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G. Davis Capital

"Investing is not just financial."

**Southwest Airlines (LUV)**

Investment Risk:  
**HIGH**

Outlook:  
**POSITIVE**

% Change		
%	1Yr	3Yr
<b>LUV</b>	-50	-61
<b>S&amp;P</b>	-30	-30

**LUV Beta: 0.87**

Years:	2008	2007	2006			
<b>Rev:</b>	\$11.023B	\$9,861B	\$9,086B	<b>PEG</b>	<b>P/S</b>	<b>P/B</b>
<b>EPS:</b>	\$0.24	\$0.84	\$0.61	<b>2.60</b>	<b>0.45</b>	<b>0.99</b>

<b>DJIA:</b> 8,106.46	<b>NASDAQ:</b> 1,745.33	<b>S&amp;P:</b> 874.50	<b>US\$ Index</b>
<b>Gold:</b> \$926.80	<b>10YrBond:</b> 3.28%	<b>Oil:</b> \$59.12	<b>\$80.38</b>

**Date:** July 10, 2009  
**Time:** 11:40 am  
**Price:** \$6.52  
**52Wk:** \$4.95-\$16.77  
**Fwd PE:** 18.00

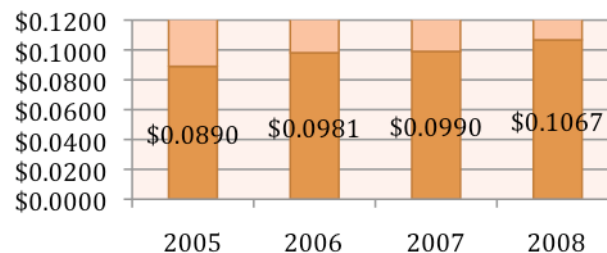
**Company Info**

Southwest Airlines (LUV) was founded on the principle of providing short haul domestic airline travel with superior service and discount pricing. LUV operates 537 Boeing 747 aircraft and provides service to 60 airports in 64 cities in 32 domestic states. LUV implemented a low cost strategy that has placed a strangle hold on competition from the major airlines such as US Airways, American Airlines and Delta. LUV offers +3,200 flights a day.

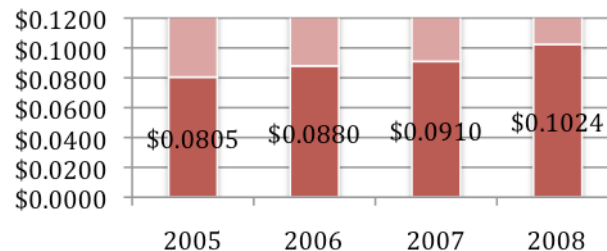
CEO	Pay	Emps	Profit (ttm)	ROE (ttm)
Gary C. Kelly	\$903K	35,512	0.49%	0.88%

**Operating Drivers**

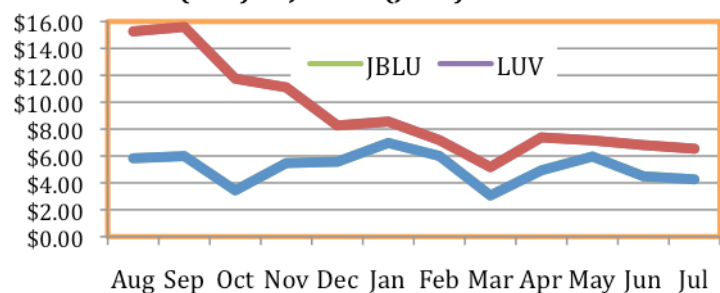
**Revenues Per Available Seat Mile**



**Expenses Per Available Seat Mile**



**Southwest Air (LUV) vs JetBlue (JBLU)**



\*LUV vs. JBLU Past 12 Months (Aug 08 - Jul 09)

**News**

- Southwest reported a 2.2% decline in revenue passenger miles for the first half of 2009 versus 2008
- Current fare sale on one-way tickets for \$30, \$60, \$90 based on length of travel
- Planning to begin service to Boston Logan International Airport in the Fall of 2009

**Strengths**

- Takes great pride in maintain its No-Hidden Fee Zone
- Strong brand loyalty/78% of 2008 bookings @Southwest.com
- Reduced hedge fuel portfolio for 2009 - 2013
- Profitable for its 36<sup>th</sup> consecutive year ending June 08
- Fuel hedge program saved \$4 billion in 2008

**Weaknesses**

- Operations beginning to expand beyond US borders
- Operating through a recessionary period
- Typically carry more bags than competitors
- Dependent on Boeing for all airplane orders

**Opportunities**

- Focusing on growing areas like Denver and San Fran
- Raised \$800 million in financing in Dec 08 & Jan 09
- Reduced hedge fuel portfolio '09 - '13 as oil prices ↓
- International codeshare agreements to CAN & MEX

**Threats**

- Unpredictable jet fuel prices
- Current holding pattern on expanding fleet
- Travelers choosing to stay closer to home
- Double negative of high fuel costs and low demand

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