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Southwest Airlines Co. NYSE:LUV

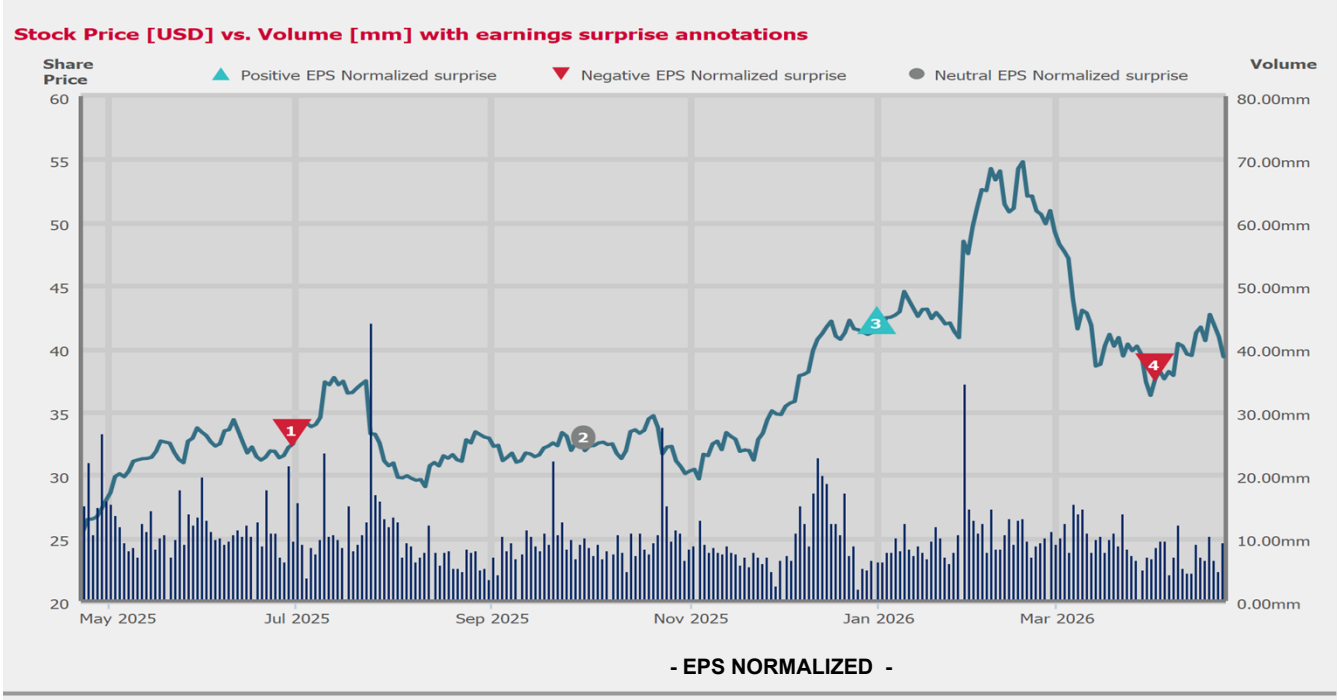
FQ1 2026 Earnings Call Transcripts

Thursday, April 23, 2026 2:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2026-			-FQ2 2026-	-FY 2026-	-FY 2027-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.47	0.45	(4.26 %)	0.45	2.79	NA
Revenue (mm)	7276.18	7249.00	(0.37 %)	8560.14	32608.32	NA

Currency: USD
Consensus as of Apr-23-2026 5:01 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2025	0.51	0.43	1 (15.69 %)
FQ3 2025	(0.04)	0.11	NM
FQ4 2025	0.57	0.58	2 1.75 %
FQ1 2026	0.47	0.45	3 (4.26 %)

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Table of Contents

Call Participants 3
Presentation 4
Question and Answer 7

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Presentation

Operator

Hello, everyone, and welcome to the Southwest Airlines First Quarter 2026 Conference Call. I'm Nick and I will 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 Danielle Collins, Managing Director of Investor Relations will begin the discussion. Please go ahead, Danielle.

Danielle Collins
Managing Director of Investor Relations

Hello, everyone, and welcome to Southwest Airlines First Quarter 2026 Earnings Call. In just a moment, we will share our prepared remarks, after which we will move into 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 quick reminder that in today's session, we will be making 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. We appreciate you joining us today. First quarter 2026 represents an important milestone for Southwest as all our previously announced initiatives are now in place and contributing to our results, and what a difference a year makes. That broad set of commercial, operational and cost and efficiency actions represent a fundamental transformation of our business model, and is translating into strong customer demand for our new product, strong financial results and strong margin expansion. The financial tailwind provided by these initiatives is meaningful, as indicated by our results.

Our first quarter EPS of $0.45 was in line with our guidance in January and represents a significant year-over-year improvement from a loss of $0.26 per share, or an adjusted loss per share of $0.13, and these results were delivered against the backdrop of significantly higher fuel costs, which represented a $0.22 EPS headwind in the quarter, further illustrating the underlying momentum that we're seeing across the business.

First quarter operating margin of 4.6% was an 8.1 point improvement year-over-year, or 6.6 points on an adjusted basis, a powerful change in how the company generates earnings. We also generated $1.4 billion in operating cash flow in the quarter, an increase of 65% from the first quarter of 2025.

Now that the contributions from our initiatives have kicked in, I want to reflect on two potential narratives that have been brought up occasionally regarding Southwest Airlines. The first being, because we don't serve long-haul international markets, and lack material exposure to premium segments, we would be unable to generate margins that are in line with carriers that do have those attributes. And second, that our customer base is somehow different and would therefore be unwilling to respond to our product changes, and pay more for segmented products and seat ancillaries.

As evidenced by our first quarter results, we are proving those arguments wrong. Southwest has significant fundamental and enduring core strengths, the largest domestic network; the most non-stop flights; and a #1 position in nearly half of the 50 largest U.S. airports, operational excellence that resulted in Southwest being named the Wall Street Journal's Best U.S. Airline of 2025; cost discipline and operational efficiency; and importantly, legendary service and hospitality provided by our incredible people. Those core strengths, coupled with our new product offering, are fundamentally changing the financial margins that we produce.

Our transformed business model is being stress tested in this unique environment of geopolitical upheaval and much higher fuel prices. Against this challenging backdrop, our first quarter operating margin of 4.6% and our year-over-year unit revenue growth of 11.2% demonstrate the strength of our new model. Moreover, in the second quarter, we expect unit revenue growth between 16.5% and 18.5%, which I expect to be industry-leading by a wide margin.

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That's all proof that our existing customer base, and the new customers we are attracting, want and are willing to pay for our new products and our product attributes. In other words, they love the Southwest product. While the external environment remains uncertain, we are confident about how we are positioned. A wholesale change to the business model and product offering that is being battle-tested by higher fuel prices and geopolitical tensions, yet is producing top-tier industry financial results.

Looking deeper at the results, demand remained strong across geographies, customer segments and both business and leisure. And the customer take rate for our enhanced product offering and seating ancillaries is strong as well. Passenger revenue growth, operating revenue and unit revenue each set first quarter records with March marking our largest operating revenue month in our history.

Going forward, we remain squarely focused on continued margin expansion and are taking actions to further improve financial results, including aggressively optimizing our product and revenue initiatives such as the recent increase in bag fees, taking targeted actions to further reduce nonfuel costs, and drive efficiency across the business. And you saw a portion of that come through in our first quarter CASM-X increase of 2.3%, well below our guide of 3.5%.

Continuing enhancements to our product offerings, such as our new partnership with Starlink. By the end of the year, Starlink will be available on at least 300 aircraft, and roughly 2/3 of our fleet will be equipped with in-seat power and larger overhead bins. We expect these changes, combined with recent product enhancements to continue to drive growth in corporate business travel.

We are aggressively managing our network, reducing lower return flying and redeploying that capacity to higher-margin opportunities, such as the recently announced suspension of operations at Chicago O'Hare and Washington Dulles, and we had a handful of flights at both airports, which were underperforming. And we entered 2026 with a disciplined capacity plan, and now expect full year capacity growth of approximately 2%, at the low end of our prior 2% to 3% range, driven by ongoing schedule optimization and network refinement.

Turning to the outlook. There is significant economic and geopolitical uncertainty, and it's not possible to know with confidence all the ways the industry could be impacted. That said, we do know two things. Fuel prices are much higher. And if that is sustained, it will require higher ticket prices to offset that increase in fuel.

Given the ongoing macroeconomic uncertainty, updating our full year adjusted EPS guide of $4 would not be productive at this time. Achieving this outcome would require lower fuel prices, and/or stronger revenue performance to offset higher fuel expense. We will continue to monitor conditions closely and provide updates to our guidance as appropriate.

For the second quarter, we expect EPS in the range of $0.35 to $0.65, using an average fuel price range of $4.10 to $4.15 based on the forward curve as of April 16. The EPS guide represents significant expected earnings and margin expansion year-over-year.

In closing, while fuel is an external factor, and we were operating in a volatile macro environment, our first quarter results are proof there is strong customer demand for our new products. Our initiatives are working. Our significant core strengths remain and that combination is producing top-of-industry margins.

I want to say how proud I am of our people. The progress we are seeing across the business is the direct result of the work they do every day, delivering for each other, our customers and our shareholders. We are just 18 months removed from announcing our initial transformational initiatives, and I could not be prouder of our teams for the discipline and excellence which they continue to deliver.

And with that, I will turn it over to Andrew to cover revenues and operational performance.

Andrew M. Watterson
Chief Operating Officer

Thanks, Bob. The first quarter was an important one for our operations as our teams delivered industry-leading reliability while executing a significant amount of change across the airline. This included the successful implementation of assigned seating and extra legroom on January 27, with the operation ranking first among our peers, an on-time performance and completion factor on launch day.

Q1 RASM was up 11.2% year-over-year, well above our guidance of at least 9.5%, reflecting the contribution from our new product offering, as well as broad demand strength across the network. Operating revenue of $7.2 billion was an all-time record for first quarter.

We also announced adjustments to our network. As Bob mentioned, we announced the suspension of operations at O'Hare and Dulles, where we'll be consolidating our operation into Chicago Midway, Reagan National and Baltimore, and reallocating capacity to high-performing opportunities. At the same time, we are seeing strong performance in markets where we've added capacity, including San

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Diego, Orlando and Nashville. We will continue to evaluate future network and capacity adjustments that we feel will be accretive to our performance.

Separately, we are seeing our initiatives resonate with customers, as demonstrated by several examples. We have seen a meaningful shift in customer purchasing behavior. The mix of customers buying up from our base product increased from approximately 20% in 2025, to roughly 60% in the first quarter of 2026, with ancillary upsell performance also meeting expectations.

We're also seeing clear traction with business travelers. Managed corporate revenue increased 16% in the first quarter and 25% in March, marking the largest quarter and month in our history. And reinforcing that our enhanced product is resonating with higher-yield customers. At the same time, engagement across our Rapid Rewards program continues to strengthen. Enrollments increased 37% year-over-year. And the number of customers earning tier status rose 62%, demonstrating both strong acquisition of new customers and deeper loyalty from our existing base.

We continue to deliver a safe and reliable operation, improve efficiency across the system and support the continued evolution of our product offering. Our people have done an outstanding job navigating a period of significant change, and I want to thank them for their continued dedication.

With that, I'll turn it over to Tom.

Tom Doxey
Executive VP & CFO

Thanks, Andrew. We continue to demonstrate strong cost discipline to start the year with first quarter CASM-X up 2.3% year-over-year on a capacity increase of 1.5%, and in spite of a 1.2 point headwind from the removal of 6 seats on our 737-700 fleet to accommodate new extra legroom seating.

Fuel prices increased meaningfully during the quarter. We have forecasted a first quarter price per gallon of $2.40 and ended up at $2.73 per gallon, increasing fuel expense by approximately $164 million. In spite of the dramatic increase in fuel cost and other operational headwinds experienced during the quarter, we hit our EPS guide. We also delivered the highest adjusted net margin of the large U.S. airlines during the first quarter with our cost discipline, initiative contribution, revenue strength and operational excellence, allowing us to deliver the margin expansion that Bob outlined earlier.

We ended the quarter with $4.8 billion in liquidity and a leverage ratio of 2.2x. Having a strong investment-grade balance sheet and high relative margins within the industry is a key strategic advantage for Southwest, especially during times of industry stress, where our strength creates the opportunity for further separation between Southwest and other airlines.

During the quarter, we entered into a $500 million secured term loan facility backed by a small portion of previously unencumbered aircraft, which we used to pay down the final portion of our Payroll Support Program loans, which would have otherwise moved to a higher interest rate in the second quarter. We also returned capital to shareholders through share repurchases of $1.25 billion and $93 million in dividends. We have $450 million remaining in our current share repurchase authorization.

Looking ahead, our focus remains on managing what we can control. Driving efficiency, maintaining disciplined cost management and investing smartly in our product and operations. We expect second quarter CASM-X to increase 3.5% to 4% year-over-year on a capacity increase of 0.5% at the midpoint. Consistent with Bob's comments, based on what we see today, we continue to expect margin expansion and earnings growth in 2026, and we'll continue to be nimble and opportunistic in the way that we manage the business.

And with that, I'll turn it back to Danielle for 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. To help us manage time efficiently, we ask that you please ask your 1 or 2 questions back-to-back at the onset.

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Question and Answer

Operator

[Operator Instructions] And the first question will come from Mike Linenberg with Deutsche Bank.

Michael John Linenberg
Deutsche Bank AG, Research Division

My two questions here. Just, Andrew, the upsell out of the bottom bucket from 20% to 60%, do you have a sense of what that average increase in fare is going from that 20% to 60%?

And then just my second question to Bob. Just thoughts about potentially competing against the government-controlled or a government-owned carrier. I mean, whether it's sound industrial policy or not? So I'll let you mull that one over.

Andrew M. Watterson
Chief Operating Officer

Yes. Thanks. It's Andrew. So I'll start with the first one. I'm not going to break down it kind of fare product by fare product, but I will say that, obviously, we had an 11.6% yield increase year-over-year. And at least half of that came from people voluntarily decided to pay more by buying up. So we have, kind of, secular yield trends going on, and then we have people voluntarily buying up, which creates the extra yield boost. And so net-net, we're super pleased with it.

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

Mike, it's Bob, and on the second -- with Spirit. I mean, it's a tough situation. We've got a lot of people that are affected, but it's a tough industry. I mean, things come around. I've been here 38 years, you have wars, you have fuel spikes, you have economic issues, recessions, and you got to be prepared for the long term as a business because the shocks are going to happen. And that's why we've created a very resilient business here at Southwest Airlines to prepare for those things.

On competition, we're focused on improving ourselves and competing with the top of the industry. And it's showing in the results. If you look at the first quarter, you got an 8-point margin expansion year-over-year. Our net margin is going to be the best amongst the large U.S. carriers. If you look at the second quarter guide and the spread between our unit revenues and our unit cost is a 14-point expansion. So we're focused on building a resilient business, continuing to optimize from the transformation. Our customers love the products, and that is where all of our focus is.

Operator

The next question will come from Jamie Baker with JPMorgan.

Jamie Nathaniel Baker
JPMorgan Chase & Co, Research Division

A couple for Tom. So the first question has to do with the second quarter RASM guide. I realize you hadn't previously given a succinct guide, nor had your competitors. But there was enough info out there that we all kind of backed in to how the second quarter was looking before the start of the war. And that's my question.

Since the war start, we've seen several points in second quarter RASM improvement at your competitors, but your second quarter guide seems, kind of, in line with what we were thinking before the war. Maybe we just got lucky, but for the sake of investors on the call, can you tell us how many points of RASM improvement went into this second quarter outlook as fares began to rise?

And then second, still considerable consternation around the air traffic liability. It's flat year-on-year. I know there was some language in last night's 10-Q. Maybe the way to clear this up would be -- and I don't know if you have this at your fingertips, but under the old methodology, what would the ATL have been at the end of the first quarter? I'm asking because squaring a flat ATL with such strong revenue growth is -- well, it's difficult for me, and we continue to take a lot of questions on it.

Andrew M. Watterson
Chief Operating Officer

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Jamie, it's Andrew. Tom has given me the first one. He'll take the second one. The RASM guide is us looking at our current trends, which have accelerated, and projecting that forward. I know many airlines are talking about fuel recapture and making assumptions about fuel recapture. I think we're -- that's sort of a dangerous game. We are taking our current trends, which are very strong. We have even stronger yield traction than we did in Q1, once again, with stable volumes. We're taking that and pushing it forward.

If there were an acceleration in the environment from today, then there would be upside to that. But we'd rather just take the current trends and project that forward to get a good center-cut RASM guide.

Tom Doxey
Executive VP & CFO

Yes. Jamie, on the ATLs, talking about old versus new methodology, we're not going to get into the detail of exactly what the different percentages are and how they allocate between the different buckets. What we've talked about is that what we've moved toward as we have this new agreement with Chase, is very much industry standard. It's very much where a lot of our peers are in the way that we either bank into ATL loyalty revenue or recognize it in one of the revenue categories.

And I think as you look at ATLs just generally, there's nothing unusual to note. You look at the sequential trends, you look how it compares to other carriers. There's nothing unusual to note in what those trends are.

Operator

The next question will come from Conor Cunningham with Melius Research.

Conor T. Cunningham
Melius Research LLC

Maybe following up on that response to Jamie's first question. Just why is it a dangerous game to assume some sort of fuel recapture throughout the remainder of the year? Is it that you're fearful of demand destruction? Just -- I think there's a big debate on just on how straightforward like recapture is in general. So if you could just talk about that.

And then, Tom, the capital allocation decision, clearly things are changing a fair bit. Your free cash flow profile probably took a step back with the rise in fuel. So just trying to understand the buyback going forward from here, you bought back a lot in the first quarter. Your leverage has gone up a little bit. You've talked about that. But if you could just frame up the changes in how you think about capital allocation?

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

Conor, thanks. It's Bob. I'll take the first, and then Tom will take the second. Just on the fare environment generally. Certainly, we've seen a willingness to move fares along. There's been constructive pricing behavior. But at the end of the day, this "percent of fuel recovery," which is really what you would put on top of your trend, it's going to be dictated by market conditions, not by some academic formula, or target of calculated recovery. So based on that, we believe what is most fair is to put current trends in because you cannot predict at what point consumers and demand is going to be -- you're going to begin to see demand destruction based on the pricing environment.

So we've run current trends through. If we see upside to that, then that's upside to our guide. And bottom line, we're focused on what we can control. We're taking actions against pricing like the bag fee increase. We're taking actions, obviously, along the broader pricing front. We have made some close-in demand shaping reductions to capacity. We already had low capacity in place for the year. So we're taking actions against the things that we can control, aggressive cost discipline, and the fare environment will ultimately play out based on market conditions.

Tom Doxey
Executive VP & CFO

And Conor on capital allocation, as we mentioned in the prepared remarks, having a strong and efficient investment-grade balance sheet is a key differentiator. You hear others talk about their desire to get there. The fact that we're there gives us the ability, of course, to borrow at lower rates. And as we think about how we move forward and just how we navigate, it's all about staying within the guardrails that keep us there. And we've been very consistent about what those guardrails are about liquidity, you see where we are relative to that this quarter.

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And then we've actually floated down on the debt ratio despite of being in, I think, a more challenging environment. As the business and the EBITDAR generation that has occurred in the business has improved, we've actually floated down on that debt ratio. And maybe just as a side note, that debt ratio is a gross debt-to-EBITDAR ratio. And so it's, I think even compared to some of the others out there, a very conservative way to look at it.

So as it relates to share buybacks, it's always going to come back to staying within those guardrails. And we don't know exactly what's ahead, but we've seen incremental cash generation from the business, versus where we were before in spite of today's environment, and we'll just follow that and stay within our guardrails.

Operator

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

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

So my first question, really it's hard to tease apart the macro from the initiatives, hence the move to EPS guidance. But there were a couple of things you thought could drive upside to your EPS outlook in January, including a step-up in close-in extra legroom purchases from corporate travelers and potential market share gains. Can you update us on those efforts specifically, how they've been going versus your initial plan?

And then second, a related question and a bit of a follow-up to Mike's. Great to see the big step-up in buy-up in 1Q post the launch of your new seating products. Can you just break down how much of that is cash sales, loyalty points being redeemed and credit card perks?

Andrew M. Watterson
Chief Operating Officer

So the corporates we gave in our prepared remarks, the corporate numbers have responded. You saw that they were back-weighted to March. So once the assigned seating and extra legroom went in place, we saw an uptick both from current customers, but also new customers. So we're seeing an acceleration of new unique customers in our corporate channels which indicates a kind of desire now to fly Southwest Airlines. And, well, also within the same existing network of accounts, we've seen buy-up to the higher fares as corporate policy allows them to buy up. So those numbers we quoted are indicative of the consumers behaving like we anticipated.

And as far as the redemptions, I think cash has accelerated more than redemptions on the fare products, which is consistent with what we wanted to do. We went to more variable burn in our earning -- excuse me, on our Rapid Rewards last year. And so that tends to, on the best flights, push your redemption mix down, and your cash mix up.

Operator

The next question will come from Ravi Shanker with Morgan Stanley.

Ravi Shanker
Morgan Stanley, Research Division

So maybe just kind of similar but different on the theme of RASM. To the extent possible, if you looked at your earnings for the year, ex fuel, on both cost and revenue. So let's say, you were to use Feb 28 assumptions. Do you think you're still on track for at least $4 of EPS for the full year? And I think you pointed upside to that.

And maybe as a follow-up, what innings do you think you're with -- you're in when it comes to monetizing some of these internal initiatives and kind of how much do you have left in the tank?

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

Yes, Ravi, thanks so much. The -- I think the short story is, but for fuel, everything is on track and performing, sort of, at or maybe slightly better than we expected. It's really just a story of fuel. I mean, it's a $0.22 headwind in the first quarter. It's a $1 billion headwind in the second quarter or 10 points of margin. So it's very material. But no -- yes, the only change to how we were thinking about the full year right now is fuel.

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And I just did want to address the guide as well. There's been some reporting that we pulled our guide. We did not pull our full year guide. There are scenarios where absolutely we could still hit the $4. It depends on fuel and revenue trends from here. We just felt like it was not productive to introduce a new guide or a range, given how volatile fuel is day to day to day.

On your second question of what inning are you in, in terms of optimizing the current initiatives? I do believe we have a ways to run. Our original forecast or the plan would be to get to full run rate because these bake in over time, based on the booking curve, to get to run rate here in the third quarter. And then, of course, we have opportunities to optimize fare product buy up, optimize the way we think about seat ancillaries.

And then on top of that, we're going to continue to enhance the product. You saw the Starlink announcement, continue to make a push into business who loves the new product. I mean the fact that March revenues on the business side were up 25% is a huge indicator of that. But yes, we're -- our run rate was expected in the third quarter on the initiative performance, and then we have room from there.

Operator

The next question will come from Scott Group with Wolfe Research.

Scott H. Group
Wolfe Research, LLC

So I just wanted to follow up on that sort of last answer, Bob. Like your comment that the only change really is fuel and everything else is sort of in line, maybe slightly better. I mean, I guess it feels like everyone else is saying, yes, fuel is a lot higher, but now our revenue assumptions are a lot higher, too, as we're -- the whole industry is sort of working to pass through fuel. Would you not agree with that sort of comment?

And then maybe just along those lines with fuel, like there's certainly a sense of, hey, the industry -- this is the first sort of like big fuel spike where you guys aren't hedged and that's sort of helping the industry pass through fuel quicker? Like are you approaching fuel pass-through differently than maybe you have in the past? Or maybe do you think you're approaching it differently than the industry?

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

Yes. The first question, where would we be but $4, is all, again, hypothetical. You're trying to compare what would the industry have done with pricing and fares as compared to what is happening today. With the rise in fuel, no doubt, there is -- it's a more constructive backdrop, I believe, in terms of pricing. So yes, I think it's fair to say that the pricing environment is stronger, and we didn't give you a range. We gave you an at least $4. So we did not give you what that upper range would be. But no, it's a more constructive fare environment, certainly than I would have expected.

And then you just look at Southwest performance. We are demonstrating incredible cost discipline. In the first quarter, you had cost come in -- unit costs come in at 2.3%. And then you had a 1.1, 1.2 headwind in that from seat removal. So the cost discipline, which is structural, it's not timing, it's not odd transactions. It's structural improvements in cost is certainly helping here at Southwest as well. Which is the whole point about the fact that looking at revenue trends, it's going to take revenues, it's going to take fuel, but our $4 is absolutely not off the table.

And then on hedging, we've talked about this many times. Hedging had become very expensive. The cost of hedging, because of volatility, we were spending about $150 million a year in hedging. So just -- if you look back over a period of time, it just made no sense to hedge. And of course, I mean, you can't predict an extraordinary circumstance like a war. If we all could, you'd hedge and then you wouldn't, and that's -- it's unreasonable to think you could do something like that. I do think the fact that we are all basically unhedged puts the industry in a position where you're going to take -- we're all going to take actions to deal with the fact that fuel is rising at an extraordinary rate, which again is why you're seeing a constructive pricing environment right now.

Operator

The next question will come from Duane Pfennigwerth with Evercore ISI.

Duane Thomas Pfennigwerth
Evercore ISI Institutional Equities, Research Division

This might be tricky to -- this might be tricky to announce sequentially here. But just the first was on fleet requirements. How has your plan for retirements or used aircraft sales changed, if at all? And if you could walk us through any cash flow -- or cash flow, 1 and 2, P&L impacts from aircraft sales?

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And then Bob, my follow-up. Organizationally, Southwest has been very focused on rolling out these initiatives, executing on these initiatives. Are you now in a better place or more prepared to consider potential consolidation scenarios?

Tom Doxey
Executive VP & CFO

Duane, I'll take your first one on the fleet side. You've seen the numbers that we've talked about for this year in the 60s for aircraft coming in new from Boeing. No change there. We're feeling confident about what we're seeing out of Boeing. Every month, things seem to just be getting better and better there about their ability to deliver on time.

And so the retirements that we have are very much tied to the aircraft that are coming in. You've seen what we've guided around -- both for this year and kind of high-level commentary that we've given for the next several years around capacity. No major changes there. And so the quantity of retirements really will just depend on the timing with which those new aircraft deliver, which again are becoming more and more predictable by the week.

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

Duane on your second. The -- organizationally, I think the -- there's been a lot of organizational efficiency that's been put into place here at Southwest at both on the front line and then especially here in sort of the corporate side of the business in the last year. The business is moving at an incredibly agile pace in terms of change. You're seeing that come through in the execution of the transformation and then continuing to add -- focus on our customer, add attributes that our customer wants. So we're moving at a pace that I've just not seen here at Southwest. So our ability to deal with any issue, I think, is better than it was a year or 2 ago, period.

We don't comment on what consolidation and what could happen in the industry. There's lots of rumors out there. We're focused on what we can control. There's no value in focusing on rumors. There's no value focusing on fuel because you don't have one thing that you can do about it. But things change and if the -- if some of that were to become real, then obviously, we would take a look and decide what our response to that would be. But we don't comment on those things.

Operator

The next question will come from Atul Maheswari with UBS.

Atul Maheswari
UBS Investment Bank, Research Division

Based on the full-year guide on capacity, it implies that the back-half capacity growth is going to be closer to 3%. So you're accelerating capacity in the back half at a time when others are cutting. So just some rationale for the implied capacity growth acceleration in the back half in this fuel backdrop would be helpful.

And then as my second question on the cost outperformance. I know you mentioned those are structural. But if you could provide some key buckets of the cost outperformance, or the improvement that you're seeing currently, that would be helpful. Along those lines, if I can add just one quick one is, what's the -- what should we think about the CASM-X in the back half on the 3% capacity growth?

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

Yes. Atul, it's Bob. I'll take the first, and then Tom will take the second on cost. Our -- we entered the year 2026 with a very disciplined cost plan. Capacity up 2% to 3%. We've been modestly trimming that as we move throughout the year. I would call that sort of normal demand shaping where you take a look and there are flights that just don't make sense anymore, and you either cut that capacity, or you cut that capacity and then you redeploy. We've also been aggressive with moves like you saw with O'Hare and Dulles to take underperforming markets and deal with those and then move capacity to markets that are performing, the San Diegos and Nashvilles, et cetera, of the network.

We've taken our second quarter capacity down, as you saw. We're now expected to grow roughly 0.5 point. And I just would point to the fact that we'll continue that close-in demand shaping and capacity activity in the third quarter. We'll do that in the fourth quarter. So I understand your point, but I would not read through -- I wouldn't read that through as the final number. But again, you've heard others talking about cutting capacity. We started there. We started with a well thought out, conservative, constructive capacity plan for the year at 2 to 3 points, and that's now become 2%. So you're seeing others come back to us, not others go below our capacity plans.

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Tom Doxey
Executive VP & CFO

And Atul, on the cost question. The cost performance that you're seeing, and Bob referenced this a bit earlier, but this is structural. This is representing great work that's happening across a lot of the teams, not relating to timing or transactions or other things. And as you think about some of the bigger buckets that are there, for us, the people expense represents just shy of half of our cost structure. And so we need to make sure that as we're out operating, that we're doing that in an efficient way.

You've heard us talk a lot about how important it is that we continue to run a really high-quality operation. It is a cost-efficient thing to be running as good an operation as we are now. And so we look to be as efficient as we can be out there.

Some of the other big buckets that we have, technology for one, we have come a long way. Lauren and her team are just phenomenal in the tools that they built. But we did have a bit of catch-up that we were doing, and that gives us the ability to kind of back off a bit while still maintaining the strong trajectory in technology transformation. So you're seeing some savings there.

And then maybe the third and final bucket I'll raise is just on the kind of maintenance and fleet side of things. As you're going through a replacement of older, less efficient aircraft and replacing those with brand new, more efficient 737 MAXs, you just want to make sure that you're doing that as far as component maintenance and other things. You're doing that in the most efficient way that you can. I think we are one of the best in the world at doing that type of optimization work. And you're seeing that showing up in the numbers quarter after quarter after quarter as we do that.

Operator

The next question will come from Savi Syth with Raymond James.

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

Maybe, I think Duane -- just to follow up on Duane's question there. Just curious what the aircraft sale benefits were in 1Q and expected in 2Q in the P&L, in terms of understanding what the core cost is?

And maybe for the second question, just to follow up on that. Just how are you thinking about aircraft sales going forward? Because it feels like as you catch up to this kind of delayed MAX delivery that we will see this kind of continue for a few years yet. So just kind of curious, your thoughts there.

Tom Doxey
Executive VP & CFO

Yes. Thanks, Savi. We had 5 aircraft sales that we did. There were 3 737-700s. There were 2 737-800s that we sold. So those 5 aircraft. And about a $30 million or $40 million book impact there. So not super material to the cost numbers that you saw. So everything you're seeing in the cost numbers is around the structural changes that we're making to the business.

Operator

The next question will come from John Godyn with the Citigroup.

John David Godyn
Citigroup Inc., Research Division

Bob, I wanted to follow up on the topic of consolidation. And it's not about rumors, news or anything like that. I mean you were pivotal and central to the AirTran deal many years ago. I feel like there must be learnings from that. There must be kind of a philosophy on when consolidation or being involved in it matters and adds value, when it doesn't. I'm hoping for just more historical context and plugging into the company's philosophy today rather than any commentary on what's going out there right now?

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

Yes, John, thanks for the question. And it's pretty basic in my mind. Again, as you sort of go back and reflect on AirTran, it -- and yes, I was involved in that deal heavily. It's, number one, got to make sense. In other words, you have -- the pieces that get put together have to result in synergies. They have to result in goodness in terms of geographies served. You have to be compatible enough thinking about things like aircraft, cultures. So at the end of the day, if it doesn't paper out financially and other, it doesn't make sense to pursue it.

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Second, you've got to have a chance to pass muster and get it approved. If it's -- no matter how good it might look, if you have too much overlap as an example and your odds of approval are low, it's too risky. And no matter what you think, it's not something that you can pursue. And we've always been pro-competition, pro-consumer here at Southwest. So the combo has to be something that's good for your customers. It's got to, in particular, add geographies, add to the network, potentially add products, but serve them in a better way.

And that's how we thought about AirTran. It met all of those. The geographic combination made sense. The synergies were there, the cultures were similar. And at the end of the day, that was a great thing for Southwest Airlines. It can't be simply because, hey, it's a good time to do something, or the rest of the industry is doing something. It has to make sense fundamentally.

Operator

The next question will come from Tom Fitzgerald with TD Cowen.

Thomas John Fitzgerald
TD Cowen, Research Division

Just curious on -- just within the outlook for 2Q RASM, or just even kind of broadly over the balance of the year, do you anticipate load factors getting back up into the 80% range? And this is just one concern we hear a lot from investors, like as long as it's in the 70% range, there's like that risk that there's maybe -- or a concern that there's share loss in some of the more competitive markets.

Andrew M. Watterson
Chief Operating Officer

Yes, I'll take that. So if you look at our Q1 RASM and you kind of flip back to Q1 of 2019, you see our RASM on a stage-adjusted basis has outperformed the carriers that report so far, the big 3 in particular. And so obviously, that's the metric that matters whether year-over-year, year over 6 year, you drive RASM.

As Bob mentioned we cut O'Hare, and I got employee questions about, hey, Andrew, the flights were always full. Well, full flight does not mean a profitable flight. And so one of the most ruinous things you can do in the airline business is chase market share or chase volume. You have to go after RASM and our RASM is performing with us on a year-over-year basis, year-over-6-year basis, year-over-7-year basis. It is working for us. And so we'll continue to focus on that.

If that results in load going up, so be it. And in our calculations, we look at the incremental cost to carry as well as incremental ancillary we get as we price and we accept and reject demand every day. So for us, it's working, we'll continue to push RASM as hard as we can, and we're seeing extraordinary good yield traction right now, and that's -- that drives -- if that's a vehicle for higher RASM, we will pursue it.

Operator

The next question will come from Brandon Oglenski with Barclays.

Brandon Robert Oglenski
Barclays Bank PLC, Research Division

I mean, maybe if I can just follow up on that because there seems to be like this fickle market view that a high-teens RASM guide is somehow indicative that Southwest is incrementally losing share. And I know we've kind of beat around the bush around this, but I don't know, Bob or Andrew, do you want to comment on that?

And then maybe incrementally, for the second part of my question, how dynamic have you gotten to pricing these incremental products that you just haven't had before? Is there more upside to come on figuring out what people's value they put on these products is?

Andrew M. Watterson
Chief Operating Officer

Sure, I'll start. I mean you're growing slower, as Bob mentioned. So therefore, your share will drop, and that should be fine. You look at the number of people on board your aircraft, once again, [footing] back to pre-pandemic, the number of the people in the aircraft is flat to up. The aircraft have gotten bigger. So our aircraft size is 160. The big 3, I think, is about 120, 130. So it's a much bigger aircraft size. Other airlines with big aircraft also see this challenge.

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And so I don't think it's anything to do about inherently attractiveness of Southwest Airlines. You see all the metrics we talked about is we have always been attractive. We got incrementally attractive with these new products. And we were monetizing that mostly on the back of yield in a high-fuel environment, that is the path to prosperity is getting it on the back of yield.

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

And I just want to add a little perspective here because now the narrative is, yes, 17.5% guided RASM is not enough. And then even though load factor is up, somehow we must be losing share, and there's -- our customers love these new products, and there's incredible demand.

But if you just go back a bit here over the last 18 months, the narratives about Southwest from the naysayers, I think they're becoming increasingly desperate a bit here. First, it was Southwest won't change. And then it became, well, Southwest can't execute the changes that they've talked about. And then it was, well, they got them done but their customers aren't going to want to buy the new products. Now there's some wonky argument about accounting and ATL and then we're losing share.

And if you just step back, ignore all that junk and look at the results, terrific product demand. Best net margin of the large U.S. carriers, a 17.5% unit revenue growth in the second quarter, which is off the charts. Business revenue up 25% in March. The transformation is working. Customers love the product, and it is transforming our financial results. And I just would say, too, you've got to always examine the motives of those that are pushing a narrative, especially one that's increasingly irrational.

Operator

The next question will come from Sheila Kahyaoglu with Jefferies.

Sheila Karin Kahyaoglu
Jefferies LLC, Research Division

Maybe just related to all the fuel comments and capacity comments, Bob, I could see why you're frustrated at the same time too. I guess at what fuel price do you make further changes to capacity?

And as a follow-up to that, how do we think about when fuel prices and how fuel prices impact your aircraft sales or deliveries? And how you think about changing them for how long they stay at these elevated levels?

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

Yes. I'll -- maybe Tom on the second one. The -- I'll take the first one. It's really hypothetical because fuel is moving around. I mean, really day-to-day, you're seeing 8%, 10% moves day-to-day. We are -- again, and you're not in control of exactly how fast and how much you can raise fares. There's market dynamics at play. But there is a lot of constructive fare movement. We're seeing that. And as clearly revenues and therefore, fares are underneath the increase in fuel. So we've not caught the increase in fuel by any stretch of the imagination, which is why you're continuing to see fares move in the industry.

So I can't predict exactly where fuel is going. And so therefore, I can't predict exactly where pricing and fares are going, which is why I indicated we're just using the forward curve. We'll continue to be dynamic. We'll continue to react. We came in, again, to the year with a very disciplined capacity plan and we'll continue to be aggressive in redeploying capacity to better-performing markets. And then, yes, if really -- if fuel really moves up from here, obviously, we would take further actions. But I think trying to -- trying to indicate what those might be is just speculation at this point. Just know that we'll be aggressive though.

Tom Doxey
Executive VP & CFO

And then the follow-on question on aircraft, having such a large fleet of mostly unencumbered owned airplanes gives us tons of flexibility. So that will really just be an output of how and where we're looking to grow. And to what levels and that flexibility is there to retire or retain to adjust to whatever the environment might be.

Operator

The next question will come from Dan McKenzie with Seaport Global.

Daniel J. McKenzie
Seaport Research Partners

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So my question is similar to a prior one trying to get at M&A philosophically. And I guess my question really is, how sacrosanct is the investment-grade rating? And is that something you'd ever be willing to put at risk temporarily if a deal checked all the boxes that you talked about, Bob?

And then secondly, I guess, Andrew, Southwest is doing so much on merchandising. And just going back to that question about how much room is left in the tank. The revenue upsell at the time of sale seems pretty compelling, pretty -- communicated pretty well. But I'm curious how big the upsell opportunity is after the sale, what you're doing here? And what percent of revenue that could ultimately be?

Tom Doxey
Executive VP & CFO

So Dan, I'll take the first one, and this goes to comments I made earlier. The investment-grade rating for us is a differentiator. There are only 3 airlines in the world that have an investment-grade rating. And so as we look at the activities that we do, just know that, that along with the guardrails that I referenced earlier are a filter that we use to evaluate different opportunities or different decisions that we make within the business.

Andrew M. Watterson
Chief Operating Officer

And on your second question, I think when we originally gave some of our values before for initiatives that you kind of [indiscernible] extra legroom. We talked about how we expected the -- kind of that to improve as we kind of bake it in from this year into next year. So obviously, there is still upside to come from it. The -- at time of sale, we are seeing very good traction as we indicated by our -- in our prepared remarks. But we're also still continuing to optimize that. We're happy with it.

The stand-alone seats. Some of that comes at sale, but there is a very kind of sharp inside-the-week before departure booking curve there, and we have dynamic pricing tools that we have deployed to help us with that, and we expect a benefit there, all those in the same vein that we expect to improve from this year into next. And there's also other opportunities that Bob talked about that we're looking at to make -- taking into the next level, including getting some more share shift out of this. So overall, as Bob said, it's working better than we expected. There is implied room to come in our business case, and we think there's room on top of that for upside.

Operator

The next question will come from Chris Wetherbee with Wells Fargo.

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

I just want to try to make sure I understand this. I was going to -- I'm going to ask this question that's been asked a bunch of times, but I'm just curious. Since March 1, how many fare increases have you put through? Just putting initiatives aside, I guess, how many have you participated in the industry, just to give a sense of kind of how that's played out?

Andrew M. Watterson
Chief Operating Officer

I count 5 broad industry-wide fare moves and another one underway today.

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

And you participated in all of them?

Andrew M. Watterson
Chief Operating Officer

Those all stuck and which means all carriers participated.

Operator

The next question will come from David Vernon with Bernstein.

David Scott Vernon

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Bernstein Institutional Services LLC, Research Division

So I guess I should say, yes. So if you look at the Rapid Rewards information that's in the earnings release, they're talking about enrollments up 37% and tier-status earners increasing 62%. Is there any color you can give us around how the card program is performing as far as total spend or sign-ups for the card? Just trying to figure out like how the card program is performing during this period?

Andrew M. Watterson
Chief Operating Officer

I would say that we saw improvement with the rollout in the mid last year of the new card. Our remuneration was up 8%, approximately, year-over-year, which is, I think, just shy of the other airlines, and we don't yet have a high-fee credit card, which is a source of much of the gains across the card industry. And so we're really encouraged that without that key aspect, we're at 8%, and we expect that to accelerate if we can offer that kind of card.

Operator

The next question will come from Chris Stathoulopoulos with SIG.

Christopher Nicholas Stathoulopoulos
Susquehanna Financial Group, LLLP, Research Division

Okay. I'll keep it to one call. So -- one question. On demand elasticity, destruction, although I prefer the former, I guess, term there. If you could contextualize the part of your network that is perhaps more resilient than others. So whether it's some inherent pricing power due to network architecture or otherwise, as we consider what is likely going to be, I guess, some weakening at certain parts of this K-shaped recovery, however you want to describe it. But parts of your network that you believe, for whatever reason, are more resilient or have some inherent pricing power around them?

Andrew M. Watterson
Chief Operating Officer

This is Andrew. We are seeing extraordinarily strong fares and strong demand across the entire network across all customer segments, across different travel types. The only place that's seen weakness are the Mexican beach resorts and Hawaii because of weather and political activities. And even those have seen a sequential improvement in the last couple of weeks. So it is -- when we say broad-based, we very much mean broad-based.

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

And the other thing I would add, just with the fundamental change in the financial performance of the business and the fundamental change in our margins, whatever is happening and the customer response, so at some point, you do begin to see some pushback on fare increases, which, again, as Andrew said, there's absolutely no sign of that obviously, with higher margins now, top of the industry margins. And that performance allows us to look at the business and markets in a different way because they're performing.

So a market flipping from a performer to an underperformer is very different when you're near breakeven than when you're producing top-of-the-industry margins.

Operator

And the next question will come from Michael Goldie with BMO Capital Markets.

Michael Goldie
BMO Capital Markets Equity Research

Going back to costs, for maintenance expense, is the performance that we're seeing driven by delivery of new aircraft and then divesting of older equipment? Or is there anything else changing that's driving that maintenance performance?

And then just a follow-up on head count. We've seen head count per ASM climb quite a bit since 2019. I get that part of that is investing in network resiliency. Are we at the right levels? Or are you going to grow into these resources over time?

Tom Doxey
Executive VP & CFO

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Thanks, Michael. So on the maintenance side, there's several buckets that are there. What you referenced, which is the ability to be efficient in the way that you are retiring a fleet type, that's certainly part of it. And I think we've consistently quarter-to-quarter-to-quarter, gotten more and more efficient in the way that we're doing that, especially as it relates to the 737-700, the smaller, less fuel-efficient aircraft, as we're bringing the new MAX 8s into the fleet.

So that is definitely a contributor. And we have many, many years ahead of that continuing to occur for us as we continue that transition with hundreds of airplanes -- newer airplanes on order. Apart from that, though, there is efficiency around the way that we're managing our supply chain and other elements of the program that are also contributing to that maintenance expense being as efficient as it has been.

And then to your second question on head count. So much of the head count expense that we have is variable. And so yes, we do look at head count in and of itself as it relates to the front line, but it's really more about having the right number of people so that you have the right folks in the right places so that you're not having to have more premium pay and other things that would result from not having kind of an efficient setup across our operations.

And then on the indirect side for head count, you've heard us talk about the fact that we, year-to-year, are keeping head count or SWB dollars flat, which as we go through attrition and other things, you'd probably see the head count come down just a bit to be able to enable the dollars to stay flat year-to-year-to-year.

Danielle Collins
Managing Director of Investor Relations

That wraps up today's call. We appreciate everyone for joining us.

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

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