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PRESENTATION

Operator

Hello, and welcome to the Allegiant Travel Company fourth-quarter and full-year 2023 earnings call. (Operator Instructions)

I will now turn the conference over to Sherry Wilson, Managing Director of Investor Relations. Please go ahead.

Sherry Wilson - *Allegiant Travel Co - IR Contact Officer*

Thank you, Sarah. Good afternoon, everyone, and welcome to the Allegiant Travel Company's fourth-quarter and full-year 2023 earnings call. On the call with me today are Maury Gallagher, the company's Executive Chairman and CEO; Greg Anderson, President; Scott DeAngelo, our EVP and Chief Marketing Officer; Drew Wells, our SVP and Chief Revenue Officer; Robert Neal, SVP and Chief Financial Officer, and a handful of others to help answer questions.

We will start the call with commentary and then open it up to questions. We ask that you please limit yourself to one question and one follow-up. The company's comments today will contain forward-looking statements concerning our future performance and strategic plan. Various risk factors could cause the underlying assumptions of these statements and our actual results to differ materially from those expressed or implied by our forward-looking statements. These risk factors and others are more fully disclosed in our filings with the SEC.

Any forward-looking statements are based on information available to us today. We undertake no obligation to update publicly any forward-looking statements, whether as a result of future events, new information, or otherwise. The company cautions investors not to place due reliance on forward-looking statements, which may be based on assumptions and events that do not materialize. To view this earnings release, as well as the rebroadcast of the call, feel free to visit the company's Investor Relations site at ir.allegiantair.com.

And with that, I'll turn it to Maury.

Maurice Gallagher - *Allegiant Travel Co - Chief Executive Officer, Chairman of the Board*

Thank you, Sherry, and good afternoon, ladies and gentlemen. Thank you for your time today and welcome from Super Bowl headquarters here in Las Vegas. As you saw in our release, we continued to move ahead in our efforts to return pre-pandemic performances.

I'm happy to report on a number of areas that we're moving forward on all fronts. Sunseeker opened on December 15. It's a terrific destination of fun and sun. Micah Richins, who's on the call with us today and his partner in crime, Jason Shkorupa and their team have done [yeoman's] work, completing and operating this magnificent and destination resort. Stay tuned for more updates in the coming months.

Our operational performance front this year -- the past year, our completion factor and on time mirrored our 2019 industry-leading stats, and we were among the top three in operating margin for the year. Aircraft deliveries, while Boeing deliveries will be delayed based on recent news and comments, we are excited about our introduction of the MAX 8200 aircraft. It's one of the most reliable airplanes in the world. Its performance profile as well will provide us enhanced economic benefits in the coming years.

On the labor front, we've been plagued for the past three years by a number of labor issues, particularly with our pilots. However, I'm cautiously optimistic with our recent progress. Our updated labor agreements will allow us to continue to do what we do best, to grow Allegiant in our noncompetitive markets in the coming months and years.

As I mentioned, at Super Bowl week here in Las Vegas, the town is on fire and amazing stuff is going on. This week will be a large payback for our investment in the naming rights for the Las Vegas Raiders Stadium. The exposure, the impressions we have already received, and will continue to receive in this next week have been and will be exceptional. Allegiant Stadium has a nice ring to it. We have made this -- we made this investment in 2019, a big step for us. But it was part and parcel of our efforts to separate ourselves from the crowd and promote our Allegiant brand.

As I've mentioned, our operations this past year were industry leading. This level of performance in today's social media world is critical. Consumer products are continuously on stage. There is nowhere to hide. It seems simple. We want a reliable, on-time airline with friendly people. Easy to say, but tough to do. But our focus on this approach for the past many years is paying dividends.

Our Net Promoter Scores are industry leading. In recent surveys of our own customers, they assigned us what we believe to be the top of the field an NPS of 51. It's coming in ahead of all of the domestic carriers as far as we know. Our results compare extremely well when compared to other low-cost players, some of whose scores are meaningfully negative.

In the past 12 to 24 months, as you all are aware, our competition has become much more intense for a number of the low-fare carriers. The majors have come down market and have a low-priced competing product and a better reputation against -- again, the NPS scores tell the tale. Being the carrier of last choice in today's world is a [skid hill recline].

Over the past 20 years, there's been a generic low fare labeling or ULCC moniker assigned to a number of us carriers. Practically, this label is for the start-ups since the 2000s, specifically us, Frontier, Spirit, and more recently, carriers such as Sun Country, Breeze, and Avelo.

Well, we all have this timeline in common. What we don't have in common is the same model and how the companies have been managed. Unlike the other carriers in this grouping, our model has allowed us to build a robust moat around our business. Over the years, we are focused on building that noncompetitive nonstop network.

Today, 75% of our routes do not have any direct competition. This approach is paying substantial dividends in today's more confrontational environment. With most of our routes operating just two to three times -- two times per week, we can support a much larger network of cities and routes. 124 cities today with 555 routes, 450 of which are noncompetitive. In contrast, Spirit and the Frontier have on average just 300 routes each rather, but only 30 are noncompetitive or a 10% factor.

One might analogize the ULCC crowd by comparing them and us to the famous bank robber Willie Sutton. When asked why he rob banks, his answer was because that's where the money is. Well, in today's airline space, the banks are the big cities and the major air carrier hubs and networks. Virtually all of the ULCC labeled airlines are focused on these big banks.

Historically, they've been easy money, but not anymore. The banks have developed ferocious tools to fight off their historic robbers. We at Allegiant have stayed away from those big banks. Allegiant is focused on earning its money the old-fashioned way by creating our own customers, those that heretofore have gone unnoticed. Said another way, we've created our own private swim lane and are proud to be in it. In the coming months and years, we will continue to grow our model. It is strong. It works and it has a great deal of room to run.

Lastly, I want to thank our team members. This has been a difficult three to four years, as we all know. You have been supporting our passengers with safe, reliable, and friendly service and you have run the best airline this year, an industry-leading 99.8% controllable completion factor. Well done. In today's era of poor service and cancelled flights, you have put us back where we belong at the top of the pack. Thank you.

Greg?

Gregory Anderson - *Allegiant Travel Co - President*

Thank you, Maury. Entering 2023, one of our primary objectives was to step up our operational gain and drive down IROP costs. Team Allegiant delivered in this, closing out the year with an industry-leading 99.8% controllable completion and a reduction in IROP costs of nearly $100 million. These results didn't go unnoticed at the Wall Street Journal and ranked Allegiant of the best-performing airlines of 2023, trailing only Delta and Alaska. This turnaround performance isn't possible without a dedicated and highly talented team. I know I'm biased, but I think they're the best in the business.

Throughout 2023, I had the great privilege of traveling our system to visit most of our 24 bases. The passion of Team Allegiant truly a sight to be seen. Our base structure, coupled with our out-and-back model, allows us to provide our frontline team members with the rare industry perk. Their work shifts begin and end in their home cities. This unique feature plays a key role in helping us retain and grow our flight crew rings, ss evidenced by the increase of more than 100 net new pilots during the back half of 2023.

While being home every night is a value benefit, we are overdue in getting our inflight and flight ops group's updated labor contracts. This remains a top priority and is in the best interest of all parties. Once in place, these agreements should help unlock meaningful value.

And as mentioned last quarter, an area of value to keep an eye on is our restoring of utilization during peak leisure and demand period. We have been strengthening our foundation to begin ratcheting up our peak day flying which should provide us a decent tailwind in 2024. We expect this tailwind to gain momentum into 2025 with the potential of increasing peak utilization by as much as 20% compared to 2023. As you know, one of Allegiant's key differentiators is our adherence to peak season and peak day week flying patterns, something that will continue even with the new Boeing MAX aircraft.

We are confident the recent issues facing the MAX will be solved by Boeing and the FAA. The continued uncertainty around the timing of our MAX deliveries means we are being extra flexible with our 2024 capacity plans. Each MAX delivery will come equipped with Allegiant Extra, and we are concurrently configuring our A320 aircraft to carry this premium product. This improved cabin layouts should continue to be a big hit among our customers through our expansive domestic network of roughly 124 communities in 555 routes.

Interestingly, we are the only nonstop option on roughly 450 of the routes we currently serve. Surprisingly, Allegiant serves more unique nonstop domestic routes than JetBlue, Alaska, Spirit, Frontier, Hawaiian, Sun Country, Breeze, and Avelo combined. And we are positioned to meaningfully grow our number of unique nonstop flights via the 1,400 incremental routes we have identified including the many unique nonstop routes we expect to serve into Mexico's premier beach destinations alongside our JV partner, Viva Aerobus.

While the timing of governmental approval of our ATI application is uncertain, we remain confident its approval is a matter of when, not if. In addition, we have upgraded our systems by transitioning to Navitaire, which will help support our long-term growth plans, including international expansion. We migrated our legacy passenger service system in Navitaire in the back half of 2023 and a dedicated team working to further seize on its capabilities by improving our dynamic pricing formulary products and unlocking further efficiencies. We expect these enhancements in place by the first half of 2024.

Our Sunseeker Resort opened in mid-December. It is elegantly designed and features popular amenities as well as a spectacular service-oriented staff. Guests are having a wonderful experience. The resort is still in its infancy as it has only been open for roughly 45 days. Encouragingly, each week, we see meaningful improvements to booking trends as we continue to build further awareness of the Sunseeker brand. While we are still very early, we expect the resort could contribute as much as $15 million in EBITDA in 2024.

In closing, we are extremely proud of the Team Allegiant taking back our rightful spot at the top of the industry, both operationally and financially, in addition to the great progress made in strengthening our foundation. We have positioned ourselves to enhance utilization during peak leisure demand periods.

Our brand has never been stronger. The number of unique routes to further expand our network has never been greater. Aspirational products such as Allegiant Extra and our Allways loyalty program remain in high demand. Sunseeker is open and contributing. Many more opportunities remain on the horizon, including our international expansion with Viva Aerobus. We will continue to build off this momentum to strengthen our competitive advantages and further reshape the leisure travel space.

With that, I'll turn it over to Scott.

Scott Deangelo - *Allegiant Travel Co - Executive Vice President, Chief Marketing Officer*

Thanks, Greg. Fourth quarter completed the year that saw post-pandemic normalization of domestic leisure travel demand. But with Allegiant, nonetheless, driving booking and passenger levels that slightly surpassed the historic highs of 2022 despite minimal capacity growth. This was achieved thanks to our continued distinctive ability to match capacity with demand and in particular, to generate and fulfill demand for peak travel periods. Demand has never been greater for our Allegiant brand, which differentiates itself on the two factors that matter most to leisure travelers: low fares and nonstop flights.

As Maury referenced, this week, a good portion of those nonstop flights will be Super Bowl bound here in Las Vegas where the Allegiant brand stands to gain an unprecedented boost in awareness from the more than 100 million US viewers expected to tune into Super Bowl 58 at Allegiant Stadium on Sunday. And we stand ready to capitalize on this brand awareness boost during one of our busiest booking periods as leisure travelers book in earnest for the spring break and even early summer peak travel season.

For full year 2023, we retained nearly one-third of customers who flew us the prior year, and those customers accounted for nearly half of our total revenue for the year. This year-to-year customer retention rate was 16% higher than it was in 2022. Our loyalty programs Allways Rewards and the Allways Rewards Visa card continue to engage a greater portion of customers and motivate those engaged customers to travel and spend more with Allegiant year after year.

2023 was the fifth consecutive year that the Allegiant co-brand credit card was named Best Airline Credit Card in USA TODAY's Readers' Choice Awards. We ended the year with 484,000 cardholders, up 16% versus 2022. And total co-brand credit card compensation was nearly $120 million for the year, up 18% versus 2022. We expect similar growth rates to continue for both new cardholders and program compensation in 2024.

In addition to the direct compensation we received from the program, our cardholders continued to exhibit strong travel frequency and spend. During 2023, cardholders flew and spent more than 2 times that of non-cardholders. We also continue to see strong impact from our Allways Rewards noncredit card program. 2.8 million Allways Rewards members had activity during 2023, 25% more than prior year, and these members flew 24% more and spent 69% more than nonmembers.

Our ever increasingly loyal customer base is enabling us to further differentiate by showing interest in premium economy products such as Allegiant Extra and buy on-board products, as well as our third-party hotel and rental car products and now Sunseeker Resort Charlotte Harbor, which as was noted, opened this past December. Nearly three-quarters of our customers say they are aware of the resort, and nearly half of those in cities with Allegiant service in the southwest Florida, so they would consider staying there.

To date, nearly two-thirds of Sunseeker bookings have come from Allegiant customers, 40% are Allways Rewards members, and 20% are Allegiant co-brand credit cardholders. Sunseeker is a welcome addition to the Allegiant Travel Company family and enables us to give our customers more leisure travel products and rewards, enabling them to, as we like to say, live their best nonstop life with Allegiant.

And with that, I'll turn it over to Drew.

Drew Wells - *Allegiant Travel Co - Senior Vice President, Chief Revenue Officer*

Thank you, Scott, and thanks to everyone for joining us today. A strong fourth quarter capped off our first full year revenue figure over $2.5 billion. While our 4Q TRASM of $0.1316 was down 6.2% versus the prior year, it was still more than 4% better than any fourth quarter before that. Further, the full year TRASM of $0.1338 was nearly 6% better than any prior year, punctuated by record ancillary performance more than $5 better year over year.

The fourth quarter featured some modest ASM growth at plus 5.7% and ended on a high note with incredible close-in demand for the holiday periods. These weeks were -- these were weeks with already high expectations, and they exceeded those lofty goals. And as expected, the resilience in the peak weeks was met with normalizing peak to off-peak variants as in a typical leisure environment.

Lastly, for 2023, on the heels of a monthly record in September, fixed fee strength continued to ramp in both the fourth quarter and full year set revenue records. Really a great all-around effort to achieve $611 million in total revenue for the quarter and a sincere thank you to all our Allegiant team members for making that happen.

As we shift attention to the first quarter, growth will be back to muted at roughly 1%. Across the industry, weather took a toll on mid-January, and the impact to Allegiant was approximately 0.5 point ASM headwind for the quarter and about $2.5 million of revenue impact. Hats off to our operations teams for their excellent performance in keeping the airline on track amid the chaos of the storms.

I expect many of the same attributes discussed last quarter to persist. The peak weeks will remain incredibly strong, likely in line to higher than prior year in fact. Easter shifts into March, while it should be a TRASM good guide to the final week of the month, the shift is generally negative overall.

A meaningful portion of spring break travel is compressing to one week, and we have only so much capacity to deploy. Good for unitized figures in that week at the expense of some total potential and the contribution of the other weeks, including weeks earlier in March future spring breaks moving to a line with Easter this year.

Continuing the overarching theme of normalcy in my remarks recently, I expect the first quarter sequential increase in TRASM to look normal relative to the 4Q '23 TRASM. As with most first quarters, the revenue will hinge on the peak weeks at the end, and with more than 50% of the revenue left to book, there is still a long way to go. Another result of the Easter shift will be a decent pull down of April capacity around 10% year over year.

However, we're excited to bring much more capacity into our summer plan than originally anticipated. Our June through August capacity should see each month's ASM up mid- to high-single digits versus the same month in 2023, utilization increase (technical difficulty) of hour per aircraft per day. We still have a hill to climb to get all the way back to our peak utilization levels, but accomplishing these gains while still having the Boeing MAX transition training headwind is incredibly exciting.

And for some additional context, our plan starting around June is largely in line with our 2018 utilization levels, one for a reminder of how large our '18 to '19 utilization jump was; and two, in line with Greg's comments on our 2025 potential.

We also anticipate that we'll begin retrofitting existing 186-seat A320s with our popular Allegiant Extra seating configuration in the second quarter as well as introduce a new to us travel insurance product through our partners at (technical difficulty) goals both should help bolster our already strong but still improving ancillary program.

For the full year, we are guiding an ASM range of positive 2% to 6% year over year. This will include a more conservative approach to planning capacity in the back half of the year to provide downside risk mitigation both Boeing MAX deliveries are delayed and upside if one time. There's a lot of unknown and we wanted to be prudent in our process.

I'll turn it over to Robert Neal to provide a bit more color on this and so much more.

Robert Neal - *Allegiant Travel Co - Chief Financial Officer, Senior Vice President*

Thanks, Drew, and good afternoon, everyone. Today, we reported our fourth-quarter and full-year 2023 financial results, which included an adjusted consolidated net income of $2.4 million and an adjusted earnings per share of $0.11 for the fourth quarter. This number includes approximately $12.8 million in preopening expenses for Sunseeker Resort. The airline recorded $15.9 million in adjusted net income for the quarter, yielding an adjusted airline-only EPS of $0.86.

Adjusted consolidated net income for the full year 2023 was roughly $137 million, yielding an adjusted earnings per share of $7.31, including approximately $33 million in expense related to Sunseeker. EBITDA for the full year was $472 million, excluding special charges, which is a 45% increase over 2022. The airline recorded an adjusted net income of $165 million for the year, yielding an adjusted airline full year EPS of $8.82, which was slightly ahead of our initial expectations and the airline generated over $500 million in EBITDA, excluding special items during the year.

Fuel cost came in at $3.09 per gallon for the full year, approximately 17% below the 2022 level. Our adjusted nonfuel airline unit costs ended 10.8% higher at $0.0812 for the full year, which was driven primarily by wage increases for frontline labor groups. This accounted for about 8.5 points of the increase. That's inclusive of our pilot retention bonus accrual, which was in effect May through December. The other main driver of unit cost increase was depreciation expense on lower asset utilization, which drove 1.5 points, and the rest of the increase came from a handful of other items.

On the balance sheet, we ended the year with just over $1.1 billion in total liquidity comprised of $870 million in cash and investments and $275 million in undrawn revolvers. Net debt at year-end was just under $1.4 billion. During the year, we prepaid approximately $210 million in 2024 debt maturities, including a $150 million payoff of senior secured notes in the fourth quarter.

Fourth quarter inline capital expenditures were $143 million, comprised of $120 million for payments related to aircrafts and engine and $23 million in other airline CapEx. Deferred heavy maintenance spend was $17 million during the quarter. Total airline CapEx for the full year was $568 million, and CapEx for Sunseeker Resort construction came in at $321 million, including $53 million in the fourth quarter.

Turning to fleet, we retired one A319 aircraft during the fourth quarter, and we took delivery of one A320, which began revenue service during January of '24. We expect to take delivery of one additional A320 aircraft during the first quarter, which should enter service in the second quarter of '24. As of now, we are planning to retire eight of our oldest A320 aircraft during the year, down from 11 previously planned.

As you might expect, we are actively discussing with Boeing changes to our 737 MAX delivery schedule for 2024. At the time of our last investor update, we were expecting to take delivery of our first MAX aircraft in the first week of 2024. As of now, we are estimating that deliveries will begin in late March or early April.

Our current estimates differ from contractual commitments as we are conservatively planning to take delivery of 12 and place into service 10 737 MAX 8200 aircraft by the end of this year. While the timing of these deliveries is uncertain, we are estimating capital expenditures by year-end to be approximately $790 million for the airline and $10 million for final payments related to Sunseeker construction. Airline CapEx is inclusive of $85 million for heavy maintenance spend and $160 million in non-aircraft CapEx, with the remaining $540 million attributable to aircraft and engine related payments.

With respect to 2024 financial results, given the uncertainty around timing of the estimated 12 aircraft deliveries, we are only prepared to speak to the first quarter of 2024 at this time. We expect to record an airline operating margin between 8% and 10% on ASM growth of just over 1% in the March quarter. This guidance assumes an average fuel cost of $2.85 per gallon. We do expect year-over-year nonfuel unit cost pressure in the first quarter related to our pilot retention bonus accrual, which was not in place during the first quarter of 2023.

In closing, I want to add my thanks to all of our Allegiant team members for all they've accomplished in 2023. Our people worked tirelessly throughout the year, in particular, managing various major systems implementations. Delivering a 99.8% controllable completion is the key driver in the improved financial performance and a stabilized operation provides us the strong foundation necessary for us to improve peak period fleet utilization and better leverage our investments.

Thank you. And with that, Sarah, we can begin taking analyst questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Savi Syth, Raymond James.

Savanthi Syth - *Raymond James - Analyst*

Hey. Good afternoon. If I might, I can appreciate the lack of clarity on the full year with capacity. But I was wondering if you can provide a little bit more color on what's a historical Q over Q for unit revenue is? And also just on the unit cost, like what you're expecting for the first quarter on a year-over-year basis.

Drew Wells - *Allegiant Travel Co - Senior Vice President, Chief Revenue Officer*

Sherry, I'll take the first part of that. If you go back probably 2011 through 2019, the (technical difficulty) has been right about 2.5%, give or take, on TRASM.

Robert Neal - *Allegiant Travel Co - Chief Financial Officer, Senior Vice President*

And then, Savi, on the cost side, as I mentioned, the first quarter should be elevated on a year-over-year basis, that should be the high point for a year-over-year comp. And that's nearly all driven by increases in wages for frontline labor groups. You will see some elevated costs in costs throughout the year. But I would expect that on a full year basis, we would have a unit cost level that's below what we turned in the first quarter.

Savanthi Syth - *Raymond James - Analyst*

That's helpful. And if I might just follow up in terms of what you're seeing on the demand side, is there any improvement on the pricing? I know in the fourth quarter, you called out off-peak pricing really weak. It sounds like peak pricing is still holding on. Just curious if you're seeing any change in the off peak pricing? Or is the fact that you're pointing to normal historical Q over Q then maybe not much of a change there?

Drew Wells - *Allegiant Travel Co - Senior Vice President, Chief Revenue Officer*

Yeah. I would look back to just normal leisure seasonality right now. The spread we see between where peaks are and off-peaks are, while obviously, everything is meaningfully above pre-pandemic still, that spread looks about like it did pre-pandemic. So whatever you deem as the normal variance there is kind of what we're seeing.

Savanthi Syth - *Raymond James - Analyst*

Thank you.

Operator

Brandon Oglenski, Barclays.

Brandon Oglenski - *Barclays - Analyst*

Hey. Good afternoon and thanks for taking the questions. Maybe following up on Savi's line questioning there. I know you guys are only providing the airline only guidance for the first quarter, but how do we think about margin seasonality going into 2Q, maybe any initial indications on bookings especially, I think, Greg, you said that your peak capacity is going to be up pretty significantly versus where you were in '23. Is that right?

Gregory Anderson - *Allegiant Travel Co - President*

Hey, Brandon, it's Greg. I hit it at a high level, and then Drew could add any color kind of on the peak capacity. My point on that, though, is that we've level set operations to build back and fly more in the peak periods. I don't think -- in March, it will be a little bit more difficult for us to start ramping that up, particularly given the timing of the uncertainty around the Boeing deliveries. However, we have a clear line of sight to be able to start taking that up in the summer, this summer, but really hitting that or at least a path to hit the 20% increase by 2025.

And as I think about the full year, just kind of back to the uncertainty of the delivery of the MAX aircraft, as you know, for us, months matter in a year, right? 80% of our earnings come in March, this summer and holidays. So we need to make sure that as we're planning, we're trying to get up and peak in those periods, as Drew will hit on it a little bit.

But I would say the cadence in the second quarter, I would expect op margin that should be the best quarter for us. So I'd expect second quarter sequentially to be higher than the first quarter. And full year, I expect us to be at or near industry-leading margins at our base case. I mean, maybe there's some upside in there. But we still think we put out a strong '24, but we just -- there's some uncertainty with some of the timing and moving parts. Drew, do you want to hit anything on that?

Drew Wells - *Allegiant Travel Co - Senior Vice President, Chief Revenue Officer*

I'll add maybe just a little bit, just be mindful that Easter comes out of April, which will be a meaningful revenue headwind as well as ASM, like I mentioned, about 10% coming out of April there. That will be a headwind. The lift we see in terms of that summer capacity will start really at the end of May into early June. And kind of based on timing of when we had confidence around the number of crew hours and pilot heads we have to be able to fly that. We're a little bit close in to be able to realize that in March. So we'll see that. I think it will be -- the good news will be kind of back-half weighted for the second quarter, but other than that, I agree with Greg's comments.

Brandon Oglenski - *Barclays - Analyst*

Okay. Appreciate it, guys. And then a quick one for Robert. How are you guys looking at financing that capital spending this year? What are alternatives that you're looking at now?

Robert Neal - *Allegiant Travel Co - Chief Financial Officer, Senior Vice President*

Sure. Yeah. I'm glad you asked. We actually put out an RFP just in the first week of the year, and I've been really pleased with the results that came in to finance the MAX aircraft. You'll probably recall our first four aircraft are already committed to a financing agreement that we signed up last year, which is kind of a blend between finance lease and like a EETC structure, so it has two tranches and they're financing at 100% of their appraised value. And then after that, I suspect we'll tap into the bank market a little bit and look at finance leases. We're pretty focused right now on products that give us a lot of flexibility.

And then late in the year, depending on the number of deliveries we have and what happens with the MAX 737 certification, I think we could go and look at the EETC product as well. But I think what all of those things have in common is those are financing products that lead the assets on the balance sheet.

Brandon Oglenski - *Barclays - Analyst*

Appreciate it. Thank you.

Operator

Conor Cunningham, Melius Research.

Conor Cunningham - *Melius Research - Analyst*

Hi, everyone. Thank you. Greg, you mentioned that your pilots and flight attendants are currently up and there's been a fair bit of movement with southwest and so on. Can you just level set on where discussions are today? And then have your accruals changed at all given where the market is? Thanks.

Gregory Anderson - *Allegiant Travel Co - President*

I'll kick it off and then BJ may want to comment on the accruals. But in terms of where our labor agreements are at today, Conor, one, I mean we're very eager to get both agreements in place with our flight attendants. You may recall that went out to vote late last year, that was turned down, I think, by 60%, 40% voted against. So we've come back to the table with the TWD leadership and really working to address some of the areas of which that we think why it was voted down and get that back out to vote soon. So we're happy with the progress there.

And in terms of pilots, we're actually in federal mediation. And so we started that at the early part of last year. I'm encouraged by some of the progress that was made late in '23. We actually TA'd in the past few months, we've talked with the TA a couple of sections. We're about to TA one or two more, we think. There's been changes to the union, the negotiating team on their side, which we're cautiously optimistic with that.

As the company has and will continue to do, we're ready and prepared and we want to get a deal done that for both our flight attendants and pilots that they deserve. BJ, do you have anything on the approvals or the timing?

Robert Neal - *Allegiant Travel Co - Chief Financial Officer, Senior Vice President*

Not really just -- I'll just share the accrual for the pilot retention bonus was (technical difficulty) at the end of the year. So that will continue to build up until we have an agreement with our pilots. And then we haven't made any changes to that or started accruing for anything on the flight attendants (technical difficulty) coming in place to pay out any type of bonus like that.

Conor Cunningham - *Melius Research - Analyst*

Okay. That's helpful. And then you mentioned the Sunseeker contribution and how it's going to take a little bit to get to maturity. But can you just speak what needs to change there? Is it really just an occupancy comment? Or is there induction costs that are kind of hitting at the early half part of this year? Just any thought process around that. Thank you.

Maurice Gallagher - *Allegiant Travel Co - Chief Executive Officer, Chairman of the Board*

There's going to be some additional costs just to get it finalized while we opened probably quicker than we ideally would have liked be, but they're doing very well, putting all of it together. The -- on the -- just the revenue side, there's just a normal growth that you go through. We were unfortunate again, that we slipped from a planned October opening date into December.

And advanced bookings as a result, were being pushed in the most difficult (technical difficulty) of the year, the end of the year, December is always the weakest sales month. But we're seeing an uptick and the like. I think the really good news is that it's been (technical difficulty) well received on the food and beverage side and very, very nice crowds and things down there. The rooms are coming. Micah, do you want to just give a little quick overview on what's going on. Micah Richins is running the show for us down there.

Micah Richins - *Sunseeker Resorts - President, Chief Operating Officer*

Happy to, Maury, and I appreciate the introduction on that. We're doing a lot of things over the past 45 days here at the property. Maury mentioned that we opened with a couple of the venues not ready to go that have recently coming online or have come online already. One of them was the rooftop pool. We brought that open last week.

We've got one of our main restaurants, Blue Lime, which will come on this week. And we opened in December without one of our towers, one of the suite towers Iris. And that will also open up -- it actually opened up on Friday. We've been able to host several groups here in January, and we'll host several more in February. That bodes well for us.

We need to be able to put group business through the house and then let them talk about the services they get. So we feel like we're on the right track. The property is performing well. And the last thing I would say is the shout out to our employees. Literally every -- it seems like every bit of feedback that we get, even if someone is noticing a shortfall, they rave about our employees. they rave about how hard they work, how much they enjoy being here, and how attentive they are to the customers. So we like where we're heading, and we're going in the right direction. We just need to keep building.

Conor Cunningham - *Melius Research - Analyst*

Appreciate the thoughts. Thank you.

Operator

Duane Pfennigwerth, Evercore ISI.

Duane Pfennigwerth - *Evercore ISI - Analyst*

Hey. Thanks. Maybe I'll stay right there. So can you just expand on what you were just saying. Can you let us know when you get to the full operational room count of 750 or maybe like a room count by quarter until you're fully there?

Micah Richins - *Sunseeker Resorts - President, Chief Operating Officer*

Absolutely, Duane. This is Micah. We'll be -- we'll actually have about 700 rooms occupied as of tomorrow. We start to host a couple of groups. And then, we'll be the full 785 by probably the end of this month.

Duane Pfennigwerth - *Evercore ISI - Analyst*

That's great. Thanks. And then maybe for you or Maury, any anecdotes you can share on -- I know it's early, but on distribution so far, attach rates on allegiantair.com? Is this being purchased by customers who happen to be going to Punta Gorda anyway? Or are you able to convince people to kind of make the trip given the proposition down there? And how do you think about other channels like OTAs over time?

Maurice Gallagher - *Allegiant Travel Co - Chief Executive Officer, Chairman of the Board*

Let me put an overview on that. We have this very robust database. We're upwards of 15 million e-mails that we're sending out. And unfortunately, we didn't get started as soon as we probably should have, Duane. And so what we've been doing the last month, six weeks is introduction stuff. And I'll let Scott DeAngelo and Micah give you some overview on that.

But we probably are going to see that start to really, I hope, grab -- it's doing okay, and we see some good results when we have sales experiences. The word sales seems to be very powerful with the guys were purchasing.

But it's just got to build. We've got to find the right avenues and the like. We've decided to go with the OTA point right now just to make sure we can get ourselves going. The interesting thing when you look at the OTAs, they really aren't that impactful as the cost side on very much percentagewise. It's not like the entire place is going to be sold by the online travel agencies. So that will be a nice way to boost the sales in the near term. Scott?

Scott Deangelo - *Allegiant Travel Co - Executive Vice President, Chief Marketing Officer*

Yeah, a couple of additional thoughts. Just reiterating one of the points I raised in my opening comments. Right now, about two-thirds of the bookings are coming from Allegiant customer. So customers that we can match to the database, regardless of whether they bought it at allegiant.com or the Sunseeker Resort website. And you can look back for a couple of other stats I mentioned about how many are rewards members and cardholders.

On the OTA front, the other thing we discovered in the last couple of months, but early once it opened was the amount of website traffic coming from big metro feeder markets like Atlanta, New York, and Chicago. And so when you think about the 15 million customer e-mail database that Maury mentioned, while that does have strength in the midwest and other feeder areas, right? We don't play out of Atlanta, and we don't really serve New York City and Chicago in earnest. And so as a result, the OTA also became a great way to be able to reach those customers that we don't, quote-unquote, know. And Micah, I'd throw it over to you for any final thoughts.

Micah Richins - *Sunseeker Resorts - President, Chief Operating Officer*

No, I think that's exactly right, Scott. I think the final thing I would say to you, Duane, is something I mentioned is -- for us, a good chunk of about 33% or so of the business that we will have here at the property will be related to groups. And for us, January and February have been critical in housing and handling those groups and then making sure that we execute on them. That's -- it's easier said than done in a property that's been open for 45 days.

It's important to note that they have gone well. Our clients have been very, very happy and excited. Groups are notorious for trying to avoid new properties, specifically because they are challenging, and there are all kinds of kinks that need to be worked out, but we're excited about the responses that we've gotten. Those people become raving fans and will speak to other people who can bring us business that will help us for what we think we'll see at the back half of '24 and certainly into '25.

Duane Pfennigwerth - *Evercore ISI - Analyst*

Okay, great. I have more questions on it, but I'll leave it there for now. Thank you.

Micah Richins - *Sunseeker Resorts - President, Chief Operating Officer*

Sounds good.

Operator

Mike Linenberg, Deutsche Bank.

Michael Linenberg - *Deutsche Bank - Analyst*

Hey. Just a couple here and maybe just to kind of continue down this theme on Sunseeker. You've given us the number of rooms. You've given us the occupancy rate and the daily -- average daily rate. As we sort of multiply that out to get to a top line number, what would be the gross up to get to a final number? Like what percent of total spend is -- does maybe the room piece represent? Like if you're staying there, is there another 50% on top of that you ultimately spend at either the golf course, the restaurants, et cetera. I'm just trying to get to a top line number here for Sunseeker.

Maurice Gallagher - *Allegiant Travel Co - Chief Executive Officer, Chairman of the Board*

Go ahead, Micah.

Micah Richins - *Sunseeker Resorts - President, Chief Operating Officer*

Yeah, I feel like I think 50% is close. I guess it depends on the customer. It depends on how many people are in the room. But by the time you look at the 20 different venues that you got on property to consume food and beverage, which incidentally has been performing extremely well, when you add to that, the opportunity for spa, for retail, and certainly for golf, I think that's a good number to use as a measure.

Michael Linenberg - *Deutsche Bank - Analyst*

Okay. Great. And then just my second question, on the OTA piece, I mean, this is very un-Allegiant to actually do some distribution outside of your control. Is this just to get up and running with Sunseeker and then ultimately, you bring it all back in-house? Or is this maybe the start of what I will refer to as maybe a bifurcated type model?

And I guess, just as kind of a corollary, let's see I go through an OTA, and I book Sunseeker, how do I do the airline add-on? Do I have to then separately go through the Allegiant website? Or can I actually now -- is it possible that I can buy the Allegiant airline piece by way of the OTA? Just curious how that.

Maurice Gallagher - *Allegiant Travel Co - Chief Executive Officer, Chairman of the Board*

You're way ahead of us, Michael. We didn't consciously think we'd be doing OTA going into this. But given just where we were and more importantly, what really kind of made me think that we could go do it is it's just not a big component of the sales.

Michael Linenberg - *Deutsche Bank - Analyst*

Okay.

Maurice Gallagher - *Allegiant Travel Co - Chief Executive Officer, Chairman of the Board*

We think of a normal hotel that just sells rooms and it's 95% of their revenue. So that 20% off the top is a big number. But we're -- this is going to be, I'm guessing, 10% to 20% of our room revenue type of thing.

Michael Linenberg - *Deutsche Bank - Analyst*

Okay.

Maurice Gallagher - *Allegiant Travel Co - Chief Executive Officer, Chairman of the Board*

We've got a cost and it's just not a big, huge number that's going to be meaningful. And to get to Scott's -- D's point, we need to have some distribution in some of these bigger cities. So Micah is very experienced working with these people, and he made the case, and we thought it was a good idea.

Scott Deangelo - *Allegiant Travel Co - Executive Vice President, Chief Marketing Officer*

Yeah. I would simply just add to that. We take a very vigilant approach of unlike air, where you really lose your chance to sell third party and/or certain ancillary when you go through OTA, the hotel, right? As soon as you're there, F&B, golf, spa, all of those things are sold directly. And so we grab that revenue without any chunk out there.

Also a very vigilant strategy to -- at Allegiant or an airline, it's not as highly as an engaged purchase as a resort, of course. And so capturing someone's information and being able to target them directly for their second trip, that's something that is obviously going to be done throughout your resort stay, right? We know who you are. We have information. So we feel good about our chance. Even if you booked through a third party your first stay that you'll be coming back and booking directly through Allegiant or sunseekerresorts.com your second.

Gregory Anderson - *Allegiant Travel Co - President*

And Michael, just one -- just to answer one of your questions. The airline, there's no plan or intention for the airline to be listed on the OTAs. That will remain direct distribution. And the package were to take place with the airlines, that would go through allegiantair.com to get that package.

Michael Linenberg - *Deutsche Bank - Analyst*

I think it makes a lot of sense what you're doing. So thanks. Thanks for answering my questions.

Maurice Gallagher - *Allegiant Travel Co - Chief Executive Officer, Chairman of the Board*

No problem. Yeah. No, we agree. It's a good short-term thing. And just a little tidbit, we started back in the early '20s -- 2000s. A third of customers on our airplanes used to be buying a hotel. We don't get a third of the customers now because the MGMs of the world have got their data and they go direct to them, which is -- will be a tactic we'll use.

Michael Linenberg - *Deutsche Bank - Analyst*

Very good. Thank you.

Maurice Gallagher - *Allegiant Travel Co - Chief Executive Officer, Chairman of the Board*

Thank you.

Operator

Ravi Shanker, Morgan Stanley.

Ravi Shanker - *Morgan Stanley - Analyst*

Thanks to everyone. So I think you guys have done a really good job on the airline side of improving operational reliability and kind of basically getting the service back in the air. When do you think we get back to like a normalized level of EPS? And kind of where does that look like compared to what you guys did in 2023? Is that 2024 thing? Is it 2025? When does the normalization occur?

Gregory Anderson - *Allegiant Travel Co - President*

Ravi, hey. It's Greg. Why don't I kick it off here. And then the restoration, I think we have a clear path to restore margins back to pre-pandemic levels. Labor costs, that's a big headwind that we're facing today, not just us, the industry. But we think a lot of the tailwinds. Utilization that we talked, about peaking the peaks, we think that can offset and then maybe even some on the labor cost. We talked about MAC aircraft, bringing those on.

They have 20% economic advantage, fuel burn advantage that we think will be helpful in that regard. Several revenue initiatives, co-brand, the insurance that Drew talked about, trip insurance, the [PolyOne], Navitaire, there's some enhanced efficiencies that we're working through that we think will be meaningful.

So I think all in all --

Maurice Gallagher - *Allegiant Travel Co - Chief Executive Officer, Chairman of the Board*

Don't forget, Viva.

Gregory Anderson - *Allegiant Travel Co - President*

Yeah. Viva as well, which we'll see the timing on that. I think all in all, managing costs as well is key in our variable cost components where we can make sure that we're matching capacity with demand. But the short answer is, I think we step up, we continue to step up. And by '25, '26, I think those are years that we were peaking the peak, that really shows the power of the model. And we think by '25 in those peak periods, we can be back to that based on what we see today. And that's where we're going to get there.

Ravi Shanker - *Morgan Stanley - Analyst*

Got it. That's really helpful. On topic of Viva, and there were some headlines that of Mexico recently. Any thoughts on what that does with the Viva relationship.

Gregory Anderson - *Allegiant Travel Co - President*

No, let me take it off, Maury?

Maurice Gallagher - *Allegiant Travel Co - Chief Executive Officer, Chairman of the Board*

Sure. Go ahead.

Gregory Anderson - *Allegiant Travel Co - President*

Yeah. I'd say we're still very confident that our ATI approval will take place, not a matter of if but when. It's very pro competition, pro-consumer. And we're working as diligently as we can to get it approved as soon as possible, but it's getting caught up in some of the heavy politics between Mexico and the DOT and everything. But Maury, you're pretty close to it as well. If you want to add.

Maurice Gallagher - *Allegiant Travel Co - Chief Executive Officer, Chairman of the Board*

No. I think the US government and the Mexican government are squabbling over technical things, candidly, a good bottle of tequila and a sit down at the table will get it solved. But that doesn't seem to be in the works in the next week or two. So -- we also have a labor front where we have to deal with it. So hopefully, we'll get it by the back half of the year, but don't take that as a forecast. But I'd like to see us move forward. It's going to be a terrific partnership.

Ravi Shanker - *Morgan Stanley - Analyst*

Thanks, Maury. If you do the tequila meet-up at Sunseeker, please invite some of us as well.

Operator

Helane Becker, TD Cowen.

Helane Becker - *TD Cowen - Analyst*

Thanks very much, operator. Hi, everybody. So as I look at the numbers for the airline only for now, can you speak to how we get back to 2018, 2019 margins?

Maurice Gallagher - *Allegiant Travel Co - Chief Executive Officer, Chairman of the Board*

Go ahead.

Gregory Anderson - *Allegiant Travel Co - President*

Okay. All right. You're the man. Yeah, it's pretty similar, I say, I think, Helane, just chatting with Ravi, but I'll try and give it from another perspective. One, I think fuel 2019, I think fuel was at $2.12 per gallon. It's a little bit higher right now. While fuel could be somewhat of a pass through that lower price would be helpful from a margin perspective.

I think on the pilot situation where we talk about one hour peak in addition -- sorry, one hour of increased utilization in those peak periods, the pilot situation is kind of -- that's been the largest constraint in all peak period, that's loosening itself up. And so we're able to kind of layer that in on top. And one hour more in peak flying is worth roughly, in a full year, is worth $100 million. So that's 4 points of margin right there that you could add back.

Keep in mind, we're accruing for the pilot costs. We started that in May of last year. And then just some of the other initiatives that we talked about, Allegiant Extra, co-brand, I mean, those are ways -- Viva -- that we think those are ways that will be accretive to where we sit today and continue to grow and help us restore our pre-pandemic earnings. (multiple speakers)

Drew Wells - *Allegiant Travel Co - Senior Vice President, Chief Revenue Officer*

Since Greg, you mentioned fuel, it's directly related to how much you want to operate the airline and off-peak periods as well. We aren't constrained operationally, but rather by that offset of demand and fuel in the off peaks. And we think there's probably 30 minutes to 60 minutes of 2023, overall utilization that was impacted by the high fuel price. So bringing that back down brings us more operations and often period, which are going to trip to the bottom line, of course.

Maurice Gallagher - *Allegiant Travel Co - Chief Executive Officer, Chairman of the Board*

Yeah. Helane, we also -- if you average the first and second quarters last year, we were at 17%, 18% operating margins even with over $3 a gallon fuel in the first quarter. So we know how to play at that level, but there's just things that are going on. That are one-offs, particularly labor costs in the back half of the year that we're having to readjust and get to, and we need productivity as well to get back, but we very much intend to get back to those numbers, and we had a very, very good first half of the year.

Helane Becker - *TD Cowen - Analyst*

Great. Exactly so. Okay. Thanks very much. I -- most of my other questions have already been asked and answered. Thanks.

Maurice Gallagher - *Allegiant Travel Co - Chief Executive Officer, Chairman of the Board*

Thanks, Helane.

Operator

Dan McKenzie, Seaport Global.

Daniel McKenzie - *Seaport Global - Analyst*

Hey. Good afternoon. Thanks, guys. A clarification on one of the prior questions here. The 20% upside in utilization. And if I heard that correctly, I think the timing was 2025 or 2026 based on the response to an earlier question. I guess, just clarifying that messaging -- is it that we could potentially be looking at normalized earnings, say, in 2025 or 2026? Is it that simple? Or are there other things that you're looking at here as well?

Gregory Anderson - *Allegiant Travel Co - President*

There's other things. But yes, I mean, that's the key, we think, a key driver to normalizing or restoring those earnings, Dan. Just to pay a little bit more detail, like, for example, in 2023 July, a very peak month, our average aircraft utilization was 7.5 hours compared to 9.8 hours in 2019. And so just -- that's a little over 20%. And we think we have a plan to restore that by the time we get into 2025. And in 2024, we're going to layer in and narrow that gap. But we think by the time we get to '25 is when we could fully restore it.

Daniel McKenzie - *Seaport Global - Analyst*

Nice. Okay. And then in the past, you guys have called out a booking experience for Sunseeker that was not in line with the resort hotel peer set. Can you mind -- can you remind us of when that is remedied and how big the revenue penalty in 2024 is? I guess I'm just trying to reconcile the occupancy rate here and the average daily rate of $350. It just seems a little bit low. I mean, I know it's a lot higher than the -- I think, the $255 or so that you base the resort on, but if you could maybe just add some additional color there.

Maurice Gallagher - *Allegiant Travel Co - Chief Executive Officer, Chairman of the Board*

Micah?

Micah Richins - *Sunseeker Resorts - President, Chief Operating Officer*

I would say that based on what we're seeing right now and the sequential growth that we're going and seeing that we feel comfortable with that guide. There's certainly the opportunity for it to be better depending upon if we gain traction more quickly. But we wanted to present something that we felt was a good level set on expectations.

Understand. Okay. If I can squeeze -- go ahead, yeah. I'm sorry.

Maurice Gallagher - *Allegiant Travel Co - Chief Executive Officer, Chairman of the Board*

Just a little other comment. There's been so many ups and downs over when we started this thing in terms of the pandemic and the pricing that went on in '21. I remember looking $2,000 a night. Hotels were off the charts. And then the cost of construction and all of the things are -- it's just a different animal in many ways than what we talked about in the early days with John and the like.

So my expectations are we're going to have to reset and level set. But the demand should be there and we're getting a pretty good unit revenue on a daily basis stuff. So we'll have to -- we'll be talking to you over in the coming months as we get a baseline underneath it.

Daniel McKenzie - *Seaport Global - Analyst*

Okay. Thanks for that. And then just the last question is the booking experience, is that up to -- is it competitive with the peer set at this point?

Scott Deangelo - *Allegiant Travel Co - Executive Vice President, Chief Marketing Officer*

Not on allegiant.com. Our apologies, we just figured out what you were asking. If you're talking about that functionality where at allegiant.com right, you have to pay for everything at once versus being able to just leave a one-night deposit, that should be delivered into March. And at that point, allegiant.com will be at the same functionality.

In the meantime, though, it's worth mentioning on the website, if you go play around there and type in anything into Punta Gorda, Sarasota, et cetera, you'll see a pop-up that will direct you straight to their site. So that's how we're getting so many of our eyeballs given that we see 150 million unique web users a year to get over to the Sunseeker site and get that streamlined functionality. So we're trying a bunch of ways while we wait for the late March fix to be in.

Daniel McKenzie - *Seaport Global - Analyst*

Understood. Well, congrats on Sunseeker. It's a beautiful resort, you guys. Thanks for the time.

Maurice Gallagher - *Allegiant Travel Co - Chief Executive Officer, Chairman of the Board*

Well, I think, Dan, just so the audience knows that we're behind probably, candidly, where we might have been if we really had integrated and had a very focused start date. And we're putting all that together now with the teams start testing and finding out what works, what's effective and things like that.

And the two websites, candidly, as Scott said, we have 150 million people coming through, there was that 3 million a day type of thing. And Sunseeker doesn't get near that type of traffic. So we definitely want to be mindful of how to balance that and push the traffic over to those guys efficiently and easily.

Operator

Christopher Stathoulopoulos, Susquehanna.

Christopher Stathoulopoulos - *Susquehanna Financial Group - Analyst*

Hey. Good afternoon. Thanks for taking the questions. I just want to clarify your comment with respect to non-RevPAR -- I guess, non-room revenue. So getting to an implied RevPAR around $210 million for the non-room piece, did I hear you say 50% of the total?

Scott Deangelo - *Allegiant Travel Co - Executive Vice President, Chief Marketing Officer*

That's correct.

Christopher Stathoulopoulos - *Susquehanna Financial Group - Analyst*

Okay. Great. And then on the airline side, just some color in terms of the perhaps composition and distribution of your capacity this year, including the new Boeing aircraft. So thinking about departure, stage engage, and the markets where you anticipate growing the most. Thank you.

Drew Wells - *Allegiant Travel Co - Senior Vice President, Chief Revenue Officer*

Sure. I'll probably stop short of telling everyone where we're going to be growing the most. But I think in general, looking around mid-singles for growth, I think we're 2% to 6% for the year with some upside coming in the summer that I talked about in the prepared remarks. I think we have a little benefit from stage engage this year that will outpace simply the seat growth.

Kind of similar to Robert's comments, it's a little hard to give great detail on the back half of the year that there's still some details maybe worked out in terms of the cadence and timing of Boeing deliveries to fully round out that answer. But as we think about summer, we're not as dependent on the MAX, certainly through 2Q and only slightly so into 3Q. So I feel pretty good about where we stand there. Just stay tuned for DO updates in the next couple of weeks. It'll have a lot more for you.

Christopher Stathoulopoulos - *Susquehanna Financial Group - Analyst*

Okay. Thank you.

Operator

That is all the time we have for Q&A. I will turn the call to Maury Gallagher for closing remarks.

Maurice Gallagher - *Allegiant Travel Co - Chief Executive Officer, Chairman of the Board*

Thank you all very much for your time as usual. And we appreciate your interest and your questions. Follow-up questions direct through Sherry and her team, and we'll be talking to you in 90 days. Thank you very much. Have a good week. (multiple speakers)

Operator

This concludes your conference call. Thank you for listening. You may now disconnect your lines.
