



SOUTHWEST AIRLINES, 63.1% INCREASE IN NET INCOME IN Q3, 2015

News / Airlines, Finance



Southwest Airlines Co. reported its **third quarter 2015** results

Gary C. Kelly, Chairman of the Board, President, and Chief Executive Officer, stated, "We are very pleased to report outstanding third quarter 2015 results marked by a 63.1 percent year-over-year increase in net income, excluding special items. Our record third quarter operating income, excluding special items, of \$1.0 billion produced a strong 20.3 percent operating margin, which is a 680 basis point improvement from the year-ago period. The significant margin expansion was driven largely by lower fuel prices. Our results also benefited from a continued focus on cost control and solid overall revenue performance, including a significant contribution from our Rapid Rewards program. Customer demand for our low fares was evident with an all-time quarterly record load factor of 85.4 percent for third quarter 2015. That's what low fares without 'gotcha's', which we call TransfarencySM, will do for you. My thanks to our superb Employees for producing our tenth consecutive quarter of record profits and my congratulations to them on their record \$484 million profitsharing accrual, thus far this year.

"We are pleased with our third quarter 2015 unit revenue (RASM) performance, considering the

longer average stage length, higher average seats per trip (gauge), and softer yield environment. Third quarter 2015 operating revenues grew 10.8 percent to a record \$5.3 billion on a year-over-year increase in available seat miles of 7.6 percent. Our third quarter 2015 operating revenues reflected a benefit of approximately \$300 million from our July 2015 amended agreement with Chase Bank USA, N.A. (Chase), including a required change in accounting treatment. This benefit includes a one-time non-cash increase to operating revenues of \$172 million, which was recorded as a special revenue adjustment. Total operating revenues, excluding this special item⁴, increased 7.2 percent to \$5.1 billion, and decreased slightly on a unit basis, both as compared with third quarter 2014. Based on favorable booking and revenue trends thus far in October, and including the ongoing benefit to operating revenues from our amended Chase agreement (estimated to be approximately \$130 million for fourth quarter 2015), we are currently expecting an increase to fourth quarter 2015 unit revenue of approximately one percent, year-over-year.

"Our favorable third quarter 2015 cost trends and outlook for fourth quarter 2015 costs reflect significantly lower jet fuel prices and ongoing fleet modernization benefits. Our third quarter 2015 economic fuel costs¹ declined nearly \$300 million, year-over-year. Based on our existing fuel derivative contracts and market prices as of October 19, 2015, we currently expect full year 2015 economic fuel costs to decline approximately \$1.3 billion, year-over-year.

"In addition to producing strong margins and record earnings, our investment grade balance sheet, liquidity, and cash flow remain strong. Our cash and short-term investments were \$3.1 billion at the end of third quarter 2015. Thus far this year, we have generated free cash flow¹ of \$1.6 billion. We have returned \$1.4 billion to Shareholders through the payment of \$180 million in dividends and the repurchase of \$1.2 billion in common stock so far this year, reflecting our ongoing commitment to enhance long-term value for our Shareholders."

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