Norwegian Cruise Line Holdings Ltd. (NYSE:NCLH) Q3 2023 Earnings Conference Call November 1, 2023 10:00 AM ET

Company Participants

Jessica John - Chief Strategy Officer, Regent Seven Seas Cruises
Harry Sommer - President & Chief Executive Officer
Mark Kempa - Executive Vice President & Chief Financial Officer

Conference Call Participants

Dan Politzer - Wells Fargo
Steve Wieczynski - Stifel
Vince Ciepiel - Cleveland Research
Robin Farley - UBS
Brandt Montour - Barclays
James Hardiman - Citi
Conor Cunningham - Melius Research
Patrick Scholes - Truist Securities

Operator

Good morning and welcome to the Norwegian Cruise Line Holdings' Third Quarter 2023 Earnings Conference Call. My name is John, and I will be your operator. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions for the session will follow at that time. [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, Jessica John. Mrs. John, thank you, please proceed.

Jessica John

Thank you, John and good morning everyone. Thank you for joining us for our third quarter 2023 earnings and business update call. IÂ'm joined today by Harry Sommer, President and CEO of Norwegian Cruise Line Holdings; and Mark Kempa, Executive Vice President and Chief Financial Officer.

As a reminder, this conference call is being simultaneously webcast on the companyÂ's Investor Relations website at www.nclhltd.com/investors. We will also make reference to a 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 todayÂ's call.

Before we begin, I would like to cover a few items. Our press release with third quarter 2023 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 statement 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.

With that, IÂ'd like to turn the call over to Harry Sommer. Harry?

Harry Sommer

Well, thank you, Jessica and good morning everyone. Thank you all for joining us today. Before we get into prepared remarks, if you haven't already heard the good news, I'd like to congratulate Jessica on her recent appointment to Chief Strategy Officer for Regent Seven Sea Cruises. I'd also like to welcome Sarah Inman, who recently joined the company, last week, as our new Head of Investor Relations and Corporate Communications. We are very pleased to have Sarah on the team, and I'm sure many of you will have the chance to meet her in the weeks and months ahead. As she ramps up on the company, Jessica will continue to be available in the interim to ensure a smooth transition. Congratulations to Jessica and congratulations to Sarah.

Now, in turning to results, I'm pleased to share with you this morning that we achieved strong third quarter results generating record revenue and a meeting or exceeding guidance on all key metrics. I have to attribute this success to the hard work and dedication of our incredible team members both on our ships and our offices worldwide.

We also continue to make good progress on both defining our longer term strategic vision and executing on the near-term priorities I shared last quarter, which are shown on Slide 5.

First, our team is focused on capitalizing on the strong demand environment for cruise to ensure we stay on our optimal booking curve, while maximizing pricing and onboard revenue generation.

On a 12-month forward basis, our book position continues to be at record levels within our optimal ranges and at higher prices. While we are very pleased with our progress so far in building our book for 2024 and beyond, we are also keeping a close eye on the evolving macroeconomics and geopolitical landscape and are ready enable to adapt if needed.

The next priority is rightsizing our cost base through our ongoing margin enhancement initiatives. Since we kicked off this initiative last year, we have seen sustained momentum with three consecutive quarters of improvement in our operating cost metrics. And what's even more encouraging is that we have done this without impacting the guest experience, as evidenced by our continued strong guest satisfaction level, continued strong onboard future cruise sales and guest repeat rates and continued high onboard spend. These results have been driven by a palpable change in culture, with team members across the globe, shipboard and shoreside embracing the challenge to find new and innovative ways to accelerate our margin recovery, while still preserving our long-term brand equity.

To give you just one example. Last month, we took the time to tour Norwegian Jewel ahead of the scheduled 2025 dry dock. We walked through each planned project while on board, stopping to get real-time guest feedback to help identify the highest value opportunities. The result of this more methodical approach resulted in not just lower cost, but also shortened the expected length of the dry docking self by nine days, which will allow us to return the shift to revenue generating service that much faster. All in all, the changes we made to the dry dock plan are expected to result in over 20% CapEx savings and a few million dollars of incremental revenue versus our original plan. It was a day well spent.

While we have less of the lowest hanging fruit still available at this point, several opportunities like this remain untapped. I want to reassure you that we are committed to keeping the same relentless focus, vigilant and balanced approach to identifying, evaluating and executing on opportunities in a methodical manner. This is not a one-off exercise to us, but rather something we are embedding in the DNA of our entire organization.

This leads us to our next priority, which is to make strategic and intentional enhancements to our offerings and guest experience. With the continued keen focus on costs, we are still making smart, high-return generating modification and investments in products and service offerings.

For example, in the fourth quarter, we are launching Air Choice for Norwegian Cruise Line. This will allow guests to upgrade from our current bundled air offering in which guests are signed flight at the lines discretion and allow them to choose their specific preferred flights for a fee. This is expected to have a dual benefit of improving both guest satisfaction and generating incremental revenue.

We are also making disciplined investments in technology for better websites and mobile apps to Universal Starlink High-Speed Internet across our entire fleet by the end of 2024. Our high-value targeted efforts to provide an excellent guest experience have not gone unnoticed. In fact, Norwegian Cruise Line was just named the top net megaship cruise line by Conde Nast Traveler in their 2023 Reader's Choice Awards. Readers voted for their top choices based on several categories, including service, food, accommodations and sustainability and Norwegian Cruise Line 1. So it's clear that our product continues to resonate strongly with our guests.

Turning to the fourth priority on the list. After welcoming Oceania Vista in May, in August, we took delivery of the incredible Norwegian Viva, the second ship in the game-changing prima class and we're not done yet. This year is the first year in our history in which we are introducing one ship for each brand, all of which were built with our incredible partners at Fincantieri in Italy. In just a few weeks, I will be heading back to Italy to take delivery of Regent Seven Sea Grandeur, which you can see on Slide 6.

Grandeur rounds out the highly successful Explorer class for Regent, taking luxury cruising to another level. The reception for these ships continues to be overwhelmingly positive across the board, whether it's from our valued travel agents, our loyal pass guests or guests trying one of our award-winning brands for the very first time. The disciplined addition of new builds continues to be a key cornerstone of our strategy as they are expected to be meaningful drivers of the company's future earnings growth and margin expansion.

Our New built pipeline, which you can see on slide 7, represents a 5% capacity growth CAGR from 2019 to 2028, and we are confident in our ability to absorb this growth profitably. We remain in talks with our shipbuilding partners to embark on a new vision for all three of our brands and plan to continue to add new ships across our brands at the right time and at the right interval.

But for now, after the delivery of Grandeur this month, we have no additional ship delivery scheduled until spring of 2025 and in the interim, we expect to benefit from both organic growth as well as the annualization of the 2023 newbuilds next year.

The final priority on the list, shown on slide 8, is charting a path to reduce leverage and derisk the balance sheet. While the return to investment grade like financial position will be a multiyear process, we continue to expect a significant organic improvement in our net leverage in the intermediate term, driven by our expected cash flow generation and normal course debt amortization payments.

With new leadership and perspectives across our organization, we have embarked on a review of our entire business, taking a fresh look at all aspects of our strategy. We are embracing change while preserving what makes it special, and we are committed to take back a leadership position not just in cruise, but in the broader travel, leisure and hospitality sector.

In our view, no idea is too big or too small. We have a full vision for what the future holds for Norwegian, so we're taking the time to be thoughtful and thorough as we identify opportunities to ultimately drive more value for our shareholders. Our goal is to share this plan with all of you sometime in spring of next year, along with associated multiyear financial targets.

Now, turning to slide 9. As we focus on closing out the year strong, successfully executing on our near-term priorities and defining our long-term strategic plan and vision for the future, our team is more united to energize now more than ever. In fact, earlier this month, we held our global conference in Miami, the first time in several years that we have brought together leaders across all three of our amazing brands in person. This year's the next gen was all about the future and how we can reach further individually and collectively, to accelerate momentum as we move into 2024 and beyond. It was an opportunity to read the team together to spur innovation and collaboration and ensure that across the organization, we are overline and marching towards the same goals as we strengthen the foundation for sustained profitable growth. This served to further cement my confidence that we are taking the right steps today to best position the company for the future.

Now, shifting our discussions to current bookings, demand and pricing trends shown on slide 10. We achieved record revenue of $2.5 billion in the third quarter, an increase of 33% over the same period in 2019. The strong consumer demand environment resulted in load factors of 106% in the third quarter, while growing net per diems by nearly 8%, all while absorbing a 20% growth in capacity.

Before we get into operational details, in recent months, we have seen the devastation caused by both the wildfires and Mali and the escalating conflict in Israel. Our thoughts and prayers are with those impacted by these tragic events. Our priority remains the safety, security and well-being of our guests, team members and the communities we visit, and we have mobilized to modify impacted itineraries and help support relief efforts in both regions.

Starting with Hawaii, we were uniquely impacted compared to our food peers given our unique year-round inter-island Hawaii offering, the only one in the industry with our US flagged vessel Pride of America. When the wildfires began in August, we quickly modified certain itineraries to avoid straining local resources with the guidance and encouragement of a responsible return from both the Hawaiian Governor Josh Green and the Hawaii Tourism Authority, we resumed our scheduled calls to Kahului, Maui in early September.

As it occurred in the past with events of this nature, which received significant attention and media coverage, we did experience a temporary slowdown in close-in bookings for Hawaii ceilings. This impacted not only

Pride of America, but also certain sailings on Norwegian Spirit also based in the region for much of the fall, which in total represent approximately 6% of our capacity in the fourth quarter.

Demand has steadily improved in recent weeks and while not quite fully recovered yet, it's on the right trajectory and now approaching normalized levels. While we expect some lingering impact in the first quarter, Hawaii only accounts for approximately 4% of capacity in this period, as well as for the full year as Norwegian Spirit repositions outside of the region in December.

Turning to Israel. Once the conflict began to escalate, we canceled all calls to Israel for the remainder of the year. We recently made the preemptive decision to cancel calls in Israel in 2024 as well, and our brands are currently working diligently to modify itinerary and communicate these changes to guests.

One of the benefits of our industry is that cruise ships are easily movable assets, so we can pivot as needed and still offer incredible itineraries for our guests to enjoy. However, we are seeing both elevated cancellation activity and lower new bookings for this region, primarily for close-in sailings as the conflict is ongoing and still front and center in the consumer psyche. Prior to the conflict, approximately 7% of capacity in the fourth quarter of 2023 and 4% of capacity for the full year 2024 had visits to the broader Middle East region. Breaking 2024 down a bit further, very little capacity is in this region early in the year, only about 1% of capacity in Q1.

That said, we are encouraged by the strength in our book position for 2024 and beyond, which on a 12-month forward basis remains in a record position at our optimal levels and at robust pricing levels. Onboard revenue generation, which we view as our single best real-time indicator of consumer confidence also continues to knock it out of the park.

During the quarter, gross onboard revenue for Passenger Cruise Day was approximately 30% higher than the comparable 2019 period. This is driven not only by strong demand but also through our multiyear effort to enhance our bundled offerings and pull forward and pre-sell more revenue before a guest ever step foot on the ship, effectively expanding the sales cycle and getting more of the consumers bottle over time.

For the third quarter, pre-sold revenue on a per passenger day basis was up over 80% higher than in 2019 with nearly all of our guests purchasing something pre-crews on their own or through our bundled offering. Not only does this lead to higher spend by guests over the course of their entire journey, but it also pulls forward cash inflows for the company. This is one of the reasons why, as you can see on slide 11, our advanced ticket sales balance increased nearly 60% in the third quarter versus 2019, far outstripping capacity growth of 20%.

Before I turn the call over to Mark, I'd like to provide an update on our global sustainability program, Sail & Sustain in which slide 12 outlines key accomplishments and milestones. Since we last spoke, we partnered with the Global Maritime Forum to advance our shared mission of driving a positive change for the industry, environment and society.

We also joined its flagship initiative, the Getting to Zero Coalition, a powerful alliance with more than 200 organizations within the maritime, energy, infrastructure, and finance sectors committed to supporting the maritime industry in its journey towards full decarbonization by 2050.

I'm also proud to share that we were recently recognized by Forbes in its World's Best Employers list for 2023. Our team members are, by far, our most important resource, and we are committed to their continued development and well-being.

With that, I'll now turn the call over to Mark for his commentary on our financial results and outlook. Mark?

Mark Kempa

Thank you, Harry and good morning everyone. My commentary today will focus on our third quarter 2023 financial results, 2023 guidance, and our financial position. Unless otherwise noted, my commentary on net per diem, net yield, and adjusted net cruise cost, excluding fuel per capacity day metrics are on a constant currency basis and comparisons are to the same period in 2019.

Slide 13 highlights our third quarter results in which we are very pleased to report that we met or exceeded guidance for all key metrics. Focusing on the top line, results were strong with net per diems increasing nearly 8% and net yield increasing approximately 3%, both coming in at the high end of guidance.

Turning to costs, adjusted net cruise costs excluding fuel per capacity day was in line with guidance at $152 in the quarter, demonstrating our third consecutive quarter of improvement since we began our cost reduction efforts in earnest late last year. As expected, this also included approximately $2 of certain non-recurring benefits realized in the quarter.

Adjusted EBITDA was approximately $22 million higher than our guidance at approximately $752 million in the quarter. In addition, adjusted EPS of $0.76 also meet our projection by $0.06. Overall, we were very pleased with the strong results we generated in the third quarter.

Shifting our attention to guidance, our outlook for the fourth quarter can be found on Slide 14. We are projecting very strong net per diem growth of approximately 15% to 16% and net yield growth of approximately 7.75% to 8.75%.

Keep in mind, as we laid out last quarter, there are several factors contributing to the exceptionally strong pricing growth we are expecting in the fourth quarter, as a result of more luxury and upper premium capacity operating with our new Regent in Oceania ships as well as the favorable comp from the rapid exit of Cuba in 2019.

While this is still a strong result on a core basis, we have tempered revenue expectations since we last spoke, primarily on the back of lower occupancy. As Harry touched on earlier, we are experiencing impacts during the quarter from exogenous events in Hawaii and Israel, the latter of which also had implication for parts of the broader Middle East in the form of elevated cancellations and lower booking volumes.

In addition, as Norwegian Cruise Line continues to fine-tune its differentiated strategy of longer, more premium itineraries, certain voyages in the late season Eastern Mediterranean and parts of Asia performed slightly below expectations.

While this resulted in a disconnect in the fourth quarter of 2023, our booking curves, guest sourcing and marketing plans have already been recalibrated for similar sailings next year, resulting in a book position that is significantly better for the same period in 2024, compared to the same time last year.

Shifting to operating costs. Adjusted net cruise cost excluding fuel per capacity day is expected to be approximately $151 in the fourth quarter. This also includes certain non-recurring benefits that partially shifted from Q3 and that we do not expect to occur in 2024, and are also partially offset by costs related to inaugural activities. On a normalized basis, unit costs would have been approximately $153 in the quarter.

Taking all this into account, adjusted EBITDA for the fourth quarter is expected to be approximately $360 million and adjusted EPS loss is expected to be approximately $0.15 on a projected diluted share count of approximately $425 million. Keep in mind that we have four outstanding exchangeable notes, which will cause variability in the diluted weighted average shares outstanding used to calculate EPS following the if-converted method.

Slide 22, in our earnings deck has more information to help you with modeling. Now shifting our focus to our outlook for the full year 2023. We expect adjusted EBITDA of approximately $1.86 billion within the previous range of $1.85 billion to $1.95 billion, despite the headwinds expected in the fourth quarter. This is expected to translate to adjusted EPS of approximately $0.73 compared to prior guidance of $0.80.

Taking a closer look at the components of the full year outlook, our healthy net per diem growth of approximately 9.25% to 9.75% is slightly narrowed versus previous guidance. Net yield growth is now expected to be 4.25% to 4.75% with capacity up 18%.

Moving on to costs. Adjusted net cruise costs excluding fuel per capacity day is expected to average approximately $155 for the full year, better than our prior guidance of $156. This improvement is the result of the team's round-the-clock efforts to methodically rightsize our cost base. The savings we have identified have been broad-based and touching every aspect of the business, which you can see on Slide 16.

I'm particularly proud of what we've been able to accomplish so far this year in the area of food costs. Since the fourth quarter of 2022, we have reduced these costs per passenger day by nearly 30%, significantly outpacing the easing and food inflation seen in the broader market. These are just a few of the many examples where we

have been able to drive significant savings while still preserving the exceptional guest experience and superior service levels that our guests value.

As we look ahead to 2024, while we are not ready to give guidance yet, there are a few moving pieces to keep in mind. For example, the timing of expenses like dry docks, will cause variability in the NCC ex fuel metric when comparing periods. In 2023, we have limited dry docks as we took the opportunity during the pandemic to optimize the schedule while the ships were already out of service. In 2024, we expect roughly 170 dry dock days, which will impact NCCs by approximately 300 basis points on a year-over-year basis or approximately $4 on a unit cost basis including both the impact of the dry dock expenses as well as the impact from reduced capacity days.

Turning our attention to the balance sheet and our debt maturity profile on slide 17. Year-to-date through the third quarter, we generated over $1.7 billion of cash flow from operations. We've repaid $130 million debt in the quarter and approximately $1.5 billion of debt over the first nine months of the year.

For the remainder of the year, we have approximately $330 million of scheduled debt payments, the vast majority of which are related to our export credit agency back to ship financing.

In October, we successfully completed the refinancing of our operating credit facility, extending our debt maturity profile and providing incremental liquidity. Our revolving credit facility was upsized to $1.2 billion from $875 million with a three-year term maturing in October 2026.

In addition, the company issued $790 million of 8.125% senior secured notes through 2029. The net proceeds, together with the cash on hand were used to fully repay the approximately $800 million on our Term Loan A, which was to mature in January of 2025.

We were particularly pleased with the demand we saw for the new notes issuance. In addition to being significantly oversubscribed, we also saw substantial interest from new investors, reflecting increased confidence from the markets in our financial position and outlook.

Turning to net leverage. We continue to expect significant improvement driven by our organic cash generation and scheduled payment of debt installments. Excluding debt associated with our ships on order for future delivery, trailing 12-month net leverage is expected to be meaningfully reduced versus current elevated levels. This does not adjust for ships that are delivered in 2023, which would have the full debt load in the numerator without a full year of contribution included in adjusted EBITDA.

Our liquidity position outlined on slide 18 remains strong and would have been approximately $2.5 billion at quarter end, if adjusted for the upsizing of our revolver in October. We continue to believe that our strong liquidity position, coupled with our ongoing cash generation and attractive growth profile, provide a path to meet our near-term liquidity needs, including scheduled debt amortization payments and capital expenditures.

With that, I'll turn it back to Harry for his closing comments.

Harry Sommer

Well, thank you, Mark. Before turning the call over to Q&A, I'd like to leave you with some key takeaways that you can find on slide 19. First, we are focused on execution of the near-term priorities outlined today. Second, we are committed to defining our vision for the future with the comprehensive strategic review we are currently undertaking. Third, consumer demand for travel and experiences continues to be strong. Despite temporary regional disruptions, we continue to maintain a very strong record 12-month forward book position and at higher prices. Our advanced customer deposits also stand at $3.1 billion, 59% higher than Q3 2019. Fourth, we have seen a fundamental shift in culture at our company as a result of our margin enhancement initiatives.

We now have three straight quarters of sequential improvement in our key cost metrics and we will continue to identify and implement additional measures to accelerate our margin recovery, while still delivering the exceptional products and service offerings that our guests desire. Lastly, our liquidity position is very strong, and we are committed to prioritizing restoration of our balance sheet and reducing leverage in the coming years.

We've covered a lot today. So I'll conclude our commentary here and open up the call to your questions. Operator?

Question-and-Answer Session

Operator

Thank you, Harry. [Operator Instructions]

Jessica John

Before we get to the questions on the line, we first want to address a top question from our online shareholder Q&A platform, which provides all of our investors another avenue to submit and up-vote questions for management. One of the top-voted questions we received this quarter was how are you navigating heightened geopolitical instability. Harry, do you want to take that one?

Harry Sommer

Sure. Thank you, Jessica. Appreciate the question. You know one of the main strengths and differentiators in our industry is our ability to reposition our assets, which is what we've done with the heightened tensions in the Middle East. The safety and well-being of our guests and crew members are, without a doubt, our number one priority. And when the unrest in the region began in early October, we immediately modified itineraries starting first with sailings turning or cooling in Israel in the ensuing weeks and expanding modifications to include all sailings through 2024.

I want to add that, I'm extremely proud of how our marine commercial and brand teams came together quickly to make these modifications and proactively work on confirming alternative port and communicating them to our guests. We will continue to closely monitor and evaluate future sailings and adjust as needed. We know that making changes such as these on short notice is never easy, that our organization has risen to this latest challenge in a way that demonstrates once again while we're the best team in the industry. Operator, open for questions.

Operator

Thank you, Harry. And our first question comes from the line of Dan Politzer with Wells Fargo. Please proceed with your question.

Dan Politzer

Hey, good morning, everyone. Thanks for taking my question. I mean, I think that the key question and topic that I think us and investors are focused on this morning is your outlook for 2024, unsurprisingly. So I mean, I think you gave a couple of different data points on costs as it relates to dry docks. But I guess, as we think about the ongoing cost savings, how do you think about the next year's adjusted cruise costs outside of the dry docks and then similarly, in terms of the demand picture, which is obviously pretty -- it's a little bit TBD right now in terms of the Eastern Mediterranean and the tensions there. But how would you think about the impact from Israel on yields? Just obviously, it's probably a higher-yielding type itinerary? Thanks.

Harry Sommer

Dan, thanks for the question. Good morning. So listen, I'll take the yield demand question, and I'll let Mark comment on cost guidance for next year. Listen, of course, this is a tragic event hearts go out to the victims in that part of the world. But we're hopeful that this will be a reasonably short-term event. So while we've seen obviously some impact on Q4, we have very little of our inventory there in Q1.

In fact, we don't meaningfully get back to the region until Q4 of next year. So far, absent a handful of sailings we have in Q1 and Q2, and it's a very, very small percentage of our overall inventory, or we continue to be very, very well booked. In fact, I was looking at the report this morning. And every month, every individual month next year is looked at a higher rate than the same month was at this time last year for 2023. So we're not going to provide guidance today. We've talked about that a little bit in the script, but demand for next year continues to look well.

Mark Kempa

And Dan, I'll take the question on the cost. As we have stated, we have been razor-focused on our cost base, trying to right-size it. And I think we've been very successful at demonstrating that with three sequential quarters of decreased unit cost. As we translate to 2024, there is going to be some pressures. We talked about the dry-dock impact, both from the actual dry-dock cost itself as well as the reduced capacity days. That's going to add about 300 basis points or about $4 to the unit cost.

So, if you think of where our exit rate at 2023 is somewhere in the zone of $1.53 to $1.54 on a normalized basis and you add about $4 to that, then the piece we're looking at is where does inflation come into play. I can tell you we have a lot of programs underway as part of our margin enhancement initiative and we're going to keep clawing back at all of our cost base.

Too early to say how much of the inflationary pressures we can mitigate. But again, I think our demonstration of what we've been able to do over the last three quarters specifically from the back half of 2022, I think presents some very solid data points to start thinking about from a modeling standpoint.

Dan Politzer

Got it. That's helpful. And then just for my follow-up, Harry, your predecessor was pretty adamant about maintaining pricing discipline and avoiding discounting.

I mean I guess as you think about next year and all the moving pieces and what seems like a pretty fluid environment and you just added three new ships and you're entering wave season. Is there any change in your approach to pricing? And as you think about the trade-off between loading yields there?

Harry Sommer

No, I too am a firm believer of maintaining pricing discipline. Obviously, that's the key to long-term yield growth. It's really hard to come back from significant price discounting because your guests come to expect it.

That being said, we're in a fortunate position to be so well booked for next year, record level, the commentary we've given previously on the call and in the script that we really don't need to turn in that direction even if I wasn't a believer, but to be clear, I am.

Dan Politzer

Got it. Thanks so much.

Operator

And the next question comes from the line of Steve Wieczynski with Stifel. Please proceed with your question.

Steve Wieczynski

Yes, hey guys. Good morning. So, I want to stay on the cost side, if I could, and maybe ask about your margin opportunity moving forward. And maybe just how you balance that margin opportunity versus trying to protect the customer experience on board.

And then I guess to follow-up on that, I mean, if you were in to encounter some type of slowdown from a booking or onboard perspective. How do you guys think about the flow through? And maybe what that would look like under a more distressed topline environment?

Harry Sommer

Sure. So, let me take the part about balancing cost against customer experience, and I'll let Mark talk about margin opportunities and what may happen in the slowdown environment.

Listen, we have great data points. At any given point in time, we have 60,000 or 70,000 guests on some part of their vacation experience. So, we get real-time immediate impact as we make changes. In fact, we talk to guests and study changes before we make them to begin with and I think with this robust view towards guest satisfaction scores, onboard bookings, repeat rate, and onboard revenue generation, we know right away whether it's something that we've done is positive or negative.

Now, Steve, I'm not going to say we always get it right. But because we have such a methodical approach to making these changes, we get it right much, much more often than we get it wrong. And that's why despite the fact that inflation continues in the world, we've now had three straight quarters of cost reduction.

I share my passion. We're not done. Now, I can't promise that we're going to continue to have cost reductions. Mark talked about a few of the headwinds related to dry-docks for next year and inflation is real. But I can promise that we have a continued focus. This is not a short-term initiative, where we're not halfway there. This is a permanent sea change in the way we view the business that we are constantly going to be attacking every single cost in the business to make sure that it's rightsized and balance against giving guests great experiences.

Listen, across our fleet at any given time, something like half of our guests are past guests, we would be foolish to do something that would take away from that. That being said, we're still optimistic about the opportunities out there.

Mark Kempa

Steve, and related to the margin improvement and flow-through, let me highlight what Harry just said on the cost side. We really are changing the DNA of the company. This is not a one-time opportunity. This is a continued culture change. So we want to stress that, and we are committed to it.

I think one of the things that sets us apart on in terms of whether if there's a slowdown, what are the opportunities to try and mitigate that. Look, I think, first and foremost, we have perfected -- almost perfected the bundling strategy. And I think that's been a very good tailwind for us.

In addition to that, when you think about the onboard spend, we continue to get smarter and we continue to get better at getting more of the customers' wallet over time from the point they enter our ecosystem. And we talked about in our prepared remarks that our pre-cruise revenue sales were up over 80% versus same time in 2019. So I think that is a strategy that we'll continue to fine-tune. We never get it exactly right. but I think that provides us some additional protection, again, to get that wall over a longer period of time.

We are very focused on margin improvement. We've said this will be -- in our case, this will be a multiyear effort. We don't see anything structurally in the business that would preclude us from getting back to 2019 margins and better. But given our fleet and our deployment mix, I think it's going to take us a little bit longer on our path to do that, but we are ultra committed to do so.

Steve Wieczynski

That's great color. I appreciate that, Mark and Harry. And then second question is maybe if you could give some more color around how 2024 is really kind of shaping up from a booking perspective. And look, I fully understand you guys talked about in the release that you're booked in an optimal position. But wondering if you could maybe give some more color around the brands themselves, meaning are you seeing any material differences between, let's say, the Norwegian brand and the two luxury brands into next year?

Harry Sommer

We don't, Steve, typically comment on a brand-specific basis. I can just reiterate some of the color we gave already. We are in a record booked position for the next 12 months. We're in a record book position for 2024. If you just want to look at that time period and pricing is higher. So I think past that, we're going to take some time over the next few months to develop this long-term strategy, which will impact everything from our choices on deployment, investments, CapEx onboard product. And at the end of the process, we'll be in a good position to give not just guidance for 2024, but clear the clear financial guideposts, if you will, for 2025, 2026 and beyond.

Steve Wieczynski

Okay. Got you. Thanks, guys. Appreciate it.

Operator

[Operator Instructions] The next question comes from the line of Vince Ciepiel with Cleveland Research. Please proceed with your question.

Vince Ciepiel

Great. Thanks. So within the updated 4Q yield guide, it seems like pricing is probably more in line with what you were thinking 90 days ago, while more of the change has been in occupancy. Curious, how much of that is related to Israel, Hawaii? And then as you think into 2024, I believe there previously was a view of maybe one to two points structural headwind from changes in the fleet since pre-COVID times, is that still a good way to think about the occupancy recovery path into next year?

Mark Kempa

Yeah. Hi, Vince, I think when you think about the occupancy, I think that is still a good way to think about it on a normal annualized basis that it will be down somewhere 200 to 300 points about in the zone of 105 to 106.

When you think about Q4, it really is all about occupancy. If you look at our metrics, we were guiding or expecting somewhere about 101 to 102 for the fourth quarter. And right now, we're forecasting roughly 98 and that really is the vast majority related to Israel and the broader Middle East region. We have seen, as we said, an elevated number of cancellations, as well as a lower volume for the close-in sailings, which essentially top off the ship. As well as, as we talked about, we did see some minor hiccups in our late season Asia itineraries, which we believe we fixed from a structural standpoint.

But on the pricing side, look, Q4 pricing was strong. We're still expecting to deliver 15% to 16% pricing. So when you think about the change in Q4 revenue, it really is the vast majority on the back of the load, which results in about somewhere in the zone of $40 million to $50 million as a result of these isolated conflicts.

Harry Sommer

Yes. And Vince, the only thing I'd add and just to sort of tie this in for a question earlier today, this reinforces our commitment to price integrity, because we didn't chase trying to fill these close-in cancels with low-yielding business. It makes no sense for us to divert our attention away from 2024 to chase another 100 basis points of occupancy of guests who won't necessarily be high yielding guests and won't likely come back. We prefer to keep our focus on 2024, which as we've now repeatedly said is shaping up quite well with a record booked position on those forward 12-month basis and for 2024 on a stand-alone basis.

Vince Ciepiel

Thanks and best of luck.

Harry Sommer

Thank you.

Operator

And the next question comes from the line of Robin Farley with UBS. Please proceed.

Harry Sommer

Hi, Robin.

Robin Farley

Hi. How are you? I wonder if you could give a little more color. You mentioned some of the product outside of the Middle East and Hawaii having sort of softer close in? You mentioned Asia and maybe other exotics as well. Can you talk a little bit about what you think may be happening there? Because clearly well-understood what's happening with Hawaii and the Middle East, but just a little less clear on what you think may be happening in some of those other destinations?

Harry Sommer

I would say that Hawaii and Middle East was widespread. The other area was more what would I say on Â– whatÂ’s the word I'm looking for. It was just partial, it was not as widespread. So, for example, we've seen a

couple of cruises that go through Turkey. When we talk about Eastern Med that have had a few more than normal closing cancels not so much a suppression of demand for next year, more on the closing cancel. And similarly, we've had some cruises as an example, that go from Dubai to India or in those type of regions, which has also seen slightly more closing cancels. But clearly, Hawaii, Middle East are the ones that were widespread across all three brands and most of our Q4 departures, those are the ones for more sporadic.

Robin Farley

Okay. That's helpful. Thanks. And just if I have a follow-up, if I can. Just circling back to the expense question. Just looking at your exit rate in Q4 expenses being up about 19% versus 2019 levels. And I think your fleet mix is pretty similar to 2019. Are there sort of big expense increases relative to 2019 that are still kind of holding on there? And is there any opportunity to get rid of any of those costs that driving that 19% increase like that would bring the base down outside of sort of normal inflation there? It seems like there may still be some unusual things in that 19% increase. Thanks.

Mark Kempa

Hi. Good morning, Rob. When you look at 2019, Q4 versus 2019, the 2019 for a myriad of the different reasons was a bit lower than our usual run rate even when you look at all the quarters in 2019. Yes, this is a seasonal business. But generally speaking, our costs are not really exposed to seasonal issues. There was just a lot of noise going on in 2019. I think the more important metric to look at is if you look at the run rate and the consistency over the course of 2023 versus 2022, we continue to move downward. And your comment about the fleet mix, I would like to clarify that a bit because I think when we look where we are today, we absolutely have a higher mix of luxury and ultra luxury product from Oceania and Regent that we didn't have back in 2019. So that is playing a part, but I would not focus so much on the absolute number in 4Q 2019, because I think it just was not a representative run rate going forward.

Robin Farley

Okay. Thanks a lot. I'm at the fleet next time on a full year basis. But, yeah, Q4 certainly, yeah higher luxury. Okay. Thank you. Thanks very much.

Mark Kempa

Thanks.

Operator

[Operator Instructions] The next question comes from the line of Brandt Montour with Barclays. Please proceed.

Brandt Montour

Hey, good morning, everybody. Thanks for taking my questions. So I just want to follow-up on Robin's first question and talk about those 4Q close-in hiccups that you mentioned. And I want to differentiate between Turkey, which could be construed as indirect impact from what's going on in Israel and that of what's going on in Asia, which sounds like it's more specific to the strategy, the longer-term strategy of moving things to more exotic and -- longer-dated itinerary. So I guess, on that latter stuff, that seems like something that was put in place a while back that we've been talking about for many quarters now. And so I guess the question is, is that something that was 4Q specific based on the destinations and won't roll into the 1Q? Or could there be sort of some leakage into next year on that situation? Thanks.

Harry Sommer

So I think the 4Q situation and -- first, let me start off by saying good morning, Brandt. The 4Q situation was really limited to Q4 and related to the fact that we didn't quite get the booking curve right. I mean ,we do lots of things right. We didn't get this one quite right. But when I look at Q4 of next year and comparing it to Q4 this year, we are significantly booked ahead for Q4 of next year, both for Asia itinerary specifically and in general, across the fleet. And that gives us confidence that this short-term dislocation, as Mark mentioned, has been solved for next year. I'm not as concerned about Q1, because if you remember, our Q1 comp will now be back

against 2023. And in 2023, we had all types of issues in Q1 in Asia because of COVID restrictions and the like. So that is one of the meaningful tailwinds going into next year.

Brandt Montour

Okay. That's helpful. Sorry, everyone else got two questions, so I'm going to take a shot here. The hedge book at 36% -- I mean, the hedge book at 36% is a little -- still a bit below where you would have been. I think at this time in 2019 for 2020, we're at something like 55% or 56%. So, I guess, just update us on the strategy as the way you see it for fuel heading into next year.

Mark Kempa

Yes, Brent, there is no change in the strategy. Yes, when you look at 2024, we are 36% hedged. And like we've always said, our goal is we'd like to be about 50% hedged going into a year. And we are just very opportunistic on that front. So, when there's dips in the marketplace, we take advantage of that. There was a little bit of a dip yesterday, and we took advantage of some position. So, no fundamental change in strategy just really timing of the market and when we feel there's a good opportunity to place some additional positions on the books.

Brandt Montour

Makes sense. Thanks everyone.

Operator

And the next question comes from the line of James Hardiman with Citi. Please proceed.

James Hardiman

Hey good morning. Thanks for taking my question. So, I just want to make sure I understand how you guys are thinking about the impact from the Middle East beyond the closing impact for the fourth quarter.

I guess, A, as you talk about removing Israel from the itineraries in 2024, obviously, you're replacing that with something. Do you think that's impacted your outlook in any meaningful way for 2024?

And then you talked about 4% of your visits being to the Middle East next year. How do we think about how that business is impacted? I think you said, Harry, that you're hopeful and obviously, it's difficult right now, obviously.

And our hearts go out to all the people that are affected in the region but that you're hopeful that this will be a short-term event or a reasonably short-term event. Is that with regards to, hopefully, the conflict itself is short-lived and then your business can go back to normal or even in sort of a state of elevated tensions in the region just based on history bookings beyond that epicenter ultimately return to normal. Just want to make sure I understand how to compartmentalize all of that?

Harry Sommer

So, James, let me try to deconstruct because you sort of touched upon a couple of points. I'll start out by saying that this 4% that we talk about for next year is mostly skewed to Q4. So, it's 1% of our capacity in Q1, 1% Q3, 3% in Q2, and 10% in Q4. And because it is skewed so far in the future, we're optimistic that the alternative itineraries that we're going to put in place that would go to other places instead of Israel have a reasonable time to book at normal levels.

And just -- there was sort of a half push in their US assets if it's correct to assume that any time we remove this role, we'll replace it with something else. The answer to that question is yes. We are not planning to fully cancel or lay out any of our ships because of this disruption.

I think when we think about this a little bit longer term, I think it will be a while before people are comfortable going back to Israel which is why we are canceling all Israel calls in 2024, even if the complex was and we hope it does, a reasonably short amount of time, we are more bullish about the ability to return to places like Egypt and other places in the Middle East. And quite frankly, we don't go to that many places in the Middle East, as part of our Â– our normal cruise, that it's just normally part of our transitions when ships come and

leave Europe at the beginning and end of each season. So that being said, while obviously, it's a little early to tell, and this is somewhat dependent on how long the conflict goes, we're relatively optimistic that the scope and nature of this will not in any way meaningfully impact our 2024 targets.

James Hardiman

Got it. That makes a lot of sense. Obviously, its difficult but thatÂ's really good color. Thank you.

Operator

And the next question comes from the line of Conor Cunningham with Melius Research. Please proceed.

Conor Cunningham

Hi, everyone. Thank you. Just back to costs for a quick second, sorry about that. Just you have a lack of new deliveries in 2024, and you've talked about your strong book position. It just curious on how that might change your marketing spend into next year? It just seems like there will be a natural step down. And then just like the lack of overall deliveries is really what sticks out to me relative to some of your peers in 2024. So just curious on how you're thinking about that specific plan on it. Thank you.

Mark Kempa

Thanks, Conor. Yes, you're absolutely right. We don't take after recent grant during December, we don't take our next delivery until spring time of 2025. So we do have a little bit of opportunity there. But I think when you think about the cost and specifically, your question around marketing, there will be -- we do expect a reduction in that area.

I would not classify it as a significant reduction because obviously, you are still selling for new capacity that's coming on in 2025, and you sell that well in advance of the delivery date. But of course, we would expect to find some efficiencies on that front simply as a result of that timing between deliveries.

Harry Sommer

Yes. Keep in mind, just as a follow-up, that we do have two ships coming in the fleet in 2025, one for Oceania and one for in Seattle, both in the first half of the year.

Conor Cunningham

Okay.

Harry Sommer

I think we have time for one more question, John?

Operator

Thank you. And the final question comes from the line of Patrick Scholes with Truist Securities. Please proceed.

Patrick Scholes

Great. Thank you. Good morning, Harry and Mark. Certainly, there's some new luxury higher-end capacity with Ritz-Carlton brand for seasons coming in the market next year in 2025. Are you seeing any impact from that new competitive supply on your two higher-end brands?

Harry Sommer

Patrick, they are mostly smaller ships, and it's not a meaningful increase in capacity in the overall scheme of things. So the short answer to that question is no, Patrick. We've not seen any change in the trajectory of bookings for either region for Oceania.

Patrick Scholes

Okay. Thank you. And then just a quick follow-up question here. In the press release, you used the word optimal book position. I want to focus on the word optimal. Harry, what exactly is optimal in your mind? What does that mean in this case?

Harry Sommer

At a high level, we have defined optimal as being booked 60% to 65% for voyages departing in the next 12 months. It's not a hard and fast rule. We've also said that we're at a record level you can put those $0.02 together and make whatever extrapolation you like. But it's really much more than that, we like to look at every single voyage where they are in the booking curve. Make sure that we're not managing demand pricing, marking the expense in a way that maximizes our bottom line margins. And that's what we mean by optimal. So there's a macro concept and a granular concept on a voyage basis.

Patrick Scholes

Okay. Thank you.

Harry Sommer

Thank you, Patrick. So, once again, I want to thank everyone for joining us today. We'll be around to answer any questions and you get both Jessica and Sarah today, two for one. So with that, I'd love to wish you a good day. Stay safe and all the best. Thank you.

Operator

Ladies and gentlemen, this concludes today's conference call. You may now disconnect. Thank you.