Royal Caribbean Cruises Ltd. (RCL) CEO Richard Fain on Q3 2019 Results - Earnings Call Transcript

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Q3: 10-30-19 Earnings Summary

Press Release *Slides*

EPS of $4.27 misses by $-0.05 | Revenue of $3.19B (13.97% Y/Y) misses by $-33.27M

Earning Call Audio

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Royal Caribbean Cruises Ltd. (NYSE:RCL) Q3 2019 Results Conference Call October 30, 2019 10:00 AM ET

Company Participants

Jason Liberty - CFO

Richard Fain - Chairman and CEO

Michael Bayley - President and CEO, Royal Caribbean International

Conference Call Participants

Jared Shojaian - Wolfe Research

Steve Wieczynski - Stifel

Robin Farley - UBS

Felicia Hendrix - Barclays

Harry Curtis - Instinet

Fred Wightman - Citi

Jaime Katz - Morningstar

James Hardiman - Wedbush

Tim Conder - Wells Fargo Securities

Brandt Montour - JP Morgan

Sharon Zackfia - William Blair

Operator

Good morning. My name is Dorothy, and I will be your conference operator today. At this time, I would like to welcome everyone to the Royal Caribbean Cruises Limited Third Quarter 2019 Earnings Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] Thank you.

I would now like to introduce Chief Financial Officer, Mr. Jason Liberty. Mr. Liberty, the floor is yours.

Jason Liberty

Thank you, operator. Good morning. And thank you for joining us today for our third quarter earnings call. Joining me here in Miami are Richard Fain, our Chairman and Chief Executive Officer; Michael Bayley, President and CEO of Royal Caribbean International; and Carola Mengolini, our Vice President of Investor Relations.

During this call, we will be referring to a few slides, which have been posted on our Investors website www.rclinvestor.com.

Before we get started, I would like to refer you to our notice about forward-looking statements, which is on our first slide. During this call, we will be making comments that are forward-looking. These statements do not guarantee future performance and do involve risks and uncertainties. Examples are described in our SEC filings and other disclosures.

Please note that we do not undertake to update the information in our filings as circumstances change. Also, we will be discussing certain non-GAAP financial measures, which are adjusted as defined and a reconciliation of all non-GAAP historical items can be found on our website. Unless we state otherwise, all metrics are on a constant currency adjusted basis.

Richard will begin by providing a strategic overview of the business. I will follow up with a recap of our third quarter results, provide an update on the booking environment, provide an update on our guidance for the full year and fourth quarter of 2019, and then close with some early thoughts on 2020. We will then open up the call for your questions. Richard?

Richard Fain

Thank you, Jason, and good morning, everyone. Its' been another very good quarter for Royal Caribbean, and we're pleased to provide some color.

Overall, the results for the third quarter and our expectation for fourth were all very encouraging. Our operating performance on virtually any metric we follow is equal to or better than we had expected. Of course, Hurricane Dorian impacted us negatively, but we've been able to offset over half of this impact with improved performance elsewhere. Of course, no year and no industry goes exactly as predicted, and there will always be certain hiccups in any given year. Our job is to try and do two things: Firstly to minimize our exposure to such issues, so that they can remain rare; and secondly, to compensate for them elsewhere in the business, so they can just be background noise in our full report. We know that you expect us to accomplish both of these objectives, and we have been surprisingly successful over the years in doing so.

However, 2019 has been an unusual year with an unusual spate of such challenges. I would include in this, things like the collapse of the drydock in Freeport, which has never happened; the impact of Hurricane Dorian, which is the largest impact from any hurricane in our Company's history; the abrupt change in the government policy towards Cuba, et cetera, et cetera. The result of all these impacts has been the change what would have been an amazingly successful year into just simply a very successful year. I give credit for that to our unbelievable operating teams who continue perform well in differentiating our brands and raising our prices while controlling senses.

I would point to a number of key drivers in this success. For example, our investments in destinations are really paying off. Perfect Day at Cococay continues to amaze our Royal Caribbean International guests and boost our bottom-line. Our vessel modernization program is driving strong results. These upgrades are expensive, but our guests love them and reward us accordingly. We take our investments in technology, which are beginning to bear fruit. These investments are expensive and demanding but they improve the experience for crew and guests alike. They make us more attractive or more efficient.

We take, for example, our support of the travel agent community, which is strong and long lasting. We treasure the value these advisors add to the process, and these advisors intern reward us with their trust and their support. And cost control is always challenging, but doing so in our complex and ever-changing environment is specially so. Undertaking these significant innovations, while controlling costs to low single digits is challenging but our teams are committed to the focus.

And look at the China market, which is paying off very nicely. It’s a long-term strategic program, but our focus on developing the market has exceeded our expectations in terms of performance. Our sales in China are holding up well despite any economic concerns. The result of all these things is a very positive year. The markets in the U.S. and China have been particularly strong, but every geographical market we serve is up from last year, whether that’s North America, Europe, China, wherever, and our forward guidance shows that we expect that to continue.

We operate in an incredible variety of source markets and destination markets. And each market has its own ups and downs. But all the markets share the same main characteristic, and that diversification seems to balance out over time. This allows us to follow a remarkably consistent upward trajectory. We continue to believe that upward trajectory is an inevitable consequence of the shift in consumer spending habits for spending their money on material possessions to wanting experiences. The consumers’ growing demand for experiential travel fits nicely into our sweet spot; it is making cruise vacations more relevant and more mainstream. And our innovations are making us more attractive, therefore expanding our role in this market.

As a result, we expect to end this year with more revenue on the books than ever before with very high book load factors at very attractive pricing. All of that bodes well for an attractive 2020.

Now, one other overarching essential feature for us is sustainability. We continue with our relentless efforts to eliminate single use plastics on board our ships, reduce our carbon footprint, sustainably source our food and other supplies, et cetera, et cetera. One of the more interesting things we recently announced was our second Perfect Day destination. I was just in Vanuatu where we finalized the deal to open our second Perfect Day experience at Lelepa there in Vanuatu. This is exciting because it expands on the amazingly successful Perfect Day concept. But, there is also one very special aspect of this project that is also worth noting. We will be explaining more about this in a press release to be issued shortly. But, Lelepa will be the first private cruise destination in the world that achieves carbon neutrality. All of the energy consumed will be generated from renewable sources. Accomplishing that requires both, major investment and major innovation, but Perfect Day at Lelepa will be rich in both.

We are very excited about some of the techniques we’re using to accomplish that carbon neutral goal. Global climate change is one of the defining issues of our time and we want to do all we can to up our game in this very important struggle.

So, to recap, it has been an unusual year, but our business continues to be robust. And we are very optimistic about our operating model, our business, our investments in the future, our people. The future is bright.

And with that, I get to ask Jason to provide an overview of the results.

Jason Liberty

Thank you, Richard.

I will begin by talking about our results for the third quarter of 2019. These results are summarized on slide two.

For the quarter, we generated adjusted earnings of $4.27 per share, which is $0.08 lower than our guidance and 7% higher than the same time last year. Stronger close-in demand for our core products combined with the timing of expenses partially offset a $0.13 impact from Hurricane Dorian. Hurricane Dorian was one of the most operationally and financially disruptive hurricanes that we have ever experienced. The location, timing and duration of the storm caused three of our main Florida ports to temporarily close during key turnaround days. Due to these closures, we had to cancel one sailing and shorten or lengthen another 15 sailings, resulting in a reduction in a APCDs for the third quarter.

Also, we closed Perfect Day at Cococay for 10 days. The size of the financial impact to our operation from disrupted sailings we have and will continue to contribute to ongoing relief efforts in the Bahamas, while some of our release efforts were in the form of financial contributions, we are particularly proud of more than a 0.5 million hot meals that our crew, shore side employees and guests help prepare and deliver during this very difficult time.

Our net revenue yields increased 6.4% year-over-year, which, excluding Dorian, exceeded our expectations for the quarter. The hurricane negatively impacted overall revenue by $21 million. Net cruise costs excluding fuel were up 11% for the quarter. The reduction in APCDs and relief expenses that relate to the hurricane impacted this metric by 150 basis points. On an absolute basis, costs came in better than expected, driven by timing.

Now, I want to share the trend that we have been seeing in the demand environment for the balance of 2019. As we move into the fourth quarter, many of our ships transition out of Europe, Alaska and Bermuda, and begin their winter seasons. As such, about 56% of our capacity will be in the Caribbean, 18% will be in the Asia Pacific region, and 10% will be in Europe. Q4 bookings continue to be in line with our expectations at rates that are significantly higher year-over-year.

Now let's turn to slide three to talk about our guidance for the full year. We are updating our guidance to a range of $9.50 to $9.55 per share. This range includes the negative impact of approximately $0.15 from Hurricane Dorian that relates to disruption and the relief efforts. Excluding this impact, we are in effect increasing the midpoint of our guidance by approximately $0.08, as better third quarter results and improved revenue outlook for the fourth quarter and some expected improvements below the line are more than offsetting slightly higher costs.

As it relates to our key metrics, we expect our net revenue yields to increase approximately 8% for the year. This is in line with our previous guidance as strength in the revenue environment is offsetting the negative yield impact from the hurricane.

From a cost perspective, we expect net cruise costs excluding fuel to be up approximately 11%. The increase in guidance is driven by the reduction in capacity and relief efforts from the hurricane, together with a further increase in technology and product development investments.

We anticipate fuel expense of $696 million for the year and we are 60% hedged at a price of $380 per metric ton.

In summary, based on the current business outlook along with current fuel prices, interest currency exchange rates, our adjusted earnings per share are expected to be in the range of $9.50 to $9.55.

Now, we can turn to our guidance for the fourth quarter, which is on slide for. Net yields are expected to be up approximately 6.75%, with the addition of Silversea, Terminal A, and Perfect Day at Cococay driving approximately 300 basis points of the year-over-year improvement.

Net cruise costs excluding fuel for the fourth quarter are expected to increase 14.5%. Our cost metric includes approximately 300 basis points from the operations of Silversea, the cruise terminal and Perfect Day. Also, our cost metric is impacted by an increased number of drydock days versus last year, which has affected the metric by approximately 600 basis points. Other drivers for the expected cost increase for the quarter include the shift in the timing of expenses for the third quarter, some additional investments in technology, and product development and relief efforts that are related to hurricane.

Now, including the outlook expressed above and based off of currency, fuel prices, interest rates, and currency exchange rates, our adjusted earnings per share for the quarter are expected to be approximately $1.40 per share.

Now, I'd like to take you through some preliminary insights for 2020, which while still very early, is currently shaping up to be another incredible year for the Company. Three of our brands will welcome new ships and we will continue to modernize our existing fleet by adding on-board revenue areas, staterooms and activities. We will also significantly increase the number of guests experiencing Perfect Day at Cococay.

Now, regarding new ship additions, Celebrity Edge was a game-changer for celebrity cruises when she joined the fleet about a year ago. And we're thrilled that she will be joined by Celebrity Apex in April of 2020. Apex will spend this summer sailing in the Mediterranean before transitioning back to the Caribbean next fall. Edge and Apex are transforming Celebrity's fleet, just as Silver Muse and Silver Moon are transforming Silverseas. Silver Moon will be delivered in August of 2020 and will spend the summer sailing a variety of European itineraries. In addition, we are adding Silver Origin to Silversea's fleet of expedition ships next July.

Finally, Royal Caribbean will welcome Odyssey of the Seas at the end of next year. Odyssey will sail in the Caribbean for the 2020 and 2021 winter season with call it a Perfect Day. She will then transition to Europe for the summer of 2021.

These four ships are contributing to a capacity increase of just under 5% in 2020. The timing of new ship deliveries, combined with the quarter reporting lag for Silversea result in more significant growth in the back half of the year than in the first half.

Now, I would like to provide you with an update on our 2020 deployment. Our Caribbean capacity is growing about 2% year-over-year and will represent half of our overall deployment. Key itinerary changes include the addition of year-round, short Caribbean sailings on Independence of the Seas, and Northeast based products for Oasis of Seas, and the additions of both Celebrity Apex and Odyssey of the Seas in the fourth quarter. In total, more than 70% of guests sailing on a Caribbean Cruise will experience Perfect Day at Cococay.

European itineraries will account for 17% of our capacity in 2020. We have increased capacity in Europe by approximately 10%, driven by an inaugural summer season for Celebrity Apex and Silver Moon. In addition, Allure of the Seas will be sailing from Barcelona, immediately after undergoing a $165 million modernization.

Asia Pacific itineraries will represent 17% of our capacity next year with increased deployment in China, Australia and Southeast Asia.

Finally, we are slightly increasing our capacity in Alaska, although the product will still only account for 5% of overall inventory.

Bookings and pricing for 2020 have been trending ahead of same time last year for the past three months. We did experience a brief low in demand surrounding Hurricane Dorian but bookings quickly rebounded to previous levels and are now nicely ahead. At this point, our booked APDs are higher than same time last year in all four quarters and our load factors are up slightly on a like-for-like basis. We have also seen an outwards shift in the booking window relative to same time last year since our last earnings call.

While we are not going to provide guidance for 2020 until January, I will note that we do expect yields to vary by quarter with Q2 and Q4 likely to be our strongest periods due to the timing of new ship deliveries. The itinerary changes related to Cuba will continue to compress our yields for the first half of 2020. The most significant Cuba impact is expected during the first quarter when three of our brands, including our high-yielding Silversea and Azamara brands are scheduled to visit the island.

I want to take a moment to highlight certain changes in our cost base that will take place over the coming years. Last year at this time, I discussed expected future increases to our depreciation expense. As Richard mentioned today and in past calls, destinations, technology and our fleet modernization program are key elements of our growth strategy. These investment areas offer attractive returns, but sometimes have shorter depreciable lives than our traditional new building investments. Also, some technology investments are not capitalizable and will result in an increase to our cost base.

Finally, the new ship additions for Celebrity and Silversea will result in those brands being a larger percentage of our overall mix in 2020. These additions are expected to add to our yield and return profile, but also have a higher cost per berth.

While it’s too early to provide guidance for 2020, the combination of our strong book position and an accelerating demand environment is certainly pointing to another year of robust yields and earnings growth.

With that, I'll ask the operator to open up the call for a question-and-answer session.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] Our first question comes from the line of Jared Shojaian of Wolfe Research.

Jared Shojaian

Hi. Good morning, everyone. Thanks for taking my question. So, in the last few months, we’ve seen some of the macro data get a little bit weaker, some of the agent checks haven't been as positive as what we had seen earlier in the year. Obviously, none of that seems to reconcile with what you're reporting and with what you're saying. So, can you just talk about, why you think there is a disconnect right now?

Jason Liberty

Hey, Jared. Good morning. I don't know if it’s necessary a disconnect. I think, some of the -- for us, we operate as global platform where we're sourcing guests throughout the world. And I think sometimes that does not connect itself to some of the price checks that the investment community is doing regularly with the trade. As you commented, our experience, at least since our last call for sure, has been much different, which is the time period you were referring to. And the environment has shown us acceleration above our expectations outside of the short low we experienced on and around the Dorian Hurricane.

Richard Fain

And Jared, it's Richard, and I'll just add. Besides the diversification that we have, which helps support us, there's an awful lot of company-specific things that we've been implementing over this period. And it's the investments in the vessel upgrades, it's been very impactful, Michael might be willing to comment on Perfect Day, and the technology improvements that we've made. We think all of these things are helping us run slightly ahead of just what normal momentum would get you.

Jared Shojaian

Great. Thank you. And just one quick follow-up for me. On the fuel, I know, you gave the disclosure on the hedge position, but it's still noisy, and I know you're hedging more the MGO. Can you just tell us, as you sit here today looking at the forward curve, what your fuel expense would look like in 2020? And then, Jason, I know you gave the color on increased D&A for next year. Do you have a number that you can refer us to?

Jason Liberty

Okay. So, on the fuel side, again, we're still going through our planning process. So, it's just still too early for us to comment on what our fuel expense will be and what our depreciation expense will be. We've obviously invested significantly and implemented in a rapid pace our AEP systems, which will allow our fuel mix to look very similar next year as it does this year. And so, we should be able to take advantage of the IFO benefits that we're seeing here in the forward curve.

On the depreciation side, what I would say is that we can -- or just one other comment on the fuel side, at least what we have seen generally from the analysts in terms of their fuel estimates, again, while still early in our planning process, seems generally aligned with what -- where we see fuel consensus.

Same comment on moving on onto the depreciation side. You saw here in 2019 and you'll continue to see this trend that investments that we're making, mainly in the technology space, have much more shorter lives. And so, I would just say, while we're still in our planning process, there's a reason why I'm emphasizing that there's going to be higher depreciation costs because of that. And so, I would just kind of point to take a look at that.

Operator

Your next question comes from the line of Steve Wieczynski of Stifel.

Steve Wieczynski

So, Richard and Jason, you gave a lot of good details about how 2020 is shaping up. And I understand you're not prepared to give any quantitative guidance right now. But, in the past, you guys have talked about this 2% to 4% range being a somewhat of a fair starting point. I guess, the simple question is, should that yield range still hold true for next year, or I guess a different way of asking that would be, Jason, what does the word robust mean to you?

Jason Liberty

So, as you noted, it is obviously too early for us to begin to comment on what our yield guidance is going to be for next year. That 2% to 4% has generally represented on how our yields on a constant currency have grown now for several years. Obviously, 2019, our like-for-like yields are 4.5%, so it's a little bit above that range. I think, what I would mean by the word robust is that the bookings and the demand trends that we're seeing show that we will have a very good year, strong year in terms of our yield profile for next year. But, we'll be more specific about where that lands in January when we provide guidance.

Steve Wieczynski

Okay, got you. I won't try to press that anymore. Second question would be around your island developments. I mean, yesterday, you obviously announced Antigua on top of South Pacific announcement a couple of weeks ago. And I guess, the question would be, how do you guys think about returns on these investments? And obviously, so far Cococay has been a homerun, but the question is going to be, how do returns look for these future developments?

Richard Fain

I think, Michael might just be willing to comment on that.

Michael Bayley

I would, yes, it's true. So, Steve, I think, as Richard's mentioned and Jason's mentioned, we're really delighted with the performance of Perfect Day at Cococay and the demand that we've seen for the product and this year we've put 11 ships into Perfect Day, has been outstanding. And then, the demand for the products that we sell on Perfect Day has also been outstanding. I mean, to give you one great price point, our overwater cabanas that are opening in February, they are selling for $1,400 a day. So, we've got we think really great product and there is a huge amount of demand of this product. And we believe that the work that we're doing with Perfect Day in Vanuatu is going to have exactly the same kind of demand from the Australian market.

And then, the announcement yesterday that we made about the Beach Club, the Royal Beach Club in Antigua, we put a lot of thoughts and analytics into creating this experience. And we have a good understanding of the kind of revenue that we'll generate from that product, and I think, in its simplest form, because I have to talk to Jason about this, when we look at the investment and the returns that we get, we're genuinely delighted with the returns.

Jason Liberty

And Steve, just to add to it, it's really clear that our guests are looking for authentic experiences, in those experiences we have been investing quite considerably on our ships as we modernize our ships. And what we find is while we're making those investments on island especially with the volumes that we have, our guests are willing to pay for that. And that's all yielding very high returns on these investments that we're making.

Richard Fain

And just to add on Jason's point, I think, the strategy that we launched literally a couple of years ago by taking the Navigator and Marine are now Independence, and putting them through Royal Amplified and into the shore [ph] cruise combine market combined with Perfect Day, has been a real game changer for that segment of the market. And that segment of the market is about 24% of the entire American cruise market. So, we've really scooped up a lot of demand for those products, and we see that demand continuing.

Michael Bayley

And Steve, I think one of the things, this actually comes back to earlier question about why are we doing differently than maybe you're seeing some of your price checks. We've really said strategically, we think focusing on three areas will help differentiate us, and those are destinations, people and technology. And we think that emphasis is paying off with higher returns.

Steve Wieczynski

Okay. Got you. And then, one simple one for Jason and I'll get out. But, Jason, I think, you mentioned anything in your prepared remarks about Thomas Cook, and just want to see if you guys saw any impact from them in the quarter.

Jason Liberty

Yes. Thanks, Steve. So, obviously, the unfortunate circumstance with Thomas Cook has been a situation we've been monitoring for some time. But, with the recent events, it did impact our yields by about 15 basis points in the third quarter. Now, saying that, we really don't expect there to be any kind of forward impact from Thomas Cook being in the situation that they're in. And our sales and marketing teams feel like we're in a very healthy demand environment and able to use other distribution to support our business in the UK.

Steve Wieczynski

Okay, great. Thanks guys. I appreciate it.

Operator

Your next question comes from the line of Robin Farley with UBS.

Robin Farley

Great, thanks. I wanted to ask -- it looks like since last quarter your CapEx for next year is up by about $500 million. And I know, I think since then, you announced the Freedom of the Seas getting $100 million refurb. Is the other $400 million going to the destination development projects that you've talked about or just wondering what the biggest chunk of that is?

Jason Liberty

Sure. Thanks, Robin, for noticing. It did go up. And the key drivers of that are the investments in the destination, also additional investments in terms of the modernization of our ships, some of our investments in sustainability and technology as well as some of the new ship investments that we're making that are part of that increase.

Robin Farley

Okay, great. And then, just on the outlook, just to clarify, I know in the release you talked about load factoring up like-for-like. And rate, you said up, but I don’t if you were drawing a distinction -- is rate for 2020 also up like-for-like or were not really saying one way or the other?

Richard Fain

Yes. So, APDs, whether like-for-like or just in the absolute, are up nicely for 2020. On the load factors side we were just making -- there are just some structural things in terms of the timing of the new builds coming in, in the quarter lag. Still, if you were to look at our load factors in general, they are flattish, which is exactly where we want them to be relative to last year. But, when you adjust for some of the structural elements, our load factors are nicely up.

Robin Farley

Great. That's a helpful distinction. Thank you.

Jason Liberty

You bet.

Operator

[Operator Instructions] Your next question comes from the line of Felicia Hendrix with Barclays.

Felicia Hendrix

Hi. Thanks a lot. Good morning. So, Jason, just getting back to the Thomas Cook answer, just to be clear, the 15 basis-point yields impact that you are seeing there was more from the distribution side and not the competitive side. Correct?

Jason Liberty

It was purely from the distribution side. And that really had to relate to more a bad debt related elements to cruises that they had sold that we had not collected payment on. And of course, we want to make sure that if those guests paid for those cruises, whether had gotten the cash or not, we want to make sure we fulfill that vacation experience that they were promised.

Felicia Hendrix

Yes. Thank you for that clarification. And then, just bigger picture, kind of switching to the competitive environment and maybe some competitive pressures that you may or may not be seeing globally. I think that there is a lot of concern in the investment community about some of the challenges Carnival is facing, not only in Europe but also now in the Caribbean. And the narrative out there is that with perhaps a brand or a company that's kind of facing some challenges, to alleviate those, they may drop prices, particularly in the Caribbean, and that might affect your brand. So, I'm just wondering if you could talk about how you are positioned relative to Carnival, maybe globally, but also more specifically in the Caribbean, and why you may or not be affected by pricing decisions that they make?

Richard Fain

So, Felicia, it's Richard. And I would just comment, I think, our biggest competitor continues not to be Carnival or the other cruise lines. We really that think we're -- much more competitive force is coming from elsewhere in the industry, that is from tourism, from land tourism, and ultimately from things like flat screen TVs. I think, we've seen a major change for people going to buying vacations and especially cruise vacations versus flat screen TVs. But, I think, we see that more of a factor. And in terms of pricing from other competitors, whether it's Carnival or anyone else, because of the way the industry manages pricing and the fact that we fill the ship, if one company lowers its price in a period, it will affect just the timing of bookings. But, in the end, the number of bookings is going to equal roughly the number of berths out there.

So, I would actually say, we are seeing strong industry demand in general, cruising in general is I think benefiting from the change in the way people are buying. But, I don't think how any one competitor is doing is particularly impactful. I think it's the industry and it's the economy and it's all the other kind of competitive and choices that people have.

Jason Liberty

And just to add just one other comment to it, Felicia. Our commentary around 2020, whether it's on volume, rates, and obviously we feel very good about that, you could apply that commentary to every one of our core markets, you can apply that commentary to our core products. So, as we just said, I mean, it's tough to comment specifically on your question. But, when you bring up things like Europe, you bring up things like the Caribbean, whether it's from -- on a sourcing basis or on a product basis, the strength and the acceleration that we hear in the demand environment really kind of applies to all of our core products in core markets.

Felicia Hendrix

Okay. I guess, I was kind of more just getting to asking you question, if one of your competitors starts putting more attractive prices in a particular market, is price the only deciding factor that they use to take a cruise?

Michael Bayley

Hi, Felicia. I mean, we're kind of used to this. This isn't an ongoing kind of normal operating environment. We see at times different brands or products, either discounting for multiple reasons. And, I think there's a certain amount of value seekers who will go after a lower price, but there's probably 80% of the customers are seeking a specific product. And we found they're willing to pay a higher price for the kind of experience and the almost guarantee of the satisfaction for them and their families. So, there is a difference between the brands and the products in the marketplace. And I think for informed and educated customers, they realize that. So, it's true that sometimes lower pricing can be temporarily disruptive, but it passes fairly quickly. And I think our long relationship with the travel partners is also something that's the strength to Royal Caribbean. They know our brands extremely well, and they know how to position the brands towards the right customers. And, we feel we have a certain degree of confidence in terms of the quality of our brands and products in the marketplace. So, it's problematic at times, but it's something that we deal with quite frequently.

Felicia Hendrix

And I'm assuming that your price integrity strategy that you've implemented several years ago, would stay intact anyway. Correct?

Michael Bayley

Absolutely, yes.

Richard Fain

Yes. That's been -- thank you for that, Felicia, because it's been an important factor. I think, it is also something that distinguishes the cruise industry. Every company, some quarters do better, some quarters do worse. But, the fact that the industry has resisted the temptation to homogenize itself, coming back to Michael's point, we have our brands and the brands stand on their own. And we don't see the current situation is anything other than the same kind of thing we've done over time. And yes, the price integrity strategy has been helpful. And it's made the travel agent and consumer most -- both field more confident about the, what they're doing when they buy their cruise.

Felicia Hendrix

Thank you. And Jason, just a quick housekeeping. So, you said there was a slight impact from Dorian in your third quarter results. I was just wondering if you could quantify that. And then, what the like-for-like yields were in the third quarter and for the full year?

Jason Liberty

Yes, sure. So, on a like-for-like basis, our yields were up about 30 basis points for the third quarter. So, one, there was a little bit about rounding, but the Hurricane was a little bit over 10 basis points; Thomas Cook, I said was about 15 basis points; and then, there were a few other little things there that impacted us in the quarter on the top line side. But, on the like-for-like basis, our yields were up over 30 basis points.

Felicia Hendrix

Okay. And then, -- okay, we can figure how that was for just full year. Okay. Thank you.

Richard Fain

You got it.

Operator

Your next question comes from the line of Harry Curtis with Instinet.

Harry Curtis

Good morning, everyone. I've got a quick question on cost and then one on yield. The cost question relates to vessel modernization. And if you could give us a sense of what inning you're in on the ship refurbishment process? And specifically if it's further down the road, how many fewer drydock days might you have in 2020?

Jason Liberty

Yes. So, I'll start off with the easier question, which is 2020. On the drydock days side, we expect to have similar number of drydocks next year, though the timing of those drydocks are little bit different, depending on the yard availability. In terms of the modernization side, we continue to find opportunities to modernize our ships in ways in which we see our guests paying yields for ability to add more onboard venues, more stay rooms, which is further improving our overall return profile. So, I would expect that we will continue, at least for the next several years, investing in modernizing our ships to a point where it's -- to make sure the ships are relevant to the current and future guests as well as making sure that we have as many activities for them to do that they are certainly willing to pay for and having more and more onboard revenue venues for them to be able to experience and spend to money on.

Harry Curtis

Very good. And then, the revenue related one is really kind of a cyclical question. Back in 2019, the gross yields were down 14% in a rough economy. And you've probably done some modeling, should we go into kind of a garden variety slowdown. And so, my question is, how are you managed differently, how are you positioned as we go into 2020 or 2021 that would make your, at least top-line, somewhat less vulnerable.

Jason Liberty

Sure. A great question, Harry. So, I think, there is a lot of elements to this, which derisks us relative to the position we were in '08 and '09. First off, we're a much more globally diverse business sourcing a little bit less than half of our guests from outside of the U.S., and having that sales and marketing platform globally to be able to ship -- sourcing around depending on the demand trends that we're seeing. We're also -- a much more diverse set of brands. And our brands really lead in their different segments. And so, we are able to manage our inventory and so forth, based off of a different our platform of brand than we had before. And then, I would also lead into -- there is lots of consumer demographic trends that support our business that are very much in the underlying support for cruising. And so, I think, a combination of all those different things puts us in a much better posture. And then, of course, you consider a stronger balance sheet, allows us to be better prepared at some point when there is a change in that business cycle. Of course, you picked an extreme situation, which is the '08, '09 period of time, but we feel that broader business, our business model has been positioned well to be able to ride through bumps in the night.

Operator

You next question comes from the line of Greg Badishkanian with Citi.

Fred Wightman

Hey, guys. It's actually Fred Wightman on for Greg. You've mentioned a few times the strong results in China. Wondering if you could just talk about that market overall. I mean, it looks like industry capacity there is going to return to growth after a few years' decline. Are you concerned in any way, shape or form about what that might mean for yields or primal [ph] activity going forward?

Michael Bayley

It's Michael. We've been on a journey in China for sure. We've been 10 years in the market. And we've been quite thoughtful about the development of the distribution channels. We all have a confidence that there is a market. We've done a lot of work and we made a lot of progress and we're feeling quite comfortable with the progress that we've made with the distribution. We, more recently, a couple of weeks ago, announced in Shanghai that Oasis 5 would be going into Shanghai in 2021. And Spectrum entered the China market this year and we've been very pleased with the results from Spectrum of the Seas.

So, I think, there is a big opportunity, sometimes supply and demand gets a little bit out of whack, as we have seen in the past. But we really feel as if we've stuck the course and treated it like a marathon, and we we've built the distribution, we've built the brand and we feel as if we've got a good relationship with our travel partners and customers. And so, we're feeling comfortable and relatively confident with our China strategy.

Fred Wightman

Perfect. That's helpful. And then, in Richard's prepared remarks, I think, he mentioned that over half of the hurricane impact was offset with improved trends in other areas. So, was that $0.15 number that you guys cited, is that a gross number or is that net of what you were able to offset?

Jason Liberty

That $0.15 is a gross number. And so, if we just look at our earnings for the year, we had guided before to midpoint of $9.60, we're guiding to a midpoint of $9.525. And so that $0.15 impact hit us and to strengthen our business has helped us offset half of that.

Operator

Your next question comes from the line of Jaime Katz with Morningstar.

Jaime Katz

You guys have discussed the vessel modification program on the cost side. But I'm wondering if there's a way to quantify the lift that you get when those ships return to the fleet, just so we can better think about the ROI that those ships are getting.

Jason Liberty

Well, Jaime, I think, the way that I would look at it is, we wake up every day trying to improve our double-digit ROIC number. And so, clearly, we would be looking to make investments that help pull up that ROIC number over time. We don't have an internal target per se, -- or not internal -- a public target. But, we certainly take on investments that will move that mid or north, not certainly -- we wouldn't look for an investment that would be dragging on to that ROIC investment. And by the way, what we have typically seen in our modernization work is that the investments that we make do better, much better than we had expected them to do as they come on line.

Jaime Katz

Okay. And then, on an economic, sort of global economic environment thought process, are you guys thinking about shifting your sourcing in any meaningful way next year that you’d care to share with us? Thanks.

Michael Bayley

Hi. It's Michael. We're always monitoring currency and macroeconomic conditions. We have a pretty disciplined process in place as it relates to utilizing what we think is a significant global sales and marketing infrastructure. So, we literally are moving our sourcing targets obviously on an annual basis, but on a quarterly and monthly basis to our different teams and groups in different markets, based upon currency and demand and other factors that may influence the market.

So, I think, we're very focused on this. I would say, one of the key drivers of change is typically currency. And when currency is obviously going in the wrong direction, and we're fundamentally a U.S. dollar company, then, of course, that will shift the sourcing around. I mean, we're fortunate that the American market has been the strongest has been, and the demand out of the American market is very good for us. But, we're always -- we're in a kind of a constant state of monitoring, sourcing targets and achievements and currency and all of these different factors.

Operator

Your next question comes from the line of James Hardiman with Wedbush.

James Hardiman

So, another quarter, obviously another in a growing list of headwinds that you've had to overcome this year. So, my question is, as I think about 2020 and sort of what we should be adding back, for lack of a better word? Obviously, $0.15 from the hurricane, I think you have $0.25 from the Grand Bahama Shipyard, maybe $0.20 from Cuba. So, I guess, about $0.60. I guess, first, is that a good math? But then secondly, it seems like most of that is on the net cruise cost side, and that you could potentially have a really good year on that line in 2020. But, then, there was some commentary in the prepared remarks about increased mix of Celebrity and Silversea. Does that potentially undo some of the benefits that you might get next year?

Jason Liberty

Okay. Well, there are certainly things that are clearly kind of more one-timeish, which is the Grand Bahama incident where had to Oasis effectively out of operations for about a month. The Cuba thing, a lot of that is -- we'll see how that kind of how sorts out over time. We have been able to move our ships around to very attractive itineraries that -- now that we have a proper period of time to sell those -- to sell and market those cruises. We do expect to recover a lot of bit. The question will be, will we recover all of that impact that's associated with that. So, one thing I'd say on the hurricane side we experienced, there is always hurricanes that we experienced in most years, this one was much more difficult because of how long it was out there for and the ports that it -- the turnaround ports that it impacted.

My comments around Celebrity and Silversea in the mix is kind of twofold, one of which is obviously the operating costs of those ships are higher as they are more of a premium product. And certainly, Silversea is a ultra luxury product, or an expedition product which has a higher operating cost, but I was really more pointing to the depreciation side and their ships have a higher cost per berth. And so, you're just taking the -- an average appreciation rate may not be the way to model that going forward.

James Hardiman

Okay. That's helpful. And then, secondly, for me, sort of on the use of capital side, didn't see any buybacks in the quarter. I think, you talked about being opportunistic in the back half of the year. Obviously as we talked about in the previous question, the CapEx guidance is up for next year. I guess, I'm just trying to figure out, is it more when than if, the share repurchase will resume, or has that taken somewhat of a backseat? And then, on the interest side, maybe how to think about interest in 2020, there is refinancing opportunity with some of the Silversea that maybe some updated thoughts there?

Jason Liberty

Sure. So, on the buyback side, at the end of the third quarter, we were in a position where we are in a more comfortable debt-to-EBITDA range. And of course, making sure that we continue to behave like an investment grade credit and stay within our bookings on a leverage standpoint is very important to us. And so, now that we've kind of reached that position we will -- we have about $700 million left on our buyback program, and that is certainly something that will be in our consideration going forward. But, as we stated before, we will be doing that on an opportunistic standpoint.

On the interest side, the kind of core action that you pointed to, which will reduce our interest expense going forward, if we do it, will be for us to take out the Silversea bond. And the first time that's really available to do is in the first quarter of next year.

James Hardiman

Got it. Thank you.

Operator

Your next question comes from the line of Tim Conder with Wells Fargo Securities.

Tim Conder

Thank you. Just wanted to follow up a little bit on the China distribution development. Can you talk about a little bit how the mix is of charter versus let’s call it traditional travel agents versus direct kind of where you are exiting this year versus maybe where you were three years ago? And then, the second question is just, Jason, maybe cadence of what you’re seeing in the UK and Germany from those sourced markets, Germany in particular, through your joint venture, just the cadence of how those bookings and pricing is going within your overall context that you gave on 2020?

Richard Fain

Hi, Tim. Kind of hesitant to give you percentages, the progress that we made with the distribution. I can tell you that, if you look back a few years, we were heavily dependent upon the charterers, probably 80%, 85% of our businesses was through the charterers. And we learned to a lot of lessons during that period, and that's -- really gave us the impetus to change the model, and we've made significant progress with that change. So, if you look at our charter business now, it’s probably somewhere around 5% to 10%, if that. And we've really been pleased with the development of our direct business. It's grown at a significant rate. I mean, direct in China and utilization of web et cetera is high. So, we've been very pleased with the progress that we've made. So, the landscape of our distribution today versus a few years ago is remarkably different.

Michael Bayley

And Tim, before answering your question, I just wanted to make one clarifying point. When I was talking about the 30 basis-point improvement in the third quarter, what I was referring to was versus our guidance that our like-for-like was better by 30 basis points than we had expected to in the third quarter. Our like-for-like yield growth year-over-year, about half -- a little over half of that came from our like-for-like business doing better than we had expected. So, I just wanted to clarify that the like-for-like growth was a very healthy in the third quarter. And of course, that excludes the Silversea, Port of Miami and Perfect Day. But our performance for the quarter was actually 30 basis points better than we had expected to be from that business.

On the Germany question, certainly, Germany has been a little bit more of a challenging market. I mean, fortunately for two cruises, demand for that brand has done very well. There has been a little bit of pricing pressure, but overall, they're going to -- their expectations is to continue to perform as expected on a bottom-line standpoint. And I feel a little bit of softness on the revenue side, but it's very immaterial.

Tim Conder

Okay, great. Thank you, gentlemen.

Operator

Your next question comes from the line of Brandt Montour with JP Morgan.

Brandt Montour

Good morning, everyone. Thanks for taking my question. So, obviously, strong 2020 commentary. I was hoping that maybe you could just dig in a little bit with the first half of 2020 in the Caribbean on a qualitative basis, looking at the market maybe in Cuba -- or ex Cuba tonnage choices, the markets are infected by that tonnage or potentially a little longer cruise market versus the short cruise market, any differences along those lines will be helpful?

Richard Fain

Well, so, just kind of focusing on the first half and your question on the Caribbean side. What we talked about on the rate and volume basis very much supports what we're seeing in the Caribbean. Q1, which I pointed to in my remarks, has a little bit more headwind to it, because of the bookings that relate to Azamara and to Silversea. And those are higher yielding and those guests book much further out. So, that will weigh a little bit on our Q1. But, if you look at the first half of the year, we expect the environment for the Caribbean to be very good, which also is our point of view for the back half of 2020.

Michael Bayley

It's also worth pointing out that as Cuba dropped out, Perfect Day came on line. And I think that was more than compensated for dropout of Cuba.

Brandt Montour

And then, on value add to obviously an exciting announcement there. Just, if anything else you guys can help us out kind of thinking about that opportunity. Obviously, it feels like it’s fair to assume smaller sort of absolute opportunity than CocoCay, but maybe give us some context around, when you expect it to potentially open what's the total dollar investment, and also sort maybe, what you think the daily or annual passenger capacity that eventually could be able to handle? That would all be -- anything could be helpful. Thank you.

Richard Fain

So, we’re thinking late 2021, early ‘22 we'll open Vanuatu. Obviously, the collection of Perfect Day and the collection of Beach Club is very much connected to how we see growth in volume for the brand or brands; as it relates to the itineraries, it'll take the ships to those destinations. So we have a five-year and a 10-year view of the kind of volume that we’ll take into Vanuatu, based upon the development of the Australian market.

And so, the volume would be less than Perfect Day at Cococay, which I think at its peak in a few years will get to close to 3 million people going there. The number for Vanuatu I think reaches close to 750,000, 800,000 is currently in our plans. The investment number, I don't think we started really talking about the investment number yet. We're still working through the details of that. But we've thought through obviously quite carefully, the kind of volume that we can take to these destinations. That's why we've really got two offerings Perfect Day and the Beach Club. Perfect Day is a lot of volume and Beach Club is significant volume but doesn't reach the same levels as Perfect Day.

Jason Liberty

Dorothy, we have time for one more question.

Operator

And your last question comes from the line of Sharon Zackfia with William Blair.

Sharon Zackfia

I think, one of the big differences today versus during the last recession is how much you bundle the onboard spending with the initial purchase or alternatively have the prebooking availability prior to the cruise? I'm just curious, given that that kind of used to be the carry in the coal mine of any kind of slowdown, how much of your onboard spending now is kind of prebooked before somebody even gets on the ship?

Michael Bayley

So, we're really delighted with our pre-cruise revenue. And I think our level of sophistication with our marketing and the technology that we've got is really dramatically improved over the past several years, certainly over the past decade. I can't even imagine what the number was a decade ago, but the number today is significant. And we've got just so much better across this whole spectrum of opportunities. So, we're pleased with the progress that we're making with pre-cruise. And we -- I think, we said before that the theory that's been proven out is that for every dollar you get in pre-cruise, you'll get another $0.50 onboard spend by the normal guest who just spends onboard. So, it's very positive environment. We're excited that in 2020, we start bringing on line new software that will improve even further our sophistication as it relates to pre-cruise revenues. So, it’s a good environment, and I think we made a lot of progress and we’ve reached this level of sophistication. And we’re improving all of the time. We’ve got new software coming. And so, I think we feel quite comfortable with it.

Sharon Zackfia

Is there a metric you’d share on how much is pre-booked at this plan?

Michael Bayley

No. I would say that every single year we're improving that metric, significantly.

Jason Liberty

And we do think, Sharon, that there will be significant growth in that number as the new technology rolls in, in 2021.

Sharon Zackfia

Okay. Thank you.

Jason Liberty

You got it. Okay. Thank you for your assistance Dorothy, with the call today. And we thank all of you for your participation and interest in the Company. Carola will be available for any follow-up calls or questions you might have. And wish you all a very good day. Take care.

Operator

Thank you, ladies and gentlemen. That does conclude today's conference call. You may now disconnect.