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CCL.N - Q1 2017 Carnival Corp & plc Earnings Call

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PRESENTATION

Arnold W. Donald - *Carnival Corporation & Plc - CEO, President & Director*

Good morning, everyone, and welcome to our First Quarter 2017 Earnings Conference Call. I'm Arnold Donald, President and CEO of Carnival Corporation & plc. Thank you all for joining us this morning.

Today, I'm joined by our Chairman, Micky Arison via phone from Europe; as well as David Bernstein, our Chief Financial Officer; and Beth Roberts, Senior Vice President, Investor Relations, here with me here in Miami.

Before I begin, please note that some of our remarks on this call will be forward looking. Therefore, I must refer you to the cautionary statement in today's press release.

Our company is off to a good start again this year, with adjusted earnings of $0.38 per share, exceeding the midpoint of our guidance by $0.05. Our first quarter results, combined with our strong booked position, enabled us to increase the midpoint of our previous guidance range by $0.15 and raise our full-year earnings expectations, leaving us well positioned to deliver for the year.

Year-over-year for the first quarter, despite a $0.13 drag from fuel and currency both leaning against us, strong operational improvement contributed $0.10 per share to the bottom line, which, when combined with $0.02 of accretion from our share repurchase program, enabled us to exceed the high end of our guidance range for the quarter.

Our business, any business, is all about the people. Our consistently strong financial performance is only possible because of the extraordinary efforts of our employees worldwide, to exceed our guest expectations and to deliver memorable vacation experiences, as well as our travel agent partners who support our brands around the globe.

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It was reinforcing to see constant currency revenue yield growth this quarter of roughly 3.8%, and that's on top of the 4.7% improvement achieved in the first quarter last year. We continue to drive revenue yield growth by increasing demand in excess of our measured capacity growth, through our ongoing guest experience and public relations efforts. In fact, we have many efforts underway already this year to keep the momentum going throughout 2017 and beyond.

We kicked off the year by unveiling our latest guest experience innovation at the Consumer Electronics Show in Las Vegas on January 5. We were privileged to be the first travel company ever to deliver the opening keynote address at the world's largest trade show. There, we unveiled our leading-edge guest experience innovation, the Ocean platform, featuring our Ocean Medallion. This is the first interactive guest experience platform designed to transform vacation travel into a highly personalized and elevated level of customized service for millions of guests. The Ocean Platform will be launched on Regal Princess beginning in the fall of this year and rolled out to 3 additional Princess ships early next year. Ocean has already garnered global recognition, receiving 14 billion media impressions to date across a broad spectrum of business, travel, technology and innovation forums and has also enabled Carnival Corporation to be named as one of Fast Company's top 10 most innovative companies in 2017.

Now, we surprised many by being selected to give the keynote at the world's leading technology conference, and this kind of global exposure is part of our continuous effort to keep cruising at the forefront of consumers' vacations consideration set. Building on those efforts, we just added a fourth show to our increasingly popular roster of U.S. original content television programs. Our Ocean network television shows are yet another innovative approach to expand the market for cruise vacations by creating experiential content designed to engage viewers through showcasing exciting adventures, exotic cultures and popular global destinations. We have taken great care to develop TV shows that we believe families and people of all ages will truly enjoy watching to capture a broader audience in a highly engaging way and demonstrate why cruising is such a great vacation at an exceptional value.

Our newest TV show, Good Spirits, premiered February 16 on A+ E, well-timed at the height of wave season. Good Spirits joins our other 3 Ocean programs airing every Saturday morning: Ocean Treks with Jeff Corwin on ABC, The Voyager with Josh Garcia on NBC, and Vacation Creation with Tommy Davidson and Andrea Feczko on the CW network. In just their first season, the TV programs are already garnering attention based on their popularity and ratings, even receiving the influential Parents' Choice Awards. Combined, these original TV programs, representing nearly 100 hours of television programming, have already reached an audience of over 75 million viewers, and have led to a measurable increase in cruise considerations and even more favorable perceptions of our brand.

Additional opportunities are in the pipeline for this year. Holland America just signed an exclusive agreement with O, The Oprah Magazine, to feature a series of adventure cruises beginning with Oprah's own voyage to Alaska on Eurodam in July. Again, these efforts, combined with our creative programming around the world, like the reality television show, The Cruise, featuring Princess Cruises; and Battlechefs featuring P&O, both in the U.K.; Our Bravo Chefs and our engaging new marketing campaigns for Costa featuring Shakira, both in Italy, all engineered to reach audiences multiple times in multiple ways to help drive demand for our brands, ultimately leading to higher yields.

Our new ships, combined with highly publicized inaugural events around the world, are another way that we drive demand. On January 7, we marked a new era in ultra-luxury cruising. At a festive evening ceremony in Singapore, the world's best-selling soprano, Sarah Brightman, presided over the naming ceremony as godmother of the new Seabourn Encore. The crown jewel of the Seabourn fleet is setting new standards for ultra-luxury cruising.

Our strategic fleet enhancement plan is also an important part of our measured capacity growth strategy, which includes replacing less efficient ships with newer, larger and more efficient vessels. During the quarter, we signed an agreement with Fincantieri to build 2 new cruise ships designated by Holland America and Princess brands for delivery in 2021 and 2022. We expect that capacity growth to be around 4.5% compounded annually through 2021 as some new ships replace existing capacity.

We also furthered our efforts to build on our leading presence in China, through our cruise joint venture with CSSC, China State Shipbuilding Corporation, China's largest shipbuilder. At an official signing ceremony held at the Great Hall of the People in Beijing, attended by Chinese President Xi and Italian President Mattarella, our joint venture for the Chinese market are the first-ever cruise ships to be built in China, supporting China's larger efforts, which prioritize cruise industry growth and its 5-year economic development plan. The first ship is planned to be delivered in 2023.

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We've already established a strong foundation and a leading presence in China through both our Costa and Princess brands. Despite the recent itinerary changes for Korea, our development strategy is progressing this year, with the first purpose built ships in China delivered to our Princess brand later this week. Meanwhile, Costa will expand its home ports in China with sailings from Xiamen next month.

And then there is Cuba. After our historic sailings to Cuba with our Fathom brand, we have recently received approval for Carnival Cruise Lines to feature Cuban ports. We are very excited. Carnival Paradise will be sailing from Tampa beginning this summer, and we have requests already submitted for a number of our brands.

During the quarter, we furthered our efforts to leverage our industry-leading scale. We continue to contain cost and we remain on track to deliver more than $75 million in savings this year.

So in summary, the combination of our strong first quarter results and our ongoing efforts to create demand and contain costs enabled us to increase the guidance range for the year, reflecting the continued delivery of strong operational improvement.

Looking forward, growth is the result of a combination of well-executed business plans and innovation that makes a difference. Our fleet enhancement program; our guest experience innovations, including the Ocean platform; our aggressive public relations and its compounding positive impact; our Ocean network programming, our yield management advancements; our ongoing effort to contain cost, our new source markets; including China; our new destinations, including Cuba; our efforts in areas of sustainability and having positive social impact in the communities we touch; all, all are building blocks, leading us well positioned for multiyear period of earnings growth and sustained double-digit returns on invested capital.

With that, I'll turn the call over to David.

David Bernstein - *Carnival Corporation & Plc - CFO & CAO*

Thank you, Arnold. Before I begin, please note all of my references to revenue, ticket prices and cost metrics will be in constant currency, unless otherwise stated. I'll start today with a summary of our 2017 first quarter results, then I'll provide some insights on booking trends and finish up with an update on our full year 2017 guidance.

Our adjusted EPS in the first quarter was $0.38. This was $0.05 above the midpoint of our December guidance. The improvement was all operational, driven by increased net ticket revenue yields, which benefited from stronger pricing on closed-in bookings on both sides of the Atlantic, while higher than guidance net cruise costs, excluding fuel, due to the timing of certain expenses between the quarters was offset by favorability in a variety of other areas.

Now, let's look at our first quarter operating results versus the prior year.

Our capacity increased almost 4%. The North American brands were up over 5%; while the European, Australian and Asian brands, also known as our EAA brands, were up almost 2%. Our total net revenue yields were up 3.8%.

Now, let's break apart the 2 components of net revenue yields.

Net ticket yields were up 4.1%. This increase was driven by our North American brands deployments in the Caribbean, as well as our EAA brands deployment in both Europe and the Caribbean.

Net onboard and other yields increased 2.9%, with increases on both sides of the Atlantic. Net cruise cost per ALBD, excluding fuel, were up 3.2%, driven by the timing of [R&M], drydock and G&A expense. As I have previously indicated, the best measure of net cruise cost per ALBD, excluding fuel, is on a full-year basis as the timing of expenses between the quarters often varies from year-to-year.

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In summary, our first quarter adjusted EPS was in line with the prior year, which as Arnold indicated, strong operational improvements of $0.10 and the $0.02 accretive impact of the stock repurchase program both being offset by the impact of higher fuel prices costing $0.08 and the unfavorable impact of currency worth $0.05.

Now let's turn to 2017 booking trends. Since December, both booking volumes and prices for the remainder of 2017 have been running ahead of the prior year. At this point in time, for the remainder of 2017, cumulative advanced bookings are well ahead at considerably higher prices.

Now let's drill down into the cumulative booked position. First, for our North American brands. The Caribbean and the seasonal European program are both well ahead in the prior year on both price and occupancy. For Alaska, occupancy is ahead at nicely higher prices.

Secondly, for our EAA brand. For European deployments, which represents 62% of the remainder of 2017's capacity, both price and occupancy are well ahead of the prior year.

Finally, I want to provide you with an update on our full year 2017 guidance. As Arnold indicated, our first quarter results, combined with our strong booked position, enabled us to raise our full-year earnings guidance. The increase was driven by 2 things compared to our December guidance. First, raising our net revenue yield guidance to 3%, 0.5-point increase; and second, the benefit of $0.08 from lower fuel prices and the favorable impact of currency, while net cruise costs without fuel per ALBD are still expected to be up approximately 1% for 2017. Putting all these factors together, our increased adjusted EPS guidance for 2017 is $3.50 to $3.70 versus $3.45 for 2016. And now, I'll turn the call back over to Arnold.

Arnold W. Donald - *Carnival Corporation & Plc - CEO, President & Director*

Thank you, David. Operator, please open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Robin Farley with UBS.

Robin Margaret Farley - *UBS Investment Bank, Research Division - MD and Research Analyst*

Great. I couldn't help but notice that the full year raise for earnings and yields is basically just the amount that you beat your first quarter guidance by. And so I was wondering if given the strength that you're seeing with bookings through the quarter, what's on the books what continues through the quarter, it seems like there would potentially be upside to your -- to the rest of your full year guidance? Maybe you could just give us a little bit of color on that. And I don't know if you have any thoughts on sort of demand from European passengers versus North American as we get later into the year?

Arnold W. Donald - *Carnival Corporation & Plc - CEO, President & Director*

Okay. Thank you, Robin. We're always giving you our best estimate at a given point in time. We're certainly doing that now. And we've got a long way to go until the end of the year, and obviously, we're going to do our best to beat the guidance, as we always do. We have plussed up a little bit above what you see in terms of current fuel and currency and the gains in the first quarter. But we are also factoring in some contingencies for whatever impact we might see yet in the year.

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David Bernstein - *Carnival Corporation & Plc - CFO & CAO*

And in regards to your second question -- go ahead.

Arnold W. Donald - *Carnival Corporation & Plc - CEO, President & Director*

Go ahead, Robin, yes.

Robin Margaret Farley - *UBS Investment Bank, Research Division - MD and Research Analyst*

That's actually what I was going to clarify, if you just -- if you had any thoughts about sort of demand by geography just given -- I know a lot of the strengths you've said in Q1 was driven by Caribbean demand and that will be less of that in Q3. So just if you had any thoughts on the other pieces? And maybe including -- it sounds like, obviously, your guidance always factors in that things may not be perfect for the year, and so wondering if you've built in a lot because they were -- some of the political situation in China, in fact, causes you to be more conservative, that kind of thing?

David Bernstein - *Carnival Corporation & Plc - CFO & CAO*

Sure. In all of the remaining quarters of the year, we are expecting yield increases, and we are expecting good yield increases on both sides of the Atlantic. So we do see good demand for both the European passengers as well as the North American passengers. And as far as the China and Korea situation is concerned, we're doing our best. It's early. This just happened. It's unfortunate, as Arnold indicated, the itinerary disruptions. But keep in mind that we've had itinerary disruptions before. We've made some changes. And we've done our best to include what we believe the potential impact is in our guidance.

Operator

Our next question comes from the line of Steve Wieczynski with Stifel.

Steven Moyer Wieczynski - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD of Equity Research and Gaming & Leisure Research Analyst*

So can I ask the -- so can I ask the question a little differently in terms of what Robin just asked? But I guess when you look at the yield guidance, I mean, I can't remember the last time you guys raised your yield guidance so early in the year. So I guess the question is, when you look back to December, what markets really have changed so much in such a short period of time to give you the comfort to raise that range so quickly?

Arnold W. Donald - *Carnival Corporation & Plc - CEO, President & Director*

Well, I think, first of all, just keep in mind, we're now into wave season or through wave season, and before, we weren't, so you really have to see how things are going to play out. So we've got a lot more information now, but we still have a long ways to go. But based on what we see, we have the confidence that we share with you. By March, I know a lot of people were concerned about the Caribbean and relative capacity changes and all that. And once again, we kind of demonstrated that we feel we're creating enough demand for the capacity that we have and are able to continue to see relative outperformance in the Caribbean. Alaska is also strong, and David may have a comment. Europe is -- the North American brands for Europe are ahead on booking and ahead on pricing, so they're doing well, as well as the EAA brands are doing well.

David Bernstein - *Carnival Corporation & Plc - CFO & CAO*

Yes. I just probably would reiterate everything Arnold said. I mean, it was an excellent wave season, and so we felt confident with the additional information to raise the guidance by 0.5 point at this point in time.

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Steven Moyer Wieczynski - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD of Equity Research and Gaming & Leisure Research Analyst*

Okay, got you. And then second question. I don't know if you'll answer this or not, but in the release, you talked about your booked position being very strong at this point relative to last year. Can you maybe help us think about that a little bit more from a quantitative perspective? Meaning, how much inventory is actually left to sell this year versus last year? Can you put numbers around that at all?

David Bernstein - *Carnival Corporation & Plc - CFO & CAO*

Yes, there's a little bit less left to sell for the remainder of the year than there was at this time last year. We had indicated that we are well ahead on occupancy. And the booking curve has continued to move further out and we feel very good about the overall booked position at this point.

Operator

Our next question comes from the line of Felicia Hendrix with Barclays.

Felicia Rae Kantor Hendrix - *Barclays Bank PLC, Research Division - MD & Senior Equity Research Analyst*

If we can just stay on the -- if we could just stay on the booking curve topic for one second. Can you help us understand, given the length of the booking curve, perhaps how booked you are for 2018 versus this time last year?

David Bernstein - *Carnival Corporation & Plc - CFO & CAO*

We're ahead of the prior year for 2018. But keep in mind that it is very early. And so I would not read too much into that in terms of 2018. But we are ahead.

Felicia Rae Kantor Hendrix - *Barclays Bank PLC, Research Division - MD & Senior Equity Research Analyst*

Okay. That's good to hear. And then Arnold, in your prepared remarks, unless I missed something, you didn't really talk about the new CRM net yield system that you've implemented? And I'm just wondering, what are the most important aspects of that, that will be evident to us as investment community that analyzes your financials? And is there any way to quantify what that can do to your net yields? I know the impact is more in '18 and '19 than this year, but is there any way that, that could be quantified for us?

Arnold W. Donald - *Carnival Corporation & Plc - CEO, President & Director*

We're not quantifying it at this time. But what I can tell you directionally is about 30% of the inventory on the 6 brands that are on that new revenue management tool would be impacted in '17. More in the 85%, 90% in '18 of their inventory will be impacted. The results have been really good. Evidence of us for that is when the tool suggests a different approach than the revenue science guys would've taken without the tool. And so early on, they're seeing things which makes them go back and double and triple check the tool. And we keep controls and whatnot, but it's really been helpful. And we have absolutely seen increased yield from the teams utilizing the tool. One of the most powerful things about the tool, though, it doesn't -- we're not using it just as the tool says this, so do it. It's to cause the right questions, inquiry and the right conversations. And now, our revenue management teams across the brands are in real-time collaboration, non-stop. And that alone, even without a tool enhancement, would be beneficial. But with the tool, it's been really powerful. So I think we'll maybe try to quantify some stuff we want the tool run its course. We only have a small amount of inventory right now. I want to get in different environments with it, different conditions, different points in the booking curve over a period of time and continue to refine it. But it's no question it's helping us on yield right now.

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Felicia Rae Kantor Hendrix - *Barclays Bank PLC, Research Division - MD & Senior Equity Research Analyst*

That's great and helpful, and we look forward to some more information on that. And just Beth, housekeeping. Can you give us the second quarter and full year D&A and interest expense guidance? And then just review the capacity increases for the remaining quarters of the year and the full year.

Beth Roberts - *Carnival Corporation & Plc - SVP of IR*

Sure. Depreciation in the quarter, it's $460 million for the second quarter. Full-year depreciation should be about $1.850 billion. Interest expense is running $50 million in the quarter. Total interest expense is $200 million. It hasn't really changed that much. And in terms of capacity growth by quarter, we have 3.6% in the second quarter, 2% in the third, 2.1% in the fourth.

Arnold W. Donald - *Carnival Corporation & Plc - CEO, President & Director*

Yes. And overall for the year, I think 2.9%.

Operator

Our next question comes from the line of Greg Badishkanian with Citigroup.

Gregory Robert Badishkanian - *Citigroup Inc., Research Division - Former MD, Senior Analyst & Associate Director of Research*

So 2 questions. First one, for 2018, you mentioned bookings were well ahead or ahead. How about ATVs or pricing, the other side of that equation? I'm assuming those are ahead too, right?

David Bernstein - *Carnival Corporation & Plc - CFO & CAO*

Yes. That's correct.

Gregory Robert Badishkanian - *Citigroup Inc., Research Division - Former MD, Senior Analyst & Associate Director of Research*

And just on China, so how are the Chinese consumers really reacting to the South Korean travel ban, whether it's you're hearing from your travel agents that bookings are impacted or you're seeing increasing cancellation? Is there any reaction to maybe adding an extra day at sea versus an extra port in Japan? Just a little bit of color on kind of how the consumers are reacting?

Arnold W. Donald - *Carnival Corporation & Plc - CEO, President & Director*

Sure. Keep in mind that China today is still more of a B2B business. And so a lot of the movement happens at the distribution level in terms of where they take groups of vacationers. So in any event, it's early. We have disruptions, as David mentioned, often around the world. So we're placing with a sea day our second port in Japan. In some cases, that can be advantageous to us and sometimes, advantageous to the guest. We're not a ferry. A lot of the times, people want to go to Korea to shop. And so I'm sure there are in the business that will be disappointed that they can't go to Jeju to shop like they had intended to. But if we replace that with other ports or a great experience onboard, we're hopeful that we can manage the guest satisfaction. The issue still becomes in terms of the distribution, can we effectively persuade them within the same groups of people? Or will they switch who they send and what's the impact of that?

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Gregory Robert Badishkanian - *Citigroup Inc., Research Division - Former MD, Senior Analyst & Associate Director of Research*

Is it still first -- when you look at the first half being down, second half being up in terms of net yield, is that -- could you still expect second half being up in net yields in China?

Arnold W. Donald - *Carnival Corporation & Plc - CEO, President & Director*

It's still too early to be sure, but we're hopeful that yields will be positive in the back half of the year, and we're monitoring the situation. Our team is absolutely working hard to make sure that we deliver.

Operator

Our next question comes from the line of Jaime Katz with MorningStar.

Jaime M. Katz - *Morningstar Inc., Research Division - Equity Analyst*

So I'm curious, one of your competitors last quarter said they were comfortable with where the length of the booking window was, and it sounded like there was maybe some concern that there would be revenues that were left on the table if it continued to lengthen any further. Can you talk about maybe where you feel you guys are with the length of the booking curve and whether you would prefer it to sort of stay where it is to optimize your revenue capture? Or continue to sort of lengthen from current length?

Arnold W. Donald - *Carnival Corporation & Plc - CEO, President & Director*

Yes. Our competitors are land-based vacation, but I'm assuming it's handled with some of the other cruise companies. But in any event, the issue on the [gentlemen] and the booking curve look, we are always trying to maximize the revenue. And to do that, where you want to be at a different point in the booking curve will vary over time and has a lot to do with a bunch of things from itinerary mix to source market mix, et cetera, et cetera. So we're always trying to optimize that so that we can maximize revenue. At this point, we wouldn't arbitrarily try to further lengthen the booking curve, but we wouldn't necessarily try to shorten it either. We're just monitoring and using our new revenue management tool for the 6 brands and existing tools for the other brands to help us sort that out. But our goal is to maximize revenue, not to have the longest booking curve.

Jaime M. Katz - *Morningstar Inc., Research Division - Equity Analyst*

Okay. And then as far as the new itineraries going to Cuba, has there been any progress on sort of port infrastructure buildouts to get some of the newer ships there? Any movement just recently with the government and the changes that have happened in the government here as well?

Arnold W. Donald - *Carnival Corporation & Plc - CEO, President & Director*

No, not that I'm aware of at this point in time. Obviously, there a number of ships going for the first time, including Paradise for us, which we're excited about as I mentioned in my opening comments. So we are sending larger ships. Paradise will probably be the largest ship from the U.S. to Cuba going. And so it'll happen over time. They've got to pace and take their time. But again, there's a lot of change already occurring there. Additional cruise companies are not going to Cuba after our initial foray with Adonia in the Fathom brand, and so things are increasing. And we'll just have to continue to work with them and go at the pace they want to go.

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Jaime M. Katz - *Morningstar Inc., Research Division - Equity Analyst*

And then can I just clarify? I think there was some commentary saying that the CAGR of capacity growth was 4.5% through 2021. Was that for the specific brands or for the fleet?

Arnold W. Donald - *Carnival Corporation & Plc - CEO, President & Director*

That's our overall fleetwide capacity growth. And of course, that number could vary a bit because we're focused, obviously, on a yield environment. For us to grow, we have to be able to increase yield. We're not going to be able to grow just through capacity because of the large base we have. And so we'll do what we need to do. Right now, we're in front of the curve creating demand. If we're able to maintain that and sustain that, then that capacity growth will be certainly capacity that will allow us to continue with yield improvement. If in some reason the world changes or that changed, then we'd look at potentially accelerating retirements, because we're committed to measure capacity growth in our brands that allow us to increase yield and, overall, increase financial performance. The other aspect about us that's a little different than some of the other folks in the industry is that we are -- we have a lot of geography to spread our capacity over, including new geographies potential like China and Cuba. And then we have many brands. So we have 10 different brands. And so that growth for us is really modest.

Operator

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

James Lloyd Hardiman - *Wedbush Securities Inc., Research Division - MD of Equity Research*

I was hoping you could drill down geographically a bit here. I guess, first, with the Caribbean. Obviously, the concern there was that after a couple of years of flattish capacity, 2017, we're seeing more moderate capacity growth. I guess from what you've seen so far, and obviously, so far, so good with respect to the first quarter, but maybe some of those capacity increases haven't necessarily been reflected in your numbers yet. But overall, how are you seeing the industry digest that incremental capacity if you look out over your bookings the remainder of the year? And then with respect to Europe, it seems like things are getting better. How much of that is just lapping some of the geopolitical events from last year? And how much of it is ultimately sustainable? Maybe some of these economies finally getting a little bit better, seeing better demand.

Arnold W. Donald - *Carnival Corporation & Plc - CEO, President & Director*

One of the things that is interesting about the cruise business is we have never been able to show a strong correlation between the performance of the business and economies. So we do well in recession periods and we do well in growth periods. Obviously, stronger economies, undoubtedly, are a tailwind. But we haven't really been able to correlate performance directly to the economies. Having said that, back to your original comment about the Caribbean. As you mentioned, the capacity growth is higher this year than it has been the past few years. We have to get through the year. But right now, we're well ahead on bookings, we're well ahead on pricing. Obviously, the results through the first quarter were very strong and those itineraries have been completed. So we're doing very well in the Caribbean, and we expect to continue to do well. In terms of Europe, I would say, overall, again, as a combination of creating demand, measured capacity growth for our brands in the European arena and just strong brand marketing on the part of the North American brands for their European itineraries. And so we're doing well, we're ahead on pricing, we're ahead on bookings.

David Bernstein - *Carnival Corporation & Plc - CFO & CAO*

And the only thing I would add is -- that's the capacity growth. It is bigger in the second and third quarter than the full year for the Caribbean. But when we take a look at this in our booked position, in our expectations by quarter, we do anticipate good, solid pricing or yield growth in the Caribbean in all 4 quarters.

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James Lloyd Hardiman - *Wedbush Securities Inc., Research Division - MD of Equity Research*

Great. And then a couple of quick questions on the new administration and how that might impact your business or not. It sounds like you're full steam ahead with respect to Cuba. There have been grumblings that the Trump administration may want to roll some of the progress under the Obama administration with Cuba back a little bit. How do you think about that? Do you see that as a legitimate risk? And I don't know, under a Trump administration, is the actual lifting of the embargo significantly less likely? And does that impact sort of investment there that you're going to need to really grow that as a viable market? And then this travel ban, I mean, we've been hearing from other parts of the travel industry that international visitation to the U.S. had taken a hit. I don't think that would impact your business or the broader cruise industry, best I can tell. But speak to that to whatever extent that, that's relevant?

Arnold W. Donald - *Carnival Corporation & Plc - CEO, President & Director*

Sure. I think on your first point around Cuba, what's regulating Cuba right now is Cuba. So they're determining how many ships are coming and which ships and what timing, and all of that. Should the Trump administration take a different position than exists today, then we'll have to deal with that. Today, to be honest with you, Cuba, you can't find it in our numbers. It's the one ship, Adonia, now, we'll have Paradise going, which will be a little bit bigger ship. But still, it's one ship not sailing every week, even to Cuba. And so it's going to be hard to find the numbers given the scale of our business. So it's really building for the future, and we'll see what happens. I had learned a long time ago never to try to predict regulation or legislation or what an administration would do or won't do, and we'll just have to play it over time. We obviously believe that people having the ability to travel is a good thing. And we hope that steps will be taken to encourage travel rather than to restrict it. So we'll see how it plays out. But at this point in time, we're sailing ahead. In terms of the travel brand, more broadly, a similar kind of comment. First of all, we haven't really been able to measure any impact from the noise around the travel bans or the actual bans themselves at this point in time. The only thing that can really directly impact us is severe restriction of travel because we are a discretionary travel, and if people can't travel, that will impact us. But we haven't seen anything to date. We aren't anticipating anything, but obviously, we would adapt and react. Our assets are mobile. That's one of the beauties of our business. You can have disruptions like China, them advising their citizens not to go to Korea and impacting travel to Korea, and we just redeploy and manage around.

Operator

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

Harry Croyle Curtis - *Nomura Securities Co. Ltd., Research Division - MD and Senior Analyst of Gaming, Leisure & Lodging*

Quick question for David on nomenclature. What's better, well ahead or considerably higher?

David Bernstein - *Carnival Corporation & Plc - CFO & CAO*

Considerably higher is better than well ahead, but we're just trying to give you, directionally, some color on the overall picture.

Harry Croyle Curtis - *Nomura Securities Co. Ltd., Research Division - MD and Senior Analyst of Gaming, Leisure & Lodging*

You're throwing us a curve. So my first question is related to a comment that you made in the press release talking about reaching consumers through multiple touch points. I don't know what -- to what degree there's any interaction there between that and the CRM system, but can you talk about the expanded channels that you are -- that you're pursuing? And whether or not it has in it more of an impact on revenue or on the cost side?

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Arnold W. Donald - *Carnival Corporation & Plc - CEO, President & Director*

Okay, thank you. When we talk about multiple touch points, the goal is, like with any advertising, is just to keep your brand, in this case, we want to keep cruise in a positive way out in front of people all the time. So that when they're thinking about a vacation, they have the unique idea of, hey, what about a cruise? So that's the object of it. How do we do that? We do it through all the traditional marketing and approaches with the brand's take and nontraditional ones. They take digital marketing, traditional advertising, media, et cetera. We do it through events with new ships, and ships are a big promotional opportunity. And every time we have a new ship, an inaugural event, we get the noise out there. We do it through things like going to the Consumer Electronics Show and being the keynote there. That's a whole bunch of different media audiences that cruise now gets highlighted in a positive way. So someone who was reading The New York Times now goes to their technical publication, they're talking about cruise. They were talking in The New York Times about a cruise. So it's just reach and frequency, the most fundamental advertising concept there is. But doing it in a way that's powerful, that's positive, that adds to understanding, and hopefully, entices people to consider. Cost versus revenue. Our marketing costs are up a bit over the last 3 years. Some of the savings we've been harnessing, we've reinvested to drive yield, to create demand to drive yield. But basically, a lot of this reallocating, the dollars we were spending from one type of approach to another. And then we've heavily leveraged public relations, as you can tell from everything that's going on. So it's just not a matter of producing the TV shows, for example, or producing an ad like the Super Bowl ad we did, but it's all the public relations efforts around that to leverage the impact of those executions.

Harry Croyle Curtis - *Nomura Securities Co. Ltd., Research Division - MD and Senior Analyst of Gaming, Leisure & Lodging*

Very good. And just wanted to shift gears really quickly to discuss free cash flow. 2017 should be another strong year of free cash flow after all of your CapEx. You've got a very strong leverage ratio. Do you think that '17, you'll, once again, balance share repurchase with dividends the way you did last year? Or do you see a better return buying more stock this year, given your attractive multiple relative to any other consumer stock out there?

Arnold W. Donald - *Carnival Corporation & Plc - CEO, President & Director*

That will be a board decision, obviously, at the time. But just philosophically, we try to stay in a certain ratio of dividend payout to earnings, because dividends, you're going to do those forever and -- hopefully, and so you want to make certain that you're in a decent ratio there. And so we target a ratio on dividend payout, and then the balance, we like to give back to the shareholders through stock repurchase.

David Bernstein - *Carnival Corporation & Plc - CFO & CAO*

And this arguably...

Harry Croyle Curtis - *Nomura Securities Co. Ltd., Research Division - MD and Senior Analyst of Gaming, Leisure & Lodging*

Philosophically -- go ahead.

David Bernstein - *Carnival Corporation & Plc - CFO & CAO*

I was going to say the target ratio that we have targeted historically and we've reiterated is about a 40% to 50% payout ratio. So we're constantly looking that we will be talking to the board about the dividends. And the remainder, it's not just the free cash flow, but we've said a number of times, that with the strong balance sheet, we can return free cash flow and more to shareholders. And our expectation is we'll do that over time.

Operator

Our next question comes from the line of David Beckel with Bernstein Research.

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David James Beckel - *Sanford C. Bernstein & Co., LLC., Research Division - Former Senior Equity Analyst*

Last quarter, you had indicated that you were less than 50% booked for China at that period of time. Can you give us an update on 2017 China bookings?

David Bernstein - *Carnival Corporation & Plc - CFO & CAO*

The bookings in China at the moment, they're still ahead of the prior year. But it's -- everything that just happened, as we indicated, with Korea and the itinerary disruptions, as Arnold indicated, create some caution. And we tried to include that in our guidance, in developing the full year guidance, as we had indicated. So this is an evolving market and it's a B2B market, as Arnold had walked you through. And so the next month or 2 will be -- we'll learn a lot more, and we'll be able to provide more information as we move forward.

David James Beckel - *Sanford C. Bernstein & Co., LLC., Research Division - Former Senior Equity Analyst*

Got it. And it might be a little unfair given how recent the travel ban is. But I was wondering, have you guys thought about what steps you would take if this ban were to persist through the end of this year, for example? Are there any contingency plans, for example, moving your home ports further south or anything like that, that you'd be willing to share with us?

Arnold W. Donald - *Carnival Corporation & Plc - CEO, President & Director*

You mean the advice that the Chinese government has given to their...

David James Beckel - *Sanford C. Bernstein & Co., LLC., Research Division - Former Senior Equity Analyst*

Yes, if Korea's not an option for the remainder of the year, yes.

Arnold W. Donald - *Carnival Corporation & Plc - CEO, President & Director*

Technically, it's not a travel ban, right? But anyway, based on what they've said, look, we think China's still going to be the largest cruise market in the world. Cruise has been their 5-year plan. We're excited about our partnership in China with CSSC. We have another big signing I mentioned with President Xi and Mattarella from Italy. So we're very positive on China. We continue to make good money there. It's still holistically accretive to us versus alternative deployments of the ships. So all those are positive indicators. I don't like trying to forecast the regulatory stuff and all that, but in our guidance, we've assumed this is going to persist through the end of this year. All indications are it would be temporary. Again, it's just a matter of changing deployments. So you don't go to Jeju, you add an extra port in Japan or you have an extra sea day. And then over time, we would be looking at other itinerary changes potentially, maybe tapping more in the flag crews and that type of thing.

Operator

Our next question comes from the line of Stephen Grambling with Goldman Sachs.

Stephen White Grambling - *Goldman Sachs Group, Inc., Research Division - Equity Analyst*

You alluded to this in response to Harry's question, but could you quantify trends you're seeing in new-to-cruise passengers and how that looks across regions?

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Arnold W. Donald - *Carnival Corporation & Plc - CEO, President & Director*

I'll give you the overall. David has some qualitative comments by regions. But overall, what's happening, if you leave China out of it is it's just an artifact of the construct. New-to-cruise is decreasing as a percent of the total. And the reason is, is because the base of those who have cruised before grows and the industry is limited on capacity growth with the number of shipyards. So you actually see -- if you leave China out of it, you actually see a decline in the percent of new-to-cruise in a given year, okay? So that's the trend. Obviously, for us, we're more interested in yield. Our ships sail full, we have great occupancy, but we're focused on yield. And so we're trying to drive demand like crazy because of the oldest economic rule there is, which is supply and demand. And so the more demand, the more we can get yield. And that's what it's about. But in terms of actually physically sailing a lot more people where capacity constraint is an issue, which is a good place to be.

David Bernstein - *Carnival Corporation & Plc - CFO & CAO*

I don't have all the data of the new-to-cruise by brand or by region, but I will say that when you look at it globally, those regions or those brands that are growing faster tend to have a little bit higher new-to-cruise percentages. As you would imagine, as you're growing the brand overall or the region overall, you have more first-timers or new-to-cruise who are sailing on your ships during that period of time.

Stephen White Grambling - *Goldman Sachs Group, Inc., Research Division - Equity Analyst*

That's helpful color. And then I guess changing gears a little bit on that 4% capacity growth through 2021, I guess, how are you planning returns, return on invested capital, on those ships in your pipeline relative to the overall portfolio? And could the impact of these new ships drive you to push ships into retirement sooner, if it makes sense?

Arnold W. Donald - *Carnival Corporation & Plc - CEO, President & Director*

Yes, sure. First of all, the new ships inherently give you a higher return on invested capital in general because of the mix, the scale, the density, the efficiency, just the combination of everything. And so you're going to build the new ships because they're inherently more efficient and position you for a stronger return of invested capital in all kinds of environments. So new ships are coming. Your question about does it encourage you or maybe cause acceleration of retirement, that's more a market demand question. Because as long as the ship is giving you the economic return plus that double-digit return on invested capital, you want to -- if it fits, the guests are happy with it -- obviously, that's step one, it has to be relevant to the guests. If the guests are happy with it and you're getting an economic return, you're going to keep sailing it. And when it gets to the point where the capital you have to put into it is so great, you can't get a return to maintain that ship at, I think, at our standards and the regulatory standards or what have you, then you will retire it. Or if you get to the point where you just aren't creating sufficient demand for the capacity you have, you're going to retire the ship. So it's an economic decision, and we're always looking at each ship to see what the return is and what the alternative is to drive the return. And if the ship is unable under any environment where we look forward to get the kind of returns we need which no one deserves to on invested capital, then that ship will ultimately either be sold off or scrapped.

Stephen White Grambling - *Goldman Sachs Group, Inc., Research Division - Equity Analyst*

I guess one quick follow-up on that and clarification. So are the new ships -- I guess what I was asking is are the new ships, relative to other new ships in the past, getting a bigger contribution than they have historically for any reason based on planning, technology, et cetera?

Arnold W. Donald - *Carnival Corporation & Plc - CEO, President & Director*

Yes. I would say the newer ships today are getting even better returns. Obviously, the industry is getting a better return. So in the past, the industry was mid-single digits or lower industry is now creeping up. And in our case, for our ships, absolutely. We're seeing a higher return on the new ships than we would have historically seen in the past on new ships. But we're driving our overall returns higher than we have in the past as well.

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Operator

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

Timothy Andrew Conder - *Wells Fargo Securities, LLC, Research Division - MD and Senior Leisure Analyst*

A couple of things here. Just a clarification, the 4% to 5% that you threw out there, just to clarify, that's net or a gross number that you see?

David Bernstein - *Carnival Corporation & Plc - CFO & CAO*

You're talking about the capacity growth through 2021?

Timothy Andrew Conder - *Wells Fargo Securities, LLC, Research Division - MD and Senior Leisure Analyst*

Yes, I'm sorry. Yes.

Arnold W. Donald - *Carnival Corporation & Plc - CEO, President & Director*

That's 4.5.

David Bernstein - *Carnival Corporation & Plc - CFO & CAO*

4.5. Arnold, that's the assumed sum retirements. It's 5% overall gross capacity growth. And just as we've always indicated, we've sold like 19 ships in the last decade, and we do have one leaving our fleet next month. And so we do anticipate that we will see a couple of ships leave the fleet over time, and we factored that in.

Timothy Andrew Conder - *Wells Fargo Securities, LLC, Research Division - MD and Senior Leisure Analyst*

So that 4.5 midpoint is a net number, is what you're saying?

David Bernstein - *Carnival Corporation & Plc - CFO & CAO*

Correct.

Timothy Andrew Conder - *Wells Fargo Securities, LLC, Research Division - MD and Senior Leisure Analyst*

Okay. And I know it's early, but yourselves and some competitors have laid out some capacity and itineraries already, bookings open for '18, through '18. At this point, what do you see the capacity growth outlook in some of the main regions in '18, Caribbean, Alaska, Europe as a whole?

David Bernstein - *Carnival Corporation & Plc - CFO & CAO*

Yes, we -- unfortunately, Tim, I don't have that detail available with us. We should have that for -- on the second quarter call for all of our brands.

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Timothy Andrew Conder - *Wells Fargo Securities, LLC, Research Division - MD and Senior Leisure Analyst*

Okay. And then 2 questions related to Europe. Again, it's unfortunate, and hopefully we don't see any more. But any impact from the incidents in London last week? In the past, it seems that people are adjusting to the new world, but just any commentary there? And then it's been tried before, hasn't gone through, but the EU parliament and the visa requirements for U.S. citizens, just your thoughts on that? If it would be implemented in May, if the EU Commission would approve it, what type of impact would that have on North Americans going to Europe?

Arnold W. Donald - *Carnival Corporation & Plc - CEO, President & Director*

Okay, first of all, the London incident, obviously, very recent. We'll see what kind of impact, if any, it has. But unfortunately, these things are no longer rare. And historically, what's happened is if we see any kind of a reaction, it's relatively short-lived and things bounce back and return. I have to see on this one, but I honestly don't anticipate a lot of impact. But we'll monitor and pay attention. But again, these things are not that rare anymore, unfortunately. People just, in my opinion, do the right thing and continue to live their lives. On that one, the second part of your question again, what was it?

Timothy Andrew Conder - *Wells Fargo Securities, LLC, Research Division - MD and Senior Leisure Analyst*

The EU parliament's passed a resolution or whatever, that the U.S. citizens would need a visa to come to Europe and couldn't just use a passport trying to get some relief, I guess, for 5 countries in the EU, where currently, we require a passport for them to come to the U.S. It's been tried before. It hasn't gone through. But if it would, what are your thoughts of potential impact of that, Arnold?

Arnold W. Donald - *Carnival Corporation & Plc - CEO, President & Director*

I think the impact would be slim to none. The reality is U.S. citizens have to have visas to go to lots of places, and they get down this and vice versa, other people travel to the U.S. and what have you. So visa is not an unusual thing in travel. And I think it would have limited impact.

Operator

Our next question comes from the line of Jared Shojaian with Wolfe Research.

Jared H. Shojaian - *Wolfe Research, LLC - Director & Senior Analyst*

So demand is obviously very strong year-to-date. If you had to parse things out between better macro, tighter supplies in your core markets with China now in the global mix, and then just cruise-specific initiatives to drive more consumer interest, how would you weigh the 3 by what you think is most impacting the yield strength right now?

Arnold W. Donald - *Carnival Corporation & Plc - CEO, President & Director*

I actually think what's impacting the most is one thing you did mention, which is the guest experience onboard the ships. And the most powerful marketing tool we have is word of mouth. Our brands execute for the guests at an exceptionally high level. Frankly, across the industry, there's good execution for the guest. And I think, collectively, that is actually driving demand more than anything. I think all the other things we do that the brands individually do will be done at corporate with the various television programs and PR efforts and all that, obviously, add weight, and the cumulative effect is a very positive thing. We've seen specific increase in consideration and preference for the brands tied directly to the TV programs we run on ABC, NBC and the other networks. So we see the psychological impact of that. Over time, we think that actually translates into people taking a cruise or taking more cruises than they would have otherwise. The macro effects, good economy is a good tailwind, as I mentioned before. But also, as I mentioned before, the economy isn't great everywhere in the world. All economies are not great. But yes, we still see good improvement in cruise in those areas where the economy is not great. And so I would say the macro has an effect, but on a weighted basis, versus

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the things I mentioned so far, it would probably be reduced. In our case, on some of our brands, I think our capacity management in Europe with Costa brand in particular, has to have a positive impact for that brand. We've moved some ships into China, and in particular, that brand, which has kind of reduced capacity at points in time, has benefited from managing capacity, proactively managing capacity. When they get the newer ships that come in that will have an even higher return on invested capital basis, that brand will continue to perform. But they're doing well. They're growing earnings. They're growing yields. And they'll be able to do that even in a bigger fashion once the new ships start coming in, in a couple of years. So that would be how we parcel that out. That answer your question?

Jared H. Shojaian - *Wolfe Research, LLC - Director & Senior Analyst*

Yes. That's helpful. I guess, the other side of the new-to-cruise equation are the repeat guests. So how does your recapture rate of first-time cruisers compare today versus historically? So in other words, are you finding that a greater percentage of people cruising for the first time want to cruise again? Do you have any data or anything you can share on that?

Arnold W. Donald - *Carnival Corporation & Plc - CEO, President & Director*

What I can tell you is that the base, obviously, of those who have cruised for the first time have expanded. And therefore, an aggregate number is going to look like you got a higher percentage of repeat cruises today than you had in the past, okay? And in terms of the capture rate, it's strong. Is it much stronger than it was in the past? That, I don't know, I don't think so. But it's just the artifact of the numbers that the number of repeat cruises are a higher percentage today than it was in the past. The trick for us always is to work with the travel professionals to help people get on the right cruise for them, okay? If they get on the right cruise, our net promoter scores are super high and the repeat is -- is a given. If they get on the wrong cruise for them, obviously, that's a double problem. Number one, they may not repeat themselves, but also, they're not going back, telling their friends and family and colleagues how wonderful cruise is, and that hurts us even more. So the trick is to get them on the right cruise, and working hard to do that, and we've improved that, for sure.

Operator

Our next question comes from the line of Assia Georgieva with Infinity Research.

Assia Georgieva

I guess I got really lucky to sneak in 2 quick questions. First of all, in terms of the South Korean ban, which we're not going to call a ban. If it were lifted, let's say, in a month, aren't you very flexible in terms of adding those ports of call pretty much immediately? Is that fair?

Arnold W. Donald - *Carnival Corporation & Plc - CEO, President & Director*

Yes. We can make changes pretty quickly. The ones that have been redirected to a port in Japan, maybe not; the sea day ones almost certainly. So (inaudible) and we can reintroduce.

Assia Georgieva

And the flip side to this, Majestic Princess, obviously, is purpose built for China, but other ships, new builds, could be redirected elsewhere, if you see a decline in returns. Is that fair as well?

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Arnold W. Donald - *Carnival Corporation & Plc - CEO, President & Director*

That's absolutely fair. And also, Majestic Princess. Even though she was purpose-built for China, with some modifications, she'd be free to sail anywhere in the world. I mean, she would fit in the Princess brand. She still fits within the Princess brand. And so we do have flexibility with the ship. But we don't anticipate, we're excited about taking Majestic to China and having the first purpose built ship there. We think there's opportunity for fly-cruise as we move the ship around for Chinese to say fly somewhere and then cruise on the Majestic, which is purpose built for them. So we think that's going to work really well. And -- but the reality is, if for some reason it didn't, she's an outstanding ship that sits in the Princess fleet and we can move her anywhere.

Assia Georgieva

Great. It's great to have that flexibility. And my second question is it fair to assume for the second half of the year that -- and I know it's too early, especially in terms of Q4, but given comparisons and seasonality that Q3, the cadence of the quarters will probably show a Q3 that's better than Q2 and Q4?

David Bernstein - *Carnival Corporation & Plc - CFO & CAO*

I think it's -- we're not at this point going to give guidance on Q3 and Q4. You've got the Q1 actuals, the Q2 guidance and the full-year guidance. And so, overall, you can see what the differential is. It's not that great. They tend to our guidance. But we're not going to give detailed guidance by quarter.

Arnold W. Donald - *Carnival Corporation & Plc - CEO, President & Director*

What I can tell you is the team will be working really hard to make what you say come true, though.

Okay. Thank you, everybody. Really appreciate everything, and we look forward to talking to you next quarter. Thank you.

Operator

Thank you, ladies and gentlemen. That does conclude the conference call for today. We thank you for your participation, and ask that you please disconnect your line.

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