Executive VP & CFO

No. The only thing I just might reiterate is we'll look to align our capacity growth for 2025 with demand. So we've got a little bit of time here. And obviously, one thing I'd point out is we do have fleet flexibility by design. So we'll continue to evaluate that. And then just at a higher level, again, we do plan to grow below macroeconomic growth trends until we get our financial going in the right direction to achieve our goals.

Robert E. Jordan

CEO, President & Director

And maybe the other thing to add, too, just to disconnect from Boeing, is the work on the network that work to moderate -- significantly moderate our capacity isn't just Boeing. I mean, this is something we need to do. We need to manage ourselves, manage our appetite, continue to mature the network, continues, as Ryan said, to work on the part of the network that is underperforming and moderate our capacity until we are hitting our financial targets.

Obviously, moderating your capacity manages down CapEx. Managing down CapEx is critical to free cash flow. It all helps us achieve our ROIC targets. So I don't want to lay this at the feet. The capacity discipline and the network adjustments are Boeing. We are doing those things because we need to do those things to restore our financial -- our progress against our financial targets, and we will absolutely continue on that path until we get there.

Andrew M. Watterson
Chief Operating Officer

And I think you take the sources of growth that Bob talked about and the network restructure, that does imply that our central tenancy is for seats to trail ASMs and for trips to trail seats. That's a natural consequence of those actions.

Operator

The next question is from Jamie Baker with JPMorgan.

Jamie Nathaniel Baker
JPMorgan Chase & Co, Research Division

Yes. So Tammy, how should we be thinking about operating cash flow for the rest of the year? I mean we've got the retro component in there with the flight attendants. But presumably, a weaker demand outlook suggests some pressure on the air traffic liability. And then related, I guess, somewhat to that, the dividend consumes, what, \$450 million a year, \$450 million of cash. Any idea how the Board is thinking about that in light of some of the challenges that you articulated today?

Tammy Romo
Executive VP & CFO

Yes. Jamie, we're focused, as Bob said, on generating free cash flow. Ultimately, we're working to restore our financial returns. So this year, we're very focused on what we can control. And we are working on lowering our CapEx. That's already come down quite a bit, as we've already shared. And just in terms of the liquidity targets that we have established with our Board, we do have a minimum cash target of \$6 billion, which, of course, is on top of our revolver. So we're really working to manage, obviously, our operating cash flows and very focused on that, as we've taken you through in our remarks, and also working to balance that with our capital spending.

So we are happy that we have our dividends reinstated. So no plans, at least, at this point, with the Board. But obviously, we'll continue to have those discussions as we move throughout the year.

And again, Jamie, too, we -- our goal, as ever, is to maintain our investment-grade balance sheet and work towards our long-term leverage goal, which is in the low to mid-30% range. Obviously, we're sitting higher than that now, but we have our eye on that goal as well.

Jamie Nathaniel Baker
JPMorgan Chase & Co, Research Division

Okay. And then Bob, so question, when you report earnings, does management then break up and host townhalls throughout the company. The reason I ask is that some airlines, some companies do that. I honestly don't know of Southwest. But I have to wonder, I mean, is the tone with the front line as somber as it is on this call? I mean, I guess it's hard to answer. But if I was in Baltimore right now, chatting up employees, do they get what's going on right now and just how grim this guide is?

And the reason I ask is that clients are asking me if today's messaging is just reserved for Wall Street or if this is truly an all-hands-on-deck call for change, much like what Richard Anderson delivered at Delta in 2012, which, in fairness, did represent a real turn for that franchise. Any thoughts?

Robert E. Jordan
CEO, President & Director

Yes. Jamie, there's a lot in your question. So let me just start with we -- just to balance things out. Our financial returns are nowhere close to what we need and what we want them to be, period. And we will be relentless until we achieve those. The company -- so that is absolute.

The company is not grim. In other words, we have significant demand for our product. We have awesome employees. We have real improvement in our operational performance and reliability. We had the best completion factor in 5 years. We have some of our

highest NPS scores ever, on and on and on. So the company has a pile of just absolute attributes that our customers love. So I would sort of separate the grim in terms of our financial returns, which I agree, and the company is grim.

Now your second -- your question is, is that -- does everybody know that? And are we aligned? Absolutely. We had a special all-senior leader meeting Tuesday, as an example, before this, to walk through exactly what we need to be doing, how to be thinking, what to be doing around the plan, how to be executing.

I have multiple times-per-year meeting with every leader at this company, from supervisors on up, that's 4,000 people, where I can talk directly to them about what we need to be doing. The messaging may be slightly different. In other words, the messaging for them may be how they need to think about costs, how they need to be thinking about winning and capturing and retaining customers.

But absolutely, there is a line of top to bottom and focus. We have a solid plan with solid actions that we are all committed to, and it's comprehensive. And it all drives towards restoring our financial returns and hitting our ROIC targets. We are committed to continued network adjustments to specifically address underperforming markets. We're committed to adjusting our capacity and managing down CapEx, as we just talked about.

We're created -- we're committed to creating capacity through initiatives, like the turn reduction and the red-eye flying because that creates capacity without spending a dollar on aircraft.. We're committed to enhancing our revenue performance and our demand through tuning our RM system and the major marketing efforts that Ryan has underway to drive demand and loyalty.

We're committed to offsetting our cost pressures through efficiency efforts and programs to reduce head count. We're going to be down 2,000 this year, down further next year, and we're down close to another 800 right now on top of that through these voluntary time-off programs. And we're committed to a set of new strategic initiatives. I've hinted it, boarding and seating and the cabin, and we're going to share those with you at Investor Day.

Operator

There's time for one more question. It will come from Savi Syth with Raymond James.

Savanthi Nipunika Prelis-Syth

Raymond James & Associates, Inc., Research Division

If I might, just on the business revenue, that was a good performance here. I was curious what your 2Q outlook is reflecting in terms of expectations and what you're seeing there.

Ryan C. Green

Executive VP & Chief Commercial Officer

Savi, yes, managed business was up very healthy in the first quarter, up 25% and reached a significant milestone in getting back to flat to 2019 levels. So we were really pleased with that. That was driven by a double-digit increase in unique travelers traveling under a contract in the managed business space. So that just means we're penetrating deeper into accounts. We're growing the number of companies under accounts, and we continue to pick up market share there.

As we look forward, we expect the performance to continue and to accelerate the sequential performance in the second quarter to be better than the first. And it's kind of -- it's across the board. Our top 15 industries, 11 of those had double-digit growth year-over-year. So the performance is widespread, and we expect it to continue and to help our revenue performance as we go forward.

Savanthi Nipunika Prelis-Syth

Raymond James & Associates, Inc., Research Division

That's helpful. If I might just ask just a question related to CapEx and just given your current outlook. Thoughts, Tammy, on kind of free cash flow generation here and kind of looking forward a little bit, what's realistic?

Tammy Romo

Executive VP & CFO

Yes, Savi. We're -- as we said, we're expecting CapEx this year at \$2.5 billion, and that includes about \$1 billion in aircraft spend. We are working through our plans for next year. So it's a bit early to give you guidance for next year. Obviously, we're working through that actively now. So we'll update you on our CapEx spending plans as part of our comprehensive update in September at our Investor Day.

Savanthi Nipunika Prelis-Syth

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Raymond James & Associates, Inc., Research Division

Is the view that kind of -- is free cash flow generation important and possible? Or how are you thinking about kind of translating that CapEx into what...

Tammy Romo
Executive VP & CFO

We are absolutely working with the view to generate free cash flow. We -- so that will obviously be part of the equation as we pull together our plan for next year.

Okay. That wraps up the analyst portion of today's call. I appreciate everyone joining, and have a great day.

Operator

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

Whitney Eichinger
Senior VP & Chief Communications Officer

Thanks, Gary. Welcome to the media on our call today. Before we begin taking your questions, Gary, could you remind us and share instructions on how to queue up for questions?

Operator

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

Alexandra Skores

Can you all hear me? Okay, perfect. I'm wondering if we could hone in on the 4 airports that were announced today that would be cut, and same with Atlanta and Chicago that are being reduced in flights. Could you talk a little bit about the decision to -- for those specific airports to be chosen?

Robert E. Jordan
CEO, President & Director

Well, it's never -- I'll just start with this. It's never an easy decision to close a station or to materially reduce flights in the station. We love our airports. We serve our communities, and so it's always difficult.

But again, I'll just go back to we have portions of the network -- a higher-than-normal portion of the network that's just not performing to the level that we need, and for a variety of reasons. And so we need to hit our financial returns, and we will. And so you have to make the tough decision to continue working down the level of markets that aren't performing.

So it was really that. It's just as we look at -- as we look at our network, it really relates to the areas that are -- just don't have a path to the level of financial performance that we need. That's really the basis for the decision. I don't know, Ryan, if you want to add anything else or Andrew?

Ryan C. Green
Executive VP & Chief Commercial Officer

No, you covered it, I think.

Alexandra Skores

And my second question, what kind of communications have been given to the employees at those airports?

Robert E. Jordan
CEO, President & Director

We have a very -- as you would expect, we take care of our employees, we take care of our partners, and we have a very rich communication plan that -- to go in the right order, to make sure we communicate with folks, it's done with compassion. Our employees will be offered jobs in other cities. And so they have a lot of options. But no, we handled all this, as you would expect, Southwest Airlines to handle it.

Andrew M. Watterson
Chief Operating Officer

Yes. We staged senior leaders there last night. So at very early morning hours, our people -- our leaders were there to explain the whys to the employees as well as to the airports, and then also to go through with them the different options they'll have for moving. It's a seniority-based system with our unions, and so how that will all work for them. And so they've gone through that.

There's obviously a range of emotions. People chose to relocate there, and so they will have some natural disappointment in the short term. But these people have long careers in Southwest Airlines, and our ground employees tend to move around a decent amount anyway. So we expect most of them to take advantage, if not all, of the opportunities to relocate to other stations.

Alexandra Skores

Got it. So that's every employee that's impacted is going to be offering some sort of job?

Andrew M. Watterson
Chief Operating Officer

Yes. They will remain employed, so they choose to do so.

Operator

The next question is from Mary Schlangenstein with Bloomberg News.

Mary Schlangenstein

I appreciate it. I wanted to see if you could talk about the extent of the reductions in O'Hare and Atlanta.

Andrew M. Watterson
Chief Operating Officer

There are about -- we took about half of O'Hare down from about 30 something flights to about 15, 18 flights during the seasoned day of the week. So it's about a 50% reduction in Atlanta. I can't remember off the top of my head, Ryan. It was 30%, I want to say, off the top of my head.

Ryan C. Green
Executive VP & Chief Commercial Officer

Yes, about 1/3.

Andrew M. Watterson
Chief Operating Officer

Yes, it's unfortunate. We had been restoring Atlanta over the course of post pandemic. We could never quite get back to the level of performance we needed there at the scale we needed. And so it's been reduced back down to a level just shortly coming out of the pandemic. And so it's still substantial activity there, it's just not as big as it was before.

Mary Schlangenstein

Great. And if you could also address the impact of the new refund policies that were announced by the DOT yesterday, whether that's going to be a financial problem for Southwest? Or and if you expect to have any trouble complying with those new rules?

Ryan C. Green
Executive VP & Chief Commercial Officer

Mary, it's Ryan. Well, it's new. As you know, it was just issued yesterday. So we're digesting exactly what all of that means. But based on our read, so far, I don't expect that it's going to be a significant impact. Of course, we already have the most customer-friendly policies in the industry. So we're best positioned to comply with any of these new regulations out of the gate.

And today, if there's a long delay or a cancellation, customers can receive a refund from Southwest. So there's no real change there from our standpoint. And then, of course, unique in the industry, flight credits don't expire with Southwest, if you have to cancel your flight for any reason. But in general, we're proud to be unique among airlines in having these customer-friendly policies. No bag fees, no change fees, flight credits don't expire, we don't nickel and dime customers.

But the -- those are our choices without government intervention. And it shows the marketplace works as consumers want different choices in who they fly. So again, I'd just point to the fact that we have the most customer-friendly policies in the industry, and I just don't see a tremendous amount of impact to Southwest from this.

Operator

Your Next question is from Alison Sider with Wall Street Journal.

Alison Sider

I know that the overall demand environment remains very strong. But I am curious if you're seeing any indications of bookaway or traveler nervousness about Boeing or air safety more broadly?

Robert E. Jordan
CEO, President & Director

We -- I'll just give you a little overview and then, obviously, Ryan can jump in. We -- this is something that we look at. So we study, we survey to understand our customers' views, and whether anything that's going on impacts their view of Southwest or the industry generally.

That's not perfect, but we don't see any -- we don't see an indication that this is having an impact on bookings or demand. It's not perfect. I think logic would tell you there could be something there. But certainly, we don't see anything material. Ryan?

Ryan C. Green
Executive VP & Chief Commercial Officer

Yes. The only other thing that I would add is that we certainly are serving on the front end to see how top of mind it is for consumers when they're making a booking. And then we also look at cancellations and ask customers once they cancel a flight, what their reasons for cancellations were. And safety concerns or a Boeing aircraft as a result of that on the cancellation side is 1% of our cancellations. So it's a very, very small number, not material, I don't think, to the overall picture.

Alison Sider

Interesting. And the 4 cities, the 4 markets that you're exiting, are those cities that you think would have been more successful if you had the MAX-7 in your fleet or had it coming soon?

Ryan C. Green
Executive VP & Chief Commercial Officer

I think the markets themselves were just performing at a level that we needed to make the tough choice to remove them from the network. And I don't think that a smaller aircraft would have had a material difference on those markets.

Operator

The next question is from Dawn Gilbertson with Wall Street Journal.

Dawn Gilbertson

Bob, about 6 months ago, you were asked, as you always are, about the premium question, the open seating versus assigned seating. And you mentioned, as you always do, that you always said it's customer preferences and if something changes, you'll adapt, as you said today.

But here's what you said then. You said there's nothing underway. There's no story here, nothing underway. So can you help us understand what has dramatically changed in the past 6 months on that particular front? And also related to that, is there any financially significant change to boarding or seating you can do without assigning seats?

Robert E. Jordan
CEO, President & Director

You bet, Dawn. Thank you. I think the -- it's what you say that the difference is we -- this is something that we look at on sort of on the surface pretty regularly. But in terms of a very deep dive of understanding customer preference and what we might do, that's something we do less frequently.

So the answer was different 6 months ago because the work has really accelerated. It's work that we've done since then. And there's a lot of discussion out there about just cabin and premium and all kinds of things. So it may be, just generally, a customer preference. So it makes sense in terms of timing to study that.

Again, we always want to understand what our customers want and desire. And so again, we're -- I'll just again to tell you that we are very seriously studying this, and we're pretty deep in that study. And again, nothing to reveal today, except that there are some interesting indications in terms of what this could mean to us and what it can mean to our customers. Again, nothing to reveal.

On your question about, are there other things you could do in boarding in particular? Our boarding process, we changed -- actually, it's over -- I think it's over a decade ago at this point, is very well received by our customers because it's very organized and the way you line up. We have worked hard to monetize that and give our customers choice. You -- we give you choice around how you think about your boarding position, and that's more important to some customers than others.

But we've got that. We've got Business Select. We have an upgraded boarding at the gate product. I will admit, it is hard for me. Ryan might tag in here. It's hard for me to think of how we can, really, from a financial perspective or a customer desire perspective, really push that even further. I think the products that we've added really attack what our customers want. So being just blunt. It is hard to think about how to implement more products related to boarding.

Ryan C. Green

Executive VP & Chief Commercial Officer

Yes, I would agree with that on the incremental products. But what we are doing and what we can continue to do is to get better at how we price those products and drive incremental yield from those ancillary products.

In total, our ancillary revenue in the first quarter was up 18% year-over-year. So well in excess of our O&D passenger growth. So we continue to push on optimizing for revenue there on our ancillary products, particularly the boarding products. But in terms of adding incremental products, it's tough to imagine how that would fit into the current boarding process.

Dawn Gilbertson

If I can follow up then. My question is about -- you're talking about transformational changes here, and you're hinting at boarding and seating. So can you do -- what kinds of things can you do, if anything, that doesn't involve assigning seats? Because to me, that would be transformational for Southwest.

Like what -- can you give us -- I know you're not going to go into any detail until Investor Day, but what specifically is going to be different? Because just I think the price of upgraded boarding and early bird is obviously not going to meet your financial goals, as you just said.

Robert E. Jordan

CEO, President & Director

No, you're -- you -- I think you're exactly right, which is that's why you want to look at all of these things. And we're just not ready to tell you exactly what we're studying, and we're not ready to tell you then how that could, if we decide to go forward, turn into a different product design and a plan. But yes, just conceptually, that where you're going is the reason we're looking at this is we know, over time, customer preference has changed. They have my whole 36 years here at Southwest Airlines.

And we have changed a lot. We've changed our boarding. We've changed our -- the product that we offer on board. We added loyalty programs and modified those. So we are constantly changing to meet customer demand. So it's critical to understand 3 things. Number one, what do your customers want? And that's really what we're studying right now.

Two, what does that do to the way you operate the airline? Because we are obviously a bedrock of the company, is operating very efficiently, having a quick operation, great turn times, being efficient. And so making sure that whatever you might want to do, it's fit in with that.

And then obviously, the third piece is, is it financially beneficial? Back to hitting our financial goals, a piece of this is, as Ryan mentioned, continuing to drive progress against our financial aspirations and goals and hitting our ROIC and margin goals. So all those 3 things have to work together. And we're just not ready to share details today, but we will be, as we move across the summer and into our Investor Day in September.

Operator

The next question is from David Koenig with the Associated Press.

David Koenig

Well, I was going to ask about the transformational options for seating, but I think you've probably said all you're going to say on that, Bob.

If I -- if you could go into a little bit of explanation on the 2,000 head count reduction. First of all, I'd like to know how many jobs you think will be eliminated by the closure of those 4 airports? And any drawdown at O'Hare and Atlanta and elsewhere? And then secondly, are you saying that you can get to 2,000 fewer jobs this year just through attrition and leaves? Can you rule out furloughs?

Robert E. Jordan
CEO, President & Director

David, thank you. And yes, no, thanks for allowing me the ability to clarify that. We have line of sight on the 2,000 that does not include furloughs. or anything like that, that we don't want to put on the table. And then it also does not include a headcount that are effectively sort of out of the workforce in terms of not being paid because they are on voluntary unpaid leave. So it doesn't even count that.

So this is really through attrition, in some cases, reassigning folks to other work that does need to be done. But it's also coming through pretty sophisticated initiatives. We have initiatives underway to use Gen AI to automate the way we handle -- cut some of our customer support functions, generate responses, decide what to do with the customer request.

We have other significant continuous improvement in automation going on in other parts of the company, and we plan to accelerate that. So not furloughs. It is primarily through planned attrition that we know we have a line of sight to. So and again, the line of sight to the 2,000, the folks that are effectively out of the workforce because we're not -- they're not being paid in their own voluntary time-off programs. That's on top of the 2,000.

David Koenig

Okay. And how many of the 2,000 do you think will be pilots?

Andrew M. Watterson
Chief Operating Officer

Yes. I don't think we give a breakdown by work group, David. There'll be some that will be back office, i.e., people that work at headquarters, some that will be at frontline. We have -- there's natural attrition that goes along throughout the company, whether one reaches retirement age or one decides to go find a different job. You have that natural.

We have a good history on that, so we can model out what that's going to look like and which ones we need to backfill, which ones do not need to backfill, and that's how we get to these projections. It's not any kind of reduction in force or eliminating people currently employed. It's more when positions become available, not backfilling them.

Operator

The next question is from Leslie Josephs with CNBC.

Leslie Josephs

Just knowing what you know now from these customer surveys about potential seating changes, are you thinking that it could be like a big front seat or bigger front seat-type product? Or do you think that, at some point, there will be a curtain on a Southwest Airlines plane?

And secondly, are you ruling out baggage fees entirely? Is that still -- or is that something that's on the table for you as you're looking at revenue initiatives? And then on the 1% of bookings that were canceled because of concerns about air safety, how many people is 1%? And how does that compare with -- after the MAX crashes and the plane came back?

Ryan C. Green
Executive VP & Chief Commercial Officer

Leslie, I'll try and take all of those. The first one on what we're learning from customer research, I think just stay tuned there. We'll have more to share on what we're learning and how that factors into what we may do different, if anything, at all. I will say though, the

Southwest Airlines is -- we will stay true no matter what we do to the brand and who we are and how we approach customers. And I think things like curtains and things like that are a bit far field from who Southwest Airlines is.

On your bag fee question, no, we are not considering bag fees. The reason we're not considering bag fees is because people choose Southwest Airlines because we don't have bag fees. If you go look the most recent J.D. Power survey, which, obviously, is an independent syndicated piece of research that's well respected in the industry. Over 60% of customers say that they choose Southwest Airlines as one of their top reasons because of bag fees. You -- companies love to have differentiation in their product that drives customer preference and drives customer choice.

Our next closest competitor on that measure is Alaska at \$19. So we get 3x the preference in terms of bag fees relative to our competition. So that's why bag fees are not on the table for consideration. On the 1% of cancellations, it's a very small number. We don't -- our overall cancellation rate is a very small number, so 1% of that is a very, very small number. So it's not material.

Andrew M. Watterson
Chief Operating Officer

Yes. And I'll just quickly emphasize on that, Leslie. It's not 1% of our bookings that got canceled because of all of those people who canceled. And so yesterday, 0.4% of people canceled and 1% of that, 0.4%, said it was safety concerns. So it's a very small number of an extraordinarily small number that did that, which is why Ryan would say it's immaterial or even inconsequential.

Leslie Josephs

And how does that compare with when the MAX came back in 2020 after the crashes?

Andrew M. Watterson
Chief Operating Officer

That was also quite small. I mean we also track people who look at what the aircraft type is on the website, and those really didn't see any movement of consequence in there. And so it seems like this is not something that customers investigate any great deal. With the very early days of the MAX grounding, there were some interests heightened to that.

When the MAX came back, it was -- we prepared as if it would be a thing of interest, and it was not a thing of interest. And currently, customers are acting as if it's not a thing of interest as well. So it's I think that even though Boeing is having individual controllers as a company, customers are trusting at least Southwest Airlines and that we will operate our aircraft safely.

Operator

The next question is from Rajesh Singh with Reuters.

Rajesh Singh

Bob, all the additional voluntary time-off programs that you're considering, does that include the pilots as well?

Andrew M. Watterson
Chief Operating Officer

Rajesh, this is Andrew. And so what we're doing right now that we've spoken of is the voluntary time-off has roughly been with our ground operations, flight attendants and some of our call center people. They've taken advantage of that for flexibility in their programs. We do not have anything with our pilots at the moment. A provision of our contract requires us to consult with them, and we will certainly do that before we do anything with regards to our pilots.

Rajesh Singh

Bob, you said that you were encouraged by Boeing's approach. Can you please share some specific examples and color that make you feel encouraged about their approach?

Andrew M. Watterson
Chief Operating Officer

Andrew, again, I'll take that because I was up there with Bob on our visit. And so really, we're impressed by how Boeing is putting kind of quality ahead of short-term profit, so to speak. So an example is, they have many portions in their factory. There's like 10

stations they go through the construction. They don't allow anything to progress past stage 3 that has troubled work. And so that creates gaps in their factory, which then leads to obviously a plane that's not sold and delivered that month.

So the fact they're taking this very strong approach to bring quality out in the early stages of the production process from their suppliers is a much different approach. And frankly, is one that puts safety ahead of profitability in the short term. But it's obviously they're a long-term interest. So we were very impressed by that kind of not just change of words, but by change of actions.

Robert E. Jordan
CEO, President & Director

Yes. You want to see the tone at the top be appropriate, which is an understanding that -- again, I can't speak for Boeing. I'm just thinking about how we view this. But a tone that recognizes that this is a big issue, and it's bigger than a quality escape. And to some extent, it is a cultural issue. And so they need to attack it very broadly.

And that is the way that they -- our view when we visit with them, that is the way that they appear to be tackling that, as Andrew said, it appears to be showing up in their actions. Now at the end of the day, they have to deliver and -- but no, no, we are encouraged by what we're seeing.

Rajesh Singh

And have you increased your inspectors at the Boeing sites following the last several incident?

Andrew M. Watterson
Chief Operating Officer

Thank you for the question. In 2022, we increased from having just a representative, which other airlines have, to having a team of AMP-certified mechanics on process, on site to inspect our aircraft as they go through the production process. I believe there's north of 85 inspection points that they look at between entering the factory and exiting the factory.

And so that is the way we assure day-to-day that our quality of aircraft is maintained. We additionally have the engagement at the executive level that Bob talked about where we also see good results. So overall, our heightened attention to Boeing and the quality of the aircraft they manufacture has been going on for a while, and we think it's bearing fruit.

Operator

The next question is from David Slotnick with TPG.

David Slotnick

And going back to the transformation, you said that you're looking at changing customer preferences. And I'm sort of just wondering what perspective you're taking on that? Like are you looking at this as something where, because of those preferences, customers are choosing to book other airlines over Southwest? Or are you looking at this as maybe a place where Southwest is missing an opportunity to earn revenue on premiums or upsell like your rivals are from existing passengers?

Robert E. Jordan
CEO, President & Director

Ryan can give you much more detail, but I think you want to know all those things. You want to know why do customers book Southwest? What do they expect of Southwest? You want to know why do they book others and not Southwest Airlines. You want to know if they have preferences for other things within our product that we don't offer today, how do you think about pricing, those kinds of things and how it affects their desire to book Southwest Airlines.

But now you want to need to know all those things. And again, additionally, in addition to the customer preference, you need to know what does it do for the operation and how we how -- how quickly especially we turn our aircraft and we're studying that as well. Ryan?

Ryan C. Green
Executive VP & Chief Commercial Officer

I think you hit it all. Clearly, with any sort of transformational change, you're going to have a very robust, highly scientific, very sophisticated statistical models and research methodologies to test all of those things that Bob walked through. That's what anybody would expect of a company like Southwest, and that's the rigor at which we are approaching studying this issue.

David Slotnick

And I mean, back to the question before, just considering the share of their revenue that your rivals are earning from upsells and from premium. Do you think you can really rule out something like a curtain in the cabin?

Ryan C. Green

Executive VP & Chief Commercial Officer

Look, we're going to study customer -- like we've said, we're going to study customer preferences, but there's strong demand today for Southwest Airlines and the brand that we put and the product that we put in the marketplace today, it has worked for us for over 50 years, and customers understand well who we are and what we bring to the marketplace. We're not going to try to be somebody that we're not. And so we'll study it all, but we're -- at the end of the day, we're going to remain true to who Southwest Airlines is.

Andrew M. Watterson

Chief Operating Officer

I think you also have to look at the revenue per square foot you get in the cabin, and so it can be seem like you may want to have a fancy product. But if it doesn't generate revenue off of that square foot you have in the cabin, then it's necessarily not worth it. So we take a strong eye to the revenue that any of our products would generate as we evaluate this.

Robert E. Jordan

CEO, President & Director

And I think the -- I know we've said this probably 20 times on the call today, and I think the other short answer is we're not ready to go into detail. We have work to do here, obviously, to continue to finish up our work. And then if there are things we do want to change, understand how we would do it in the Southwest way. And so we will be back with detail when we're ready. And if there is something that we're going to change, we're aiming to do that at our Investor Day, which is planned in September. And we'll share, obviously, a lot more then.

Operator

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

Whitney Eichinger

Senior VP & Chief Communications Officer

Thanks to everyone who joined us today. If you guys have any further questions, our Communications Group is standing by. Their contact information, along with today's news release, are all available at swamedia.com.

Operator

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

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