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Presentation

Operator

Hello everyone, and welcome to the Southwest Airlines First Quarter 2024 Conference Call. I'm Jamie, and I'll be moderating today's conference, 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

Thanks, Jamie. Hello, everyone and welcome to Southwest Airlines First quarter 2025 earnings call. In just a moment we will share our prepared remarks after which we will move into Q&A.

I'm joined today by our President, CEO and Vice Chairman of the Board, Bob Jordan; Chief Operating Officer, Andrew Watterson; and Executive Vice President and CFO, Tom Doxey.

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

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

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

Robert E. Jordan

President, CEO & Vice Chairman of the Board

Thank you, Julia, and thanks, everyone, for joining us today. Before we get started, I want to welcome Tom to his first Southwest Airlines Earnings Call. We are very grateful to have you on the team, my friend.

Well, last month, we announced a plan to transform our revenue strategy, improve our cost performance and deliver meaningfully improved financial results on an accelerated timeline. Regardless of the economic environment, we remain focused on executing our strategic plan, which is a unique opportunity to Southwest and on controlling what we can control. We are very encouraged by the results from the initiatives we implemented in the first quarter.

Just to name and highlight a few, we amended our agreement with Chase; we implemented enhancements to our Rapid Rewards program, including introducing dynamic reward pricing; and we launched Expedia with results exceeding our expectations thus far. We also seamlessly implemented our turn time initiative in more stations, and we now have removed 5 minutes of turn time from schedules in 19 stations, while leading the industry in on-time performance. And importantly, we executed on unit costs and our overall cost reduction plan.

Transformational change in the implementation of our initiatives will continue at a very rapid pace. Next month, we will begin offering a basic economy product and new fare structure supporting increased buy up.

We'll start charging check bag fees and introduce the expiration of flight credits. We also remain on track to begin selling premium and assigned seating in the third quarter of this year for flights in the first quarter of 2026.

In the first quarter, the team did a fantastic job focusing on execution. Our operating revenue was a quarterly record at \$6.4 billion as RASM increased 3.5% on all-time record yields. Despite industry weakness in domestic main cabin travel where we are currently more heavily weighted compared to our larger industry peers, we finished at the high end of our guidance range, outperforming on a relative basis and underscoring the team's strong revenue execution and early returns from our revenue management, distribution, and network initiatives.

CASM-X growth of 4.6% was materially better than our original guidance of up 7% to 9% and well below our revised guidance of approximately 6%. Of course, the big topic on everyone's minds right now is the macroeconomic environment. As we shared last month, the year started out very strong. However, that changed and we saw demand weaken as the quarter progressed especially in

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leisure demand. Since that time, we have seen softer booking trends continue into the second quarter, which Andrew will cover in more detail here in just a moment.

Amid the current macroeconomic uncertainty, it is very difficult to confidently forecast given recent and short-lived trends. Given this environment, we are not reiterating our full year 2025 or our full year 2026 EBIT guides. However, we remain confident in and committed to continued strong execution of our initiatives, and we are reaffirming our targets of \$1.8 billion full year 2025 and \$4.3 billion full year 2026 incremental EBIT contribution from those initiatives.

At Southwest, we are uniquely positioned in the industry given the transformative initiatives we have rolling out the rest of this year and into 2026, which should provide a significant benefit relative to our peers. Cost discipline is important in any environment. In an uncertain environment, it becomes paramount. I am very pleased that we are ahead of the game with our cost reduction plan. The cost work is going very well, and we saw proof of that in our first quarter CASM-X performance. Those cost reduction targets are still in place, and we continue to seek opportunities to further increase and accelerate savings.

We also had an already moderated capacity plan in place with full year 2025 planned ASM growth of 1% to 2%, with this growth driven entirely by our turn in redeye efficiency initiatives. Given the current macroeconomic environment, we are being proactive and further reducing capacity in the second half of the year. These incremental schedule reductions are in progress, and we expect to reduce both third quarter and fourth quarter published schedules by roughly a point and a half each bringing expected full year 2025 capacity down to roughly 1% year-over-year.

We are making these changes quickly to capture as many cost savings as possible. We will continue to evaluate and modify as needed with a focus on margin-accretive adjustments as we move through the rest of the year. As we manage through these challenging times, we will stay focused on our plan but will also stay nimble. We have significant flexibility, including fleet flexibility, and we benefit from the industry's strongest investment-grade balance sheet with significant unencumbered assets. All of this helps us navigate the current environment while continuing to evolve for our customers and create value for our shareholders.

Before I turn it over to Andrew, I want to say thank you to our people for their dedication and resilience and for the world-class hospitality they deliver day in and day out. Our people set us apart, and that cannot be duplicated.

Andrew M. Watterson
Chief Operating Officer

Thank you, Bob, and thanks to our people for their exceptional efforts, which enabled us to lead the industry in on-time performance and the fewest extreme delays, our best first quarter performance in both categories in 4 years. Our first quarter completion factor of 98.6% was our best in 12 years. And despite some tough winter weather, we ranked #1 in on-time percentage and #2 in completion factor on the day after winter storms. Huge progress from several years ago.

We've already covered our first quarter RASM performance, so I'll jump in with some color on second quarter RASM guide of flat to down 4%. On capacity up in the range of 1% to 2%, both on a year-over-year basis. Our guidance range contemplates a continuation of the current environment with the largest impact coming from lower leisure travel demand. Corporate travel, excluding the small percentage from government, has also been softer, but stable.

The impact of Southwest is mitigated by our initiatives, which are more targeted at yields in the first half of this year, and will begin targeting load factor in the back half of this year as we work to close our RASM gap to the industry through improving network connectivity opportunities and marketing and distribution initiatives. Several of our initiatives are already live, and we're pleased with their performance. We expanded distribution to online travel agencies with the launch of Expedia in February, and our current performance is ahead of expectations. We're seeing better-than-anticipated booking volumes in this channel, similar to what we've seen in the metasearch tools.

We're very encouraged by the expanded customer base provided by this channel as many of these customers are new to Southwest or have not flown us in quite some time. We optimized our loyalty program to better align earn and burn rates and have seen no negative trend changes as a result, such as changes in either our credit card acquisitions or attrition. In fact, we had a record first quarter spend in our co-branded credit card.

We've received the necessary approvals and certifications for the MAX 8 and 737-800 aircraft retrofits and expect to begin retrofitting aircraft next month. Our turn time reduction initiative, which Bob mentioned, is now in place in 19 airports, including several of our mega stations like Dallas and Nashville. Reducing turn time generates more flying from each aircraft, increasing our capital efficiency -- and unlike normal utilization increases, which typically extend the day earlier and later, this does not increase the operating day, so it is favorable to RASM and CASM.

And we launched redeye in February with Hawaii redeyes launched just this month. Our new initiatives launching next month include basic economy, flight credit expiration and bag fees. After announcing these changes, we saw no evidence of Bookaway in real-time data. We've executed the turn and redeyes with no adverse operational impact and feel confident we'll be able to introduce bag fees next month with minimal disruption.

Significant planning is already underway in key areas of our operations, including our gate and lobby experience, customer care, and baggage service. Our goal is to mitigate any potential impact to transaction times in the lobby as well as designing new processes to manage the increase in expected checked bags -- gate checked bags, all while enabling our employees to continue to deliver incredible customer service. In addition, we are accelerating the installation of larger overhead bins in our aircraft.

Outside of the cost reduction plan, our largest initiatives at maturity are premium and assigned seating, bag fees and the loyalty program optimization. Flight credit expiration is also material, estimated to yield in excess of \$100 million per year. In terms of the ramp, the benefits from loyalty are expected to provide the largest lift to our 2025 EBIT and will only partially be reflected in the second quarter.

We expect minimal contribution from implementing base economy, bag fees and flight credit expirations in the second quarter, given they only applied to flights booked on or after May 28. The incremental revenues from these initiatives will meaningfully ramp in the third quarter and into the fourth quarter as we increasingly shift towards bookings made on or after May 28. We will continue to be urgent and deliberative in our execution. With that, I'll turn it over to Tom.

Tom Doxey
Executive VP & CFO

Thanks, Andrew. I'm happy to be joining my first earnings call today with Southwest. I have enjoyed getting to know our employees in break rooms, hangars and meeting rooms across our network, and I've enjoyed being on the road meeting with the investment community as well. While we have a lot of work ahead of us, I'm encouraged and excited about the progress that we've made so far, and I'm optimistic about our opportunities and where we are headed.

Starting with our nonfuel costs, first quarter CASM-X came in at 4.6%, beating our previously adjusted guidance of approximately 6%. This improvement was roughly split between a variety of smaller onetime items and a hyper focus on cost discipline across our entire organization. For example, we reduced consulting and marketing expense and pulled back further on discretionary spend.

Looking ahead, we expect second quarter unit cost to increase in the 3.5% to 5.5% range. We are pleased with the execution of our cost reduction plan thus far and the entire organization's commitment to efficiency.

Moving to fuel. Market prices have been extremely volatile in response to the broader macro environment. Overall, we have seen prices fall, which has helped offset some of the softness we are seeing on the demand front. We currently estimate our second quarter fuel cost per gallon to be in the \$2.20 to \$2.30 range.

We recently announced that we have discontinued our fuel hedging program and have no plans to add to our portfolio. We remain 45% hedged in second quarter and 47% hedged for the full year with hedge positions in place into 2027. We will be opportunistic in unwinding our existing positions based on market conditions.

Moving to fleet, while we are not updating our previous assumption of 38 737 MAX 8 deliveries this year, we are increasingly optimistic about what we are seeing at Boeing and their ability to deliver. As we shared in January, we anticipate retiring roughly 50 aircraft during 2025. As a reminder, we will continue to opportunistically transact on aircraft in our existing fleet based on actual aircraft deliveries, market conditions and other factors. As such, we continue to expect 2025 gross capital spending to be in a range of \$2.5 billion to \$3 billion.

Moving to our capital allocation strategy. We remain committed to investing smartly in our business, ensuring a strong and efficient investment-grade balance sheet and returning value to shareholders. In the second quarter, we will pay down \$2.6 billion of debt. This includes a \$976 million prepayment of the first tranche of the payroll support program notes, which we actually paid last week and the payoff of our \$1.6 billion convertible notes in cash on May 1. We will also continue to return value to shareholders. We have completed \$1 billion of the previously authorized \$2.5 billion share repurchase authorization.

As we announced last month, we intend to complete the remaining \$1.5 billion or more than 10% of our current market cap under our share repurchase authorization by the end of July. These decisions highlight our continued confidence in the execution of our plan and driving improved results.

With that, I'll hand it back over to Bob.

Robert E. Jordan

President, CEO & Vice Chairman of the Board

Well, thank you, Tom. And before we start Q&A, I'd like to leave you with a few key points. First, we remain committed to an exceptional execution regardless of the macro environment. We had strong execution in the first quarter, initiative implementation, cost discipline in our cost plan, capacity planning and operational excellence. We will take it, and we will move on to do the same in the second quarter.

Second, we continue to deliver on our core business initiatives and are seeing positive results from recently launched initiatives, including the optimized loyalty program and amended Chase agreement and the launch of Expedia. Third, we are evolving more than ever, and we're moving quickly. We remain confident that our initiatives, including the additional initiatives announced last month will provide material incremental EBIT in 2025, 2026 and beyond.

And finally, we are resilient and well positioned to manage through a dynamic environment with our cost focus, capacity discipline, underscored by the additional reductions that we just announced, our portfolio of Southwest specific initiatives and as Tom just covered our investment grade balance sheet. So we are not slowing down. We will keep evolving to meet the needs of our current and future customers, improve our financial performance and create value for our shareholders.

I'm confident in our plan, confident in our execution and confident in our people. But before I pass it back to Julia to start Q&A, I want to stop and acknowledge and thank her. This is her last earnings call as our Head of Investor Relations. That's a tough job. And Julia, you have done a fantastic job, and we will miss you on these calls, my friend. And with that, back to you.

Julia Landrum

Vice President of Investor Relations

Thank you, Bob. This completes our prepared remarks. We will now open the line for analyst questions. We would like to get to as many of you as possible. Could we ask that you please limit yourself to one question. We will now take the first question.

Question and Answer

Operator

[Operator Instructions] And our first question today comes from Ravi Shanker from Morgan Stanley.

Ravi Shanker

Morgan Stanley, Research Division

So great to see no evidence of Bookaway here based on your comments. But I believe you recently broadly polled your customer base on your recent initiatives. Can you share kind of what feedback you got from that poll? And kind of if you're confident that, that Bookaway kind of is not something that's going to emerge later on in the year.

Andrew M. Watterson

Chief Operating Officer

Thanks, Ravi. It's Andrew. So I did see that there's a lot of press pickup, I guess, somebody found a survey and tweeted up. I would just say we are constantly surveying our customer set, whether it's how was your flight today? What do you think about this initiative? And so we curate different panels to try to get different feedback on different policies, different ideas. And so there was nothing abnormal about that survey. We didn't do it just because we had the policy change. We've been doing stuff like that all along. And so this helps us understand the perceptions and how they evolve over time to different elements.

And those surveys tell us kind of what we see overall, which is our e-mails. There was -- in the beginning, people wrote us and said, hey, I'm concerned about this topic. We answered their questions, they kind of became -- they realized that, oh, if I'm going to engage customers, Southwest Airlines, these don't really apply to me. And then so they kind of change their feelings about it. We saw the same thing in surveys. The sentiment evolved as people better understood what they would keep and generally, our engaged customers keep their benefits and get more when we go to assign seats.

And so the polling does show that those customers now fully internalize that difference from maybe the headlines originally. And so we see a fairly satisfied and engaged customer set as they wait for this next level of benefits to come out. So I think overall, we're pleased, as it exceeded my expectations of how well our best customers have migrated to this new world we're going into with assigned seats and extra legroom and such.

Operator

Our next question comes from Andrew Didora from Bank of America.

Andrew George Didora

BofA Securities, Research Division

My question is for Tom. I'm getting just a lot of client questions with regards to the balance sheet and liquidity, given the buyback, all the debt paydown in 2Q, CapEx. I guess any color you can provide on how you think about liquidity targets right now in this environment? Just how we should think about minimum cash right now.

Tom Doxey

Executive VP & CFO

Sure. Thanks, Andrew. Yes, we've been targeting, as you know, around \$4 billion or so in cash. And as you look at the pay downs that we've had. In addition to that, the incremental \$1.5 billion, that is the remainder of the previously announced \$2.5 billion share repurchase. That brings us down to right about that mark.

In addition to that, as you know, we've had significant unencumbered assets. We've talked about -- it was in our release where we reiterated that \$16-or-so billion in aircraft and then there's some additional unencumbered assets there on the non-aircraft side as well. And so we look at all of that in totality.

And then one other thing that I would say in addition to that is the focus here, and this isn't necessarily a balance sheet answer, but we are laser-focused here on the incremental building of EBIT through the different initiatives that we have and are confident in those initiatives and both the rollout and magnitude of that. And of course, that incremental EBIT is what ultimately gives you the optionality for your balance sheet when you look at the framework of investing in the business, maintaining that strong and efficient balance sheet and then any potential return to shareholders that would result.

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Operator

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

Catherine Maureen O'Brien

Goldman Sachs Group, Inc., Research Division

So I know you're suspending the full year EBIT guidance, but you're maintaining the EBIT initiative targets. Can you just walk us through what's giving you confidence in achieving those initiative targets? And -- and I really mean more on the revenue side, I realize the cost ones are more baked. Are there not sensitivities on some of these revenue initiatives to the macro like there are for the core business? Or maybe you feel like you baked in enough cushion back in March? Just any color there would be helpful.

Robert E. Jordan

President, CEO & Vice Chairman of the Board

Catie, yes, Bob. Yes, it's all of that. We have a lot of confidence both in the portfolio of cost and revenue initiatives, in terms of the timing, they're all on track and then the financial benefit that we intend for them to play into the business. Of course, there are some sensitivities. There are some linkage to the base business and macro backdrop, but it's substantially smaller -- the base business is off a lot.

We were off kind of roughly 3 points in the first quarter from what we thought back in January. And then the second quarter, the base business has come off about 6 points which is a substantial part of the top line. The revenue initiatives are targeted. You take something like bag fees, for example, they just fall at such a smaller rate. So if you -- if 6% of bag fees, as an example, comes off, it's a much, much smaller than a percent of the top line. So -- and we also feel like they're far more inelastic.

So while you could see some tie to the macro, it's a far smaller number. So we have a lot of confidence, both in the timing of the initiatives coming online and then the value. What is really hard to predict, as everybody has been talking about today is the uncertainty in the booking trends in the macro economy. So while we've got a lot of confidence in 2025 on delivering on the \$1.8 billion in initiative contribution, the ability to forecast with any reasonable level of certainty, the base business offset to that is what's really tough. So that's really the reason we couldn't affirm the \$1.7 billion for the year.

Now we're not taking the \$1.7 billion off the table. I want to make sure you understand that, that is still the internal target. You get some inflection back of the trends here later in the year, you get some additional help from fuel. We guided the initiatives in March at kind of a baseline level. The initiatives outperform and there's absolutely a shot at hitting that \$1.7 billion or some combination of all those things. So we're not taking it off the table. It's just the uncertainty in the demand and base business side just made it impossible to reaffirm that \$1.7 billion.

Operator

Our next question comes from David Vernon from Bernstein.

David Scott Vernon

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

A question for you on the -- just the load factor and the passenger count, in relation to this idea that we're not seeing any sort of Bookaway or any sort of unique impact from some of the initiatives on the demand base.

It looks like you guys are running lower from a demand destruction standpoint relative to peers on a year-over-year basis. How do you think about explaining that sort of gap? And then when you think about that load factor running 74-ish, what are your sort of expectations as we kind of get through the rest of the year?

Andrew M. Watterson

Chief Operating Officer

Certainly, it's Andrew. If you kind of decompose the quarter, January was down like 2 points in load factor and then Feb and March were down 5.5 points. As you can see, there was really a tale of 2 quarters as that weakness -- macro weakness started in quarter. And when you have that kind of demand discontinuity, you have to be very careful about how you price. I think in your business, they call it catching a falling knife. In our business, we have to be very careful not to try to close in discount because you could end up worse off. And so I think you see that in our yield numbers, which were quite robust.

And so we maintained that in the quarter, and we saw very, very strong close in revenue performance in March and again in April. However, at the same time, we had previously been not participating in a lot of discounting, especially like 120-plus days before departure because we had low capacity growth. So it would be wise not to kind of -- to be very prudent with your discounts further out. When we saw that macro environment kind of unfold in the quarter in Jan and Feb, we peeled off those kind of prohibitions, if you will, and participate further out in the booking curve, which is not necessarily dangerous to have that kind of discounting to generate volume.

And you can see that in April, now our year-over-year load factor improved at least 2 points from March to April, and that was only a partial booking curve effect from that kind of renewed further out discounting. So we expect that kind of to normalize that kind of macro shock to normalize with a booking curve as we get more in the routine of discounting further out to make up for the kind of demand softening we see on the consumer side because on the business side, it's been very stable.

Ex government, both state and local and federal, our managed business is up -- and so those are generally higher-yielding customers. So we'll be very careful about how you price in an environment where you have consumer weakness but kind of business strength. And so that's why we chose that approach, which led to much higher yields than you would expect and lower load factor you'd expect, but yet a RASM on a year-over basis that overperformed our peers.

David Scott Vernon

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

All right. That's helpful. And then I guess, if you're thinking about kind of maintaining that kind of discipline on the pricing side, which I think many investors would be very comfortable with. Does that not sort of advocate for the position of maybe cutting capacity a little bit more than you're estimating in the second half of the year?

I mean just to get the load factors back up a little bit. I mean it would seem like the trims you're proposing making in the back half of the year seemed a little bit light in relation to kind of what we're seeing in the results. And I'm just wondering how you're thinking about that capacity question as you get closer to the back half of the year?

Andrew M. Watterson

Chief Operating Officer

Certainly, it's a reasonable question to ask, especially looking externally. You've heard people talk about off peak. It's been a post-COVID issue, and you've heard it really blossom this quarter. And so what that is, is that you have less travel in the off-peak times because business travel is down and the nature of business travel has changed.

So as a result of this time of day, day of week, time of year, you have less demand. And then our gauge is up 7% post-pandemic. So on those troughs, then you don't have -- you can't fill your aircraft, it shows up in lower load factor. At the peak time of day, day of week, time of year you really like to have that 7% more gauge and you can't fill up and as you see we get high yield. So in a world in which demand has grown, yet peaks are higher and valleys are lower, you would expect to see net lower load factor from us and higher yields was exactly what you see in our results because we are very strongly pushing the yields and those peaks and admittedly having difficulty with the off-peak.

If you just reduce capacity, you both take away the goodness from the peak and you don't get as much benefit from the valley. Now we're conscious that we need to fill back up our load factors in our plan. And so what we need to do for the off-peak is we can do a little bit of stimulation because with basic economy coming, we'll be able to offer maybe different types of leisure discounts that will not undermine or create business buy down because business travelers are not generally blocked from buying business base economy.

And we see from some of our competitors flow or connectivity is a way to aggregate little bits of demand in the offpeak to fill up your flight. And so starting in August, we have a lot of connectivity -- structure connectivity for that off-peak period, we expect that to yield us more flow for that -- the off-peak load factor. Additionally, we've previously changed the network to reduce capacity in underperforming areas and put it into higher performing areas, and that actually just started this month in April.

So all these things together, we think is a good plan to achieve our Investor Day promises of closing our yield gap to our competitors as well as closing the load factor composition to ourselves pre- to post pandemic.

Operator

Our next question comes from Jamie Baker from JPMorgan.

Jamie Nathaniel Baker

JPMorgan Chase & Co, Research Division

So here's what I'm trying to reconcile. Well before Elliott, you had various initiatives that were obviously intended to be accretive but margins were still declining, which would imply, assuming the initiatives worked, it would imply that sort of the core of Southwest was under pressure.

So when we think about the goals that you laid out this past March that you're talking about today, do you simply steady-state your sort of pre-initiative assumptions and then layer on the initiatives on top of that and call that the guide?

Because it feels that, that might be the way that you're doing it, whereas I think the more conservative approach would be if the core actually is slipping, you would add the initiatives in on top of some sort of reduction in the base of earnings, if that makes sense?

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

Yes, Jamie, I think it does. I think yes, you're always -- Andrew can talk to this, too. I mean you need initiatives every single year to continue to drive revenue production and RASM. And that's just the way the business works. You're constantly adding initiatives on top of the base business to produce gains.

At the end of the day, particularly coming out of COVID with the change in demand, the change in the cost structure with new labor contracts, the stack of initiatives prior to what we talked about in the fall and then again in March was just insufficient to drive appropriate margins at Southwest Airlines, certainly, industry-leading margins. We just had too many revenue streams as an example that were just left on the table that other airlines have in place, and we just don't have a place at Southwest. And it was impossible to hit appropriate returns without acknowledging that. So what you've seen is this move to a set of initiatives that meets consumers where they are.

They want assigned seating, they want access to premium and extra legroom and then adding revenue initiatives that will be very accretive to the business like bag fees and flight credit expiration. And we'll continue to add initiatives, not ready to, obviously, report anything today. We'll continue to add initiatives that move towards the type of products that our customers and future customers want and will continue to add initiatives around expansion -- geographic expansion adds to the network, those kinds of things.

But I'm not sure if I'm answering your question, but you -- but we found ourselves at a point where the stack of initiatives prior, especially with the changes coming out of COVID are just insufficient to meet the level of returns that we need at Southwest Airlines. Andrew, go ahead.

Andrew M. Watterson
Chief Operating Officer

I would say on top of that, Jamie, I think we've pretty much admitted that the value proposition we had was not generating the revenue we needed. And so we did then with the latest set of both Investor Day and what we announced at your conference, we've admitted that we were going to a different value proposition. We have a more segmented offering where customers can pay more to get more and that would lead to the revenue production will be sufficient to return back to previous levels of prosperity.

And so that is, in essence, saying the old model wasn't working and so now we've pivoted to this new set.

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

And I've said this before, what I really like now. I mean nobody likes where we are with the economic backdrop and this weakness that has severely showed up in the last 90 days, but the majority of the levers -- certainly, the revenue levers that we have attacked in particular, the March and beyond set are really unique to Southwest Airlines. They're in place for other airlines today.

So we have a unique set of revenue production that can come online for Southwest. Against this weak backdrop that is not available to others. The second thing is there is a -- there's strong cost -- very, very strong cost discipline at Southwest right now. We had an original first quarter guide of 8%. We came in and reguiled at 6%, and we came in at 4.6%. And it's across the board reductions and efficiency in the company. We're seeing performance in every department across the company on the cost front, and that will continue. So we have unique levers that to me are just not available to others, which will absolutely drive relative performance.

Operator

Our next question comes from Sheila Kahyaoglu from Jefferies.

Sheila Karin Kahyaoglu
Jefferies LLC, Research Division

Maybe just to expand upon some of the questions. Could you talk about -- Bob or Andrew, whoever would like, the expansion into mediums like Google Flights and Expedia and how the yields you're experiencing there relative to volumes ultimately shake out compared to the core customer base. As we heard American talk about earlier today, mentioned the discretionary consumer could often book in those channels is not surprisingly in that -- seeing that area of weakness?

Andrew M. Watterson
Chief Operating Officer

Hi Sheila, Andrew, I'll start off and see if I answer it. And then Bob can chime in here. And so yes, the Expedia, I think, has ramped up faster than say Google Flights did. So we're pleased with that. Expedia represents probably between 4% and 5% of our booked customers for the recent months when we went live. It was a customer base that is majority we have not seen before or have not seen in a long time.

And so therefore, it's a new source of customers for us. As one might expect with an indirect distribution, it's particularly helpful in places where we don't have a strong point of sale, a big city. We're quite strong in San Diego. So we get lots of -- people come to our website there but we're very underweight, let's call it, in Boston or New York. And so it helps us there. So the kind of indirect distribution is kind of servicing its inherent need, which is to generate new customers, who would not otherwise come to your business and it comes in a very, very cost-effective manner. So we're quite pleased with that.

Google Flights is of a similar nature. The distribution doesn't go through, say, GDS. It just comes straight to our website. So it gives us additional opportunity to merchandise. So we're happy about that. But both the metasearch engines Google, Kayak, and Skyscanner and Expedia are really good partners. We don't -- it's not an either/or. We like introducing that into our portfolio of distribution and plan to expand it as it makes sense over time.

Sheila Karin Kahyaoglu
Jefferies LLC, Research Division

Andrew, maybe just another one then, if I can follow up with you. You mentioned the initiative target yields in the first half and loads in the second half. How realistic is it that Southwest and initiatives buck that normal relationship that you trade off one for the other?

Andrew M. Watterson
Chief Operating Officer

Yes. I think what's -- kind of going back to my earlier discussion, the peak off peak that you've heard probably a lot of other airlines talk about the peak you have chances for yield. So in a peak time demand exceeds supply. And so you must take those opportunities to drive yield. And so that is what we're doing. You can see by our results, and that's kind of what we promised at Investor Day, we're getting -- frankly, more traction than I expected.

The load factor doesn't come from getting more volume during the peak because we're already full during the peak. Our problem is, our empty seats are not the good times a day, the good days a week or a good time of the year, it's the off-peak. So how do we get more customers, more bottoms in seats, if you will, in the off-peak. And so some of that will be -- we'll use the basic economy tactic when it comes online here. But a lot of it will be connectivity.

And so it's taking -- people going from Albany to Tucson where there's never going to be a nonstop, but will perhaps connect through our network. And so designing connectivity to facilitate these small bits of demand, if you aggregate those small bits of demand enough and you help fill your aircraft.

Some of our competitors run big hub and spokes. They do this naturally. But for us, it's something that's kind of like an addition to our normal point-to-point model. So we're going to focus that kind of connectivity in these off-peak times of day, a week, a year to drive the load factor. So 2 distinct things so that you're not doing that trade-off of yield versus load you're talking about.

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

Well, I would just point out, too, that it adds a whole level, another layer of sophistication to be able to manage this way. You have to understand where that -- where each flight is ultimately going to land in terms of how full it's going to be because it's going to be managed 2 different ways. It's going to be managed for yield or it's going to be managed for load.

And the new revenue management system that we put in last year is designed to push yield and manage yields on those full flights. And you could see it. I mean we had record all-time yields in the first quarter. Not record first quarter yields but record, all-time yields in the first quarter. And now it's about building load on those flights that are not projected to go out full. The change in the Rapid Rewards program and dynamic allocation on the burn side will help as well because it's very similar. You want to be able to manage up on the flights where those seats are very scarce because the flight is going to be full.

And then you want to be able to manage for load factor on those flights that are going to have open seats and discount those from a Rapid Rewards perspective. So I'm very pleased with the performance, especially on the yield side, and now we'll attack the load side.

Operator

Our next question comes from Conor Cunningham from Melius Research.

Conor T. Cunningham
Melius Research LLC

I wanted to go back to Jamie's question around the initiatives. It seems like you're approaching like the list of initiatives from a gross standpoint rather than a net. So it would suggest that you would need to continue to add to the list to keep improving. So when you do survey work, what are the customers asking for now? Are they asking for free WiFi at this point given all the changes in the industry?

And then, Tom, if you could just talk a little bit about the cost structure from an outsider's perspective, like as you've been there now for only a couple -- I guess, a couple of months. Can you just talk about what you see as low-hanging fruit outside of the initiatives that you've already been -- you're already working on?

Tom Doxey
Executive VP & CFO

Yes. This is Tom. I'll start. So first, the way that we're looking at the initiatives, and I think we've tried to be pretty clear with this. We feel like we've been conservative in the way that we've done these. These are not gross estimates. These are net of the impact that we felt would be there. So it's a really important distinction from the first part of your question.

I'll jump to the last and then I'll turn it over to Andrew, he can revisit the second part of it. But what -- I think if you look at the first quarter performance for CASM-X, what -- for me is great is that it's not any one thing. Sometimes you get a question on the call, but what was it that drove it? Well, it was -- we had some engine overhauls that shifted from here to here. This one big thing that happened -- our answer today to that is that it's happening everywhere. It's happening all throughout the company. And that's great. It's a bunch of things happening in every department, and we've got leaders across this company that are bought in. Southwest is used to winning and winning is fun. And we've got a team that's all rowing in the same direction because we want to win. And that's a really exciting thing.

And so I'm seeing a bought-in set of leaders that are all rowing in the same direction and looking to be creative and spend smartly, right? It's having good cost control doesn't just mean cut, cut, cut. What it means is that you spend in the ways that are smart for the business where you invest in the product in the right way and you invest in our people in the right way and you get really efficient about the way that you do it. So I've been really pleased with what I've seen so far.

Andrew M. Watterson
Chief Operating Officer

I'd say, Bob's answered earlier about kind of what we're doing in the future, you always have to have initiatives and be working on the future, I think, is a good kind of hint towards what we have now, this new offering, which we like, the pathway they're on, there will be additional things we add to it. So the value proposition we offer our customers will only strengthen as we go throughout the year and the next year.

We have nothing to outline today. Only there will be things coming about how we strengthen the attractiveness of Southwest Airlines to the customers who want to be engaged with us. And we have an extraordinarily large customer set, very loyal customer set, very loyal. They've been with us for years, all across the country. And so they want more from Southwest Airlines. They're willing to pay more for more. And so we will continue to offer them more, I think, successfully.

Conor T. Cunningham
Melius Research LLC

Can I just follow up on that? Do you need to see things in the current initiative set before you can launch new ones? Like, is it -- that you want to make sure that premium is working the way it is before you do additional stuff? And then -- could you just talk about maybe like the loyalty component, like you mentioned a lot of changes, are people signing up for credit cards now to offset some of the potential book-away? I know that you're not seeing it, but if it did happen in the future. Sorry about that.

Andrew M. Watterson
Chief Operating Officer

No worries. So we definitely always have to have this list of initiatives. We don't need to see how extra legroom is booking. We know the path that we're going down. We know what we're going to offer. It's really that we're not ready to talk about it right now. But we do have a pipeline. You always have to have a pipeline with your customers, you can never let it go stale. And so we do have things that we know is coming.

We've taken a kind of bundled one-size-fits-all product. We added upper buy-up opportunities with extra legroom, assigned seats. We added kind of a base product with basic economy. There are more features coming, more destinations that are coming. And so the loyalty program is self-reinforcing with that. We have a new agreement with Chase, which is very strong. We have new card offers that will be coming out very shortly. And so that portfolio of customers who have voted with their wallets to be engaged with Southwest Airlines, there's immense opportunities to keep offering them more to grow the -- that base of customers, especially in the cities where we have a lead, if you will, in customer share. And so all this is, I think, normal course of business.

We're not waiting for any one thing to kick, if you will. It's more of a premeditated path that we're on that Bob talked about.

Operator

Our next question comes from Tom Fitzgerald from TD Cowen.

Thomas John Fitzgerald
TD Cowen, Research Division

Quick one. First, just -- I apologize if I missed this earlier, but it looked like at Investor Day, you had talked about having 68 extra legroom seats on the MAX 8s and the 800s. But now it looks like it's only 46. Is that correct? And if so, what changed?

Andrew M. Watterson
Chief Operating Officer

Yes. So we did change from the Investor Day layout. And so as we looked at the whole kind of cabin, how best to monetize it, behind the exit row, extra legroom was obviously going to be not as attractive as in the front of the exit row. So we decided to concentrate more extra legroom in front of the exit row to make them more attractive and to reinforce a price point for them.

And the ones that were formerly extra-legroom behind the exit row we'll turn those into a form of preferred seats. So they will have a little bit extra -- can have a little bit extra legroom. And so kind of a zero-sum space in the tube. We moved the 32s and the 35s and 31s to a configuration that has less ELR, but we think gives us better revenue monetization opportunities in the end because overall, our end goal was to maximize the revenue per square foot from the LOPA.

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

Yes, what we showed you at Investor Day was -- it was a very strong hypothesis of what we would do as we continued to do work and move through the design of the aircraft and the layout, yes. To Andrew's point, we found that there was a better way to maximize the revenue per square foot in the aircraft, which is the whole game here.

Now all of that, again, is well underway. I'm very excited that we're going to begin those aircraft retrofits here next week on the 30th. And -- so the whole -- this entire initiative is moving along really well. But all along the way, you continue to discover things that have refined what we showed you at Investor Day, but I'm very pleased with the progress.

Tom Doxey
Executive VP & CFO

The other thing, by the way, is that the mod is relatively simple. Now we have a lot of airplanes to modify. But to the extent that we find that we want to make a change here or there, the ability to do that is very different than some of the more complicated modifications that you see happening around the industry.

Thomas John Fitzgerald
TD Cowen, Research Division

Okay. That's really helpful. And then as a follow-up, just to kind of piggyback on some of the questions that Jamie and Conor have asked. One of your competitors talks a lot about being the brand loyal airline in a specific market. And I'm just thinking about markets where you're really dominant in like a St. Louis or Nashville versus some of the more competitive markets like a Denver or Chicago, and initiatives that you might need to become the brand loyal airline in some of those more competitive markets again.

And I'm just like wondering you talked a little bit -- you hinted a little bit this a month ago at JPMorgan, but other initiatives, just where you're thinking -- where your head is at right now, your latest thinking on maybe fleet initiatives, whether it's trying to get scope relief to roll out RJs or partner with a regional airline or acquiring wide-bodies to be able to offer more of an international product.

But just love to think about how you're thinking -- if there's been any change in your thinking or any updates and the timeline on that? Because if you think about Southwest in the 2030s, it seems like a lot of these decisions you have to start putting in place now to really get the airline humming where you'd like it to be.

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

Yes. Yes, it's interesting. The phrase brand loyal airline. Nobody has a stronger domestic air network than Southwest Airlines. Nobody has more domestic customers than Southwest Airlines. Nobody has more loyal customers in those points of strength. Nobody has higher NPS scores. So however you define brand loyal customers, Southwest Airlines is the winner. And we're going to continue to grow more and more points of strength. And of course, we're going to continue to constantly understand what our customers want. That's why we're moving to assigned seating. That's why we're adding extra legroom. We'll continue to move to our customers' needs and meet their needs. And nobody is going to out hospitality, out-operate or out loyal -- brand loyal Southwest Airlines.

Operator

Our next question comes from Duane Pfennigwerth from Evercore ISI.

Duane Thomas Pfennigwerth
Evercore ISI Institutional Equities, Research Division

Andrew, you mentioned, I think you did anyway, managed business is up. Can you talk through the trends that you saw through March and April. One of your peers talked about a slowdown. It sort of turned negative on volume, but has picked back up more recently to kind of low singles. Any green shoots you're seeing yet on that front?

Andrew M. Watterson
Chief Operating Officer

I would say -- what I said is -- especially if you took out the government, both state and local and federal, which did see a market slowdown starting in January. The rest of it is up and stable. Within that, you always have geographies or industries that are plus or minus one quarter to the other. Insurance, technology, banking were up. This quarter manufacturing and healthcare were down a little bit.

And so the -- I would consider those just the normal kind of vagaries of industries moving up and down, the same with geography. So what's kind of different about this environment is that if you have kind of any kind of macro weakness usually shows up in business first. And business travel is highly correlated with corporate earnings.

Corporate earnings have held up, business travel has held up, and so we're pleased with that. It's the customer's discretionary travel that is really the crux of the slowdown. And so I think others report on that. So nothing new there. But steady as she goes with managed business travel is certainly welcome.

Duane Thomas Pfennigwerth
Evercore ISI Institutional Equities, Research Division

And then just on premium, it's come up in a couple of other questions, but is it still -- is the target still 1/3 of your seats. When do you expect that to go live? And by that, I mean like which quarter would we actually start to see the contribution? And then how big of a RASM tailwind does that represent going from effectively no premium to 1/3 of your seats?

Andrew M. Watterson

Chief Operating Officer

Yes. I'll answer partly. Ultimately, the benefit was in our Investor Day number, which I'll ask to refer you back to that. But the -- I would -- people say premium, but Duane, I would think about it as 4 zones, which we can monetize in the aircraft. So we're going from -- find-your-own-seat with EarlyBird or upgraded boarding to assigned seats, and we will have kind of a preferred behind the exit row, we will have extra legroom, we'll have preferred in front of the exit row. And then we'll have the kind of standard at the very back.

So you have multiple zones for which there'll be different price points. The standard will be free for certain fare products. And so this really more than premium from my mind, gives us opportunities for discrete levels of sell up, whether through fare product or ancillary for people to pay more for more, which is either space or position in the aircraft for a particular price. And so customers are responding well to that idea. Obviously, our peers do it. So that I think it gives us more opportunity to monetize the cabin. And it's part of this kind of segmented offering I talked about as we move away from a one-size-fits-all.

Tom Doxey
Executive VP & CFO

And we talked about the elements of the segmentation. But having basic economy and the ability to be able to buy up from that, is a really big deal, right? We've talked about the fact that we sell a lot of our inventory in the lowest of the 4 categories today, which is Wanna Get Away. And in many cases, we are pricing against a basic economy fare at a competitor.

And the offering of that basic economy is something much less than what we're offering in Wanna Get Away. So that's something that we're fixing as part of this. And then everything that Andrew described, whether it's bags, whether it's seats, all of these things layer on top of that to be able to provide that value. But that is sort of the underlying foundation that allows us to function.

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

And you asked about timing. So yes, we'll begin selling the new assigned seating, extra legroom in the third quarter of this year for operation in the first quarter of next year. So it's really a 2026 contribution. I do think you have a chance to see some contribution in '25 because we'll have retrofitted more and more aircraft before you get to that first quarter date. And so if you buy EarlyBird today, in that world, you'll have access by boarding early to what is basically the extra legroom seats that are already in the reconfigured aircraft. So I think there's a chance that you see some additional upsell in terms of products that we sell today, simply because you now have access to that better seating.

Andrew M. Watterson
Chief Operating Officer

Yes. So I think, the way to model it, Duane, is you get basic. Then we'll have a buy-up up to kind of more first level standard, which gives you some seating, a buy-up to preferred, a buy-up to extra legroom. And so we've got those 4 buy-up opportunities today, which really don't exist. So that's the power of this change.

Operator

Our next question comes from Savi Syth from Raymond James.

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

Just a follow-up on David's question earlier on the load factor. I was curious, you are getting MAX 8s and retiring 700s. Not getting the MAX 7s, but you also talked about maybe in the future, not needing as many of the kind of the smaller gauge aircraft, but what kind of an impact is just not having the kind of the gauge of aircraft you want, having on your load factor? Or is that not a driver here?

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

I think today, I'll let Andrew really give you more detailed information. I don't know that -- I don't think that it's a factor today. We're not so out of balance in terms of the number of aircraft at the 175. It really comes to play more today in terms of where we have potentially restricted operations like Chicago Midway as an example with the length of the runway. Obviously, if this goes on and on and on, and there we're not -- Boeing is not delivering the MAX 7 and that smaller aircraft that becomes more of an issue, but we're really nowhere close to that.

Our load factor on the big plane is the same as a load factor on the small plane. And so we really appreciate having the more seats in the prime time where you need it. And so it's -- we're really able to make use of that extra seating when you have excess demand and that really gives us a good return. It's just when it's off peak, you have that many more seats that are empty. The trip cost doesn't really vary that much between a MAX 7 and MAX 8. And so carrying around 10 empty seats, or excuse me, 25 extra seats is not going to be -- is not that much different. Whereas you could sell those on a peak day, a peak time of year.

So right now, we're pleased with the -- having the MAX 8s, but there are certain situations where we want a MAX 7. So versus pre-pandemic, the percentage that we think we need has gone down. It's not 0. But it is much smaller than it used to be.

Savanthi Nipunika Prelis-Syth

Raymond James & Associates, Inc., Research Division

That's helpful. And if I might follow up on Duane's question on corporate. What's the size of that kind of government exposure? And I know some of your kind of competitors have -- kind of reduced the dedicated seats into those areas? Like have you been able to kind of offset some of that weakness? Or -- is that kind of a continuing drag here?

Andrew M. Watterson

Chief Operating Officer

It's a modest percentage. I can't remember them off the top of my head. What sticks to my head was you take out government and we're up like 4% managed business. So I just can't remember what it was.

Robert E. Jordan

President, CEO & Vice Chairman of the Board

Yes. I think the government -- my memory is, the government exposure depending on whether you count state, it's sort of in the 2% range and some -- maybe actually a little bit less. So while it's off a lot, the percent of the business that it represents is very small.

Julia Landrum

Vice President of Investor Relations

All right. With that, we're going to wrap up our analyst portion of today's call. I appreciate everyone joining, and hope you all have a great day.

Operator

Ladies and gentlemen, we now will 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, Jamie. Welcome to the media on our call today. Before we begin taking your questions, Jamie, could you please share instructions on how to queue up for a question?

Operator

[Operator Instructions]

And our first question today comes from Alison Sider from Wall Street Journal.

Alison Sider

There's been a lot of talk among some of your competitors, even earlier today about O'Hare and ramping up there. And I was just curious kind of what you guys see as your future at O'Hare?

Andrew M. Watterson

Chief Operating Officer

It was not uncommon for us to be in multiple airports in a multi-airport geography. And use those multi-airport geographies, we have an anchor store, if you will, and that is a Midway for us. And so O'Hare is designed to complement what we have in Midway for a kind of fairly large customer base we have in the City of Chicago. And so we're pleased that City of Chicago's Department of Aviation can accommodate us in both airports. And so we intend to be in both airports and serve Chicago land to the best of our ability.

Alison Sider

Got it. But you don't see it as a sort of a major growth airport?

Andrew M. Watterson
Chief Operating Officer

We're low growth this year and next. So right now, we're pleased with what we have in Chicago. Our growth this year is more focused on Nashville, Phoenix, Sacramento, some in Orlando. And so each year, we have kind of a growth vector. And it is in those I just mentioned this year and for future years, those haven't yet been decided.

But Chicago has got a strong customer base for us and having a good diversified customer base around the country that allows us to move our capacity when one part of the country is booming and one's bustling, we can move our aircraft and vice versa. And so that allows us to have good diversity. And so we're pleased with what we have in Chicago and the rest of our network.

Operator

Our next question comes from Mary Schlangenstein from Bloomberg News.

Mary Schlangenstein

I wanted to ask, as consumers view Southwest as becoming more and more like every other airline, I'm wondering in the promotions that you're working on going forward, what are going to be some of the hard assets, the product assets that you can point to that differentiate you in the future, not things like hospitality, friendly employees. But what are some of the hard assets that you can point to that would be a reason for somebody to fly Southwest versus one of your competitors?

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

Mary -- I mean, to start with, there's a lot. We have a network that is far different than our competitors, rather than having a few strong hubs that we then connect the vast majority of the traffic through. We are large in dozens of cities. And therefore, have the most nonstops in the domestic network. So our schedule is far superior to our competitors. We're running a terrific operation.

We were #1 in the Wall Street Journal rankings in the first quarter, and that's with taking time out of the turn, and we're still running the top operation in the industry. Yes, you kind of said, but for hospitality. Hospitality is a huge piece of this. Our people and the services that they deliver and the way they treat our customers is a huge difference. The vast majority of the notes and compliments that I get from our customers is all about the way one of our employees made them feel, went out of their way to help them with something. So I think that's a huge piece of this. And that's what leads to the industry best NPS scores.

And in fact, the NPS scores in the aircraft during travel with our flight attendants, that's the highest scoring part of the journey. So I don't think you can dismiss that. And then as we move along, we'll continue to add the attributes, like adding different seating and the extra legroom. There are a lot of product attributes that we're looking at, not ready to announce different things today but we'll continue to add those along the way as well. But no, I think our list of differentiators is very long.

Operator

And ladies and gentlemen, this concludes our question-and-answer session for media. So back over to Whitney now for closing comments.

Whitney Eichinger
Senior VP & Chief Communications Officer

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. Thanks.

Operator

The conference has now concluded. Thank you all for attending. We'll meet again here next quarter. You may now disconnect your lines.

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