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Presentation

Operator

Hello, everyone, and welcome to the Southwest Airlines Third 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 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 Third Quarter 2024 Earnings Call. I'm joined today by our President and CEO, Bob Jordan; Chief Operating Officer, Andrew Watterson; and Executive Vice President and CFO, Tammy Romo. Bob will start us off by reviewing the key points from our Southwest's Even Better framework introduced last month at Investor Day and cover how our third quarter results reflect initial progress against our plans.

He will then turn it over to Andrew to share updates on our revenue and our industry-leading operational performance. Tammy will follow to discuss our cost performance, balance sheet, and capital allocation before turning it back over to Bob, who will provide a brief statement on Elliott Investment Management, after which we will move into Q&A. Ryan Green, EVP of Commercial Transformation is also in the room with us today to support Q&A.

A quick reminder that we will make forward-looking statements, which are based on 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 earnings press release. Our press release with third quarter 2024 results and a supplemental presentation that includes additional details on the expected EBIT contributions of our planned initiatives as well as the draft initiative scorecard were both issued this morning and are available on our Investor Relations website. And now I'm pleased to turn the call over to you, Bob.

Robert E. Jordan

President, CEO & Vice Chairman of the Board

Thanks, Julia, and thanks, everyone, for joining us today. As you know, we laid out our Southwest Even Better transformational plan a few weeks ago at Investor Day, its plan designed to deliver increased value for our shareholders and our customers. And since then, we've engaged with many of our shareholders and I truly appreciate the constructive feedback. The message is simple. Now that we have set out a clear path, it's all about executing and that's exactly what the team and I will be discussing today.

But before turning to that, I want to recognize the widespread devastation caused by recent hurricanes and communities across the southeast. While we were able to quickly recover our operation, we know that for so many, it will take much longer. We're leaning on our national disaster response partners, providing financial donations, and offering complementary travel to aid in the recovery efforts. And our Employees Catastrophic Assistance Charity is currently assisting all employees requesting support to ensure that they're cared for and receive immediate relief. Our hearts are with our employees and our communities as they recover and rebuild.

Now returning to the business, I'll start by reiterating the path we laid out and how our third quarter results reflect initial progress against our plan. As we shared at Investor Day, our plan is detailed, actionable, and highly intentional. We are fully committed to delivering the robust set of tactical and strategic initiatives we presented and restoring the financial prosperity that our plan supports and that Southwest and our shareholders expect. That includes a steady march to delivering ROIC of 15% or higher, well above our cost of capital in 2027, even without tailwinds from our fleet strategy.

As part of the plan, we provided specific targets for capacity, operating margin, ROIC, leverage, and free cash flow in 2027. While we have work to do, all actions to achieve those goals are well underway and progressing as planned. The team and I are accountable for delivering on the planned results and being transparent regarding our progress. To that end, we included a scorecard and supplemental detail this morning that we will use to report on progress against initiative development and expected financial results, including updates on critical milestones and the status of meaningful value capture going forward.

We also included additional detail this morning on the composition of the initiative-driven EBIT contributions and how that builds between now and 2027, including additional clarification on the contribution from our fleet strategy. At the highest level, our plan builds as follows: Value in 2025 is driven by improving the base business, executing tactical and efficiency initiatives, and building the capabilities to launch our strategic initiatives. Value is created in 2026 through strategic initiatives coming online, with the most

significant value being unlocked through the introduction of assigned and premium seating options. Finally, value in 2027 is created by the initiative portfolio hitting run rate where initiatives aimed at the core operation are sized at roughly \$3.5 billion of cumulative incremental EBIT contribution, and this includes full realization of the cost plan.

When you add the estimated benefit from the fleet strategy, you get a \$4 billion of total incremental EBIT that we shared at Investor Day. Importantly, we do not view the fleet monetization strategy as part of our core business. While the combination of a favorable secondary market and our attractive aircraft pricing provides a unique and lucrative opportunity to both significantly reduce our aircraft CapEx and drive earnings accretion, we feel confident that we can achieve all of our 2027 targets even without the benefits expected from our fleet monetization strategy.

Looking at the second half of 2024, we're encouraged by both positive results from our recent actions and by recent industry trends. We are highly confident in our ability to deliver on our plan. In terms of tactical initiatives, everything is progressing in line with what is needed to hit our 2025 commitments. We had third quarter record operating revenues of nearly \$7 billion and a unit revenue increase of 2.8% compared to last year. The improvement in unit revenue reflects both a more constructive industry backdrop and a proof point of our effective execution.

Improvements resulting from our revenue management actions are particularly encouraging. The team is focusing on improving yields on our best-performing flights while achieving a non-dilutive load strategy on our lower demand itineraries. While not yet in the run rate, we saw better-than-expected improvement in 3Q, and we are pleased to see all months in 4Q tracking as expected. Our strategic initiative work is also progressing as planned. On the seating and cabin front, we are working actively with both regulatory agencies and vendor partners towards successful approval and certification of our new premium cabin configurations.

That would allow aircraft retrofits to begin early next year. We will start with our larger aircraft and the 700s will follow. We are planning to retrofit 50 to 100 aircraft per month, completing the work late next year. We're also announcing today that we have signed our first 3 direct lodging partners for our Getaways by Southwest product that is planned to launch mid-next year, and that includes Caesars properties in Las Vegas. And finally, we are narrowing the launch date of our previously announced partnership with Icelandair to the first quarter of 2025.

Looking at cost and efficiency initiatives, we continue to expect to end this year with headcount down 2,000 as compared to year-end 2023. Improved turn times are reflected in the existing schedules starting in November, and redeye service will begin next February. We're also very proud of our industry-leading domestic operational reliability. We had the best completion factor and on-time performance of any major airline this quarter, and Andrew will share additional highlights shortly.

Regarding progress on our fleet monetization strategy, we're already starting actively exploring the market and are encouraged by what we are seeing. All that said, while our financial results are demonstrating improvement, I recognize that we still have a lot of work to do to fulfill our commitment to return to prosperity. We have a great plan, and I'm confident in our ability to execute and deliver. And we will be transparent about progress and results along the way.

It's a really exciting time at Southwest. I want to take a moment to recognize all the efforts by our incredible employees who are committed to making this plan a reality. Thank you for all your extraordinary dedication. Our continued transformational progress would not be possible without all of you. And with that, I will turn it over to Andrew.

Andrew M. Watterson
Chief Operating Officer

Thank you, Bob, and thanks to all for joining us today. To start, I want to emphasize how proud I am of our talented team and resilient operation that enabled Southwest to lead the industry with the best on-time performance and completion factor of any major domestic airline in the third quarter. We managed to achieve these outstanding results despite a quarter filled with challenging weather, including 4 named hurricanes.

Overall, our third quarter completion factor was 99.3% even with critical parts of our network impacted by storms. These weather challenges continued into the fourth quarter, most recently with Hurricane Milton, where our operating teams coordinated incredibly well, and we were able to plan in ways that allowed for proactive cancellations with minimal disruption. In the face of these events, we remain steadfastly focused on safely delivering strong operational performance, prioritizing the well-being of our people, and supporting impacted communities.

Turning now to revenue performance for the quarter. As Bob mentioned, benefits from the tactical initiatives we have implemented are reflected in the strength of both our nominal and unit revenue growth rates and are aided by a more constructive supply/demand environment, with Southwest contributing significantly to capacity rationalization. Bob covered the improvements we are seeing from

our revenue management action plan, which are evidenced by the yield improvements from the work we did to recalibrate our systems and processes to better optimize the booking curve for our highest demand flights.

Third quarter managed business revenue also grew nicely with double-digit year-over-year improvement. This was driven largely by GDS bookings and the success of our investment in Southwest's business. We are continuing to see an increase in unique customers, up 7% year-over-year, deeper penetration of our existing accounts with 76% of the new individual travelers won over the quarter coming from existing corporate accounts, and finally, strong yield performance.

Looking at booking trends, we are serving more managed business customers than ever, but they continue to take fewer trips per year and therefore occupy fewer seats than they did pre COVID. So we continue to see opportunities to grow our managed business and backfill those seats with new customers. As such, we also continue to focus on initiatives aimed at closing the load factor gap. These include network changes and distribution and marketing initiatives.

Starting with our network, schedules from August 4 are designed to recalibrate supply to demand. This includes aligning capacity to demand in specific geographies and also to seasonal and holiday demand patterns. Looking to the fourth quarter, we have created multiple schedules to adjust down for lower periods, including the anticipated election trough and an increased flight activity to capitalize on peak holiday demand. Where we have made changes, we are seeing positive results, and we expect to see additional benefits from changes in our 2025 schedules.

We also continue to extend the reach of our distribution in a low-cost fashion by adding new metasearch partners including Google Flights and KAYAK earlier this year and just this month, Skyscanner. These channels have introduced Southwest to new customers and strengthen our presence in points of sale where we have traditionally been weaker.

Looking ahead to the fourth quarter, as a result of our actions, capacity projections will be down approximately 4% year-over-year, with seats and trips down about 8%. We anticipate seeing the benefits of our initiatives and the capacity moderation as RASM inflected positive in August and we continue to see sequential RASM acceleration into the fourth quarter. With that, we expect fourth quarter RASM to be up in the range of 3.5% to 5.5% on a year-over-year basis.

The range contemplates just under 0.5 point headwind from booking cancellations associated with Hurricane Milton earlier this month. In addition to these revenue initiatives, a key part of our strategic plan is reducing operating inefficiencies and increasing asset productivity. These efforts are clearly paying off. For example, we continue to have industry-leading turn time, but we want to do even better. To that end, we have a plan to reduce our minimum turn, the time when the plane is unproductive at the gate by 5 minutes by November 2025. As we previously shared, this initiative is well underway, and the reduction's already built in to next month's schedule for 12 of our stations. The turn initiative will make our current fleet more productive and create the equivalent of 16 free aircraft at systemwide implementation.

As more investments come into the day-to-day operation, we are confident that the Southwest turn will be a unique competitive differentiator. In addition to reducing turn times, the introduction of redeye flights is another key component of increasing asset productivity and improving the connectivity and efficiency of the network. The June 2025 base schedule with 33 daily redeyes will be published next week on October 30. As a reminder, the turn and redeye initiatives allow us to have modest year-over-year capacity growth of 1% to 2% in 2025, and limit our planned aircraft CapEx exclusively for fleet modernization.

To recap, we are focused on delivering on our tactical initiatives to drive financial performance, and we'll continue to look for opportunities to optimize our network, advance our revenue management capabilities and strengthen our marketing distribution activities.

Before I close, I want to express my gratitude to our people, for their focus on safety and warrior spirit, which allows us to drive industry-leading operational excellence and provide our renowned Southwest hospitality. We could not do it without them. With that, I'll turn it over to Tammy to share updates on our financial performance.

Tammy Romo
Executive VP & CFO

Thank you, Andrew, and hello, everyone. As Bob mentioned, just a few weeks ago, we presented our plans to transform Southwest to make our company even better, including outlining how these plans will restore our financial prosperity and drive sustainable shareholder value. We're focused on moving swiftly and deliberately to execute our plan, controlling what we can and adapting as needed. We have the right team in place, supported by our incredible people, whose warrior spirit, hard work and continued focus will help us deliver these results. I am so appreciative of each and every one of our amazing and dedicated employees.

As Bob and Andrew spoke to the macro, revenue, and operational performance, I will start with our cost performance and then cover fleet, balance sheet, and capital allocation update. Looking at our cost performance. Overall, our third quarter CASM-X increased 11.6% year-over-year on the better end of expectations. For the fourth quarter, we expect continued cost pressure driven primarily by new labor contracts and overstaffing with additional pressure from the lower capacity, including over 0.5 point of unexpected unit cost headwind from flight cancellations associated with Hurricane Milton. We currently estimate our fourth quarter CASM-X to increase in the range of 11% to 13% year-over-year.

We are deliberately pursuing actions to mitigate cost inflation. Looking ahead, we are in a much more stable position. We have ratified all 12 of our labor contracts, creating better cost certainty over the next 3 years for our largest cost item. We've implemented voluntary leave and time-off programs that allow us to reduce our overstaffing impact. In addition, we outlined a cost plan at Investor Day aimed at enhancing cost efficiency, which includes improving efficiencies in our ground operations and optimizing our operations around our new labor rules.

As we shared, we expect savings from the opportunities we've identified to ramp over the next 3 years and reach over \$500 million in run rate cost savings in 2027. This demonstrates our commitment to drive efficiency and preserve or improve our relative cost performance. And again, benefits from the fleet monetization strategy would be incremental to these savings. Our third quarter fuel cost of \$2.55 per gallon was in line with our expectations. And as we have seen fuel prices come down recently. We now estimate fourth quarter fuel to be in the \$2.25 to \$2.35 per gallon range.

Turning to our fleet. This is one of the key areas where we're seeing our prudent planning and ability to adapt really pay off. We came into the year expecting to receive 79 Boeing aircraft deliveries. In March, Boeing informed us we would receive 46. After going through a detailed process, we conservatively planned for 20 deliveries in April to reduce the risk of further operational impacts. As we close out the year, we have received 19 aircraft and expect to receive 1 more, exactly in line with our internal expectations.

In the third quarter, we pulled forward the retirement of 6 additional -700s into 2024, bringing our count for this year to 37 -700 retirements and 4 -800 lease returns for a total of 41 retirements. We shared our plans to opportunistically monetize the value of our fleet and order book at Investor Day. As a reminder, we are funding annual capacity growth of 1% to 2% over the next 3 years through our turn time modernization and redeye flying, which results in access to more aircraft than we need to fund our capacity plans. Therefore, the combination of a favorable secondary market, our attractive aircraft pricing, and the excess aircraft available in our order book provides us a unique opportunity to reduce our aircraft CapEx and drive earnings accretion.

We plan to capitalize on this opportunity through both sales and sale leasebacks. We will pursue our fleet monetization strategy with a focus on delivering a positive NPV across the portfolio of sale-leaseback transactions. We are actively exploring the market and are encouraged by what we're seeing. And again, we consider our fleet strategy as incremental to our core business. As such, we provided additional breakout of the EBIT contribution in our supplemental third quarter earnings materials available on our Investor Relations website.

Given the complexity of the transaction, the competitive nature of the market, and the fluidity of new aircraft deliveries, we are going to limit the level of detail provided on future transactions that we are planning. And of course, we'll update you as we close deals. Regardless, our plan comfortably supports all of our 2027 Investor Day financial targets without benefits from our fleet strategy. Ultimately, we remain committed to achieving our ROIC goal, and in doing so, have committed to longer-term capacity discipline.

With this discipline and the plans we have outlined, we believe we are well positioned to achieve ROIC greater than or equal to 15% in 2027, which is well in excess of our WACC. Our expected capital spending for this year is approximately \$2.1 billion, of which just under \$1 billion is aircraft CapEx, excluding any impact from our fleet strategy. Obviously, there is a lot of uncertainty around future aircraft availability, given continued challenges at Boeing. We have taken this risk into consideration in our 2025 contingency planning. While planning and replanning remain a challenge, our moderated capacity plan reduces our need for new aircraft, and we have a lot of flexibility to make further adjustments with planned retirements.

Boeing production is something we're watching closely, and we'll defer providing more detail on CapEx and additional 2025 guidance until we have a better line of sight to an updated order book. Finally, our balance sheet remains a lasting competitive advantage, and we continue to be the only airline with an investment-grade rating by all 3 rating agencies. We ended the third quarter in a net cash position with cash and short-term investments of \$9.4 billion and a fully available revolving credit line of \$1 billion for total liquidity of \$10.4 billion, well in excess of our \$8 billion of outstanding debt. We remain committed to providing significant returns to our shareholders through dividends and share repurchases. We have returned more than \$13.7 billion through share repurchases and dividends since 2010, including \$431 million in dividends to shareholders this year.

As we announced at Investor Day, our Board authorized a \$2.5 billion share repurchase program, which we expect to be significantly earnings accretive. And as we announced this morning, we will soon be launching an initial ASR under this authorization. So as we wrap up, I want to reiterate that we have a strong financial foundation and compelling plan to support our return to prosperity and strong shareholder return. We have a comprehensive and measurable plan that we expect will enable us to cover our WACC in 2026 and achieve after-tax ROIC of at least 15% in 2027. There is a significant body of work underway, and we believe we are taking all the necessary steps to deliver. And with that, I will turn it back over to Bob. Thank you.

Robert E. Jordan

President, CEO & Vice Chairman of the Board

Thank you, Tammy. And before we go to Q&A, I want to briefly address our recent settlement with Elliott last night. The Board has taken a lot of time to engage with shareholders and get feedback and taken significant steps based on that feedback. There's been a lot of Board refresh that had already begun and is ongoing, and we're very pleased to have come to a collaborative resolution with Elliott.

As we welcome our new members to our Board, all of whom I had a chance to interview and talk to and get to know, our focus remains on executing our plan, and that's exactly what we are going to do. I can promise you it's all eyes forward here as we work to set up Southwest for success for generations to come. And with that, I'll pass it back to Julia to start our Q&A session.

Julia Landrum

Vice President of Investor Relations

Thank you, Bob. This completes our prepared remarks. We will now transition to analysts' questions. [Operator Instructions] Gary, we are ready for the first question.

Question and Answer

Operator

[Operator Instructions] The first question is from Stephen Trent with Citi.

Stephen Trent

Citigroup Inc., Research Division

I will -- just curious when we think about your CASM for 2025 and going forward, how are you thinking about your goals with respect to sale-leaseback gains in the event that you might not receive equipment at the pace at which you're currently expecting?

Robert E. Jordan

President, CEO & Vice Chairman of the Board

Steve, yes, first, I'd just say we obviously, as you just think about our unit costs, generally today, there are costs in there that are really onetime step-ups, things like labor, new labor agreements and you have costs in there like the hurricane that are onetime pressures that don't occur. And items like the labor step-ups, obviously, we will lap those. But there's a lot of work in our transformational plan that we put in front of you a few weeks ago. A lot of that's around efficiency like the redeyes and compressing time out of the turn, driving aircraft efficiency.

And then there's cost plan that we're committed to fully realizing in 2027. And so looking at '25 and beyond, just kind of you're thinking about run rate, we're just not ready to guide yet. There's a lot of uncertainty out there with Boeing, in particular. You saw that the contract was not approved. And so it's just early to be able to guide the year at this point. But obviously, it's something that we're very focused on. Tammy, if you want to add anything?

Tammy Romo

Executive VP & CFO

The only thing I might add is just in regard to your question on the sale-leasebacks. Obviously, we have flexibility there and those we would keep in our fleet for some period of time. So we continue to have opportunities there on the sale-leaseback front. And again, just a lot of flexibility to manage to the targets that we laid out at Investor Day.

Operator

The next question is from Savi Syth with Raymond James.

Savanthi Nipunika Prelis-Syth

Raymond James & Associates, Inc., Research Division

I was just wondering if you could share from a revenue trend perspective just what you're seeing on the managed corporate side as well as kind of generally how the quarter is progressing, given the noise. I know that you called out the Hurricane Milton impact here. But just wondering if there's anything else in the quarter that we should consider that's going to be on the core.

Andrew M. Watterson

Chief Operating Officer

With regards specifically to managed business, we did see during the hurricanes, there was a different managed business travel because as you might imagine, in that geography. And so that did have a dip down, but then it bounced back up after the -- both hurricanes went through, kind of returned to its previous run rate. So we don't see any kind of structural change in demand for business travel at this point in time.

Robert E. Jordan

President, CEO & Vice Chairman of the Board

And then Savi, just generally on revenues, obviously, travel demand and bookings are strong here in the fourth quarter, and the holidays period looks strong as well. We're really pleased that you saw our unit revenue performance in the third. We saw with the actions that are being taken to revenue management and network and in distribution, marketing, we saw an acceleration in the trends across the quarter and that continues here into the fourth quarter. So a good tailwind from the actions that are being taken so I'm very

pleased with that. More to come, but we're on track in terms of the performance out of those tactical actions that we need to hit what we told you concerning 2025 goals at Investor Day.

Savanthi Nipunika Prelis-Syth

Raymond James & Associates, Inc., Research Division

Appreciate that. And Tammy, if I might follow up on the previous question. When it comes to sale-leasebacks, given the Boeing delivery uncertainty, is the consideration that it includes like existing aircraft in the fleet that you could do sale-leasebacks? Or how are you thinking about that, of the progression?

Tammy Romo

Executive VP & CFO

Yes. Thanks, Savi. No, that's exactly right. Obviously, aircraft in our fleet are certainly eligible so it would include existing aircraft in our fleet. So that -- so we -- again, we have a lot of flexibility, I believe, when it comes to the sale-leasebacks. With regard to outright sales, obviously, we would pace those based on -- that would be informed by Boeing and the delivery schedule. So we've got some work to do here, given the news that was out yesterday.

Operator

The next question is from Duane Pfennigwerth with Evercore ISI.

Duane Thomas Pfennigwerth

Evercore ISI Institutional Equities, Research Division

Not to beat a dead horse but certainly appreciate for competitive reasons, you might not want to be that specific. But many investors left the Investor Day with the perception that fleet monetization over the 3-year time horizon only means sale-leaseback gains. Is that how investors should be viewing -- is that the right takeaway? Or is it more than that specifically on the new side?

Tammy Romo

Executive VP & CFO

Yes, Duane. No, it would include potential sales and that's over the 3-year period. And we'll just have to obviously consider the fluidity of the situation at Boeing. But just again, we have 694 aircraft in our order book. And with our moderated capacity plans, we don't need that many airplanes. So we'll manage accordingly based on what's thrown our way with regard to the situation at Boeing.

But certainly, in the nearer term, we have opportunities without consideration for sale-leasebacks. So as always, the world is constantly changing, but we, again, just have a lot of flexibility. And we'll take the news that we all heard yesterday into consideration as we solidify our plans for next year.

Robert E. Jordan

President, CEO & Vice Chairman of the Board

Yes, Duane, yes, I thought we were clear. My apologies, I thought we were clear at Investor Day that, yes, we're going to -- we will be monetizing the value that is in the fleet order book. And yes, it could be sale-leasebacks, it could be direct sales. We'll be flexible on that front, and obviously, take into account where we are, what the market looks like. But I think we're open to whatever approach maximizes that value.

Duane Thomas Pfennigwerth

Evercore ISI Institutional Equities, Research Division

And certainly, I appreciate the uncertainty with respect to fleet next year, but can you give us any high-level shaping on cost trends, nonfuel cost trends maybe first half, second half? Is the down 1% to 3% I think, in the first quarter, is that new information or was that kind of your thinking at Investor Day? And just to put a bow on it, like when do you expect unit revenue growth to exceed nonfuel cost growth?

Tammy Romo

Executive VP & CFO

Yes, Duane, what you were referencing was our capacity, I believe, our capacity guidance. We did not provide...

Duane Thomas Pfennigwerth

Evercore ISI Institutional Equities, Research Division

Exactly, yes.

Tammy Romo
Executive VP & CFO

We didn't provide CASM-X guidance for next year. And we'll come back, given the moving parts here, at our next earnings call and give more specific guidance for next year. But our targets that we provided at Investor Day with regard to our operating margins, all of that still stands.

Operator

The next question is from Tom Fitzgerald with TD Cowen.

Thomas John Fitzgerald
TD Cowen, Research Division

Would you mind providing us an update with where things stand with your revenue management system? Is that giving you a tailwind now or what's the latest on that?

Andrew M. Watterson
Chief Operating Officer

Thanks, Tom. It's Andrew. The -- I would classify it as a system and processes and organization together. It wasn't just one thing, it's a combination of factors. And we put those into place in late Q2. And if you recall, we forecasted a 2-point drag to Q3 and we ended up with just a 1-point drag in Q3. So that shows that the -- we saw an inflection point in that we highlighted, I think, at Investor Day that August was particularly inflection point where we saw that, particularly the last half of August.

And so we've recalibrated our system, hired new people, put in place new processes and new tooling to support them, and that is driving yield growth on our strongest flights, which was the objective. So we can see the intended actions are manifesting in actual outcomes so it gives us confidence this is working for us.

Thomas John Fitzgerald
TD Cowen, Research Division

That's really helpful, Andrew. And then any color, it seems like just anecdotally, inter-island fares in Hawaii have been picking up lately. Are you seeing any benefit from that?

Andrew M. Watterson
Chief Operating Officer

My pleasure. So Hawaii, we view as a franchise, but knowing there's different parts to your franchise, and we have seen results of our focused efforts that we mentioned at Investor Day. We're seeing RASM increase quite significantly above system RASM, which is, as you saw from our results, also increasing and that is both for inter-island and mainland to Hawaii. And so we're pleased with the progress. We have teams that are -- cross-functional teams that are organized to focus and drive this. And we're seeing the results of those efforts and those continue and will continue until we reach our business case.

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

And you've got future actions coming next year around moderating -- modestly moderating inter-island capacity and then adding reeyes and really helping connections and connecting complex back to the mainland. So all that should continue to drive improvement as well on top of what you're seeing already today.

Operator

The next question is from Scott Group with Wolfe Research.

Scott H. Group
Wolfe Research, LLC

So I apologize for turning this into a sale-leaseback call but I am still a little confused because I think I heard something different at the Analyst Day than what I just heard. So maybe Tammy, can you just clarify like the 3% to 5% margin for next year, does that include or exclude any potential sale-leaseback? And then just separately on the cost side, I know we talk a lot about CASM. But if I just look, Q3 has got employees down 1% and labor cost up 18% year-over-year. I know we've got like new contracts but I don't know that they're up that much. Like can you just help us understand like why labor costs are up so much?

Tammy Romo
Executive VP & CFO

Yes. So on your first question on the margin guidance that was provided at Investor Day, we provided you a range. The low end of that range would be without the fleet monetization strategy and the high end of that range contemplates our fleet strategy. So that -- and which is why we provided you a range. So you can think of it more or less with or without the fleet strategy. So hopefully, that clarifies that.

And then with regard to the cost pressures, we -- looking ahead, I guess as a starting point, we would expect for next year just our normal inflationary cost pressure to continue. And keep in mind, an important input into all of that is our moderated capacity growth. So as we've already shared, we will be moderating our capacity growth next year. And then we'll also have costs associated with the investment in the launch of our assigned seating and premium seating initiatives. But offsetting we are -- we'll realize savings from our cost plan.

So again, we'll provide more insights into all of that on our next earnings call. But the inflation cost obviously was much more significant. And as Bob said, we'll be lapping some of the abnormal labor cost pressures, but there is just normal annual inflationary cost pressures baked into our labor contracts. And that includes also some work rule changes as well. So that is all factored into, again, the guidance that we gave you for next year for an operating margin in the 3% to 5% range.

Operator

The next question is from Jamie Baker with JPMorgan.

Jamie Nathaniel Baker
JPMorgan Chase & Co, Research Division

Scott's question was the same as mine. So we should interpret today's 3% to 5% margin as essentially a guidance lift versus last month since fleet initiatives are now separate, correct?

Tammy Romo
Executive VP & CFO

No. There's no change here in what we said at Investor Day, Jamie, is it's the 3% is ex fleet on operating margin and the 5% would include fleet.

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

Yes, Jamie, for each year, there was a page in there that we had an operating margin range and we had an ROIC range. And the way to think about that is, one is without fleet base business and one is with fleet. And then I think for 2027, we said that the ROIC greater than or equal to 15% would be exceeded with and without fleet. So yes, the ranges were intended to provide you a with and without fleet number. And then I think we also clarified that the fleet contribution was roughly \$500 million a year.

Jamie Nathaniel Baker
JPMorgan Chase & Co, Research Division

Okay. And so the change in tone, Bob, in your prepared remarks and in the answers on this topic, what drove that? Was that something maybe Elliott pushed for or was it just sort of trying to clear up misperceptions? I'm just curious. And also why it's not just called out as a special item?

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

On the fleet?

Jamie Nathaniel Baker

JPMorgan Chase & Co, Research Division

Yes, yes.

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

No, no. Yes, no, nothing -- in fact, I thought we were clear at Investor Day about the with and without. And then on the scorecard or graph scorecard that we presented today added even more clarity around the EBIT decomposition, but then also the with and without fleet and then the fleet of composition across the year. So no, it had nothing to do with -- no, no connection to Elliott at all.

Now in subsequent -- no, after Investor Day, as you would have guessed, we did a lot of shareholder engagement discussions, and one of the items was, hey, a little more clarity on the EBIT stack in '27 and some of the things you just talked about, which is why we added that into the presentation that was filed this morning.

Jamie Nathaniel Baker
JPMorgan Chase & Co, Research Division

Got it. And then for my second topic, just quickly on loyalty. It seems to me that with the LOPA changes and the plans to better monetize the cabin that there could be room for a more premium credit card than the, I guess, 2 consumer cards that you offer through Chase right now. I'm just wondering, like mechanically, how does that work? Are you guys free to potentially offer a third card if you choose to or does that require reopening the contract, stuff like that? Just wondering about those mechanics and whether there's maybe a loyalty benefit on top of the cabin stuff that you've already announced.

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

Well, I'll let Ryan take the details. But I think what we said at the Investor Day was that there is a lot of opportunity inside everything we announced, things like the seating changes, the airline partnerships, Getaways, all that to further monetize the card, the relationship with Chase, and there's just work to do there. And generally, what could be a tailwind there with continuing to monetize the Chase relationship was not included in the numbers that we gave you at Investor Day. So it's on top of that. There's work to do there. But just the mechanics of how you get there, obviously, it's a negotiation. I'll let Ryan talk about that.

Ryan C. Green
Executive Vice President of Commercial Transformation

Yes, Jamie. We can't do -- we could not just create a card on our own absent Chase. They have to underwrite it. We have to come to agreement on what the associated benefits with the new card product is and what the economics around that is. But we do those things from time to time. And we have to -- there are boarding benefits associated with our cards today that will no longer be relevant in an assigned seating and premium seating world. And so discussions with Chase on just how we're going to evolve the product structure to account for an assigned seating and premium seating world are currently underway. It doesn't take a reopening of the entire contract. We can make amendments to the contract, but yes, that's a conversation between us and Chase.

Operator

The next question is from Dan McKenzie with Seaport Global Securities.

Daniel J. McKenzie
Seaport Research Partners

Bob, I know it's really early and I know your focus is the current plan. But when you were interviewing the Board additions, I'm curious if the new members have begun to affect your thought process initially. And if there were any ideas shared that you're contemplating and I guess how the current strategic initiatives are being received?

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

Dan, I may give you a little broader answer just kind of clarify all this. The Board has been undergoing a lot of refresh that was going on before Elliott and then obviously, that's accelerated. And we announced the 6 off and then with Gary, 7. And then we've been looking to fill those, and we filled 1 of those through Southwest with Pierre and then the 5 from Elliott.

And just to make sure you know that I had a chance to interview their slate, and I've talked to each of those folks extensively about their views of Southwest, what they bring to the Board, what they bring to Southwest Airlines. And I could tell you that they're all committed to serving Southwest and looking forward to be part of our Board and serving our shareholders.

Obviously, we've added a number of airline experts, both through Southwest and then with what was announced last night. So we've added Rakesh. We've added Bob Fornaro and now, Gregg Saretsky and David Cush, and they all bring a wealth of airline experience and what I like is that they bring a variety of experience. And so you've got folks that have started airlines, have worked, obviously, at ULCCs, low-cost, something closer to a legacy and so -- and have had a lot of different types of service.

Not arguing that we're going to do any of those things at Southwest Airlines but they will certainly help stretch our thinking. Obviously, there will be another plan after this plan. We're always evolving. And so their input will be welcome and I think constructive in terms of how we think about Southwest 5 and 10 and 15 years from now. At the same time, I can assure you they all have genuine respect for Southwest, our history, our culture and are all looking forward to working together.

Daniel J. McKenzie
Seaport Research Partners

Yes. Congrats on putting that behind you. And Tammy, thanks for the comment around the fleet monetization strategy, and apologies for going back to this again. But is the primary driver of the benefit just really a function of reduced depreciation and maintenance expense? And just wondering if there's a labor component in there. Or high level, I guess, pardon me, I'm just curious what the big drivers are to that estimate of that range.

Tammy Romo
Executive VP & CFO

Yes. The big driver, of course, would be the gain that we would report. Again, we have very attractive pricing on our aircraft and on our existing fleet, of course, that would be reflected in the net book value. So the primary driver there would be the gains on the monetization of that strategy, particularly for the potential aircraft sales.

Operator

The next question is from Conor Cunningham with Melius Research.

Conor T. Cunningham
Melius Research LLC

On the \$1 billion EBIT build you called out for '25, I believe most of that's revenue, but could you just talk about what percentage is already enacted? You show an ongoing network optimization and I know you're doing marketing now and revenue management. But if you could just like talk about where we're at in terms of percentages of that already in the network today.

Andrew M. Watterson
Chief Operating Officer

Is that the network changes or the overall revenue progression? I'm sorry.

Conor T. Cunningham
Melius Research LLC

Yes, so you have \$1 billion of EBIT coming from network optimization, marketing and so on. What is already in the market today? I know you made a lot of adjustments to your network in general, and you're doing marketing and so on. But if you could just level set on what's already been put out there.

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

Conor, I'll get started and then Andrew can come behind with details. Obviously, you've got three things. You've got the revenue management changes that were enacted primarily to take effect in August. You had network changes that are ongoing. There is another set that comes into play next year with things like Atlanta. And then you've got the distribution and marketing efforts and changes, things like Skyscanner that just went active.

And the ones that are in place today, primarily revenue management are the contributor to why we're seeing the acceleration in the unit revenue trends across the third quarter and that so far is continuing into the fourth quarter. So you take all that together, what

is in place so far, which is again some network, primarily revenue management, we're on track for what we need to see in terms of improvement to hit that \$1 billion in 2025. That's a little different than your question. I can't quantify, but the main point is that we're on track in terms of a build to hit that \$1 billion in 2025.

Andrew M. Watterson
Chief Operating Officer

You're right, Bob. I don't think we've decomposed.

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

We have not.

Andrew M. Watterson
Chief Operating Officer

How much and when and stuff like that, but as far as the actions that lead to that value, the network, as I've mentioned earlier, will be published next week through the summer. So what you'll see then will be a reflection of the network changes largely in place then. Then you have the revenue management and marketing activities, which you have the first couple of waves of those have already been implemented and you're seeing them ramp up in their benefits.

There are further actions to come in both revenue management pricing and the market distribution for us to drive further value to get to that tactical initiatives business case that you'll see reflect in 2025. So I would say that a lot of the actions are done and underway in the market, but the value would ramp up as we progress through next year.

Conor T. Cunningham
Melius Research LLC

Got it. That's helpful. And then maybe back to just the headcount question that Scott was talking about. I know you're offering paid time-off to some employees and you're working through headcount in general through natural attrition. Has there been any internal debate, though, around being more aggressive with headcount whether it's early retirements or so on? The reason why I ask, you're buying back stock, you feel comfortable with the outlook. Has there been more of a focus on trying to get heads out that aren't necessarily as productive as they're going to be, given your expectations around capacity growth?

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

Conor, thank you. Just to level set on where we are and sorry, this is redundant. Our commitment was to be down 2,000 headcount this year compared to last year even on modest growth, and we're on track to do that. We have another -- it's kind of invisible. We have another close to 2,000 that are effectively out through the short-term lead programs a day, a week, a month kind of thing. So they show up as an FTE but there's no cost because they're effectively on a short-term leave or basically just time-off without pay. And then we're committed to being down again next year.

Now your question is, are we willing to go farther? And as we -- as part of the cost project, in addition to sort of your typical supply chain efforts, tech ops, parts, all the kinds of things that you know, efficiencies, we'll be working hard on overhead. And as we work our way through that, which we are just now starting, I'm not predicting anything but we've done it before. Maybe that we do offer tools around things like early out. We just need to first see the numbers, understand where we are and then look at what tools it takes to hit the target.

So we'll have a lot more for you as we progress our way through the cost initiative. But just to start with, we are committed to hitting the cost initiative, committed to being more efficient across the company through overhead, corporate overhead, and we use the techniques that we need to get there.

Andrew M. Watterson
Chief Operating Officer

I think, Bob, sometimes people do FTEs, times a salary equals a cost, which is appropriate for a white collar workforce. But for an hourly workforce, it misses the fact that there's hours in there. So if you were to look at the ground ops, in public data, you'd say FTEs per trip of about 22% versus pre pandemic because the hours we paid is up 14%. So you see a big gap between the hours we're paying

out and the headcount. Now that residual 14% is still something we need to work on, but you can take roughly half of that and say that is staffing we did -- we needed pre pandemic that we didn't have and we saw Winter Storm Elliott, we needed to have that.

So that is in there. And then the portion of that, which is like many in the airline industry, the economy in general, were less productive or efficient than we used to be. So the works we have going forward, whether it's the turn, redeyes, standards that we're putting in place, lots of other tools, we're going to work down that kind of inefficiency that's come in post pandemic, and then also work back that extra headcount, the needs of extra headcount that we saw that we needed because of the winter ops demand.

And so the overstaffing portion has been mitigated by the reduced hours I illustrated earlier, but the remaining hours are needed to the operation we have, yet there's still a need to get more efficient. And so we need to get more efficient is the next step in our journey, not necessarily less people since we've got the hours down with regard to this particular work group. And many of the work groups has a similar dynamic. The 1 work group that does not have that dynamic is our pilots, as we've discussed previously.

However, and so this year, we are paying minimums, meaning there's times when we don't need as many pilots as we have, not every month but a number of the months this year. When we add redeyes next year, that will then start to eat into that period where we are paying minimums because there will be incremental flying for which we don't need incremental pilots. So it's a journey but you can't just do the FTEs times salary math to look at potential savings. You have to really work through the hours since this is an hourly workforce. Except for the overhead, which Bob mentioned.

Tammy Romo

Executive VP & CFO

And just one final just note that might be helpful, just on the what's embedded in terms of the net overstaffing impact. As I shared, I believe at Investor Day, we expect that to be roughly \$120 million this year. And as Andrew took you through, the impact is primarily coming from our pilot work group. And just to demonstrate how we're continuing to work that down for the fourth quarter, that impact is expected to be less than \$20 million, again with that impact coming primarily from the pilots. So we're working it down and we're very focused on our cost initiative next year to continue to rein in the impact from overstaffing.

Operator

The next question is from Chris Stathoulopoulos with SIG.

Christopher Nicholas Stathoulopoulos

Susquehanna Financial Group, LLLP, Research Division

Bob, just keep it to one question, three parts here, though, and it's really about capacity. I want to take it back to your opening remarks when you talked about tactics and strategy. So as we think about the network for '25, could you speak to the composition, so stage gauge departures? And then also, where you see the opportunities, where you're focusing on, I guess? And within those markets, is that going to be more about frequencies and connectivity?

And then part B so the 1% to 2% guide for next year, it's not a wide range at the point, but all the moving pieces particularly as they relate to the revenue side. Why isn't 1% a better way to think about this, again, all things considered with the plan out there and how dynamic the marketplace is?

Robert E. Jordan

President, CEO & Vice Chairman of the Board

You bet. And this capacity and what that kind of decomposing that generally maybe a couple of things. I'm sorry to be redundant. The capacity that is being created is being created through initiatives. Just making sure that, that's clear. It's coming from redeyes and the turn, compression, that creates a significant amount of aircraft without having to apply aircraft CapEx. So the modest capacity that we do have is being created without spending money to buy those aircraft.

On the decomposition of the network, and Andrew can add a lot more here, we're basically holding capacity from areas that make -- that may be struggling a bit. You saw the changes we announced to Atlanta, Chicago O'Hare, we've closed a few cities and then being generally redeployed in points of strength like the Nashvilles and Austins, those kinds of things. And it's a little bit of everything. Sometimes it's a new route, sometimes it's frequency on a route.

Andrew, I think generally, the stage is continuing to rise just generally, maybe a little rule of thumb, especially with business travel continuing to not be all the way back and put some pressure on short-haul. But the thing we're going to do is we're going to continue

to apply capacity and points of strength and where we see the demand. On the narrow range between the 1% and the 2%, yes, that's really, really tight. I'm not sure I understand the question on why 1% versus 2%, but it's really a modest amount.

And that already creates obviously unit cost pressure to be growing at that small of a rate, and anything below that exacerbates that. But we're just committed to a lower capacity number until we earn our cost of capital, exceed our cost of capital and hit the targets that we've talked to you about. Now the wildcard, obviously, for '25 is what about Boeing? I'm proud of our folks. They planned really effectively for '24. We planned for a strike. We created our own number of 20 deliveries, and it's going to come in right on top of that.

And '25, if the strike goes much longer, there will be an impact. We have a lot of flexibility in the fleet. We'll have to deal with that and adapt. But if the strike goes a long time, it's going to make it hard. I'll just admit it's going to make it hard to hit those -- the higher end certainly of that capacity number because you're just not getting the deliveries. So a lot of this is really up in the air until we know more about Boeing, when the strike ends, when they get back online and when they hit their rate. So I just would say that '25, we just owe you an answer there as we know more about Boeing. And then just on the decomposition, Andrew?

Andrew M. Watterson
Chief Operating Officer

Yes, we already see this year that our stage inflected upward was pushing mid-single digits. And as we go into next year, you can see what's already published that our trips are going to be down year-over-year, but our actual gauge of our aircraft is up about 1% in those months already published, and you start to get to lower single digits for stage increase. So the stage and gauge will drive ASMs and reduce frequency. So you can infer by that, these are going to be not short-haul business markets necessarily but a kind of mixed business/leisure and that more medium -- what we call medium-haul distance, which is around about 1,000 miles on average is what you can expect to see for all the new stuff.

Julia Landrum
Vice President of Investor Relations

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

Operator

Ladies and gentlemen, we 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, can you please share instructions on how to queue up for a question?

Operator

[Operator Instructions] The first question is from Robert Silk with Travel Weekly.

Robert Silk

Probably a question for Ryan. The Getaway product, have you decided yet if you'll work -- if you're going to only sell direct or will you also be selling through travel agencies? And the second part of that question is you all noted, Caesars as a partner. You said there were 2 others. Are you able to say what the other 2 are?

Ryan C. Green
Executive Vice President of Commercial Transformation

Sure, yes. Getaways, as you know, we'll launch mid-next year. And today, we announced partnerships, 3 direct lodging partnerships. Caesars Entertainment in Las Vegas, and then Sandos and Playa in Cancun and in the Caribbean are the 3 direct lodging partners. We also -- we have access to hotel inventory outside of direct lodging partners as well. We announced our bed bank partner today, hotel beds as well. And there are a couple of other announcements out there on some technology that we're using to put the packages together.

So a lot of announcements today. We're making really good progress towards our launch mid-next year. As it relates to how we're going to go to market there, primarily it will be direct from our website. We have the largest airline website in the United States where

we have -- we carry a lot of customers to these large leisure markets that have the highest share of packages. So we've already got -- we already have customers on our website that we can monetize these packages to.

Does that mean that we won't sell through travel agents at all? The answer there is no, but the primary source of that will be our own direct distribution.

Robert Silk

Okay. So you may still work through -- you are still going to have -- is it going to be select agencies or will there be a general reach-out to agencies?

Ryan C. Green

Executive Vice President of Commercial Transformation

Yes, we're working through our go-to-market plans on that so there's nothing to share specifically on that today. But I think you should just think about it generally as primarily a direct distribution on our own -- through our own channels.

Operator

The next question is from Rajesh Singh with Reuters.

Rajesh Singh

Bob, I have two questions, one on Boeing. Second one on Elliott. When does Boeing strike start impacting your growth plans?

Robert E. Jordan

President, CEO & Vice Chairman of the Board

Well, Boeing, I think we just don't know. I mean, we're already -- like we talked about, we were expecting near 80 aircraft this year. We're going to take 20 so we're far off of our plan. We will no doubt be far off of our contractual plan next year. The fact that we've lowered our capacity appetite to 1% to 2% is certainly helpful. If we've been at something higher, we'd be having much more difficult issue.

We do have a lot of flexibility in our fleet plan because of that because we just need a smaller number of aircraft to fulfill the growth, and the growth is coming through initiatives anyways. But at the end of the day, we need a good Boeing and a strong Boeing. We need a Boeing that is on track in terms of its rate and on track in terms of its delivering its aircraft to Southwest Airlines. So we can tolerate a bit of an interruption here with the strike because we planned for it.

But if the strike goes much further, obviously, we'll have to decide how we adjust our fleet next year or adjust our appetite in our schedule. So a lot more to come there, obviously, in terms of Boeing clearing up what's happening. And then second, once we know that, we can deal with what we can do to mitigate the impact. But no, it's an issue for sure.

Robert Silk

And on Elliott, congrats for getting the deal done. But there is a view that the deal has come at a very high price. They have got 5 Board seats. Some people are calling it more of a truce than a peace deal. Do you foresee it being disruptive going forward for your turnaround strategy?

Robert E. Jordan

President, CEO & Vice Chairman of the Board

Well, first, the -- I'd just remind you that we have been -- the Board has been in an ongoing long-planned refreshment period here. We've added a lot of new members. We had already announced that we would have 6 step off and then Gary, so that's 7, and we did accelerate that to November 1 as part of the agreement, but we had announced 7 were coming off.

And we had plans to, if we couldn't get an agreement with Elliott, continue to march through filling those seats, which is what you saw with us adding Pierre. So it's basically 7 off, 6 on with Pierre so the Board is still shrinking. I think the main thing is that it is a portion of the Board is not control. It's not control of the company, not control of the Board. It's a subset. And then really, our focus has been on interviewing these folks and understanding what they bring to the Board, who they are, what their personalities are like, how well they'll get along with our current Board members and assimilate.

Because at the end of the day, you want great Board members to support Southwest Airlines and our shareholders and our plans. And again, I had a chance to interview their 5 that we took, and I think we've got some great Board members here. They bring a wealth of experience and they'll be additive to our Board. So whether they came from Elliott or another route, we're just looking for good Board members.

If you just go down the list, again, Gregg Saretsky, a lot of airline experience, WestJet, Alaska; Cush, experience with Virgin America and others; Sarah Feinberg, governmental affairs, FAA background; Dave Grissen, President of Marriott, a lot of retail; Patty Watson, a CIO at NCR, brings a lot of technology experience which we can use. And then Pierre Breber, who we have sourced ourselves, a retired CFO with Chevron, brings both the financial background and brings an oil and gas background. So all of those folks, I think, will serve our Board, bring expertise and serve our shareholders well.

Operator

The next question is from Leslie Josephs with CNBC.

Leslie Josephs

Just curious on the MAX 7, knowing what we know now, when do you reasonably expect that to fly for Southwest? And then secondly, this is a little existential but Boeing is looking at what it would look like in 5 years, slimming down and all its changes. How do you -- you're making a lot of changes at Southwest. How do you see the airline in 5 years' time and 10 years' time? And do you think it will look a lot more like some of the legacy carriers? And how do you expect to stand out?

Andrew M. Watterson *Chief Operating Officer*

I'll take the first one and give Bob the second one. Obviously, the MAX 7, we still expect it to be certified sometime in the middle of next year. The engine anti-ice issue which is a pacing item. It's undergoing tests now. And the change, we have -- our engineers have confidence in the technical changes that are proposed. The FAA will ultimately decide if it's sufficient. And once that is sufficient, then they have to then finish the rest of the certification activities, which to us look almost all but done.

And then after that, we'll need at least a 6-month lag between that and us putting it in revenue service because obviously, we have to then bring it into certificate, get our manuals updated and approved by the FAA and such. And you obviously can't rush those type of things. So therefore, our plan for next year does not include the MAX 7. But our plan for the following year could, given that the Boeing's delivery [indiscernible] over the last few years, we don't lock down that plan with regards to their type of gauge they deliver to us at this point in time. But as we get closer and we do see the certification, we began in earnest for the details in our 2026 plan, we would then perhaps integrate that into our flying schedule.

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

And Leslie, just on the -- maybe the longer-term Boeing, longer -- much longer-term Southwest Airlines, I'll tell you we've got a great order book in place with Boeing that goes through 2031, access to a lot of aircraft at very attractive pricing. So we've got really good protection there kind of no matter what we want to do with that.

We've talked a lot about monetizing the opportunity to monetize the fleet but we have access. Again, the main thing is we have access to a lot of aircraft and terrific pricing. And we need Boeing to fix the issues and deliver those aircraft. As you think about further than that, maybe that's where you're going. Number one for Southwest Airlines, we're focused on delivering the transformational plan that we just laid out a few weeks ago, assigned seating and extra legroom and partnerships and Getaways by Southwest and so much more.

And our focus is delivering all those initiatives and hitting the targets that we laid out. As any company, you're always -- there's always a strategy mode out there. You're always thinking about what about 5 years from now? What about 10 years from now? And we're just not ready to talk about any of that. One thing you know for sure is the Southwest that you see in 10 years won't look like the Southwest that you see today because you're always evolving.

And that could include all kinds of things. But just -- yes, I'd just be speculating. The main thing is we've got a great order book with Boeing. It takes us well into the future to 2031 and we're fully focused on executing the plan that's in front of us.

Leslie Josephs

Okay. And then you mentioned earlier, Bob, that if the strike goes on much longer, you're going to have to revisit the fleet plan. What is much longer? Is it through the end of the year? Is it a couple more weeks? What is that cutoff?

Robert E. Jordan

President, CEO & Vice Chairman of the Board

It's probably an inexact answer. We planned for a strike roughly, I think, Andrew, in the 5-ish weeks kind of range, kind of where we are because I believe historically, that's been a typical strike for Boeing. So we planned for that. And the amount of adjustment, it obviously fluctuates a lot based on how long this goes. So as -- so it's just really hard to speculate.

If the strike goes a lot further, again, we'll look at our fleet opportunities in terms of what we can do and maintain capacity sets at some point it becomes difficult to do that and you think about having to adjust schedules that are way out in the future. We don't want to do that because it's disruptive to our customers. So it's all total speculation at this point.

And what I'm most proud of is that our folks planned for the strike and they planned appropriately. We're getting exactly the number of aircraft this year that we planned on. And you got to control what you can control, and we planned on a moderated number in '25 as well kind of compared to what the original expectation was. I think we just have to see where we are. Again, we have options to manage this within our fleet. But at some point, you'd have to moderate the capacity and schedules. We're just not there yet.

Andrew M. Watterson

Chief Operating Officer

And it's less about the duration per se than the ramp-up afterwards. The longer it goes on, the more it could trickle back in the supply chain and cause delays there. So any manufacturing process of airlines, aircraft or whatever, if you shut down -- the longer you shut down, the longer it takes to ramp back up and it's not often one-for-one. So it's really understanding how long that ramp-up will be. It will be the pace that we can speculate now and plan for it, but ultimately, Boeing will have to master that and communicate with their customers.

Robert E. Jordan

President, CEO & Vice Chairman of the Board

Yes. You've seen Boeing has furloughs or plans and then now the suppliers have furloughs, and all that has to be restarted once they have a contract in place.

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, everyone. If you 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. You may now disconnect.

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