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Southwest Airlines Co. NYSE:LUV

FQ4 2025 Earnings Call Transcripts

Thursday, January 29, 2026 3:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2025-			-FQ1 2026-	-FY 2025-			-FY 2026-
	CONSENSUS	ACTUAL	SURPRISE		CONSENSUS	CONSENSUS	ACTUAL	
EPS Normalized	0.57	0.58	▲ 1.75	0.34	0.95	0.93	▼ (2.11 %)	3.43
Revenue (mm)	7509.50	7442.00	▼ (0.90 %)	7095.80	28123.58	28063.00	▼ (0.22 %)	30681.47

Currency: USD

Consensus as of Jan-29-2026 6:23 PM GMT

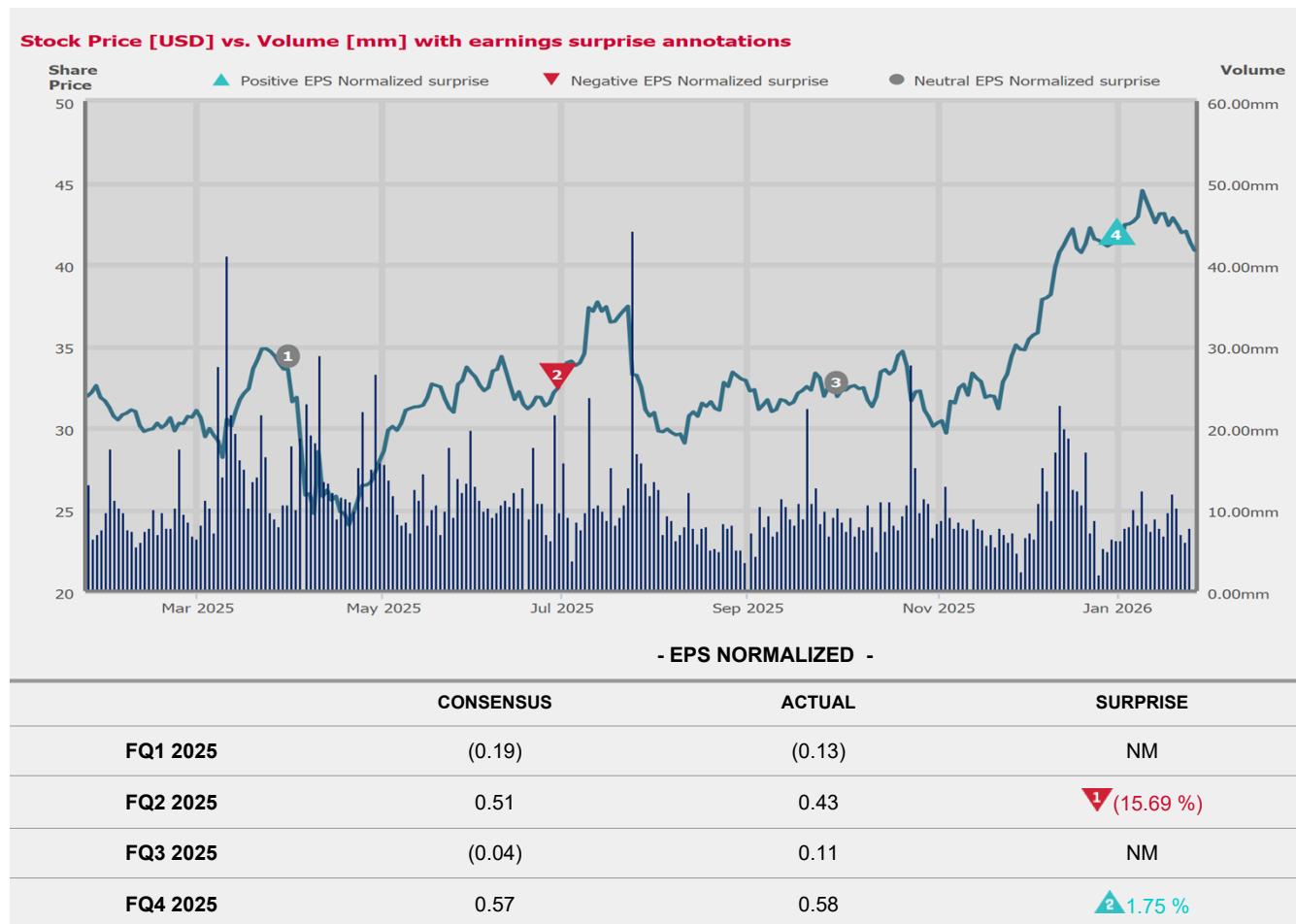


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Presentation

Operator

Hello, everyone, and welcome to the Southwest Airlines Fourth Quarter 2025 Conference Call. My name is Jamie, and I will be monitoring today's conference call, which is being recorded. A replay will be available on southwest.com in the Investors section.

[Operator Instructions]

Now Danielle Collins, Managing Director of Investor Relations, will begin the discussion. Please go ahead, Danielle.

Danielle Collins

Managing Director of Investor Relations

Thank you. Hello, everyone, and welcome to Southwest Airlines Fourth Quarter 2025 Earnings Call. In just a moment, we'll share our prepared remarks, after which we will move to Q&A. Joining me today are Bob Jordan, our President and Chief Executive Officer; Andrew Watterson, our Chief Operating Officer; and Tom Doxey, our Chief Financial Officer.

Before we begin, a reminder that today's session will make forward-looking statements, which are based on our current expectations 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.

With that, I'll turn the call over to Bob.

Robert E. Jordan

President, CEO & Vice Chairman of the Board

Thank you, Danielle, and good morning, everyone, and thank you for joining our earnings call today. We've been looking forward to 2026 when all the incredible work undertaken by the Southwest team will show dramatically improved results.

First, however, a few comments on this past year and our fourth quarter 2025 results. The fourth quarter capped a year of meaningful transformation and accelerated execution at Southwest. We finished the year and the quarter strong for both revenue and cost, achieving full year EBIT of \$574 million, which was above our prior guide of \$500 million. Operating revenues of \$7.4 billion for fourth quarter and \$28 billion for the full year were quarterly and annual records.

Our fourth quarter and full year results underscore that our initiatives are generating the desired results and provide great momentum as we head into 2026. We also ran a terrific operation, coming in #1 in on-time performance, completion factor and the lowest extreme delays in December and our strong operational performance throughout the year led to Southwest earning the top spot as The Wall Street Journal's Best U.S. Airline of 2025. I'm proud of the results, but I'm especially proud of our people who are the ones getting this done every single day, day in and day out.

Before moving to 2026 and the exciting year ahead, I want to underscore some of the key initiatives that we successfully implemented in 2025, and here are the larger ones. We changed our product offering, including the implementation of bag fees, addition of a basic economy fare product and flight credit expiration, optimized our Rapid Rewards program, including variable earn and burn rates.

Amended our co-brand credit card agreement with Chase, including new benefits and improved economics, launched free WiFi for loyalty program members in partnership with T-Mobile, expanded our online presence through new partnerships with Expedia and Priceline, outperformed our \$370 million cost reduction target for 2025, including the first layoff of noncontract and management employees, added 6 new airline partners, launched Getaways by Southwest, added redeye flying, reduced turn time to increase aircraft utilization, deployed new technology to boost operational reliability, a key enabler of our top spot in the Wall Street Journal ranking of airlines, discontinued the fuel hedging program, completed \$2.6 billion in share buybacks in 2025, representing about 14% of shares outstanding while maintaining our investment-grade rating.

And on Tuesday, we implemented assigned and extra legroom seating, which required retrofitting over 800 aircraft. It is just a stunning list of initiatives undertaken by the Southwest team, all implemented on time and all delivered with excellence. In my 38-year career in this industry, I cannot think of another airline that embarked on so many fundamental changes to their business model and in such a short time, let alone, executed so well.

The list of initiatives falls into 2 categories: one focused on offering a significantly better experience for our customers and the other focused on revenue growth and operational efficiency. Collectively, the large investments we have made result in a fundamental transformation and evolution of our business model while building on our core historic strengths. The largest domestic network, a strong balance sheet, unmatched customer loyalty to our brand, outstanding service and hospitality, low cost and operational efficiency, our unique culture and especially our unrivaled people. This transformation is expected to result in a significant step-up in how we grow earnings as compared to the past few years.

And for 2026, we are forecasting earnings that are dramatically higher than 2025. For the full year, we are not yet guiding an EPS range. While being well above Wall Street consensus, we are providing EPS guidance that represents the lower end of our internal forecast. With that qualifier, we are guiding full year 2026 adjusted EPS of at least \$4, which is materially higher than 2025 adjusted EPS of \$0.93.

Let me share our reasoning why we are not yet providing an upper range for 2026 earnings. Assigned and extra legroom seating became operational just 2 days ago, and we see earnings upside based on how booking behavior related to those initiatives unfolds, specifically upsell revenue from close-in bookings, which are more closely affiliated with business and price flexible customers. And second, we expect growth in both the business and leisure customer base driven by our new, more attractive product offering. We expect to have better visibility to the upside potential from these initiatives in the next month or two, and we'll provide range-bound EPS guidance when the current quarter results are reported, if not before.

Also going forward, we plan to follow the industry norm of providing guidance to investors using broad company forecasts and results. This means we will step back from providing details and specific numbers around activities such as bag fees, assigned seating, the co-brand program and so on.

I believe that Southwest 2026 earnings growth will stand out when compared to other major airlines. This is largely due to the nature of the many initiatives we have implemented, initiatives that were previously implemented by other airlines over the last decade or more, whereas the Southwest is implementing these initiatives now. And the work will not stop here. We see meaningful opportunities ahead to grow earnings from areas such as route network optimization under a backdrop of improved operating margins in the business, increasing our corporate customer base driven by product changes that better appeal to the business traveler. And this is a long-term journey, and we believe that executed well, we will see the rewards and additional cost takeout and efficiency efforts.

We have an exciting year ahead as we continue to deliver for our customers and for our shareholders. I am incredibly proud of our people. They are the ones getting it done every single day, running a strong operation, serving our customers and transforming our company for the future.

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

Andrew M. Watterson
Chief Operating Officer

Thank you, Bob. From a network perspective, Q4 capacity grew 5.8% year-over-year despite the fleet count being roughly flat year-over-year. Efficiency initiatives like reduced turn times and the introduction of redeye flying allowed us to maximize asset utilization while maintaining industry-leading reliability.

For the full year, operating revenue increased 1.7% year-over-year, supported by initiatives kicking in and strong demand that drove both traffic and realized fares. My comment on realized fares reflects the effect of buy-ups from the changes we implemented. Fourth quarter RASM, which was impacted by the FAA mandated schedule cuts, was down slightly at negative 0.2% year-over-year.

Building on the strong foundation, we're entering Q1 with momentum and confidence. We expect RASM to increase by at least 9.5% year-over-year, with contributions from yield, load factor, initiatives and loyalty programs. Q1 capacity is expected to grow between 1% and 2% year-over-year, even as we operate with approximately 7 fewer aircraft, a reflection of continued efficiency gains.

Importantly, Tuesday marked the launch of 2 major product enhancements, assigned seating and our extra legroom offering. All aircraft conversions, technology development and employee training were completed on schedule. Customer response has been overwhelmingly positive. And these products are expected to be meaningful contributors to further revenue growth and customer satisfaction in 2026.

I want to take a moment and reflect on the changes implemented 2 days ago. Overnight, we made the switch to assigned seating, implemented a differentiated service in our new extra legroom section and changed our boarding process. On Tuesday, we operated more than 3,200 flights as a different airline while continuing to deliver our usual high-quality operation, a testament to our incredible

team. These initiatives aren't just enhancements, they represent a fundamental transformation in how Southwest delivers value to customers and shareholders. We're evolving our product to meet the needs of today's travelers while staying true to the Southwest brand.

In summary, Southwest is executing with discipline and delivering results that position us for sustained success. Our operational reliability, product changes and strong demand trends give us confidence as we move into 2026.

I'll now turn it over to Tom.

Tom Doxey
Executive VP & CFO

Thanks, Andrew. We delivered a solid quarter with an EBIT of \$386 million. We continued our strong cost performance with CASM-X up 0.8% year-over-year despite operating less capacity than initially planned. Our fourth quarter performance reflects the strength of the transformation underway at Southwest and reflects well on our evolving culture, one that is relentlessly pursuing new revenue streams and operational efficiencies in areas that in the past, we had not focused on. At the same time, we continue to invest heavily in our customers, our people and our technology to position Southwest for long-term success.

Looking ahead, our initiatives, which represent a deep fundamental transformation of our business, are set to drive significant earnings growth in 2026. The impact from the initiatives launched in 2025 is well understood by us at this stage of the rollout, and we have confidence in our ability to deliver meaningful margin expansion and strong earnings growth this year.

As Bob stated, for full year 2026, we are providing an adjusted EPS guide of at least \$4, which represents the lower end of our forecast. For the first quarter of 2026, we are guiding an adjusted EPS of at least \$0.45 per share, which also represents the lower end of our forecast and compares to a loss of \$0.13 in the first quarter of 2025. We expect continued strong cost discipline with CASM-X projected to increase approximately 3.5% year-over-year, which includes approximately 1.1 points of impact from the removal of 6 seats from our 737-700 fleet to enable extra legroom seating. We plan to keep management headcount expense flat to 2025 levels in 2026, and we'll also be focused on operational efficiency within our frontline teams.

Turning to fleet. Boeing continues to execute on its delivery commitments. We expect 66 Boeing 737-8 deliveries in 2026 and anticipate retiring 60 aircraft during the year. Full year net capital spending is expected to be in the range of \$3 billion to \$3.5 billion. In November, we issued \$1.5 billion unsecured bonds at industry-leading terms. We ended the quarter with \$3.2 billion in cash and a gross leverage ratio of 2.4x, both within our targets.

During 2025, we repurchased \$2.6 billion of shares and distributed \$399 million in dividends. At the same time, we plan to make the necessary investments in our business while staying within the guardrails that support our investment-grade rating.

In closing, 2026 is positioned to be a year of significant margin expansion and earnings growth for Southwest, and we remain confident in our ability to deliver and create long-term value for our shareholders.

And with that, I'll pass it back to Danielle to start our Q&A.

Danielle Collins
Managing Director of Investor Relations

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

Question and Answer

Operator

[Operator Instructions] Our first question today comes from Catherine O'Brien from Goldman Sachs.

Catherine Maureen O'Brien

Goldman Sachs Group, Inc., Research Division

So I'll listen to the rule, Danielle and ask my 2 questions upfront. So first question is, I realize it's very early innings on the rollout of your seat products, but I'm just trying to get a sense of how you're thinking about the upside to your base case you shared today. How does January booked RASM compare to 1 half February? And how do both of those time frames compare to that 9.5% base case guide? I'm just trying to get a sense of like what you're evaluating on potential upside. Is that higher upsell -- potentially higher upsell going forward, share shift, something else?

I know that was a long for second one, I'll keep it quick. You beat your 4Q CASM guide pretty handily. What drove that? Anything shift out of the quarter we should be aware of as we model '26 CASM-X beyond 1Q?

Robert E. Jordan

President, CEO & Vice Chairman of the Board

It's Bob. I'll take the first one, and then Tom will take the second. On the upper range, well, first, I would just say that bookings for everything related to our new products and initiatives all look really good. So everything is on track. We're just not ready to provide an upper range or upside today. I mean it's really simple. We've got lots of booking data related to the new initiatives, but we have limited data regarding close-in bookings and the behavior of fair upsell and seat ancillaries, especially with those. Close-in bookings, overweight business, and customers that are more flexible and that tends to have higher ancillary take rates. So we just need to see it.

And by the way, I'm dying to know the upside as well and asking Andrew every day, but seriously, we will let you know as soon as possible. We just need a month or two to really see the potential. And then maybe separate from that, we're not stopping there. We have -- there's no victory lap. We have other things that we are focusing on above and beyond this potential with the current initiatives. I mean we have the opportunity for more cost takeout, efficiency, network optimization, with our new products, we think we can grow our corporate share. And of course, we're going to continue to optimize the revenue initiatives that we've just put in place.

Tom Doxey

Executive VP & CFO

Catie, thanks for your question on costs. I'm really excited -- continue to be really excited about the way in which the entire management team is aligned and spending smartly and being efficient with our costs. There's no shift that we're talking about today out of 4Q into 1Q. So this is truly us going in and finding efficiencies in different areas of the business, and it's widespread throughout really every line item there, we're finding cost items.

Operator

Our next question comes from Conor Cunningham from Melius Research.

Conor T. Cunningham

Melius Research LLC

Just on the load factor decline in 3Q -- sorry, in 4Q and then it just was larger than the decline in 3Q. Can you just help frame up what's happening there? I was under the impression that you were pushing for additional loads given this, the OTA distribution and so on. And within that comment, maybe you could talk about like is there a load factor target that you need to hit your bag fee target for 2026?

And then my second question, sorry, I was hoping you could talk about the decline in the ATL. I realize that there's a revised credit, Chase agreement in there. But just if you could just frame up the drivers. I think that there is some concern out there in terms of like there being a larger decline from 3Q to 4Q and then you expect a pretty big revenue uplift in 2026. So just any thoughts around that would be helpful.

Andrew M. Watterson

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Chief Operating Officer

It's Andrew. I'll take the first one. And so I'd say that our employees are super engaged with the new Southwest. And it extends to our tech ops employees, and they did such a great job of retrofits of the aircraft overnight. They got so efficient that we were able to delay the -700 retrofits until January. Because in the -700s, as you probably know, we take out a row of seats. Now doing that late in the booking curves means there's limited revenue upside, but there is revenue upside, especially on the peak holiday travel dates. And extending that means that as we came out of it almost nil cost. And so doing that was EBIT positive.

And so we don't manage the business for any kind of submetric of load factor or yield. We're largely managing for RASM or the RASM/CASM spread. And so in that situation, we chose a decision that maximized earnings but was unflattering perhaps the load factor, but it was the right decision. That's how we want to manage the company.

Tom Doxey

Executive VP & CFO

And to your second question on ATLs, one of the benefits that we have now is we have more differentiation in our product and the ability to provide differentiation to those that are at different, different levels within the loyalty program is that more of the revenue can be recognized -- the loyalty revenue can be recognized sooner. Whereas previously, we had to wait, primarily the benefit that was derived from being in the program was when you would ultimately redeem points.

Well, now depending on your status, you have the ability to derive a benefit. You may book a flight paying cash tomorrow where you have the ability because of your status to select a seat for free. You may have the ability to have a free bag or bags. So those are benefits that can be derived sooner. So that differentiation that we have in our product offering now allows us to recognize more revenue sooner. So obviously, that means that there is less that falls into that ATL category. So if anyone is looking at that ATL category and seeing that it's smaller and trying to forecast some sort of revenue weakness in the future, that's not what's happening.

Operator

Our next question comes from Jamie Baker from JPMorgan.

Jamie Nathaniel Baker

JPMorgan Chase & Co, Research Division

A couple for Tom. So with assigned seating broadly anticipated by customers, I'd have thought there might have been a surge in early bird bookings given that there's this significant ramp from the new initiatives. But I guess asked differently, wasn't there already a meaningful amount of early bird in the base? I just kind of thought people would have front-run the changes by protecting themselves with that.

And then second, with so many changes at Southwest taking place, I recognize the team isn't going to rule anything out. But maybe for Bob, can you disclose if you have any aircraft RFPs in the market? This is not usually a state secret. Everybody knew Delta had a wide-body campaign and stuff like that. Just curious if you can comment on that.

Robert E. Jordan

President, CEO & Vice Chairman of the Board

Yes, Jamie, although it's a quick one. I'll take the first, and then Andrew will take the second because it's quick. No, we do not have any active aircraft RFPs in the market, okay?

Andrew M. Watterson

Chief Operating Officer

And then the other one, the early bird, we -- if I'm understanding your question correctly, we ceased selling early bird for departures after Tuesday. And so now people can get a good seat by buying the stand-alone ancillary. And we do see stand-alone ancillary accelerate close in, and that's the part that Bob talked about, we don't fully understand yet and expect to have in the next month or two more insights into how the booking curve ends for those higher fare passengers.

Jamie Nathaniel Baker

JPMorgan Chase & Co, Research Division

Well, so maybe I misunderstood. I thought 4 weeks ago, somebody could have bought early bird to kind of avoid the seating fee. So that's not how it worked.

Andrew M. Watterson
Chief Operating Officer

Not for departures on Tuesday, the 27th and beyond. All those were just seat assignment. We do have a kind of upgraded boarding, early boarding you could do, but we didn't really push it and promote it that much because we didn't want to add customer confusion. We will do that later, but that's a modest thing. The large money is coming from fare upsells, so buying a higher fare product or buying stand-alone ancillary.

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

Jamie, I think the easy thing is upgraded boarding and early bird, the old ancillary ended on Monday with open seating and the new ancillary started on Tuesday from a revenue perspective, and that's the best way to think about it.

Operator

Our next question comes from Scott Group from Wolfe Research.

Scott H. Group
Wolfe Research, LLC

So just a couple of things. So big picture, usually when an ancillary goes up, fare goes down historically, what do you think is sort of different here? Is there any way to sort of share like what percent is going -- since Tuesday is going basic versus prior?

And then maybe just, Tom, like a modeling kind of question, like I'm guessing January, you didn't have seats. It's the toughest comp. Like are we exiting the quarter with like RASM in the teens or something like that? Is that the implication of this guide? So I know there's a few, but thank you.

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

Yes, I'll take the first one, and Tom will take the second. I think they're really disconnected. So ancillaries, especially now that a lot of that is a seat ancillary, which comes much later, it tends to be a separate decision from the fare purchase or the original booking and purchase of the ticket. So we don't see the correlation in terms of the ancillaries go up, the fare goes down. I mean all of this change, especially with the assigned seating and extra legroom is driven from a revenue benefit perspective by offering customers choice and then giving them buy-up opportunities at the time that they book and then giving them ancillary opportunities at the time, for example, when they select a seat. But no, we don't see that correlation at all that you're discussing.

Tom Doxey
Executive VP & CFO

And to your second question, of course, we're not going to give RASM guidance by month, but it is a true statement that the extra legroom seats and the seat assignments, those enhance unit revenues.

Operator

Our next question comes from Mike Linenberg from Deutsche Bank.

Michael John Linenberg
Deutsche Bank AG, Research Division

So 2 questions. I have a CapEx question for Tom and a revenue question for Andrew. So I guess, Tom, in the release, you did give us the CapEx number, although you indicated that it was a net CapEx number. So presumably, either -- I don't know if there's either sale leasebacks or there's aircraft divestitures. Can you give us a rough sense of maybe what the gross CapEx number is or maybe give us a sense of divestiture gains from aircraft sales in 2025?

Tom Doxey
Executive VP & CFO

Sure, Mike. So we'll stick with the range that we've guided. There is an element of aircraft sales that are there that bring that down from the gross number. But we'll stick with what's out there in the public number as the net CapEx.

Michael John Linenberg

Deutsche Bank AG, Research Division

Okay. But it's specifically aircraft sales offsetting it. It's not sale leaseback gains or anything else?

Tom Doxey
Executive VP & CFO

That's correct.

Michael John Linenberg
Deutsche Bank AG, Research Division

Okay. Great. And then just my question to Andrew. Segmentation, it's kind of a new thing. I mean, maybe you'll disagree with me, but I think it is somewhat of a new thing for Southwest. I mean, even in your commentary, you said that you're learning a lot about customer behavior. As we think about how things evolve, sort of what inning are we in? And what are the milestones that you're going to look for that things are really starting to pick up?

And maybe as a kind of a teaser here, I know in the past, I recall you indicating that the majority of your bookings or tickets sold used to be in the lowest fare bucket. And I would suspect that, that's going to change, especially as people want the assigned seats and the extra legroom. Can you just give us sort of thoughts on how you see that evolving and maybe some of the key milestones?

Andrew M. Watterson
Chief Operating Officer

Thanks, Mike. Yes, we're going from a kind of fare rule-based segmentation. We always had segmentation like device purchase and stuff like that to a product-based segmentation, which you can kind of pay more to get more. And so the question becomes who will pay more to get more from our current customer base. And we're seeing that our current customers who previously bought the kind of base product all in wanted to buy up. They wanted more from us. They wanted the ability to buy these extra product features. And even if they're buying early in the booking curve, they're willing to pay for them. And then of course, later in the booking curve, where most of those people are that are price flexible, you expect to see a kind of a surge of people demanding the higher products.

And so we expect to go from like 80-plus percent buying the lowest fare product down to something half or less buying the very basic product. And so we don't know what that will look over the full booking curve for the full year to high season, low season, but we know that, that accelerates at the end, and that's kind of what we're waiting for. So the level of acceleration we see through the kind of February and March, where you have low season, high season will give us a really good idea of what the upside is for this.

Operator

Our next question comes from John Godyn from Citigroup.

John David Godyn
Citigroup Inc., Research Division

Congrats on the big RASM guide. I wanted to just sort of reask it a little bit on the 9.5%. What is literally in that number and what isn't? It sounds like there's a low expectation of the ancillaries coming in, but it's not like you have 0. I just wanted to kind of understand really what's in there versus what could be upside. That's question one.

And question two, it seems like there's a decent chance this year is an all-time high EPS annual year for you. When I look at the last time that happened, ASM growth was considerably higher. So as you get back to your return target, I'm curious how we should be thinking about a reacceleration in growth.

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

Yes, I'll take the first one and then a combo, maybe Andrew, on the second one, especially thinking about capacity. Thinking about breaking down RASM detail, I mean, last year, just got a pause. It was just a fundamental transformation of the business model of this company. And it went extremely well. I'm so very pleased and proud of our people. And now all of that -- I mean, all these initiatives, they are the business. They are the new business of Southwest Airlines. It's not a set of initiatives any longer. And we're managing that way.

And so everything in our 2026 guide include those run rates coming off of the implementation in '25 and then, of course, the assigned seating launch here on Tuesday. And that's just how we're managing the business. And we're focused even more beyond that on the

additional upside, managing those initiatives and optimizing and then our incremental opportunities, again, like network optimization, further cost takeout, so we are moving to, as you obviously know, an EPS guide. Everything related to the initiatives and the run rates are baked in. And that's how we're thinking about managing the business, and we will provide the upside once we are able to quantify it.

Andrew M. Watterson

Chief Operating Officer

And then on the growth, I mean, we're not thinking about any kind of crazy growth rates or anything like that. What we're thinking about mostly is in addition to whatever modest growth rates we choose is the reallocation of capacity. And so we have a product now that we see demand for that before we weren't offering. And then also the waterline for all of our markets rises with increased profitability. So we have a great opportunity to redeploy capacity within our current footprint to have less of a negative and more of a positive by moving capacity around. That's what we're really focused on over in the next 12 to 24 months. And we think that's upside to the numbers we've currently given you.

Operator

Our next question comes from Duane Pfennigwerth from Evercore ISI.

Duane Thomas Pfennigwerth

Evercore ISI Institutional Equities, Research Division

I wanted to follow up, Tom, on a comment you made about the loyalty -- faster loyalty rev rec. I assume there was a bump up with the bag fees and now another bump up with seats and extra legroom. So whatever the RASM tailwind was from rev rec in 4Q, it's likely larger now in 1Q. I wonder if you would frame how many points of your 10 points in RASM growth is due to rev rec policy changes?

And then my follow-up, do you have any data or early learnings on receptivity of seats or maybe uplift in core Southwest markets versus maybe more jump ball markets where you have lower share?

Tom Doxey

Executive VP & CFO

Thanks, Duane. We haven't quantified publicly what the change is there. There's a shift that goes where the split prior was part ATL, part other revenue. Now it's part ATL, some to other revenue and some to passenger revenue. But the exact percentages there, some of that relates to the way that our program is structured, and so we don't get into the details of that. Our Qs and Ks have a bit more color on it, but we don't go into the specific percentages.

Andrew M. Watterson

Chief Operating Officer

On the second one, we find that the new product is giving us a strong tailwind in all of our markets. So it's not just a traditional Southwest stronghold where you see the benefit. It's across all customer segments and across all geographies, and that's what's really encouraging for us.

Operator

Our next question comes from Tom Fitzgerald from TD Cowen.

Thomas John Fitzgerald

TD Cowen, Research Division

Just curious on the extra legroom fee. I think last fall, we had talked about that hitting its full run rate potential in the third quarter. Is that still the expectation as you sit here today? And then on the fuel side, I think at one point last year, Tom, we had talked about there being like a nice -- with bag fees, there being a nice fuel offset from the bag fee implementation. And I'm wondering if you started to see that this year.

Andrew M. Watterson

Chief Operating Officer

Yes. I think previously in our guidance, we've given that we expect next year that we have the full run rate benefit of the seats. Obviously, we're endeavoring to get that faster. We know there's a ramp-up as customers adapt to it. That's also part of our discussion of the fleet upside. But right now, we're seeing a strong initial reaction, as I said earlier, both to buy-ups and seat ancillaries.

Tom Doxey
Executive VP & CFO

And Tom, I love that you asked about fuel. Just last week, I'll brag a little bit about our operations team here. Just last week was in a meeting where we were walking through the full list of fuel savings initiatives that we have. You are correct. One of those is that as we carry fewer bags overall, which we knew would be a byproduct of the bag fee, there are fewer bags onboard the aircraft, and there is a fuel savings that comes from that. But there are so many other things that we're doing as a company, new technology tools that we have that are helping us as well as just the behavior that we have in our airports and our maintenance facilities to be able to save fuel. So often in this industry, we talk about CASM-X and it's appropriate. But fuel is a big expense, too. And we're doing a lot to become more efficient there as well.

Operator

Our next question comes from Atul Maheswari from UBS.

Atul Maheswari
UBS Investment Bank, Research Division

Two questions. First, based on your implied RASM for the full year and based on what we've heard from others, it would appear that if you all hit your outlook, there might be a meaningful shift in airline revenues as a percentage of GDP this year versus the past few years. I know you can only speak for Southwest. So the question is, is the incremental revenues that you're generating this year, is that primarily coming from your existing customers who always wanted to spend more at Southwest but basically could not in the past since you did not have that offering? And that would explain why the revenue GDP equation moves to the right.

Or is the incremental revenues that you're generating this year coming from attracting customers of other airlines, which would mean that the revenue GDP equation does not change much for the overall industry even as Southwest generates a significant revenue dollars. So that's question one.

And then question two, in the at least \$4 EPS target, what is assumed for macro, given Southwest is really the broader industry clearly lost good portion of revenues last year due to macro issues. So in that \$4, what portion are you assuming that you get back?

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

Yes, Atul, it's Bob. I can take both of those. Really, the -- what's in our guide for 2026 is it's the performance of the initiatives kind of on our current customer base. So there's no assumption, number one, of a big snapback in the macro, and there is no assumption number two of a big share shift. Now again, I do think with the far more attractive product offering, especially to our business customers, that is part of the upside that we can pursue over time. That's a longer journey, but I do think the product offering now certainly appeals more to everybody, but certainly appeals more to our business customers. So that is something we'll be attacking this year, and that provides additional upside. But no, to be specific, there's not a share shift in the calculation, and there's not a planned snapback in the economy in the macro.

Operator

Our next question comes from Savi Syth from Raymond James.

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

Congratulations to the kind of Greater Southwest team on that #1 Wall Street Journal ranking, especially in a year that you've been kind of doing a lot of change. I know you're not providing kind of granular guidance, but I was curious, Tom, if you could provide color on CASM-X progression through the year. And particularly, is it fair that the 3.5% pressure in 1Q is maybe the high watermark, especially with capacity stepping up?

And then maybe for my second question, on the corporate front, I'm curious what kind of corporate revenue growth you saw in 4Q and maybe what the trends are that you're seeing so far in 1Q?

Tom Doxey
Executive VP & CFO

Thanks, Savi, and thanks for the shout out on the Wall Street Journal #1 ranking. That is a big deal. Another thing to brag about for our really great operations team and for our people. On CASM-X, we've given guidance for the first quarter. That will be -- we'll give guidance for unit cost and unit revenues during the quarters. And so it won't go beyond 1Q. But what I will say is that I feel like we have a good handle for what the costs are this year. It's been a couple of years now since we've had our labor agreements. Usually it takes a little bit of time for some of those costs to come in. And so now that we're a couple of years separated from that, and we've got, I think, pretty good view on what costs will look like for the year, and we're able to take that into account as we develop the full year EPS number that we've given to you today.

Andrew M. Watterson
Chief Operating Officer

And for corporate, you pull out government, which was kind of volatile there in Q4, our corporate business is up mid-single digits. And then entering this year and in January, we had very high bookings that others have reported. So a very strong start to the year in corporate bookings. The benefit, though, as we talked about before, is the new product. We invested in our corporate infrastructure a while ago, a couple of years ago. We have now presence in the distribution channels. We have the sales force, the kind of BTN rankings about how well we are to do business is we're #2 just behind Delta.

And so what's missing is the product that the corporate travelers want to buy. And frankly, the companies let them expense. And so having this new product, we will combine that with marketing efforts, our sales force efforts, incremental distribution efforts, and we think there's upside to our corporate business from this new product on top of the infrastructure we already built.

Operator

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

Andrew George Didora
BofA Securities, Research Division

Andrew, I know you mentioned earlier that you obviously managed to RASM not a yield or load factor. But just curious like if you could give us any color on kind of how you're thinking about load factor, particularly here into 1Q. Obviously, you're coming off a pretty low base last year, I think around 74%. Historically, 1Qs are closer to 80%. So any thoughts around that would be helpful.

And then for my second question, I know, Bob, you spoke to the opportunity for maybe some more cost takeout this year. Could you speak to maybe where that could come from and maybe how to think about CASM and cost opportunities in a 2% to 3% growth world?

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

Yes, Andrew, I'll just give a start. The main point was a couple of things. I don't want anybody to think that we're done. I mean there's no victory lap here, as I said, there's a lot of hard work ahead. We're pleased with the momentum, but we are not done. This is a journey, and we're going to keep pressing on additional opportunities beyond the transformation that's been underway. So we took a lot of cost out last year, more this year. We doubled the original cost target. We did our first corporate layoff, which was tough.

But what I can tell you is nothing broke. The company, if anything, is moving faster. There's more agility, more pace. And so I think that's been somewhat enlightening that we can press harder. And so there -- our corporate overhead will be down -- headcount will be down again this year. So I'm just admitting that we're going to press even harder on costs, on efficiency. So we're not ready to quantify anything yet, but just making sure that everybody understands that we aren't done with this transformation. We will be attacking other opportunities throughout the year.

Andrew M. Watterson
Chief Operating Officer

I would say our teams, revenue management, marketing, we focus on revenue maximization. We don't get caught up in load factor yield. Now we -- our tools and our people now include the incremental upsells, we get an incremental passenger comes with a bag fee, a seat fee, other type of ancillary, that's included into our calculus. So quantitatively, that's in there, but they're all about revenue maximization, not going after the submetrics because that can really lead you down a bad path. And I think just look at revenue maximization, we have done a good job over the last 18 months of doing that, and we'll continue doing that going forward.

Operator

Our next question comes from Ravi Shanker from Morgan Stanley.

Ravi Shanker

Morgan Stanley, Research Division

Sorry to go back to the Jan 27 changes, obviously an important topic here. So I hit one topic with multiple questions. I think you said that it's going better than expected. A, can you confirm that? And b, can you -- do you guys know if both the incoming revenues and the book away are higher than expected? Or is the book away lower than you initially expected? And maybe second question on the same topic. Is there a risk that the ancillary revenues are higher out of the gate because people are maybe taken by surprise with some of the changes and maybe that normalizes over time? Or do you think it gets better from here?

Andrew M. Watterson

Chief Operating Officer

I'll try to go through your questions there. So yes, the ELR and the preferred seats and assigned seats in general is going better than expected. We are getting book away from other carriers when they have poor reliability. We have that consistently over the last couple of years. So that is a tailwind. It doesn't happen every single day, but does happen quite frequently is a benefit and those people now come over and buy a stand-alone seat or a higher fare. So that's very helpful to have that extra book away. And then the ancillary, we find that what people do when they get to the gate, a crowded flight, they have a higher propensity to buy up. So you get to the gate, it's crowded and you're like, "Well, what seat am I? Oh, I want to change my seat, I will pay more." And so that we see the fuller the flight, the higher the ancillary benefit.

Operator

Our next question comes from Sheila Kahyaoglu from Jefferies.

Sheila Karin Kahyaoglu

Jefferies LLC, Research Division

My first question, and congrats on the entire undertaking and the progress you've made. I'd love to hear what feedback you're getting on the product segmentation. Are customers even aware? How has that changed your promotional activity? And in cities like Chicago, where it's become a hot city of late, what really differentiates Southwest versus a network carrier? And maybe my follow-up on the \$4 of EPS, what is the assumed paid load factor in total ancillary uplift in the extra legroom seats relative to the '25 base?

Robert E. Jordan

President, CEO & Vice Chairman of the Board

Sheila, let me take a piece of the first one, and I think Andrew will take the second. What is different about Southwest Airlines now, obviously, has been a common question since we implemented assigned seating. And I've been here 38 years, and we have changed constantly over those 38 years. And every single one was, "well, you're just not the same Southwest." And every single time that person or those folks were wrong. So I just want to clear this up. I mean, our people and their heart for serving our customers, I mean, that is and always will be the greatest competitive advantage that Southwest has. That's the difference. That was true on Monday with open seating, and it was true on Tuesday with assigned seating and nobody, no other airline can copy the heart and the soul and the service of our people. So that's what makes Southwest Airlines different.

Andrew M. Watterson

Chief Operating Officer

And I would say, in a place like Chicago, at Midway, we have a very strong network. And so our offering to customers where you want to go, we have the strong network there. Price, we have lower cost than our competitors, and so we can offer great deals. Conscious, we're still pushing RASM. With lower cost, we can push great deals.

Reliability. Now airlines talk about reliability, but it's extraordinarily difficult to copy. And the fact that we have much higher reliability than any airline in Chicago, customers can count on coming to Midway and having a much better reliability than over at O'Hare. And then hospitality, once again, everyone says their employees are the best. But guess what, look at NPS scores, our employees really deliver great hospitality and a high score. And it's extraordinarily difficult to copy. You can tell your people to treat customers better. But if they don't, what do you do? For us, our customers -- our employees want to treat customers well. And so these are durable advantages of having great hospitality and great reliability.

Operator

Our next question comes from Brandon Oglenski from Barclays.

Brandon Robert Oglenski

Barclays Bank PLC, Research Division

Congrats as well. I think I'll just keep it to one here. But Bob, I mean, I think just judging by some of these questions and definitely like the bloggers and the airline observers out in the ecosystem, there's this view, and I think you've hit on it in the answers to a couple of these questions, but like Southwest is losing its uniqueness, no more free bags and now it's or maybe less egalitarian. But the reality is, I think if we listen to all your competitors, things have moved much more towards a premium focus with consumers. So I don't know, can you just maybe wrap this up a little bit? Like isn't this just offering the market what they wanted? And incrementally, I think you hit on the culture, too, but has the employee base really fully embraced this, too?

Robert E. Jordan

President, CEO & Vice Chairman of the Board

Brandon, thank you. And yes, this is about one thing, and that is chasing our customer. We are committed to following the customer, providing what they want today, which is different than what they wanted 5 and 10 years ago and what they want in the future because we know if Southwest Airlines doesn't provide it, they're going to go to a competitor, and we are not going to let that happen over time. So this is complete -- this has nothing to do with copying anybody. This has to do with offering our customers what they want.

And then as Andrew said, doing it even better because we've got the employees and the service delivery and the reliability that they cannot match. I mean, just look -- I'm not meaning to brag, but maybe I am, but we won the #1 ranking in the Wall Street Journal Best U.S. Airline for 2025 for a reason. That's because our service was better, our operation was better and customers see it.

And again, at the high level, we are on track. I mean, you see the numbers that we're guiding for 2026. So we're seeing customers embrace the changes, book the product. We are not seeing book away from Southwest Airlines. If anything, we're encouraged that we'll see share shift to Southwest Airlines because the product is a stronger offering now, especially with corporate. So again, this is all about following the customer.

Operator

Our next question comes from David Vernon from Bernstein.

David Scott Vernon

Bernstein Institutional Services LLC, Research Division

Great. Maybe, Bob, just to kind of build on that idea, right, you're going to be taking share, raising fares by something in the double digits. Like normally, you would think there'd be some sort of demand elasticity problem in that math. Why isn't that the right way to think about this? Why isn't the big risk here that you put all these changes in, customers get used to them and then eventually, they can just look across other airlines and maybe you're more expensive and you see some of the expectation for what you're going to get in the unit revenue growth competed away because it is still a pretty competitive market as far as we look at it anyway. Any thoughts on the....

Robert E. Jordan

President, CEO & Vice Chairman of the Board

Yes. And thank you. Again, it's not -- this is not about raising fares. This is about offering our customers choice that we know that they want. So offering them a very basic fare if that's what they want, offering them a fare that comes with extra legroom and a drink and a different level of service and boarding, if that's what they want and a lot of products in between. So it's the customer's choice to buy up, which is very different than sort of across the board raising fares. Same thing on the ancillary side, just like we sold early bird and upgraded boarding. We're offering our customers a choice around priority boarding and obviously a choice around seat selection. So this has nothing to do with raising the fares. This has to do with offering customers choice that they can then choose to buy or not buy. And what we are seeing is that they are choosing to buy those new options.

Operator

Our next question comes from Dan McKenzie from Seaport Global.

Daniel J. McKenzie

Seaport Research Partners

First, huge congrats to the entire company for pulling off, I think, what most thought couldn't be done. But a couple of questions here. First, the 50% of the tickets that are sold with the buy-up feature, my question really is what percent of revenue does this account for? What would you expect it to account for once you're at maturity? And then secondly here, if corporate bookings are up high single digits or double digits, what fares are they replacing? My guess is they're displacing the \$39 fare. And then just related to that, corporate, I'm just curious if the CapEx guide embeds new lounges.

Andrew M. Watterson
Chief Operating Officer

So on the buyout, that's the type of stuff that we are working out that Bob is bugging me for all the time. And so we're not going to give those right now. It will become clear over time as we give the high end of our guide and we start to report. But right now, we're just focused on delivering the current guide.

In corporate bookings, we found that the kind of segmentation, we introduced the basic fare that the corporates found that they did not want that in their ecosystem. So our sales force did a great team of helping configure selling tools so that, that was not featured and that was beneficial to our corporate revenues. And as we offer these ancillaries, we'll be doing the same thing, and we anticipate additional benefit once the tools and expense policies calibrate to our new offerings that we'll see additional benefits from that.

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

And Dan, just quickly on the lounge question. I think I mentioned before there, obviously, we're looking at, again, things that our customers want. There's nothing specific to report there today, but just know that the assumptions that we have internally around what that could look like are built into our guide. So they're not incremental to the guide that we've given you for the quarter or for the year.

And I want to go back to your first sentence. I just can't help myself about the congrats on the implementation. I just want to say thank you. And I got to thank our people again. The level of execution last year with so many things. It was just done so flawlessly on time with quality and to be able to win the Wall Street Journal #1 ranking at the same time you're changing the company then to have a winter storm that's historic and manage it incredibly well, come out of that with no hangover at all. And by the way, the next day, do the largest changeover in the history of the company with assigned seating and to have excellent operating metrics on that day. I just don't know how to say anything, but wow, I'm just stunned by what our people have done.

Operator

And our next question comes from Chris Wetherbee from Wells Fargo.

Christian F. Wetherbee
Wells Fargo Securities, LLC, Research Division

I guess I wanted to talk a little bit about the business commentary and I guess what you're looking to see over the course of the next couple of weeks. Presumably, there's been some conversations there and you seem optimistic about upside. So any insight there would be helpful and maybe where some of the share might be coming from?

And then the second question would just be sort of understanding what's embedded in the \$4-plus guidance around buybacks.

Andrew M. Watterson
Chief Operating Officer

On the first one, I would separate out the two things between, one, the -- what we see as the upside from the ancillary sales and the buy-up those are the normal booking curve management and what we expect to see there through the low season of February and the high season of March. That will help us understand better what the upside potential is in the short term. What's not in our guide is this kind of medium-term benefit from increased corporate share or increased corporate revenue as people buy our ancillaries on the company dime. And so that is something that will unfold over medium term and is not in our guide.

Tom Doxey
Executive VP & CFO

On the buyback question, we continue to believe that the shares are undervalued relative to the long-term fundamentals of the business. And so we'll continue to be opportunistic there, and we'll make sure that we stay in the guardrails that keep us with our investment-grade rating.

And one other thing I'll add to that, too, is we've invested a tremendous amount of capital into our people and into our business as well and into our customers. And we've talked about the investments we made into the cabin and things like the bigger bins and the new lighting and the new seats and the in-seat power and free WiFi. And all of these things are part of that capital allocation as well. And so we stay within the guardrails. We invest in the business. We invest in our people, and we invest in our customers and ensure that we stay in those investment-grade guardrails.

Operator

Our next question comes from Jamie Baker from JPMorgan.

Jamie Nathaniel Baker

JPMorgan Chase & Co, Research Division

Thanks for squeezing me in at the last minute. So the earlier comment about passengers making buy-up decisions at the gate, have you padded your turn times to account for that? Is there any sort of operational impact from that phenomenon?

Andrew M. Watterson

Chief Operating Officer

Actually, we took turn time out, Jamie, and -- so all this is, we've scripted out what we sell when and what happens when in our boarding. We have standards and those allow us to handle both employees traveling for non-revenue as well as upselling in the gate area. And so all of that, I think, works well for cost efficiency and revenue optimization.

Robert E. Jordan

President, CEO & Vice Chairman of the Board

And I've got to just add again. I mean we took time out of the turn, managing all these changes, which include changes to boarding, and we won the Wall Street Journal ranking as the Best U.S. Airline, most of which are operational metrics. I mean, not bad.

Danielle Collins

Managing Director of Investor Relations

And on that note, we'll conclude today's call. As always, if you have any follow-up questions, please reach out to Investor Relations, and we appreciate everyone for joining.

Operator

Ladies and gentlemen, with that, we'll conclude today's conference call and presentation. We do thank you for joining. You may now disconnect your lines.

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