Norwegian Cruise Line Holdings Ltd. (NCLH) CEO Frank Del Rio on Q3 2019 Results - Earnings Call Transcript

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Q3: 11-07-19 Earnings Summary

Press Release SEC *10-Q* *Slides*

EPS of $2.23 beats by $0.07 | Revenue of $1.91B (2.99% Y/Y) beats by $24.23M

Earning Call Audio

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Norwegian Cruise Line Holdings Ltd. (NYSE:NCLH) Q3 2019 Earnings Conference Call November 7, 2019 10:00 AM ET

Company Participants

Andrea DeMarco - Vice President of Investor Relations & Corporate Communications

Frank Del Rio - President & Chief Executive Officer

Mark Kempa - Executive Vice President & Chief Financial Officer

Conference Call Participants

Felicia Hendrix - Barclays

Jared Shojaian - Wolfe Research

Steve Wieczynski - Stifel

Brandt Montour - JPMorgan

Harry Curtis - Instinet

Thomas Allen - Morgan Stanley

Operator

Good morning and welcome to the Norwegian Cruise Line Holdings Third Quarter 2019 Earnings Conference Call. My name is Carmen and I will be your operator. At this time, all participants are in a listen-only mode. [Operator Instructions]

As a reminder to all participants, this conference call is being recorded. I would now like to turn the conference over to your host Ms. Andrea DeMarco, Vice President of Investor Relations and Corporate Communications. Mr. Marco, please proceed.

Andrea DeMarco

Thank you, Carmen, and good morning, everyone. Thank you for joining us for our third quarter 2019 earnings call. I'm joined today by Frank Del Rio, President and Chief Executive Officer of Norwegian Cruise Line Holdings and Mark Kempa, Executive Vice President and Chief Financial Officer. Frank will begin the call with opening commentary, after which Mark will follow to discuss results for the quarter as well as provide updated guidance for 2019 before handing the call back to Frank for closing remarks. We will then open the call for your questions.

As a reminder, this conference call is being simultaneously webcast on the company's Investor Relations website at www.nclhltdinvestor.com. We will also make references to slide presentation during this call, which may also be found on our Investor Relations website. Both the conference call and presentation will be available for replay for 30 days following today's call.

Before we discuss our results, I'd like to cover a few items. Our press release with third quarter 2019 results was issued this morning and is available on our Investor Relations website. This call includes forward-looking statements that involve risks and uncertainties that could cause our actual results to differ materially from such statements. These statements should be considered in conjunction with the cautionary statements contained in our earnings release. Our comments may also reference non-GAAP financial measures. A reconciliation to the most directly comparable GAAP financial measure and other associated disclosures are contained in our earnings release and presentation.

And with that, I'd like to turn the call over to Frank Del Rio. Frank?

Frank Del Rio

Thank you, Andrea, and good morning, everyone. There are a few important parallels between the second and third quarters of 2019 that I'd like to point out. First, the third quarter, like the second, marked another record-setting quarter for Norwegian Cruise Line Holdings as we posted not only the highest quarterly revenue in our history, but also the company's highest ever quarterly net yield. At nearly $301 per day, the third quarter marks the first time net yield has ever surpassed the $300 mark, not just for our company, but for any of the major cruise operators. Even more impressive is that the record revenue and record net yield came in a quarter in which we experienced a 1.8% decrease in capacity days.

Also like the second quarter, the third quarter benefited from a continued strong demand environment that once again proved that the consumer, especially the North American consumer is alive and well. And lastly both quarters benefited from our strategic initiatives around itinerary optimization, particularly in Alaska and Europe where we grew capacity in the quarter by 17% and 13% respectively. Also similar to what we experienced in the second quarter, we overcame external and non-controllable headwinds both known headwinds and new ones, demonstrating once again the resilience of our business model and the power of the go-to-market strategy utilized by our big global brands.

One of the primary goals of this call is to once again cut through the noise and put in perspective the impact of these short-term disruptions and provide you with a clear picture of how we see our core business performing going forward.

So in the third quarter, we delivered another record setting quarter with strong financial performance and bottom line results that would have been even stronger, if not for the following events. First and as covered in our prior earnings call, was the impact from the abrupt cessation of sailings to Cuba. Given the steadiness of the termination and the lack of lead time we had to make any meaningful fleet redeployment changes, the third quarter bears the largest negative earnings impact from the Cuba travel ban. In this case $0.22 per share.

The Cuba impact, thankfully, diminishes over time, beginning in this year's fourth quarter and onward through the second quarter of 2020, as we lap the canceled Cuba sailings and redeployed vessels that would have sailed to Cuba to other premium-yielding itineraries including Alaska, the Eastern Mediterranean and Southeast Asia.

The second event was the previously disclosed technical issue on Norwegian Pearl that occurred in early July and which disrupted approximately one month of premium priced peak summer sailings in Europe, resulting in an impact of $0.07 per share.

And third and most recently, was the impact stemming from Hurricane Dorian, which cost several voyage disruptions and the cancellation of two voyages during the quarter and was a drag to earnings of $0.06 per share. I'm extremely proud of how our team members rose to the occasion in the aftermath of Dorian and came together, not only to assist our valued guests, but also the citizens of the Bahamas most affected by the ravages of the storm.

With a 50-plus year relationship that goes back to the early days of modern cruise industry, the path of Norwegian Cruise Line in the Bahamas are forever link, which is why we responded as quickly and as generously as we could to relaunch our Hope Starts Here Hurricane Relief Campaign to gather and transport relief supplies, as well as collect monetary donations from team members, travel partners, concerned guests and others.

In less than one month and due to the overwhelming outpouring of support, we were able to increase our commitment to $3 million, including a $2 million cash contribution, coupled with approximately $1 million in supplies, to assist All Hands and Hearts with emergency respond aid across the Bahamas, including debris cleanup and removal and the rebuilding of community infrastructure, such as hospitals and schools in Freeport and the Abaco Islands.

Slide four shows a summary of this aid. And while the immediate response was important in bringing relief to the affected areas, just as important was our extended support by resuming sailings to the Bahamas as soon as possible and bringing tens of thousands of guests particularly to Nassau and on private island at Great Stirrup Cay.

While the end of voyage to Cuba and the technical issue on Pearl were previously taken into account in our guidance for the third quarter, impact from Dorian laid some unforeseen obstacles to achieving our guided results. But achieved them we did and then some, by delivering earnings that once again exceeded guidance this time by $0.08 per share and which, if not for the impact from Dorian, would have outperformed guidance by $0.14 per share.

This extraordinary performance demonstrates once again the strong and resilient earnings capabilities of our business model, which combined with the excellent results stemming from premium peak season markets such as Alaska and Europe, helped our company exceed expectations and deliver once again, both the highest ticket and the highest onboard yields in the industry and by a wide margin.

Our performance in high-yielding Alaska was bolstered by the addition of the better-than-new Norwegian Joy. Joining her record setting sister ship Norwegian Bliss to form the cornerstone of our sizable deployment strategy in this growing and very profitable region.

In the coming years we will further bolster our presence and commitment to the region on two fronts. First, with additional capacity, operating sailings that offer longer, more port immersive and unique itineraries, which complement our current seven-day deployments; and second, through the development of key port infrastructure and guest facing revenue generating projects, which will expand and enhance our guest experience and that I will discuss in more detail later in my remarks.

Meanwhile, our sailings in Europe benefited from our global sourcing model and our go-to-market strategy that allows us to source the best or highest yielding guest regardless of their providence. To drive this point home, while North Americans comprise the majority of our guest sourcing for Europe area sailing, it's important to note that the second largest contingent of sourced guests for these itineraries, do not come from locally sourced European, but from the rest of the world including Australia, Asia, and South America. And that's a very important differentiator for us because we know that a guest that flies long distances to board and ship is a higher yielding guests that one that drives their car or takes a bus or train to the port of embarkation.

But in spite of Europe's well-publicized issues including Brexit and the weakening German and Italian economies, booked ticket revenue for the Norwegian brand's European sailings from European source guests has actually increased by a whopping 43% since the introduction of the Free at Sea offering seven months ago, which has obviously resonated extremely well with our target markets and our travel agent partners.

As for the Caribbean, it's really a tale of two stories. First, demand for core Caribbean sailings both for western and eastern deployment remains strong with low in pricing ahead of same time last year across our three brands and extending well into 2020. And as I stressed last quarter and will again now, we have not seen and quite frankly do not expect to see any deterioration in the overall demand dynamics for the greater Caribbean.

If anything, we have seen an acceleration of overall demand over the last four to six weeks including demand for Caribbean sailings, which has resulted in our year-over-year load factor in book revenue lead to increase over this period.

Second, the vast majority of the canceled Cuba voyages from the Norwegian brand, which were by necessity converted to short Bahamas intensive sailings, and which were already impacted by a much shortened booking window faced additional headwinds from the impact of Dorian. But the headwinds from Cuba and especially Dorian are short-lived in nature and will sequentially diminish as we approach the lapping of the Cuba regulation change as the booking window for short Bahamas sailing expands to normal time frames and as certain shifts formerly sailing to Cuba and now solely sailing to the Bahamas reposition to more premium destinations later in 2020 thus reducing capacity from this historically lower-yielding destination.

The core Caribbean will always be a critical region in our deployment strategy as it has been for over 50 years since the first Norwegian Cruise on ship began offering cruises from Miami. And this strategy will continue as we launch Norwegian Encore, the brand's newest, largest and most innovative ship to-date and the first new ship launched by the brand at Caribbean in four years. We took delivery of Encore just last week and reports from her inaugural activities in Europe have been both stellar and more effusive than we could have expected. The word encore can be defined as a reappearance or additional performances demanded by an audience for which artists or performers usually save their best material.

If that's indeed the definition the Norwegian Encore fully embodies her name as for features are indeed a collection of the best of the Breakaway Plus Class. As these vessels enter the fleet, each included new and exciting features, including the first go cart racetrack at sea but they view the virtual reality pack Galaxy Pavilion and the stunning observation launch that made Norwegian Joy and Bliss perfect ship for Alaska cruising.

Our Norwegian Encore we have expanded, elevated and enhanced these features and added new ones, including the introduction of a new upscale dining concept, Onda by Scarpetta. Collectively these features are one of the reasons why Encore is the best booked, highest price Caribbean introduced ship in Norwegian's history and by a wide margin. And another reason for Encore's success is the continued refinement in broad consumer acceptance of the Free at Sea marketing campaign, which has become the cornerstone of the Norwegian brand's go-to-market bundle strategy of focusing consumers on value versus price. On the heels of Encore will be the delivery of Seven Seas Splendor in January of 2020 for the region Seven Seas Cruises brand.

As you can see on slide 5, Splendor fully embraces her tagline of luxury perfected which has resonated extremely well with both the brand's large contingent of loyal pass guests and target new ones. The halo effect from Splendor is impressive. For 2020, the Regent brand like sister brand Oceania Cruises, is already nearly 70% booked and at higher prices versus same time last year despite Regent's 26% increase in capacity, demonstrating the brand's continued track record of profitably absorbing new capacity.

Splendor is not only the best booked ship introduction for the Regent brand. She is also the highest-yielding new ship introduction in the company's history. This is not only a big win for the Regent brand but a big win for Norwegian Cruise Line Holdings as it helps extend our formidable dominance in leading the industry in net yield. Both Splendor and Encore are benefiting from being introduced into a strong consumer demand environment, one weather continues to be no sign of a slowdown and with 2020 already shaping up to be another record year, with occupancy and pricing outpacing 2019 record levels across all three brands.

You might recall that on our last few earnings calls, I've mentioned that booking windows cannot and should not expand forever. But demand for our stellar brands has been so strong that while we have taken no significant overt action to consciously expand the booking window, expanded it by 10% in the third quarter, underscoring consumers' underlying appetite for cruising on our three brands. And further demonstrating the strength of our forward business is the growth of our advanced ticket sales, which increased 12.5% over the prior year on a forward year capacity increase of only 8.7%. In other words advanced, ticket deposit growth has outstripped capacity growth by approximately 44%.

Now I'll be back at the end of the call with some final thoughts. But for now, I'll turn the call over to Mark to review our results for the quarter and our updated expectations for the year in more detail. Mark?

Mark Kempa

Thank you, Frank. Unless otherwise noted, my commentary compares 2019 and 2018 net yield and adjusted net cruise cost excluding fuel per capacity day metrics on a constant currency basis. As you can see on Slide 6, strong revenue performance in the third quarter, primarily driven by exceptionally strong onboard revenue and strength in close-in bookings drove earnings above expectations with adjusted EPS of $2.23, beating our guidance by $0.08 despite a $0.06 impact from Hurricane Dorian.

The quarter experienced a direct impact from Dorian from three items. First was the cancellation of two voyages as a result of the extended closure of Port Miami, which forced us to reroute two of our ships; Norwegian Breakaway and Sun to New Orleans resulting in lost revenue and additional costs to repatriate guests back home.

Second, where multiple itinerary changes not only for ship sailing from Florida but for ships operating up and down the Eastern Seaboard as many of the ports were closed as a cautionary measure while awaiting the path of the weather system.

And lastly, our hurricane relief efforts which totaled approximately $3 million. If not for this impact, adjusted EPS would have grown to $2.29 on a decrease in capacity days of 1.8% and would have exceeded our August guidance by $0.14 and the prior year's record of $2.27 despite the impact of Cuba and Pearl.

Turning to Slide 7. Net yield increased 3.9% or 3.3% on an as-reported basis versus prior year on a capacity decrease of 1.8%, outperforming guidance expectations by approximately 215 basis points. Stripping out the noise in the quarter, core fundamentals remain strong. And if not for the previously disclosed impacts from Cuba and Pearl, coupled with Dorian, net yield would have increased 6.7%.

This growth comes on top of prior year's robust net yield growth of 4%, which included both the benefit of premium priced Cuba sailings and the premium priced inaugural Alaska season for Norwegian Bliss, compared to current year which included lower-priced Bahamas cruises that had to be filled in a very compressed sales cycle.

Turning to costs. Adjusted net cruise cost excluding fuel increased 11% versus prior year and 10.2% on an as-reported basis, making Q3 the highest growth quarter in the year consistent with our expectations. This increase was a result of unanticipated costs due to Dorian, such as guest repatriation and costs related to relief efforts along with incremental marketing to bolster sailings in 2020 combined with expenses outlined in our prior call, which included the scheduled 18-day dry dock of Oceana's Regatta, marketing expenses for sailings previously containing Cuba calls, and operating costs associated with Pearl's technical issue. Fuel expense for the quarter was slightly higher than expectations due to an increase in fuel price per metric ton net of hedges which came in at $504 versus guidance of $492.

Turning to Q4. I'll direct you to Slide 8 to review deployment highlights. As our ships repositioned to their winter deployments, there are two focal markets for the quarter: the Caribbean and Europe. Our Caribbean mix is up approximately 39%, which is down versus prior year with capacity decreasing approximately 8%, primarily due to the extended European season for deployment of Norwegian Getaway and Epic along with the addition of Norwegian Pearl to the region. Europe mix for the quarter increased to approximately 18%, representing a nearly 40% increase in capacity as a result of the extended season.

Looking at expectations for the fourth quarter on slide 9. Core business fundamentals are strong, despite an expected incremental $0.09 of headwinds, driven by lower pricing and higher expenses entirely due to Dorian.

Let's focus on net yield first. As a reminder keep in mind that our Q4 outlook includes the expected dilutive mix impact of approximately 125 basis points for the combined performance of Bliss and Encore in the quarter.

Further this quarter also includes a scheduled dry dock of the highest yielding ship in the fleet Regent Seven Seas Explorer. Dorian's 110 basis point drag on net yield as a result of the one-two punch of Cuba sailings being converted to Bahamas-only sailings combined with the near-term dampening of consumer demand for Bahamas sailings from the extensive media coverage surrounding the storm.

That said, the good news is that the pricing impact we are seeing from that is expected to be fully offset in the quarter by strength in the core Caribbean, resulting in an improved outlook for net yield, compared to our prior implied guidance. And as time passes and we distance ourselves from the impacts of Cuba and Dorian, the booking window will return to normal and more importantly half of our capacity in the Bahamas basin will reposition to other higher yielding destinations such as Alaska beginning in early Q2.

To better illustrate the strength of our core top line fundamentals in the fourth quarter when you strip out the noise from Cuba, Dorian and the mix impact from the new Norwegian ships that results in an expected 5.7% increase in net yield over prior year solid growth of 4.7%, which as you recall benefited from the premium priced Cuba sailings and Norwegian Bliss' incredibly successful inaugural Caribbean season.

Turning to costs. Adjusted net cruise cost excluding fuel is expected to be up approximately 2.25% or 1.75% on an as reported basis, which represents an increase of less than one half of 1% on an annual basis. The increase is primarily due to costs to repair damage to our private islands infrastructure and to replenish its various beach fronts as a result of the erosion caused by Dorian.

Higher than expected dry dock costs required to harmonize Explorer to that of its sister ship Splendor, higher inaugural expenses for the extended launch activities of Norwegian Encore in Europe, New York and Miami and slightly higher sales and marketing expenses to further bolster the successful launch of Splendor and support the Regent brand's 26% growth in the year.

Looking at fuel expense. We anticipate our fuel price per metric ton, net of hedges to be $498 with expected consumption of approximately 221,000 metric tons. Taking all of this into account, adjusted EPS for the fourth quarter is expected to be approximately $0.69, which includes an estimated impact of $0.26 from Cuba and Dorian. Exclusive of these two items adjusted EPS guidance would have been $0.95, an increase of approximately 12% over prior year.

Turning to the full year. I'll walk you through the components of our revised adjusted EPS outlook on Slide 10. The year benefited from topline outperformance in the third quarter combined with a stronger revenue outlook for the fourth quarter, primarily in the core Caribbean resulting in a $0.14 benefit to the full year. Accretion from the 150 million in shares repurchased in the third quarter accounts for $0.03 and foreign exchange fuel and other savings of approximately $0.03.

These benefits were partially offset by the aforementioned marketing and dry dock cost of $0.05 and a $0.15 impact from Dorian of which $0.10 is attributable to revenue and $0.05 is attributable to costs.

As a result, we expect adjusted EPS to be in line with the midpoint of our August guidance of approximately $5.05. To put the year in perspective, if not for the $0.67 of combined headwinds from Cuba, Pearl and Dorian our guidance would have been approximately $5.72 or an approximate 16% increase over prior year and would have exceeded the high end of our original guidance range provided at the beginning of the year.

Looking at expectations for other key operating metrics on Slide 11, we've increased our outlook for net yield growth for the year by 40 basis points to now be up approximately 3% or 2.4% on an as-reported basis versus August guidance despite the impact from Dorian. If not for this headwind, net yield growth would have increased another 25 basis points to 3.25%.

And if not for Cuba and Pearl as well, net yield growth would have been approximately 5%. Adjusted net cruise cost excluding fuel is expected to be up approximately 5.75% or 5% on an as-reported basis. The 125 basis point increase versus previous guidance is primarily due to the impacts from Dorian and the previously mentioned items.

Looking at fuel expense, we anticipate our fuel price per metric ton net of hedges to be $490 with expected consumption of approximately 836,000 metric tons, focusing on the fuel environment on Slide 12, we continue to strengthen our hedge program and during the quarter increased our overall portfolio.

While there is still a small amount of uncertainty in connection with the new IMO regulations going into effect on January 1, we continue to expect our 2020 total fuel expense net of hedges to be on the higher end of our typical range of 6% to 7% of gross revenue.

This is consistent with our previous expectations and is driven by an increase in volume from capacity growth as well as higher pricing, primarily related to the shift in MGO consumption from 30% to approximately 60% in 2020.

Looking ahead to the broader outlook for 2020, while it is still too early to provide guidance we want to provide some puts and takes and a few items to keep in mind. First regarding Cuba, as Frank mentioned earlier, the impact diminishes in 2020 to the previously disclosed expected range of $0.20 to $0.25 per share for the full year. This impacts the first half of the year in the topline due to the loss of the premium pricing that our Cuba sailings garnered.

Second, Norwegian Bliss is lapping her successful inaugural first and second quarter of sailings stepping down from the pricing premium that inaugural seasons customarily command. Lastly, the accretive benefit to yields from Seven Seas Splendor which was offset by the expected dilutive impact of Norwegian Encore.

And in terms of dry docks, 2020 will have a higher number of dry-dock days versus 2019, including two extended dockings of approximately 40 days each for Norwegian Spirit in the first quarter and Pride of America in the second quarter.

In terms of the cadence for net yield growth. The aforementioned puts and takes are heavily weighted to the first half with Cuba alone providing a 200 basis point drag. As a result, first and second quarter net yield growth is expected to be below the typical range of net yield growth that we normally aim to deliver. All-in-all it's steady as she goes and 2020 is expected to follow in the footsteps of 2019 as another record year.

While we have work to do to offset the multiple headwinds we've weathered over the last few quarters, our business fundamentals remain strong and we continue to be on a solid trajectory toward achieving our full speed ahead 2020 targets that were laid out at our Investor Day.

Focusing on shareholder returns on slide 13. We took advantage of current valuations and executed $150 million in share repurchases in the third quarter. We have now returned over $1 billion since the beginning of 2018. This represents approximately 9% of our shares outstanding or 19 million shares in total. Of that total $750 million is related to our full speed ahead 2020 targets and equates to more than half of the midpoint of our capital allocation target under the program of $1 billion to $1.5 billion by the end of 2020.

Our Board of Directors continue to believe that the most efficient way to return capital to our shareholders is through opportunistic share repurchases. As such and until the market valuations begin to reflect the proper value of our company, we will continue to use this method as the primary vehicle to return capital. Our goal is to eventually have a more balanced approach to capital allocation and we will continue to evaluate the potential implementation of a dividend with our Board.

As for the balance sheet as you can see on slide 14, it continues to strengthen and we have rapidly delevered since the acquisition of Prestige in 2014 by nearly four turns with net leverage at approximately three times at the end of the quarter. By year-end, we expect leverage to modestly elevate primarily due to the debt associated with the delivery of Norwegian Encore where we have little or no earnings benefit in the quarter. Excluding that debt leverage is expected to be approximately three times at year-end. We expect our net leverage to continue to decline over the next four quarters, primarily through strong earnings generation and scheduled debt amortization.

Before turning the call back to Frank, I'd like to discuss one metric we feel is vastly underappreciated, our cash generation. Despite operating in an extremely capital intensive industry, coupled with our strong growth profile, our cash generation is expected to accelerate as we continue to realize the powerful earnings accretion, our core business model provides, as well as the incremental earnings power from the addition of Norwegian Encore and Seven Seas Splendor to the fleet. This positive cash generation provides us the flexibility to continue to return meaningful capital to shareholders while also making prudent investments for the future to further enhance returns.

With that, I'll hand the call back over to Frank to provide closing commentary.

Frank Del Rio

Thank you, Mark. Earlier in my comments, I mentioned the enthusiasm that we have for the growing Alaska market, which has let us to make significant investments to further strengthen our presence in this high-yielding cruise market.

Prior to the arrival of Norwegian Bliss, we solidified our partnership with the Port of Seattle by renovating their terminal at Pier 66 and we continue to cultivate various other partnerships in the region, aimed at developing both port and guest-facing infrastructure projects in key ports that will facilitate our growing presence.

Our itinerary-enhancing projects include a new pier in Ward Cove in Ketchikan, the purchase of the last waterfront parcel in Greater Juneau and a development of a second pier and customer-facing attractions at Icy Strait Point in Huna; all of which will give our guests enhanced experiences onshore as they explore the last frontier and give all of our brands a leg up on the competition.

We are also investing in the guest experience onboard our ships, with Norwegian Spirit entering dry dock early next year, is the last ship to enter the Norwegian Edge revitalization program with the most extensive bow to stern renovation in the company's history.

The updated elements onboard Norwegian Spirit will take the guest experience to the next level, with new venues and a look and feel consistent with our recent newbuild launches and which touch every aspect of the ship with every venue stay and public area being completely revitalized to prepare her for her sophisticated travelers that will sail on her exotic itineraries throughout Africa, Asia and Australia.

The combination of a better than new ship at a fraction of newbuild prices and immersive itineraries in the APAC region will benefit our strategic global sourcing strategy of attracting the highest-yielding guest with an unmatched value packed offering in the region.

As I close up my remarks, I'd like to give a brief update on our ESG initiatives which are summarized on slide 15. As I stated earlier, we recently reactivated our Hope Starts Here program in the wake of Hurricane Dorian, delivering needed food, supplies, equipment and substantial monetary aid to the Bahamas and continue to provide aid wherever we can assist.

On the environmental front, we continue to make significant strides in our efforts to reduce single-use plastics onboard our vessels. Earlier this year Oceania Cruises and Regent Seven Seas Cruises partnered with Vero Water and recently Norwegian Cruise Line announced its partnership with JUST Goods to replace all single-use plastic water bottles with environmentally-friendly reusable and recyclable bottles across its fleet by January 1 of next year, making Norwegian their first major global cruise line to go plastic water bottle-free.

Lastly, on the governance front. This morning Norwegian Cruise Line Holdings was honored by the Women's Forum of New York for its commitment to greater female representation on its Board of Directors. Today, women comprised 30% of Norwegian's Board with backgrounds ranging from corporate executives to senior officers in the Armed Forces.

Forces.

Our commitment to diversity, however, extends well beyond gender. We are also committed to both social and professional diversity. And today 60% of our directors come from diverse backgrounds, which we truly believe will enhance our ability to better compete in an increasingly complex global environment.

Before turning the call over to Q&A, I'll refer you to slide 16, which contains our key takeaways for this call. First, strong demand drove outperformance on the top line and on earnings beat versus guidance despite impacts from Hurricane Dorian. Second, our core business fundamentals remain strong for the remainder of the year and well into 2020. Lastly, we remain on a strong trajectory to achieve our 2020 full speed ahead targets. And with that I'd like to open the call for questions and answers. Operator?

Question-and-Answer Session

Operator

Thank you Mr. Andrea [Operator Instructions] And our first question is from Felicia Hendrix with Barclays. Please go ahead.

Felicia Hendrix

Hi, good morning everybody. Frank starting with you, just getting back to your earlier commentary for third quarter and fourth quarter, you sounded bullish around pricing for the remainder of the year and into next year.

So as you look towards 2020, I was wondering if you could talk about what may have changed since you last updated us in August. I think you mentioned in your prepared remarks that you've seen an acceleration in demand, but I couldn't tell if that was referring to the remainder of this year or 2020?

Frank Del Rio

No. It's primarily into 2020. 2019 is just about done Felicia. So we have seen over the last four to six weeks an acceleration of our overall business demand into 2020. And really into 2021 the booking window as I mentioned has expanded 10% quarter-over-quarter -- excuse me, year-over-year.

And I think that is as good an indication of the strength of the overall industry and particularly of our company as we're able to drive both load on 8.7% increase in capacity and at higher prices.

I can't stress enough what a trifecta win that is that you can raise prices, extend your booking window, increase your load in the face of what is an unusually high year-end capacity growth.

So we're very, very happy with our performance. We continue to fine-tune our itineraries away from lower-yielding regions to higher-yielding regions. And it's all coming home to roost and we just couldn't be happy with our performance this year and what we expect to be another tremendous year next year.

Felicia Hendrix

Great. That's helpful. And then just as a follow up to that your outlook did also highlight that you're seeing stronger revenues driven by the Caribbean in the fourth quarter.

You did mention you've seen booking low following Dorian and much of the 110 basis points impact was due to that in the fourth quarter in terms of net yield. But I'm just wondering as you look at the booking window and pricing for the Bahamas now relative to your normal booking windows and pricing is where are you in terms -- now versus normalized? And is any of that leading into the first quarter or the first half?

Frank Del Rio

Yes. So it's good that you mentioned Bahamas separately from the Caribbean because core Caribbean both western deployments and eastern deployments are strong higher load, higher pricing. Bahamas is the issue and a short-term issue as we distance ourselves from the impacts of Cuba.

Remember, when Cuba came into the picture, a ship that went to Havana was also going to the Bahamas. And so we stopped calling those sailings Bahama cruises and instead of calling them Cuba cruises. Well now with Cuba out of the way they're back to being Bahama cruises. And the Bahama cruises. And the Bahama cruises are being impacted by several factors. One of the fact this time last year we were in Cuba. And so the year-over-year comparisons are night and day, in terms of pricing, because Cuba's demand at such a high price.

Number two, the effects of Dorian, which shortened the booking, the attractiveness if you will of the destination. And in our case because Cuba was so strong, we had more capacity in the Cuba/Bahamas region than we normally would. As I mentioned in my prepared remarks, as we move into 2020, we will be moving those vessels that had been in the Bahamas had been in the Caribbean, out of those regions and into higher-yielding markets such as Alaska and the Eastern Mediterranean and Asia. So it is temporary as we move forward sequentially, the effects of Cuba diminished, the effect of Dorian disappear. But yes in Q4, as you saw in our release, the Bahamas is what is dragging down pricing to the tune of 110 basis points.

Mark Kempa

That's exactly right. And just to add on that. If you look at our Q4 yield, our prior implied guidance was flat. But excluding the impact of Dorian, we're actually up about 110, 120 basis points and that's all primarily coming from the Caribbean. So again, we're seeing strength in that core market in the forward view.

Felicia Hendrix

Okay. So we won't hear anymore about the Dorian in the first quarter, it sounds like?

Frank Del Rio

Not as much.

Felicia Hendrix

Okay. Thank you.

Operator

Thank you. And our next question is from Jared Shojaian from Wolfe Research. Your line is open.

Jared Shojaian

Hey, good morning, everyone. Thanks for taking my question. So Frank I guess a question for you. I mean obviously, the forward booked position continues to expand, your booking windows expanding. Have you thought about taking some more risk right now and not just on the pricing side but just on some of the -- I guess pricing decisions in terms of your deposit policies? I know I think a year or two ago you raised the deposit date to 120 days. Is there any thoughts to raise that even longer?

And then some of your competitors have focused more on the nonrefundable side. I know that's not really an area where you guys have explored. Can you just talk about that opportunity and how you see that as something that you could expand into?

Frank Del Rio

Good morning, Jared. As you know and something I stress in every call, we already have by a very, very wide margin, the highest yields in the industry, not only in ticket but in onboard. That doesn't happen by chance. It happens because we work it every hour of every day, always looking for opportunities to raise prices across our three brands and we do.

And so when you ask me if we're focused on or if we're doing anything on it that's all we do. That's the primary focus that we have is the combination of our go-to-market strategy, which means that we invest marketing dollars to stimulate demand in the marketplace versus reducing prices.

And whenever we believe that the booking window, booking curve combination allows us, we take prices up. It's why we constantly are looking for the optimization of our itinerary is always moving ships to higher-yielding itineraries. Why we're so bullish on Alaska? Alaska used to be a three-month season: June, July, and August. So now we're seeing -- we're getting there in April and we're not leaving until October. It's now a six-month season of very, very high-yielding, not only on ticket, but incredible high-yielding on onboard. And so we're going to continue doing that. We're taking Spirit out of the winter Canary Island marketplace, one of the historically lowest-yielding areas and we're sending her after her a refurbishment out to Asia, Australia, Africa, more exotic itineraries to take advantage of our huge customer base, our past guests files that have never been to those areas because we've never sailed to those areas before. So all these things help the selling process of lower marketing costs, higher occupancy, higher yields, more revenue, more earnings per share, and I think that our performance over the last four or five years prove that that philosophy that strategy works.

Jared Shojaian

Okay, thank you. And Mark just maybe a question on cost, can you talk about what that incremental marketing is that's hitting this year that's for 2020, maybe why you took the marketing up? And then historically you've talked about ex-fuel unit cost growing at a 1% to 2% range. This year is an unusual year with all headwinds, ex-fuel unit costs up 5%. If I look at next year, maybe as a starting point 1% to 2% and then subtract out the 170 basis points you're calling out for Cuba, Pearl and Dorian, why is that not the right approach to look at it? I know you called out the higher dry docks for next year but you're still at 5% this year versus, call it 1% to 2% in a normal year. So can you help me think about that a little bit better?

Mark Kempa

Yes. So, thanks Jared. Let me start with the marketing side. So, listen, we've stated publicly we have a go-to-market strategy. We are not afraid to spend marketing dollars when we're going to get a minimum 4 to 5x return and hopefully greater on that. And I think you see that coming through in our net yield performance. We continue to outperform and beat our guidance and beat our expectations and that's not just by happenstance. It's through strong onboard revenue, strong ticket pricing. It's across the front. So that's something we're not afraid to do and we'll continue to do where it makes sense as long as we're driving more incremental benefits to the bottom line. And as far as 2020, again, it's a bit early. Yes, our costs are elevated in 2019. And as we look forward we should see some benefit rolling into 2020.

Yes, we do have higher dry dock days by about -- I think it's about 14 more additional days in 2020. But for now we're going to maintain our stance that we're going to -- we're still thinking about 1% to 2% on our cost side and we're going to do everything that we can to outperform that. But as we're still finalizing our operating plans with the business for next year, we'll give you better guidance on that in our February call.

Jared Shojaian

Okay, thank you.

Operator

Thank you. And our next question is from Steve Wieczynski with Stifel. Your line is open.

Steve Wieczynski

Hey, good morning, guys. So, first, I want to dig into the third quarter a little bit, the yield beat a little bit more. And I guess the question is you beat your yield guidance by around 200 basis points, which obviously is very, very strong and that's after you already had kind of a good one month under your belt when you gave that guidance. So can you help me understand a little bit more how the last two months, the third quarter why they performed so well?

Mark Kempa

Sure. Yes. Steve, this is Mark. So, as I said in my commentary, extremely strong onboard revenue spending. And again whatever inventory we had on the books at that time, we were able to sell it at good pricing. But I don't want the -- I don't want you guys to underscore onboard revenue power. If you look at -- I say this every quarter, if you look at our onboard revenue year-over-year, I think on a reported basis, it was somewhere in the zone of 4% to 5% up and when you adjust that for all of the GAAP allocation transfers that we have to make as well as the incremental benefit from the Joy, our core onboard revenue was up mid-single-digits. So, that's strong and we continue to see that. And I always tell you guys that is really our canary in the coal mine. We watch that day-in, week-in, week-out and we continue to see that strength coming through the business.

So, we're pleasantly surprised. The consumer is alive and well and they are not afraid to spend money. And combining that with our -- many of our pre-cruise initiatives where we're getting a lot more of that consumer's wallet before they ever step on the ship that has -- continues to be extremely beneficial for us and we continue to hone our strategies around that.

Steve Wieczynski

Okay. Thanks Mike. And I guess as we look out to next year, your forward commentary obviously is pretty upbeat around what you're seeing right now. If we kind of look at where our consensus yields are next year which are hovering let's say 2.7%, 2.8% right now, I understand you're not going to bless that number. But I guess what I'm trying to understand here is, is it fair to say pricing and load factors are up in all four quarters? And if you already said that, I apologize.

And Mark you talked about the first quarter, second quarter being below your normal range or expectation. I don't think you're going to answer this, but can you remind us what your normal range or expectation is?

Mark Kempa

Sure. We typically advise that we aim for a 2% to 3% combined company yield growth. And that obviously equates when you look at each of the individual brands, it's a bit of a higher yield expectation for each brand when you consolidate it.

So, looking -- when you look at the first half as I said we are rolling over Cuba which we've -- is about a 200 basis point drag. So, I would not expect that you're going to see that 2% to 3% year-over-year growth for the first half. It will be somewhat lower than that. But again on a full year basis, we're still comfortable that we're going to model within that range and we'll achieve those targets.

Steve Wieczynski

And Mark, sorry, did you say that -- is pricing and load factors up in all four quarters right now?

Mark Kempa

Yes. You are 100% correct. I thought Frank had said that in his prepared remarks that we are up in pricing and load for all four quarters in 2020.

Frank Del Rio

Across all--

Mark Kempa

Good point.

Steve Wieczynski

I apologize if I missed that. Thanks guys. Really appreciate it.

Operator

Thank you. And our next question comes from Brandt Montour with JPMorgan. Please go ahead.

Brandt Montour

Good morning everyone. Thanks for taking my questions. So, thinking about the Caribbean in the first half, I'm just going to kind of pile on to this, but it's slightly different question. If you would be able to strip out Cuba and any kind of Dorian impact, what would the book look like in terms of pricing and volume year-over-year in magnitude versus where you were this time looking out?

Frank Del Rio

Sorry, it's very difficult to hear you Brandt, so I apologize, but I think you're asking what would our outlook look like if we stripped out Cuba and Dorian, is that -- was that your question?

Brandt Montour

Apologies. Just the -- how the book stacks up in the first half in Caribbean if you stripped out Hurricane Dorian in terms of volume and price, like the magnitude?

Frank Del Rio

Yes. We -- like I just said on the last question, we're up in both price and volume for all four quarters and that we - when we talk about that we are adjusting on a similar basis for Cuba because you have to. That was a significant book of business. So -- on a similar basis, we are up and load in that first half. So...

Brandt Montour

Okay. And then on Alaska, obviously a lot of details on the projects that you guys announced recently. Can you give us any more extra color around sort of the longer-term ultimate upside in not only capacity, but like you said the upside to let's say pricing and onboard from those – from your enhancement that you guys have there?

Frank Del Rio

Well we're going to continue testing the market and seeing how much additional capacity, we can allocate to that market as time goes by. So over the last three years we -- three years ago we had the Norwegian brand for example three, 2,200 passenger ship. In 2020, we will have 12,000. So we're almost - we've almost doubled our capacity in Alaska over a 3-year period.

And we don't think we're done. If we thought we were done we wouldn't be making the investments that we're making. So we think that we've got a strong a presence in Alaska as anyone and I think it's going to get stronger as we finalize these investments.

As you know Alaska is a slotted area. The best example I have for you is the Glacier Bay permits that are granted by U.S. Parks Department. We were very fortunate to win another 10 years. I can't tell you how huge that is. It's sort of a -- the cornerstone of our deployment strategy there. It is the number one destination that people want to visit in Alaska and we got this for 10 years.

And so we're now adding to it and to make sure that we have the berth capacity to bring our largest ships to the region. And again it's very strong ticket prices and incredibly strong onboard pricing for our Alaska itineraries and we want to take advantage of as much as we can.

Brandt Montour

Brandt Montour

That's great. If I could sneak one more in here, how should we be thinking about returns on those projects that you just announced?

Frank Del Rio

Well I think they pay for themselves over and over again. Alaska is a destination-centric region. You've got to have the land programs in place and we're taking the leadership role in developing these very hard to come by the land capabilities. But I'm not -- I struggle to give you a percent ROI, if you will. It's all going to be flown through our net ticket yields and that answer has got to come a little bit later.

Mark Kempa

Brandt this is around strategic positioning, making sure we have the proper ports, destinations that the consumer wants to go to. We know there's not a lot of space left in Alaska to go to, right? It's the last frontier so to speak. So we are securing that for a long-term basis. We know we get premium yields out of there. So we will see that -- those returns come through in the top line but difficult to measure just from the specific initiatives that we're doing.

Brandt Montour

Got it. Thanks a lot guys.

Operator

Thank you. And our next question comes from Harry Curtis with Instinet. Please go ahead.

Harry Curtis

Good morning, everyone. I wanted to follow-up on the -- on Mark's comments about the first quarter -- or the first half drag. It sounds like it's a tale of two halves. So how much visibility can you share with us do you have in the second half? I think the reason the stock, kind of, fell out of bed when those comments were made was that typically you don't have much visibility. And so there is some question about the second half. So it might help to share with us what details that you do have?

Mark Kempa

Sure. I'll start off and I'm sure Frank will jump in here. But look we have tremendous visibility on our second half books. We always have. And I think we've even mentioned in our prepared remarks that the premium brands are going to turn the year at 70% sold for 2020.

Our remarks around first half and second half were really just to give you some cadence in terms of don't expect the yield in the first half to be as high because we're rolling over very difficult comps from Cuba. And that's just reality. At back half, we will see a benefit from that. So we are not implying in any form or fashion that we would expect our full year yield guidance to be out of our range of 2% to 3%. We fully expect that. It's just going to be a front half, second half story.

Frank Del Rio

And not because of performance, but because of year-over-year comparisons. First half has five months of Cuba in 2019 and 2020 has zero.

Harry Curtis

Thank you for that clarification. Second question, you talked about deposit growth and a decent amount of that is probably tied to the new capacity coming. So, are you able to give us a sense of if that deposit growth looks as encouraging on your core fleet as well?

Frank Del Rio

Yeah. As I mentioned, our advanced ticket sales, liability, if you will on the balance sheet, which is what you're talking about is up 12.5%. Our forward 2020 capacity growth is only 8.7%. One, the deposits are outperforming the capacity growth by 44%. So, yes, Encore is part of the reason why we're up 12.5%. But adjusted for capacity growth, it's obviously much broader than that.

I can't give you a number per ship or per type of vessel or per brand. But if you just look at on the face that it's outperforming the capacity goes by 44% you ought to get a lot of comfort that we're selling more than we were this time last year at higher prices.

Another data point is the fact that our booking window has stretched by 10% year-over-year. So look, I can't stress enough the underlying strength of the business. We have weakness in Q4. We've had weakness in Q3 and Q4, because of Cuba and the effects of that because of Dorian. 2020 is going to be a heck of a year. And we see no -- like I said, last quarter and I'll say again, we see no measurable decline in the consumer's enthusiasm for cruising and for cruising on our three brands.

Harry Curtis

Thanks, everyone.

Frank Del Rio

Operator, we have time for one more question.

Operator

Thank you. And our next question is from Thomas Allen with Morgan Stanley. Please go ahead.

Thomas Allen

Thanks for fitting me in. So just one question. Just the prior question, where you talked about still feeling confident in kind of that 2% to 3% net yield growth in 2020. You also talked earlier about seeing mid-single-digit onboard growth currently. Do you need to continue to see that to reach 2% to 3% growth next year? And what are kind of the gives and takes to think about to kind of continue that onboard growth? Thank you.

Mark Kempa

Yes. So look onboard growth as Frank said earlier, we punch it -- we're looking at a day-in day-out, what can we do? How can we extract more dollars from the consumer? How can we get that consumer earlier into our ecosystem pre-sell? We don't bake that in in terms of our forward guidance.

So if you look at our history, most of our beats in the last, I don't know, eight to 10 quarters, a good majority and the vast majority has come from the fact that onboard revenue continues to outperform. So we typically model onboard revenue somewhere around the neighborhood of 1% and we continue to do that and we're pleasantly surprised while we have great visibility on it. You just never know. Sometimes that casino player can win, sometimes they lose. But we don't need the – continued 5% growth to hit our 2% to 3% numbers. What was the second part of your question?

Thomas Allen

I mean what -- any gives and takes to think about what will influence that 5% but you basically answered it but any other color?

Mark Kempa

No. I think it's going to be again a continued strong consumer and our ability to continue to reach the consumer earlier in the booking cycle before they ever go on the ship. That is a key differentiator for us and a key item that really helps us outperform.

Thomas Allen

Thank you.

Frank Del Rio

Well, thanks everyone for your time and support. As always we will be available later today to answer any other questions you may have. Take care.

Operator

And this concludes today's conference call. You may now disconnect.