

# Call Participants

## EXECUTIVES

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*Chief Operating Officer*

**Julia Landrum**  
*Vice President of Investor Relations*

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

**Ryan C. Green**  
*Executive VP & Chief Transformation Officer*

**Tammy Romo**  
*Executive VP & CFO*

**Savanthi Nipunika Prelis-Syth**  
*Raymond James & Associates, Inc.,  
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*Goldman Sachs Group, Inc., Research Division*

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*Morgan Stanley, Research Division*

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*Deutsche Bank AG, Research Division*

# Presentation

## Operator

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

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

## Julia Landrum

*Vice President of Investor Relations*

Thank you. Hello, everyone, and welcome to Southwest Airlines Fourth Quarter 2024 Earnings Call. I'm joined today by our President and CEO and Vice Chairman of the Board, Bob Jordan; Chief Operating Officer, Andrew Watterson; Executive Vice President and Chief Transformation Officer, Ryan Green; and Executive Vice President and CFO, Tammy Romo.

Bob will start us off by providing a high-level update on the fourth quarter and full year 2024 performance as well as a strategic update on our Southwest. Even Better. plan. He will then turn it over to Andrew to discuss our revenue momentum and our industry-leading operational performance. Ryan will provide a progress update on our portfolio of strategic initiatives, highlighting key milestones achieved. Tammy will follow to walk through cost performance and outlook. She will also discuss our fleet strategy and cover balance sheet and capital allocation. Bob will wrap this up with a few comments, after which, we will move to Q&A.

As a reminder, we will make forward-looking statements which are based on current expectations of future performance. Our actual results could differ materially from expectations. Also, we will reference non-GAAP results which exclude special items and are called out and reconciled to GAAP results in our earnings press release. Our press release with fourth quarter 2024 results and a supplemental presentation that includes our updated initiative scorecard were both issued this morning and are available on our Investor Relations website.

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

## Robert E. Jordan

*President, CEO & Vice Chairman of the Board*

Thank you, Julia. And before we jump into our results, I want to take a moment upfront to acknowledge the tragic accident near Reagan DCA airport last night. Our hearts go out to all those loved ones who are among the passengers and the crew. And we also extend our sympathies to our friends at American Airlines and their subsidiary, PSA Airlines, as they process this event themselves. Finally, I want to thank the first responders who worked tirelessly throughout the night. And while we are all competitors, we are one airline community, and we will do everything that we can to support our friends at American and at PSA.

Now turning to the business. 2024 was a foundational year for us. We further invested in the operation. We finalized our open labor contracts. And we laid out a comprehensive plan: Our Southwest. Even Better. plan.

The plan, which is the most transformational in the history of the company, includes initiatives to boost our efficiency and lower costs, including the ability to fly red eyes and to turn our aircraft faster. It also significantly improves our customer experience and expands what we offer customers by introducing things like partnerships and an all-new vacations product, all of which enhance the Rapid Rewards and the co-brand ecosystem. Ultimately, the plan provides a path to financial prosperity which we believe will open exciting growth opportunities ahead. We are already seeing the benefits of the work we did last year, and the plan is well underway. I am very pleased with the momentum we are carrying into 2025 as a result of that effort.

Starting with the operation. We saw improvements in nearly every key metric, demonstrating success from our multiyear investments. In fact, we finished the year with an industry-leading completion factor. And just last week, we were recognized by the Wall Street Journal as 1 of the top 2 U.S. carriers who have "separated themselves from the pack." We finished with a mere 1-point gap to first place, a gap that we will work very hard to overcome in 2025.

We also finished the year with strong year-over-year unit revenue improvement. Unit revenues for the fourth quarter came in 8% higher than fourth quarter 2023, well above the improved expectations we provided in early December. Nominally, fourth quarter RASM was also 7% higher sequentially relative to third quarter RASM, and that is 5 points ahead of the historical third quarter to fourth quarter trend. The very hard work of our teams helped drive this acceleration as they executed tactical improvements.

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In addition to improvement from tactical actions, we experienced benefits from a constructive industry backdrop driven by continued demand strength and capacity moderation. We're making great progress with our strategic initiative portfolio, our fleet monetization strategy and our capital allocation plan. The team will walk through the details to provide you with execution proof points and share how we are hitting key milestones.

While I see improvement in our pace of execution, the focus on driving speed and agility will continue. And while we are focused on execution, we will keep a pulse on trends and be open-minded as we consider ways to continually improve the business.

Moving to our cost performance. We are experiencing above-normal unit cost inflation, most notably in market-driven wage rates, airport costs and health care. We outlined a multiyear \$500 million cost plan back at Investor Day to help mitigate cost inflation and become more efficient, and we will be relentless in pursuing cost takeout. While we haven't yet shared the cadence of how the \$500 million comes online, the focus will be on achieving that rate as quickly as possible.

We are committed to the efficiency work, including corporate overhead. The fact is corporate overhead has grown at a faster rate than the rest of the airline as we staffed up for initiatives. We must be the leader in terms of efficiency, and you'll see us being aggressive as we work to become a leaner and more agile organization.

Our imperative in 2025 is to deliver improved financial results and build further momentum to hit the milestones required to deliver on our 2026 and 2027 Investor Day targets, and we're committed to transparency and routine updates. We debuted a scorecard last quarter, and we updated it again this morning detailing our progress and it's available on our Investor Relations website. For the core business initiatives, we continue to deliver -- to expect to deliver or exceed the \$1 billion 2025 EBIT contribution target, which excludes any benefit from fleet transactions.

Now moving to the fleet. There's a lot going on at Boeing. I was just there last week visiting with the leadership team and walking the factory floor. They have clearly been hard at work and I was pleased with the progress that I saw. Everyone was engaged and focused. And while they still have much work to do, they appear to be on a good path, and we are feeling more optimistic.

Regardless, we think it's prudent to hedge our bets. We are now planning with a conservative 38-delivery assumption for 2025 to derisk the operation. We conservatively adjusted our plans back in March of 2024 and we've not had to republish the schedule since. So we are doing the same thing this year.

That's very different from our contractual number, which for 2025 is now 136. We aren't going to get 136 aircraft, but we believe Boeing is on pace to exceed 38 this year, and over the next couple of years, that there will be an opportunity to do plenty of transactions as Boeing ramps up their production. Tammy is going to go into a lot more detail, but my point is that the opportunity is large.

And despite the question of fleet timing, we still aim to deliver the \$1.5 billion of targeted total 2025 incremental EBIT from our Investor Day initiative portfolio. We're seeing our tactical actions yield benefits faster than planned and expect to hit all key milestones for our strategic initiatives.

As I wrap up, we are in a great position to capitalize on our momentum and continue making progress towards our goals. We have a comprehensive plan, a detailed set of initiatives, a constructive industry backdrop, and we are executing with urgency and purpose. We will not let up for even a moment as we move forward and deliver the Southwest. Even Better. plan.

I want to thank our employees for their dedication and commitment and for the excellent operation they've been running despite a wave of winter weather. It's just truly exceptional.

And I will now turn it over to Andrew to cover the operations and tactical initiative performance in more detail. Andrew?

**Andrew M. Watterson**  
*Chief Operating Officer*

Thank you, Bob. I want to start by thanking our frontline employees for all their hard work and for helping Southwest have an outstanding year operationally.

As Bob mentioned, last week, we were recognized in the Wall Street Journal's 2024 annual airline rankings, moving up to a very close second place this year, taking into consideration 7 key metrics. Among the 9 major U.S. airlines, we were the leader in completion factor with less than 1% of flights canceled during the year. We also had the lowest rate of tarmac delays and the fewest DOT customer submissions. And we didn't come in below fourth in any category, which is a testament to both our people and investments in the operation.

Turning to our revenue performance. We are pleased with how we finished 2024. Our fourth quarter RASM was up 8% year-over-year, which exceeded our prior guidance range of up 5.5% to 7%. In fact, we saw a nice trend in year-over-year RASM growth as we closed out 2024 as we realized tailwinds, both from our internal initiatives and capacity adjustments, as well as the benefits of a healthy industry backdrop.

While there was noteworthy pressure from supply/demand imbalance in the first half of 2024, we saw a pivot to capacity moderation across the industry with continued healthy demand in the latter part of the year. And as you know, we took deliberate steps to recalibrate and better optimize our revenue management systems and processes. The benefit of that work is materializing faster than expected.

As we shared at Investor Day, the revenue management initiative is comprehensive and is supported by a range of capabilities and advancement activities. For example, we reorganized the revenue management team to manage demand for customer itineraries rather than managing demand for individual flights. This change aligns our teams more closely to our system.

On the tool side, we invested in improving our ability to predict demand patterns, both by booking window and by flight. We've also launched a new proprietary dashboard to help our team to better optimize the revenue performance of our highest-demand seats.

We are seeing yield benefits from our RM advancement efforts across the board. Those flights with greater than 90% load factor are seeing the strongest close-in performance as a result of better management of the booking curve. And our flights with less than 90% load factor are also seeing sequential improvements as we better optimize fares further out in the booking curve.

As we look into 2025, we will keep the same intensity and focus on delivering value from our tactical initiatives while also remaining committed to closely managing capacity. We've made a lot of progress improving yield in the fourth quarter, and our focus now is on maintaining yield performance as we work to close the load factor gap.

We expect current demand strength to continue in 2025, and our first quarter RASM is projected to be up in the range of 5% to 7% year-over-year. As the year progresses, we expect positive year-over-year RASM growth driven by tactical initiatives.

In the second quarter, we expect to see benefits from the next phase of our network realignment. This includes reductions to Atlanta and Oakland that were previously discussed, with that capacity being redeployed to points of strength like Nashville and Sacramento.

We also expect to see revenue contributions from partnerships, getaways and loyalty initiatives, most notably in the fourth quarter.

So while we are pleased with our progress, we are far from satisfied. We have a plan and we'll be urgent and deliberate in our execution. As I close, I want to thank our people for running a great operation and delivering unparalleled Southwest hospitality.

And with that, I will turn it over to Ryan to go over the progress of our strategic initiatives.

**Ryan C. Green**  
*Executive VP & Chief Transformation Officer*

Thanks, Andrew. As Bob mentioned, I'm going to provide you with updates on our strategic initiatives as we continue to execute against our Southwest. Even Better. plan.

Earlier this month, we signed our first commercial agreement with Icelandair, making them our first partner carrier. And starting February 13, we will begin connecting customers and bags crossing the Atlantic on Icelandair into the Southwest network at our Baltimore station. This is an important milestone in our plan to expand how and where our customers can travel. We will continue to evolve this partnership and plan to also connect Icelandair into our network in Denver and Nashville later this year, which provides even more connection opportunities through shared gateways.

Also, earlier this month, we received our IOSA certification for successfully completing the IATA Operational Safety Audit. This serves as the industry benchmark in safety auditing, and we are proud of this achievement that reaffirms our commitment to the highest safety standards. It's also an important milestone in our transformation journey as it sets the stage for future growth through additional airline partnerships. We continue to pursue partnership agreements with other global carriers and still plan to announce at least 1 additional partner carrier later this year.

Our Getaways by Southwest product is also expected to launch later this year, and we are excited to announce today that we will add MGM Resorts International to our list of partners in Las Vegas. This represents a large milestone from one of our focus markets for Getaways by Southwest. And along with our existing partners there, this will give us access to a substantial portion of the hotel inventory in Las Vegas with more partners to come.

We continue to make progress and move forward on our assigned and premium seating product and continue to expect to meet the financial targets and time lines we communicated at Investor Day, to begin selling seat assignments in the second half of this year and operate flights with assigned and premium seating in the first half of next year.

As we finalize our cabin layout and work towards FAA certification, we plan to begin retrofitting aircraft midyear, starting with our larger -800 aircraft with the smaller 700s to follow later in the year. By beginning retrofits midyear, it allows us to meet our planned operate date. It minimizes the amount of time we have a mixed fleet, and it keeps the 700 aircraft flying with their current seat count for more of this year. We believe our tech ops facilities, employees and vendors are well equipped to update our entire fleet within our time line.

Technology development is also going well. Our technology employees and vendors are hard at work coding the necessary technological changes and will soon begin a rigorous testing phase before we begin selling assigned seats.

Another key milestone reached just this month is our amended co-brand agreement with Chase. As we've discussed before, we needed to update our agreement to provide our card members with new benefits related to our assigned and premium seating products. We'll have more information to share on the details of those benefits soon, but we're excited to get these new card products into the market as we're confident customers will value these benefits and they will drive co-brand card acquisitions in the future. This agreement supports the multiyear financial targets we announced at Investor Day.

Within the operation, we continue to focus on efficiency and modernization by reducing the time it takes to turn an aircraft and increasing our aircraft productivity. We've made meaningful progress toward our goal of removing paper-based processes from the day-to-day operation and have digitized crew paperwork. Our November 2024 schedule was the first that implemented a 5-minute reduction in turn times in 12 of our stations. And I'm happy to report that it's working as planned with no operational impact.

Later this quarter, we plan to introduce a digital communication tool that will allow pilots, flight attendants and operations agents to chat live with each other while they're working the turn -- while they're working to turn the aircraft between flights, further enhancing our efficiency.

We continue to expect our turn time initiative to create the equivalent of roughly 16 free aircraft by the end of November this year. While we are already a leader in turn time, we are confident this will further our competitive advantage in the day-to-day operation.

In addition to reducing turn time, we will also launch red-eye flying in 5 key markets next month, with the first flights arriving on Valentine's Day. This will ramp up to a total of 33 red-eye markets in the June 2025 base schedule, including Hawaii routes. And we're pleased with how red-eye flights are booking to date with nearly 75% of passengers on a connecting itinerary either before or after the red-eye flight. Red-eye flights capitalize on peak seasonality and maximize network connectivity while generating incremental load factor. And remember that our turn and red-eye initiatives aid our modest capacity growth plans for this year of up 1% to 2% year-over-year.

And finally, I am pleased to share that our service modernization efforts to drive operational efficiencies and improved experience for employees and customers are also paying off. As a result of the digital capabilities we provided our customers to enable them to self-serve, we've seen call volumes decrease even further than what was assumed in our plans. These digital enhancements have enabled a significant increase in efficiency within our call center.

As you can see, we are working hard and making continued progress on our transformational plan. We are committed to continued execution and delivering on our Southwest. Even Better. plan. And I want to thank the hard work of our incredible people who are making this happen.

And with that, I'll turn it over to Tammy.

**Tammy Romo**  
*Executive VP & CFO*

Thank you, Ryan, and hello, everyone. I am pleased by the level of execution Ryan just covered and the realization of early benefits from our Southwest. Even Better. plan. As we laid out, our plan provides a road map to transform Southwest, and importantly, to restore our financial prosperity and drive sustainable shareholder value. While we have more hard work ahead, to hit our multiyear financial targets, our fourth quarter performance exceeded expectations, and we ended the year with improved year-over-year margins in the fourth quarter.

Much of this improvement has already been covered, so I'll pick up with color on our cost performance, and we'll close with a few comments on the balance sheet and an update on capital allocation, including more insights on our fleet monetization strategy.

Our fourth quarter 2024 CASM-X increased 11.1% year-over-year and full year 2024 CASM-X increased 7.8% year-over-year, both inclusive of a \$92 million gain from a sale-leaseback transaction in fourth quarter 2024. The year-over-year increase was primarily the result of elevated operating expenses associated with inflationary pressures, including contractual market-driven wage rate increases. In fourth quarter specifically, the decline in capacity growth resulted in additional unit cost pressure.

We are urgently working towards implementing the \$500 million cost initiative announced at Investor Day in September with an intense focus on exceeding that number and accelerating as much of the benefit into this year as possible. Our efforts are focused on mitigating cost inflation by minimizing hiring, optimizing scheduling efficiency, capitalizing on supply chain opportunities and aggressively improving corporate overhead.

Looking forward, we currently expect this quarter's CASM-X to increase in the range of 7% to 9% year-over-year, driven primarily by the continuation of general inflationary pressures from wage and work rule headwinds from labor contracts ratified last year and also from continued capacity moderation efforts.

As 2025 progresses, our year-over-year unit cost inflation is expected to ease as we lap labor contract anniversaries, deploy initiative-driven capacity growth and aggressively pursue benefits from our cost initiative. Our cabin retrofit efforts associated with our premium seating initiatives are expected to result in approximately \$150 million in incremental costs primarily in the second half of the year, but these will be onetime and will not carry forward into 2026.

Taking all these variables into account, excluding potential gains from any future sale -- fleet sales, sale leaseback transactions, we expect to exit 2025 with fourth quarter year-over-year CASM-X growth in the low single digits.

Moving to fleet. As we highlighted in third quarter earnings, we saw the prudent planning of our conservative fleet delivery expectations pay off. As a reminder, we entered 2024 expecting to receive 79 Boeing aircraft deliveries. In March, Boeing informed us we would receive 46. After going through a detailed process, we conservatively adjusted our plan to 20 deliveries to reduce the risk of further operational impact. We closed out 2024 with a total of 22 deliveries, essentially in line with our internal estimation.

Now in terms of how we are thinking about managing our fleet this year, we have a modest capacity plan of 1% to 2% year-over-year growth, and that growth is fully funded by our efficiency initiatives. This sets us up to reduce our total aircraft count by year-end.

However, we still want as many deliveries as possible to modernize our fleet and reach our goal of an all -7, -8 fleet in 2031. To that end, we are planning to retire 51 aircraft this year. And in addition, we are contemplating the sale of an additional 10 -800NGs. To support this, we need 38 deliveries from Boeing. However, as Bob shared, all incremental deliveries beyond 38 offer an opportunity to accelerate the execution of our fleet monetization strategy.

I will remind you that we view our fleet monetization strategy as incremental to the base business improvement. The strategy is highly idiosyncratic opportunity to monetize our fleet through our portfolio of sales and sale-leasebacks to fund fleet modernization and support shareholder return.

The fleet opportunity is uniquely available to Southwest as a result of the following factors: One, the current industry aircraft supply constraints, which are driven by OEM challenges, creating strong demand in the secondary market; two, the embedded value in our -8s from Boeing compensation and favorable pricing, which creates a meaningful value gap relative to the strong secondary market; and three, access to aircraft provided by our contractual order book which is beyond the needs of our modest capacity plan. As a reminder, the 1% to 2% growth over the next 3 years does not require additional aircraft as it is funded by efficiency initiatives.

Now of course the -800 and -8 aircraft play different roles in our fleet strategy initiative. I'll start with the -800s. These are mid-life aircraft that currently have highly favorable market valuation. The current market setup and our order book economics combine to create an opportunity to replace these midlife -800s with new -8s. This creates value for Southwest as we plan to realize the lower maintenance and fuel costs, enhanced customer experience and better reliability associated with -8 aircraft, all with reduced capital spending.

With the -8 aircraft, the opportunity to realize value comes from the ability to sell excess aircraft in our order book and pull forward the significant embedded value that comes from favorable pricing and the current market value. However, to be able to fully execute the strategy, we must receive sufficient deliveries from Boeing. While we are feeling very good about where Boeing is headed, we will want to gain confidence in their production capabilities before we move forward with sales.

So you can understand that our strong preference is to execute sales. The -800 sales facilitate capital-efficient fleet modernization. And for the -8s, the opportunity is to harvest the significant embedded value. We will however be opportunistic with sale-leasebacks and pursue them as a mechanism for an orderly exit of the -800s from our fleet.

Now that we have completed our first transaction, you have a better idea of the economics of the -800 sale-leaseback. Sale-leasebacks allow us to lock in the certainty of today's strong secondary pricing while simultaneously bridging our operations until we are confident that we will receive our contractual replacement -7s and -8s from Boeing. Essentially, these sale leasebacks are functioning as forward sales. And again, we will pursue them opportunistically only where it makes financial sense while also taking into account overall fleet modernization goals, financing needs and capital allocation considerations.

Moving to CapEx. Full year 2024 gross capital expenditures were \$2.1 billion, in line with previous guidance. Including proceeds of \$871 million from the sale-leaseback transaction in fourth quarter 2024, full year 2024 net capital expenditures were \$1.2 billion.

We currently expect 2025 gross capital spending to be in the range of \$2.5 billion to \$3 billion. This includes approximately \$1.2 billion in aircraft capital spending and \$1.6 billion in non-aircraft capital spending. And again, there is an opportunity to lower net capital spending from our fleet monetization strategy.

As we look to the future, we remain committed to maintaining a strong balance sheet and are proud to have an investment-grade rating by all 3 rating agencies. We also remain committed to providing significant returns to our shareholders through dividends and share repurchases. In 2024, we returned \$680 million, consisting of \$430 million in dividends and \$250 million of share repurchases to our shareholders.

The \$250 million ASR was the first repurchase program of the \$2.5 billion share repurchase authorization announced at our September Investor Day. The company continues to plan for the launch of an additional \$750 million ASR program later this quarter. Assuming performance trends continue as expected, we plan to complete repurchases of the remaining \$1.5 billion available under our share repurchase authorization in 2025.

Before I hand it back to Bob, I want to send out LUV-love to my Southwest family and to all of you in the investment community for your support and camaraderie over the past 33-plus years.

With that, I will turn it back to Bob.

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

Thank you, Tammy. As we wrap up, I want to emphasize a few points. First, the team is intensely focused on meeting and exceeding our targeted performance improvement trajectory.

Second, our core business initiatives are performing ahead of expectations, outlined only 4 months ago, and we expect to deliver or exceed the \$1 billion 2025 EBIT contribution target. This excludes the benefit from any fleet transactions. Nonetheless, our goal remains to deliver \$1.5 billion of targeted total 2025 incremental EBIT.

Third, we are taking a hard look at our cost structure. Our cost performance, including in the first quarter, is not where we want it to be. We are taking immediate actions to accelerate as much of the \$500 million of targeted cost savings into 2025 as possible and we will report on our progress as we go.

Finally, we have tremendous confidence in the plan and are excited about the future of Southwest. We plan to repurchase \$2.25 billion of stock this year or approximately 12% of our market cap at current prices. We expect this to be very accretive for our investors as we work to deliver our Southwest. Even Better. plan, including our North Star goal to achieve after-tax ROIC of at least 15% in 2027. The pace of those share repurchases do not depend on the progress of our fleet monetization strategy.

Now before I turn it to Q&A, I want to say a few words about Tammy. As you all know, Tammy will be retiring as our CFO at the end of this quarter after 33 years with the company. She has served in many roles and has the distinction of serving as our first Head of Investor Relations. She's been our Chief Financial Officer since 2012.

Over the years, she's led us through times of great prosperity that provided for lucrative shareholder returns. She's an innovative leader who was instrumental in the success of countless endeavors. She leaves Southwest with a fortress balance sheet, investment-grade rated by all 3 credit agencies.

And Tammy is a humble, generous, and inspirational leader, she's a tireless mentor, and as such, leaves a strong legacy. And you won't find a nicer, kinder and tougher person anywhere. So I'd like to thank Tammy for her deep commitment to our employees, the investment community and our shareholders. And Tammy, congrats on all you have accomplished. Thank you for your leadership and more importantly your friendship. You will be missed.

And on that note, I will pass it back to Julia to start our Q&A.

**Julia Landrum**

*Vice President of Investor Relations*

Thank you, Bob, and congratulations, Tammy. We LUV you too. This completes our prepared remarks. We will now open the line for analyst questions. [Operator Instructions] We will now take the first question.



# Question and Answer

## Operator

[Operator Instructions] The first question comes from Savi Syth with Raymond James.

### **Savanthi Nipunika Prelis-Syth**

*Raymond James & Associates, Inc., Research Division*

Tammy, congratulations on the pending retirement. And one of your competitors once told me -- or the counterpart at one of your competitor firms once told me that Southwest's balance sheet as being something on another planet in terms of its relative position. And I know that doesn't happen accidentally, so congrats.

If I might, for my first question and maybe to Tammy. Unit cost here in the first quarter is moderating by about 3 points or maybe closer to 5 if you consider that you don't have the sale-leaseback gain in the quarter. And in your opening remarks, you talked about like a 1.5 point headwind in the second half from the cabin retrofits. So given all the moving parts, I was hoping you could talk a little bit about the cadence of unit cost growth for the rest of the year. And just to clarify that low single-digit exit rate, what type of capacity growth that exit rate is on.

### **Tammy Romo**

*Executive VP & CFO*

Yes. No, thank you. First of all, thank you for your kind words, Savi, and it's really been a pleasure and you are wonderful. So thank you.

I -- just to give you a little bit of color on just the bridge for the 5 to 7 points from our midpoint of our guidance in the first quarter to the low single-digit exit rate in the fourth quarter. It's really coming from a couple of different buckets. We have, call it, 3 to 4 points from turn and red eye initiatives. So a big chunk of that is coming from just capacity -- from the capacity.

So hopefully that helps answer your question there. It's probably 3 points if I had to peg that. And another point just from absorbing the overstaffing that we've discussed in previous calls. And then there's another 2 to 3 points that is split fairly evenly between the lapping impacts from labor contracts that were ratified last year and the just overall benefits from the cost plan initiative kicking in.

So as Bob and I both talked about in our remarks, we're very focused on our cost reduction efforts, and those will of course ramp up as we go through the year. So we're feeling good as we sit here today about the exit rate. And while some of that is coming from capacity, it's also coming from just an incredible amount of work from the team.

### **Savanthi Nipunika Prelis-Syth**

*Raymond James & Associates, Inc., Research Division*

That's helpful, Tammy. And maybe just following up on that. So from a timing perspective, those kind of red eye initiatives, I'm guessing they kind of kick in there in the second and third quarter. So is it kind of fairly consistent then, the rest of the quarters? Because in the second half, you do have that kind of step up in cabin retrofit.

### **Tammy Romo**

*Executive VP & CFO*

Yes. So it ramps up, with the biggest impact hitting in the fourth quarter.

## Operator

The next question is from Duane Pfennigwerth with Evercore ISI.

### **Duane Thomas Pfennigwerth**

*Evercore ISI Institutional Equities, Research Division*

Tammy, congrats, good luck on the next phase of your career. I know you're going to miss all this fun.

### **Tammy Romo**

*Executive VP & CFO*

I'm going to miss you, Duane.

**Duane Thomas Pfennigwerth**

*Evercore ISI Institutional Equities, Research Division*

So look, I wanted to ask you maybe a longer-term question. There's a lot of symmetry right now between the industry backdrop and the renaissance that kicked off in 2012. And Southwest was really a big part of that renaissance. And as we go back and look at that period, you really had a multiyear period of margin expansion, RASM growth over CASM growth. Not a quarter or 2 or timing shifts here and there, but a multiyear period of margin expansion. Now some of that was macro growth and benign fuel prices. But really, CASM growth for Southwest was modest despite the fact that capacity growth was also modest and fairly tight over a multiyear period.

So my question is, sorry for the long-winded lead-in, from a unit cost perspective, do you see the potential to enter a similar multiyear period where you get modest unit cost growth on modest capacity growth? Or does better CASM really depend upon getting back to a period of higher growth?

**Robert E. Jordan**

*President, CEO & Vice Chairman of the Board*

Yes, Duane, it's Bob. I'll take a shot and then Tammy can chime in. I think the -- we're not ready to guide '26, '27 CASM-X. But the exit rate for '25, at least gives you some indication of what we're striving for. Maybe a reach, but we're striving for over the course of the rest of the plan, '26, '27. So not unreasonable that we can have CASM in that low single-digit range. And obviously, we have labor rate surety with the contracts closed down. We really don't have any openers of magnitude till '27. So yes, I think that's absolutely -- it is absolutely doable.

**Duane Thomas Pfennigwerth**

*Evercore ISI Institutional Equities, Research Division*

And then maybe just for my follow-up, the certification process for your new seating configuration. Can you give us an update there? What have you learned since last quarter or since Investor Day? And when does this really start in earnest?

**Ryan C. Green**

*Executive VP & Chief Transformation Officer*

Duane, we finalized really our cabin layouts, which allows us to finish up weight and balance certification with the FAA and get our STC certification. We'll get the weight and balance certification. We're planning for that. Of course, it's dependent on FAA time lines, but we're pretty confident we'll get that here in the first quarter, and then the STC certification in the second. And then that will -- we can begin retrofits following at that point.

That goes along with Tammy's note on the retrofit cost being in the second half of the year. We'll get the retrofit started here midyear, and then that will ramp through the remainder of the year. And we're confident that we've got the vendors in place, our employees are in place, to get the fleet retrofit before we get to our operate date.

**Operator**

The next question is from Mike Linenberg with Deutsche Bank.

**Michael John Linenberg**

*Deutsche Bank AG, Research Division*

I echo the comments of what everybody has said about Tammy. Tammy, it's been a lot of fun. And I think I've been there for the majority of those 33 years, so a good run.

Anyway, just on questions, and in fact, I do have one for you, Tammy. When I think about this sale-leaseback transaction that you guys took in the fourth quarter, and so that was 35 airplanes, call it \$90 million. I know that in the past, you had indicated that we could see a margin boost upwards of, call it, maybe 2 points from this strategy. And so when I think about your revenue base for 2025, 2026, and I sort of look at this transaction, and I realize not every transaction is going to be sort of sized this way. But it does seem like that we could be looking at maybe upwards of 100 airplanes on a sale-leaseback basis. I mean, is that number too high? How should I think about it?

And what -- sort of as a follow-up, what are you sort of targeting for 2025 with respect to sale-leasebacks? And I know that there was an RFP for 30 outright divestitures. Where does that sit? So kind of a multi-pronged airplane question.

**Tammy Romo**  
*Executive VP & CFO*

Yes. No, thank you, Mike. And I think you're a lot of fun, too.

So on the -- on your question, I think the overarching theme here is we have a lot of levers we can pull to hit our targeted EBIT contribution from our fleet strategy. So -- and the sale-leasebacks are going to be dependent on our -800 exit strategy here. So that's just really a technique to help us manage that. And obviously, to the extent the proceeds, the proceeds will go to our fleet modernization efforts, obviously, ultimately with the replacement of the MAX 8 because we get EBIT benefits from that as well.

So -- but the bulk -- and again, we're going to -- just to be clear, those -- it will depend on the economics of those transactions, and with the goal, obviously, to be NPV-positive. So the bulk of the benefit really comes from sales of the excess aircraft that we do not need to hit our moderated capacity plan. So that of course is dependent on Boeing deliveries and just market conditions. But the main constraint there is Boeing deliveries, and Bob reported on Boeing in his remarks. So they are ramping up. And we did, I think, have a pretty conservative estimate of what our deliveries are for this year at 38.

So we'll see where Boeing ends up. So that's what makes your question a little bit tricky in terms of timing, but we could have potentially up to 50 to 55 deliveries. And again, those would go towards our fleet modernization efforts.

So I think the takeaway here is that we have a lot of levers. We're going to manage this very carefully. And again, the goal with the -800 is we are exiting we're exiting the NGs, and the sale-leaseback is just an effective tool to help us manage that. But the bulk of the program would come from sales.

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

Yes. I was just going to say, just the sale-leaseback is just a pull forward sale, right? So I mean, our strong preference is sales 800s to replace with lower operating costs, and -8s to maximize the embedded value against the market that's in the fleet order book.

And I would just to say it again, and it's -- so the more Boeing can deliver, the more we can execute the strategy in 2025. I was in Seattle last week and really encouraged by what I saw on the line, the processes, the procedures, slack time coming out, sort of all the things you want to see.

They have a long ways to go. But pending something that we don't know about, I'm optimistic -- strongly optimistic they can exceed the 38. And we probably have upside to 50, 55. So that would certainly help in executing the fleet strategy on the sales side. So a lot to be seen here. I think we'll know a lot once we know whether Boeing breaks rate 38 in March, early April. I expect that they will. We'll have to see. And then I think that puts us in a good spot to really update you on what we now expect in terms of deliveries and what we now think we can execute in terms of the fleet monetization plan.

**Tammy Romo**  
*Executive VP & CFO*

Yes. And Mike, I just wanted to make one more. I just want to be really clear on this. We are working to get to our 2027 target, which is without fleet. At the end of the day, we -- our core base business, where we are aiming to get to our 15%, return on invested capital of at least 15%, and op margins of excluding special items of greater than 10%. So that's really -- we're talking a lot about fleet, but I just don't want that to get lost in the conversation.

**Operator**

The next question is from Catherine O'Brien with Goldman Sachs.

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

Good afternoon, everyone. And maybe I haven't been here for all of the 33 years like Mike has. But Tammy, it's truly been a pleasure to work with you. So congratulations on the career, on quite a career, and happy retirement.

So I have one quick revenue one and then one quick fleet one for you, Tammy. But maybe I'll start on revenue. The 4Q RASM result, you mentioned that the beat was driven in part by stronger holiday peak and then also the ramp of revenue management. Can you just help us think about, broad strokes, how much each of those buckets contributed?

And then how do we think about the pacing of that \$1 billion in tactical EBIT -- revenue-driven initiatives in 2025? How much of your 1Q guide does that drive versus general industry environment? And how does that build for the year?

**Andrew M. Watterson**  
*Chief Operating Officer*

It's always hard to completely tear it apart accurately, Catie. I would say that you got to look at kind of sequentially how our RASM went from Q3 to Q4, and how that compares to our norms, how the other airlines -- how they sequentially progress and how it compares to their norms. You see a level of outperformance with Southwest Airlines. Do the same thing in Q4 to Q1, you see that same amount -- you see the same effect, if you will, of an outperformance on a sequential basis.

This gives you an idea that it's some -- there's some company-specific things that are happening there. And that gives us confidence, and hopefully our investors confidence, that we're seeing that kind of RASM reversion that we need back to our historical levels to hit our plan.

Now within that, kind of tearing them apart, each of these by design elements of our tactical initiatives are self-reinforcing. The network changes, the revenue management changes, the marketing changes, all those work together. So really, the order of operations of quantifying it, whatever you go with first, it gets a bigger benefit, so to speak.

Now revenue management did have a stronger impact in Q4 and into Q1 than the other 2, that's why we called it out in our prepared remarks. But they're all kind of contributing. So I think for that idiosyncratic Southwest part is those 3 combined, and we see that progressing throughout the year.

I will say the ones that we highlighted in Investor Day, where they kind of are getting back to our normal kind of yield discount, if you will, versus our competitors, and getting back our load factor to norm. So the 2 kind of big levers we highlighted that will be signals of us progressing, that we did -- we had more progress than, frankly, I expected on the yield side and then a little modest part on the load factor.

So as we go throughout the year, I expect to keep and grow that yield benefit, and then load factor would be the one that comes second throughout the year. So I think if you look closely at those each quarter, you'll get an idea of how we're progressing in the tactical initiatives.

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

That's great. And then I guess one last question for Tammy. On the fleet strategy, you've called out you expect that to contribute about \$500 million in EBIT on average per year. I understand that's very fluid. Tammy, in your answer to Mike, I think you made it clear that the bulk of that will come from straight sales, not sale-leasebacks. Should we think of sale-leasebacks as offsetting that positive sale impact?

Just with the first sale-leaseback, the increased rent over 3 years offset the gain to the decrease in D&A? Or do we need to be adding like other items, like lower maintenance, dispatch reliability? I guess what I'm really getting at is, do you expect the net of gained aircraft rent and D&A for these sale-leasebacks to also be EBIT-positive? Or how do we think about that?

**Tammy Romo**  
*Executive VP & CFO*

Yes. No, great question, Catie. Yes, when we look at our sale-leaseback opportunities, we -- our goal and our intention is to do all of this in an NPV-positive way. So while, yes, you're recognizing a gain when you sell the aircraft, and there is increased rents that would exceed the depreciation expense. Again, these are short-term sale-leasebacks, again, to help manage the exit of the 800 fleet. But when we look at that in total, it would -- it's NPV-positive, and that's the way we're constructing our fleet strategy here.

So -- but we're taking into account all of the considerations that you just mentioned, maintenance, et cetera. And we've got, again, a lot of levers we can pull to do this in an NPV-positive way. And hopefully, that helps.

**Operator**

The next question is from Dan McKenzie with Seaport Global.

**Daniel J. McKenzie**  
*Seaport Research Partners*

Tammy, I have to jump on the bandwagon here and say huge congrats on such an extended run as a CFO, and at Southwest, of course.

A couple of questions here. Following up on Mike's question. And when all is said and done, how much cash could potentially be unlocked from the balance sheet from these sales? And so I guess my question is how many aircraft fall into that attractive mid-age bucket? And over how many years could these sales potentially occur if you wanted to pull the trigger?

**Tammy Romo**  
*Executive VP & CFO*

Yes. Well, first of all, thank you, Dan. And it's been a pleasure working with you over the years.

So we're not going to give specific guidance on the total proceeds. We've got, if you look at your -- if we look at our order book, and I shared this at Investor Day, we just have airplanes in excess of the aircraft that we're going to need here over the next 3-year period to hit our 1% to 2% capacity growth target. So that gives us -- the proceeds from that would obviously be significant.

And again, what we're focused on is hitting the operating margin targets that we provided you at Investor Day as well as the return on invested capital. So not prepared to give you that today because, again, this depends on the market and we're going to do transactions that make financial sense and that are prudent to the bottom line. And again, we're managing our invested capital base with those proceeds, and focused on exiting our NG fleet by 2031, which will set us up really well for the next generation in terms of CapEx requirements to fund future growth.

So I'm not trying to give you a nonanswer, I'm really not just not prepared to walk you through specifics because it really does depend on Boeing here and the market.

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

And Dan, just chiming in, I think just to quickly add. I've said this many, many times. We're committed to extracting every dime out of that value -- embedded value in the order book. So I think we have 672 right now.

**Tammy Romo**  
*Executive VP & CFO*

Yes, 672.

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

So what -- the commitment is whatever the exact strategy in terms of how every transaction lays out, the intent is to pull every bit of value out for ourselves and our shareholders. And if you run this out, yes, you get to an average fleet age, I think, of 5, all-MAX fleet. That's terrific. It's very low. So there's also work to do, I think, to look at the intersection of optimizing a still really good fleet, really good industry-leading fleet age, and the number of aircraft that could be excess at current capacity rates. So there's work to do to maybe tackle exactly what is optimal in terms of your question.

And then lastly. You didn't ask this, but there has been some discussion of this fleet strategy related maybe to what some others are doing. And the difference is, to me, we have excess aircraft with strong embedded values because of the credits and our own value pricing, especially on the MAX 8s. And we're using the cash proceeds to buy back stock and deliver value to our shareholders and to modernize the fleet and lower operating costs. So that's -- that excess cash is going to work for the right things.

So again, the exact optimal intersection of the fleet age and the number of transactions, sort of TBD. But we're certainly going to run it out to a very attractive fleet age.

**Daniel J. McKenzie**  
*Seaport Research Partners*

Yes, that's perfect. Second question here is a balance sheet question. I believe the plan is to pay down the debt coming due this year. I think it's \$2.9 billion in the first half, if I'm not mistaken, but please correct me on that. But where would that leave the balance

sheet metrics? And secondly, would that open the door for the Board to consider an acceleration of capital returns once you hit those metrics?

**Tammy Romo**  
*Executive VP & CFO*

Yes. So we're -- yes, we would -- the plan is to continue to reduce our leverage here as we go, as we shared at Investor Day. And we'll obviously address that question here as we go with the Board.

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

Yes. Obviously, we're committed to maintain what everyone is praising Tammy for here, a strong balance sheet and maintaining the appropriate level of leverage. Obviously, there's a range to everything here, and we'll be taking that up with the Board.

**Tammy Romo**  
*Executive VP & CFO*

Yes. And you know our target there is the mid-30% range. So obviously, the pay down of debt this year will put us closer to that goal.

**Operator**

There's time for one more question. It will come from Ravi Shanker with Morgan Stanley.

**Katherine Elizabeth Kallergis Bell**  
*Morgan Stanley, Research Division*

This is Katherine on for Ravi. We also wanted to thank you, Tammy, for all your help over the past few years, and we congratulate you as well.

I was just wondering if you had thoughts on overall industry capacity in maybe 2Q through 3Q. And whether you're confident that may come down from what we're seeing maybe in schedules, or if there's any areas of pockets of overcapacity that you're seeing specifically.

**Andrew M. Watterson**  
*Chief Operating Officer*

Yes, certainly. I would say that schedules are really firm for Q1. Our schedules are relatively firm pretty far out because we don't like to republish. Though there's some level of adjustments necessary given the Boeing delivery situation we just discussed here for the last hour. But a lot of the airlines take an approach of modifying substantially capacity closer in. So as a result, summer and beyond, we don't view as complete yet. And so we'll wait until those firm up before we make an assessment of what the back half of the year is going to look like. Some airlines haven't even published beyond kind of mid-May. So it's still in flux, but what we do see is published and firm is, I think, a constructive backdrop.

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

Yes. And Katherine, one of the questions we get a lot, obviously, is how long does the constructive backdrop persist? And despite the optimism that we feel with Boeing, there's still a lot of work to do to get back to the significant rates and completely get supply chain healthy. Obviously, on the Airbus side, you've got the geared turbofan and long, long span times on engines.

And so I'm of the view that despite the improvements we're seeing, the constructive backdrop driven by -- especially manufacturing constraints still exists for years ahead. So this is not something that's going to come off any time soon. So I think it's going to remain constructive for quite a while.

**Katherine Elizabeth Kallergis Bell**  
*Morgan Stanley, Research Division*

And just as a quick follow-up. I know you guys have kind of talked about your plans for retrofitting aircraft for the premium cabin. But I was just curious if you could give us a quick update on the progress you've made since the Investor Day, maybe something that you've been excited about or that you've done since then?

**Ryan C. Green**

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*Executive VP & Chief Transformation Officer*

Yes, Katherine. We covered the retrofits, the progress there, which is good. Earlier in the call, I think the -- getting the amendment done with Chase is another key step in our -- the path towards selling and operating in an assigned and premium environment, we needed to switch kind of our boarding benefits over to boarding and seating benefits, which I think our customers -- we'll be out with the details soon and with our customers. But I think what we've built there in partnership with Chase is going to be really exciting for customers. I think it's going to drive co-brand card acquisitions in the future. So definitely excited about that.

And just generally, I'm pleased with our progress overall. Technology development is going well. The team broadly across Southwest has really rallied around this as a key priority for the company. Everybody understands the value to our customers, value to shareholders and value to our employees. And I just think that the pace of execution has been really good and the focus is there. So I'm encouraged by our progress and what's left to come here over the balance of the year.

**Andrew M. Watterson**  
*Chief Operating Officer*

I would also add, Ryan, we started -- we intend to dynamically price the seats in the new product. And we went live with dynamic pricing for our upgraded boarding product this quarter, just actually just recently. And that's going to kind of give us kind of training the models and giving us practice in the processes and technologies for almost a full year here before we go live. So I think that's a kind of early win. It will help us this year, but also as a proof point of our technology acumen in advance of the new product.

**Ryan C. Green**  
*Executive VP & Chief Transformation Officer*

100% agree.

**Operator**

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

**Whitney Eichinger**  
*Senior VP & Chief Communications Officer*

Thanks, Gary. Welcome to the media on our call today. Before we begin to hear your questions, could you please remind everyone how to share -- how to queue up for questions?

**Operator**

[Operator Instructions] The first question comes from Mary Schlangenstein with Bloomberg News.

**Mary Schlangenstein**

I just had a quick question on the amended credit card deal. With your forecast that it's going to really drive acquisitions of the card up, are you offering any kind of a forecast in terms of how your remuneration from Chase may expand, and some idea of what that could be on an annual basis going forward?

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

Mary, I'll start, and I'm sure Ryan will add. I just wanted to say first, thanks to our team and to our Chase partners. It's a big amendment, and we moved through it with speed and pace, and so I'm just -- I'm very grateful. But now we're really for the new deal, it does include significant additional compensation. I think you could think of it as competitive with recent deals in the market that I'm sure you're familiar with. It was contemplated in our Investor Day plan. But no, we're not going to -- we just -- we're not able to provide exact details on the financials.

But Ryan, do you want to add anything?

**Ryan C. Green**  
*Executive VP & Chief Transformation Officer*

No, it's -- we're pleased to get it done. It's a proof point in the plan. And like you said, it's absolutely very competitive with what's out there with legacy carriers in the market.

**Operator**

The next question is from Robert Silk with Travel Weekly.

**Robert Silk**

Two quick questions. One, has there been a shift in Southwest's approach to DEI? I know there's been some attention paid to the change in title from your Vice President of DEI changing to Corporate Citizenship and Chief Inclusion Officer. That's question one.

Question two, very different question. Generally for flying Southwest, any updates on that in terms of how you work with the travel trade and travel advisers?

**Andrew M. Watterson**  
*Chief Operating Officer*

I'll start with the second one first. With that one, we have no changes to announce. In general, we're -- as we previously discussed, we're a direct-to-consumer business. And so with -- a great majority of the business case is predicated on selling to our current customers who want to buy packages, but who aren't fulfilled by Southwest Airlines. So we'll be able to offer them what they want to buy and/or buying today. And so we think that will be a benefit.

Whether we work with a trade or not and how much. We do at the margin in some situations, and there's nothing to philosophy against that. But mostly, the business case is predicated on direct sales. But as we get closer to go live, we'll firm up our trade policies.

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

And Robert, on the DEI question, whether it's today, 5 years ago, 10 years ago or 20 years ago, I've been here 37 years. We've always worked hard to hire people who are just nice, they fit the culture, and to create an environment that is inclusive. And we used the word belonging. People just feel good about being here. They like coming to work, they like their team, and they feel like they belong at Southwest.

And then as it relates to hiring and promotions, they've always been merit-based and no different across our history. So no, no changes in terms of how we think about how we treat people and how we reward people.

Now obviously, there's a lot of questions about the flurry of executive orders. And as needed, we'll be evaluating those and understanding what we may need to do. And so I think just sort of stay tuned there.

**Operator**

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

**Whitney Eichinger**  
*Senior VP & Chief Communications Officer*

If anyone has any further questions, our communications group is standing by. Their contact information, along with today's news release, are all available at [swamedia.com](http://swamedia.com).

**Operator**

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



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