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Maurice J. Gallagher *- Allegiant Travel Company - Chairman of the Board and CEO*

Good morning, everyone. Thank you all very much, and welcome to the 2017 Investor Day for G4, as we are known in the trade, Allegiant Travel Company. I saw a number of you yesterday, and those of you we didn't, welcome this morning. We have food and -- I know one gentleman who's already gotten into the big pastry. So there is a sugar lift out there, if you want that. But help yourself. We're going to go probably for about 3.5, 4 hours. There will be a number of speakers. We've got a great story for you, I think, today. Not that we haven't had a bad story in the past, but we had a lot of big transition. We told you last year at this time that this was a transition year, and it's indeed been that. And so we'll take you through all of that today. For those of you online, there is the forward-looking statement. And then, let me just take a few minutes to set the stage, and then we're going to turn it over to the people you really want to hear. As I said, it's a busy year. These are some of the highlights that we've been through, management. We've had a number of management changes as we -- early half of the year. I think we've come out extremely well. We're still working on one position. John will touch more on that, the Chief Marketing Officer. But beyond that, we're in pretty good shape. On the operational front, great story there. There is some terrific numbers that you'll see. Scott will be up here -- Sheldon, to talk you through that. When we say Scott in this company, we've got to always put a last name with it, so we seem to attract Scotts. But he'll take you through the operational side. Free transition has gone extremely well. There's some big numbers there. It's painful in the sense of, you have to do this stuff and there's lot of expenses. We told you there would be last year, and there is no surprises there. It takes -- I use the analogy, the python swallowing the pig and that bulge just goes through the whole thing. It's there for quite a time. We moved up our completion of the transition from the 80. We told you that a couple calls ago, and that I think is going to be a big plus for us. We'll be done with the 80 this time. Literally, what is it, November 25 is the schedule date? Next year? So it's just a little over a year. And we'll be up to, I think, low 80s in Airbus at that point. We'll have gone from 47 MD-80s to transition to that same number of Airbus to adds. Training over 400 pilots and the like. But we're already seeing the benefits of that, and we all are very excited about getting to that point.

John will take you through the Sunseeker. Couldn't be more excited about that. John joined the company a year ago, September. As I'd like to say, we had plenty of people that could spell airplane. John brings an exceptional background, not to least of which is a terrific manager, but more importantly, in the near-term, expertise to do what is really going to be a vision we've talked about for many years, of this travel company concept where we want to engage a customer. That customer in a leisure spend always has attracted me to kind of how can you do more with him? Candidly, we're not going to sell you guys many things when you go online to buy a hotel or something traveling from New York to Chicago. That's pretty well preordained. But when you're sitting in your home, in your room, or your home and you're practicing -- setting up your family vacation, you look at other alternatives. And that's interesting, one of the CMO candidates we've talked to, this woman, very sharp lady was talking about that she came from the travel business. But she planned her vacation and she said, "You know, I just couldn't pay that extra money for the airfare, I put it on Spirit, but I really went and stayed in a nice place." So there is this whole kind of mentality when you go to spend your own money on things, you value things appropriately. We want to gather that 5% spend as well, which you probably would have had in that travel side, we want to put that into a hotel experience or other pieces of a travel experience that long-term takes that. And so the revenue that we've done last year, roughly $4 a passenger, up to something double-digit or maybe beginning with a $2. You've got to do somethings to do that. There isn't a lot of money left in the existing model to kind of take that number up. In fact, as you add more passengers, you grow -- hard part is just hanging on to that. But fundamental piece of why we have been ahead of the industry, in many cases, is that we've generated $350 million of operating income, not top line, income from selling cars, hotels. It's been a fundamental piece of what we've done from the get-go. And we want to expand on that and gain bigger share of the wallet. So John will give you a bit of that.

But on the competitive side, the model is still strong. Just because we are looking at hotel side doesn't mean we're kind of running away from the model or the model has got problems. We see a lot of opportunity out there. Lukas will take you through all that. Certainly, I do like the diversification that comes from this. As the largest shareholder in the company, I see this as being a really interesting opportunity over the next 5 years to grow the model and do things, but the job 1 is still the airline and the operations have to be there. We want to brand the airline in conjuncture with these other products. So this needs to be a good product. And a sidebar comment, in today's social media world, you probably can't run an airline that may have been able to get by with completion factor or quality of service that was a little subpar. And it's no secret that younger companies aren't nearly as good as a Delta, who is older and more practiced, but they also get a much bigger revenue premium for that. One of the things we have to do, as I tell our folks, job 1 is do what we said we're going to do. And we exceed expectation in many cases in this industry by just being there, friendly staff, on time, get me to where I'm going as you said you would. That's our goal. I'm pleased to say that this month, we have flown 6,573 flights through yesterday. We have completed 6,569 flights. You can do the math, we canceled 4 flights month-to-date. That's the kind of performance I'm [pissed] about before on my end. That's the kind of performance we need to have and the style and where we're going for objectivity for this operational group. So again, airline job 1.

The people side, and I'll close with that. I couldn't be happier or more proud of this group of people. And frankly, you're sitting here today because of the people. People make things happen. This management team that we have, at all levels, is exceptional. We're all focused more so than ever, particularly after some of the changes in the past year, and everybody is pulling in the same direction. We're getting so much stuff done, the productivity, everything. If you've been to our offices, you see how we really focus on just getting the job done. There's a not a private parking place in this place. There's nobody with a special office. There is no -- rank doesn't have its privileges, as you say. So anyway -- I just wanted to close with that. And if you don't have any questions, I will turn this over to Mr. Redmond. Any questions? John?

John T. Redmond - *Allegiant Travel Company - President and Director*

Thank you, Maury. And good morning, everyone. Investor Day is always interesting, especially this is my second one. But with Allegiant, it's the one time I get to see all of our management team dress up. So this is -- what you see is what you get in this group. So it's always an interesting time to see how people get to show up in our jeans. And I even put on dress shoes for the occasion; no socks, but I did wear a dress shoes. It's been an amazing year, and especially being able to work on Sunseeker. You can see this brand development that we've been working on here. We'll play off of the airline, but it's been an exciting year. But I wanted to take a moment to take a step back and even talk a little bit about how we get here and why. When I joined the course management, I'd been on the board for several years, but never really spent that much time really in a strategizing role. And when you start within an airline space, and some of this conversation I may have had with some of you from time-to-time. But airlines, at some point in time, you connect all the dots and it's game over. Right? Just talking about the airline industry in general. So there is only a finite number of dots. And once you get done, everyone is hoping that people exercise some sort of discipline, so rates and everything are maintained. So the little bit of the strategy in the airline space is all about a hope and a prayer. Right? You're hoping fuel doesn't go up. You're hoping someone doesn't fly over the top of you. You're hoping this. You're hoping the pilots won't go on strike. You're hope -- there's all this hope and prayer built into the strategy. So when I was brought on, to me, when I started looking at that, it was like, "Well, how do you take some of the hope and prayer out of the strategy and make sure that we can become much more successful and maybe expand that multiple as part of that?" So I think, when you start looking at what we're going to do here, this goes a long way, and I think ameliorating that issue about hope and prayer in a strategy.

So this is pretty cool. I have 2 people working in Sunseeker, only 2. So we approach what we're doing here just like you do at the airline. This is a low-cost approach. We're not bringing on staff. We're not adding significant cost. We're not doing any of that. As we need resources, we bring them on. If we don't, we don't have them. So we have one of these 2 gentlemen in the company, he developed all this. Right? With the help of others, this was one of the many hats that he wore was development of this. So this is all done. We are ready to go, retail, opportunities, everything [teeing off] this brand. We're all ready to go.

So there's obviously been a lot of skepticism out there beyond what any of you folks may have regarding it. The obvious one right off the bat, I know when I first came on, everyone thought we were going to buy strip hotels and everything else, and we were trying to alleviate people of those concerns. But right off the bat is, we don't have any experience in hotels. People kept looking at that as something that we're going to use our pilots and flight attendants or something to go build these resorts or manage them. It's like no. You go and you bring in that expertise. Like anything else, you go find it. So I think you'll see in the deck and some of the slide presentation, we brought on world class. It started when Maury brought on me. I wasn't brought on to learn the airline business. There is no company in the world that should pay a President a significant sum of money to learn a business. That makes no sense. You are there to manage it more effectively and to continue with the strategy of making it better, changing the culture, changing what happens. So that's what we are doing and this is part of that. So we have hired people already. We have -- the other gentleman I have hired, he is a construction expert like no other. Right? So he represents our interest overseeing this project. He is an employee of ours. He has a Ph. D. in the stuff. He's been doing -- he is a 67, 68-year-old gentleman. He has overseen big projects all over the world. This is second nature to help. That's all he does. So he has been brought on. And of course, the other gentleman I have, he's involved in doing everything else. He is wearing multiple hats, not the least of which is all of marketing and selling of this project to date.

People of course question the area. "Where the hell is Port Charlotte. Punta Gorda, we've heard of because you guys fly there, but where is Port Charlotte?" Well, it's right next door, 15 minutes away. That's not Miami. It's not our sexy cities, but that's not our business model, right? We fly from bringing people to leisure destinations. We're bringing leisure customers to a leisure destination, which really makes us and makes the model uniquely positioned to do this. I can't speak for any other airline because I don't know enough about their customers. But they don't taut their model as being like ours. We taut ours as being a leisure customer going to a leisure destination, which again makes us uniquely qualified to do this. So you're not going to find us trying to compete with hotels in any of these other markets. We don't fly there. And that by the way, we woudln't do something to Fort Lauderdale. We wouldn't do something in Las Vegas because there is too much competition. So even though we do fly there as a destination, why would we want to compete with all that stuff there? So we're not going to do that either as part of the strategy going forward. We may chose to manage someone's hotel in Fort Lauderdale because someone else has already taken the investment risk, right? All we are going to do then is manage it on their behalf because we will, down the road, be uniquely positioned to manage hotels better than anyone. I don't care if you are Starwood or anyone else, we will be uniquely and better positioned to do this longer term.

Mixed-use, hard to finance. You know what? That might be the case, but we'll figure our way around it. There is numerous financing sources out there. I mean, I got an e-mail just yesterday from a recognized entity. They want to take on the whole project. I mean, who knows. We're in the first inning of 9-inning game when it comes to dealing with financing. So I don't have a lot of answers to you yet in that regard, but we're going to figure that out. And we'll jump onto the next.

I can't say this loudly enough. This is the most exciting hotel resort opportunity I have come across ever in my career and especially with the airline tie-in. Ever. Right? I've been involved -- I moved to Las Vegas in 1980. Right? When Vegas expanded, they did nothing. Vegas was a dog town. No one lived here, nothing. 1989, the Mirage opened up on the strip. When that hotel opened up on the strip, or when it was being built, everyone, everyone, not one person other than Steve Wynn thought that, that was going to work. Right? That was financed by Drexel using junk bonds. Everyone said they'd have to do $1 million a day. It's going to be -- it's going to fail miserably. That hotel drove what happened in Las Vegas. The funny thing is, when you take a step back and looked at it, people talked about how the hotel is going to do, but never talked about how is the customer going to get there. No one ever talked about the airport. No one ever talked about the airline. No one. The entire time Vegas developed and I was right the midst of it. No issue. You people out there spending billions of dollars, people lending on it, no one said, "Hey, how they are going to get here? You guys are out there in the middle of nowhere." No one ever asked about the airport. Right? No one ever -- we never had a conversation once with an airline. You guys going to bring more flights in because we're going to add 3,000 more rooms or 6,000 more rooms? No. No conversation. Right? So this gets back to us. Now we are the pipe. We are the pipe bringing in people. There is no conversation. We know where they're coming from. We're talking to those people for 50 days before they get here. Right? On average of booking the ticket, 50 days before they check in. This to me, that's why this is so amazing. So I travel to all these different cities. And again, I think most of you know, I never went to -- never been to the state of Florida my life until I joined this company. I was there in December last year for a Christmas party. So I went back and visited where we fly into, looked to see where there is opportunities. I didn't even fly to Fort Lauderdale yet because I know that we weren't going to go there. All these cities I looked at, none of them had any kind of a destination resort. None of them had anything. Clearwater, starting to develop, and has been for couple of years. Why? Allegiant. There was nothing there. Years ago, there was nothing there. No one even flew into (inaudible). That area is developing right now because of us. If we had not started something 4, 5 years ago, we would be the benefactor of what's going on. We would be the benefactor of what we are doing. There is no destination resort as I said. There's nothing exists in Southwest Florida, nothing. Middle of the state, of course, you got Orlando, which is why our take rates -- we will talk about that later, that's why our take rates are low flying in the Stanford. Why? Because Disney has a closed ecosystem. Can if you imagine if Vegas had a closed ecosystem. If we couldn't book into, our take rate would be low too.

Hotel room growth. You are going to see in the slides. There is nothing there. I mean, it looks like a hockey stick. When you see the growth rates that we've had, yet there is no investment going on down in Southwest Florida. None. I have looked it all over. But one of the things that was also interesting about this site is, from a development standpoint, no one wants to take on entitlement risk. I mean, who wants to go buy a piece of land zone residential and hope. Again, we don't want to put a hope and a prayer into our strategy. We don't want to hope that we can change the entitlements on that property. This was already entitled, just sitting there waiting. Now obviously, you know the story about the complexity of putting it together, but that's done. So -- but this was in the title site, that's why one of the reasons why we picked this location too and not one of the others. By the way, I've identified opportunities in every location. So we already have those sitting, but we're not going to act on them. So it wasn't like there was anyone out there. There is a bunch of them. This is the one that we're going to focus on for all the obvious. Airport traffic. I mean, if this doesn't get you excited, nothing does. 10 million people flying into this area. I mean, when I looked into this and saw these kind of numbers, this is like a quarter of the traffic that goes into Vegas. Right? Into Southwest Florida with no hotels of any significance. None. There's a reason why they come here. I mean, you've got all these concentration (inaudible) in a 3-mile radius. This place, they hit the airport, and there is a scatter pattern, because there's nothing concentrated that's exciting. They are just up and down the coastline. So that's amazing, and that's between the 3 airports. We're not talking about Tampa. We're not talking about St. Pete's. This is Sarasota, Fort Myers, Punta Gorda, those 10 million people. You're talking about Punta Gorda's 15 minutes -- the airport is 15 minutes from the resort. These other ones are within 40, 45 minutes. All these people. Landing, no significant resort to go to. Insurmountable barrier to entry. You think once we put this resort up over a period of time and anyone can compete with that. There is no other 22-acre site on the waterfront, nowhere. And you think anyone is going to go down there and try to build a resort and compete with us when we got an airline behind the resort. It's not going to happen. That's when I talk about an insurmountable barrier to entry. This is done. It's game, set and match. Done. We own that area because of the room capacity we can bring in, no one can compete with this. Why do we have everything that you're going to see on these pictures? Food and beverage and all the water sports and everything else? You need this diversity and wide offering to be able to keep people there for a long time. Right now, in that market, there is nothing. Most of the hotels that I visited did not have a restaurant. They had a barbecue pit. Could you imagine that barbecue pits, that's what we get to compete against. I can't wait to do that. I'll put in a better barbecue pit. So this is going to be something that -- again, we're able to go into a market. It's like when Steve Wynn came and built that resort and nothing was here. That's why he filled it up. We're going down there and putting something that does not exists anywhere in Florida outside of Orlando. Okay? This large diverse destination gives us the street cred we need to go out in the perpetuity and manage anything. Right? So if we open up a 50-room hotel, and then went around the state and said, "Hey, guess what, we're really good managers." And they're like, "what do you manage?" "Well, we've got this 50-room hotel over here." It's like, "Okay, what next?" Now we can go around and say, we're going to manage your product. We've done all these restaurants, we've done all these bars, we've done this retail, we manage marinas, we are overseeing golf courses through Teesnap, I mean the synergy in that state are unbelievable, and we have an airline behind us. So every time we drop that plane with 180 people on it, that's better than having an essential road system that other management companies can tout, those that have these significance, like a Starwood or something like that, the Western brands and Marriott. These people managing property down in Florida right now, I never heard of them. They don't change a brand on the building. They do nothing. They just drop a General Manager in the property and charge 3% of gross. So this is an amazing opportunity. So we're about halfway done with this resort. That's when we start piling on all the management contracts because we can point to the -- our ability to build it, and we will develop restaurant brands that are private-labeled, all built by us. We can bring restaurant brands into these projects at the same time. So anyone has a hotel, got an old and tired restaurant, we can fix it, be part of the strategy that allows us to go do it. We can extend our brand that we're going to develop into these other locations that we're going to manage, right. That's all asset-light. We don't pay to improve a restaurant. We don't pay to manage. We just drop our people in. We market the airline. You can charge marketing fees, management fees, everything. So this is the most exciting part, but we can't do that unless we have a resort. Can't manage something without the cred.

Opportunity. Well, let's get back to this 90% of vacation spend. Maury touch based on this. I was looking into this. Everyone says, "Well, everyone who flies Allegiant is cheap." They forget about the spend when they get to where they're going. Right? So anyone of you know that when you go on vacation, you just put yourself, whatever you spend in your hotel room, you're probably going to spend at least that amount on food and beverage. Right? So a hotel that I go down to all the time, Four Points, nothing fancy, $200 a night, right. So $200 a night. Someone staying there on average 5 to 6 nights. Let's say, 6 nights, 400 -- that's $2,400. And they're paying $200 round trip to fly us, right. So 90% of that spend we don't get. We get the smallest piece of that leisure spend. But again, we're going to go after the other 90. Okay?

Opportunity and flexibility. So throughout this entire process, we always wanted to make sure that we had alternative because that's the right prudent way to do things. So when I first started acquiring property down there, I would have long, long escrows. Right? I think of the first piece of property you do it with a 30-day escrow, that would be silly, right. What happens if you can't get the other ones? So I kept -- everything we did was very prudent and financially responsible. This is no different. Right? So once we were able to acquire all the property, that was worth a multiple of what we paid. Put a -- figure it out, it's at least 2. As you go down the pipe, now as you start to develop those properties, meaning you get more of the approvals, you get the designs done that you're going to see, you start getting the production drawings done that you're going to see. All of those things that start to come, now you have a project, by the time we get to June, you're shovel ready. You can put a bow around it. What do you think that project is worth. Right? What developer out there wouldn't want to take this project over when it's -- everything's done. All they have to do is hire a construction firm. Even that, we've already done. They can just take these contracts, put them over here and start. That's a very valuable project. What's that worth? I don't know. Put a multiple on that, it's greater than 2. So there's always a backdoor. We have complete flexibility to do anything we want between now and when -- we just decide as a company to put a shovel in the ground. But the beauty is, from our perspective and I'm sure yours, between now and June, it just gets more and more valuable. And what do you think that project is worth if any of those tax proposals that are being talked about gets on. Right? Do you think Florida is going to die off as a destination for second-home owners or retirees? That's never going to happen, but all of the sudden you start messing with the deductibility of state taxes and what not, this only gets better. Depreciation rules are going to change, right, where you can write-off CapEx (inaudible). All of these things are going to potentially happen. Those are just gravy. That isn't why we did this. But those are gravy. So that's why every single day that I've been here dealing with this, I get more and more excited because there's nothing but positives keep happening. There's been not one negative. Just gets better every single day you wake up. It's like, are you kidding me? That's the beauty about this. And course partnerships. From the day that this project got announced, I get phone calls and e-mails, Maury does as well, from people who want to partner on this or take a piece of it. Anything from a timeshare company, the biggest in the world, that want to take a piece of this property and put something on it, to people who want to partner with us, someone who you've heard of, we're not doing anything until we get to June. Why? Why give up something that the value is being created as we go, until June. So if we want to do something through partnerships, we'll make that decision down the road. And we only have to make that in June because -- we're not -- we don't plan to develop out this entire project. We're not going to develop out this entire project day 1. So we have plenty of acreage there to do anything we want for a long period of time when it comes to this. And if you do anything with partners, obviously they're strategic partners, not something that we already know how to do. Might be financial partners though, could be something else. That's why I'm jazzed. Doesn't get any better than this.

Florida traffic. Here you can see these airports over here. You've got all of this in the deck, so I won't spend a lot of time, but here's the hockey stick I'm showing you about what's going on, hotel room versus capacity growth. I mean, this is a sweet spot down there. This is unbelievable. These are just the markets of Charlotte County, which is the Punta Gorda area and all we're talking about and Fort Myers, not Sarasota and everything north. You can see in these areas, these airports down in the south, I mean, they're growing like crazy as well as fares. So everything happening in the south, down in Southwest Florida. We couldn't have picked a better location to do this.

Hotel demand. This just shows from our -- what we see -- you can see there's not a tremendous amount of volatility. I mean, it's not bad, but I'll talk about volatility and what happens when you have destination resorts down the road. But again, every time I go to Four Points, we're dealing with $200 rates. We need -- these are not overly expensive, but they're not the $50 rates, which you keep thinking or people talk about. This is what people are paying down here.

This is the exciting slide. This is the one you want to spend some time on. Because this is what we want. We want hotels. Condos shouldn't even be in the vernacular, if we weren't trying to figure out how to have someone pay for it. Right? We'd just be talking about hotels. This is the exciting page. So the beauty about airlines and hotels, the terminology is pretty darn close. Right? ASMs, or available rooms, load factors, occupancy, et cetera, et cetera. Selling seats or selling rooms. I mean, it's all pretty much the same. So we put this together, so you can understand using some of the airline parlance. I never heard like the term take rate, for instance, until I came to the airline. So you look at year 3. So year 3 has a take rate. So you can see all the calculation of rooms. Now what we did at the top, just to explain that a little bit, is that we made an assumption based on some research that we're getting off, data we're collecting off the website, that 25% of the product we sell are going to be to primary homeowners. So that's -- they won't put that in the inventory pool. The other 75% would be put into the inventory pool and available for rent. Okay? That's ASM; instead of available seats, it's available room. That's really the only thing that really needs explanation here. And then this assumes 100% occupancy instead of anything else. What does that mean? So when you look at year 3 and I point to that, I'm sure it's 12% take rate. Now why did I pick year 3 to point to? That's the Las Vegas take rate. So that's the take rate we currently get on Las Vegas, 12%. So let's say, we had a 12% take rate. What's the occupancy on this property? 103%. This is -- we're not talking to the other 9 million people. Remember, there's 10 million people in this area. We have 1.2 million roughly. This is just people taking a room off our plane, 103%. Yes, this is just Punta Gorda only. So this is the number of itineraries. The 283,000 is what we're going to do. This is itinerary, these numbers here, right. 10%, 11%, 12%. So where do you -- let's talk about take rate. Probably a good time because people keep asking me from time-to-time, why can't you guys make the take rate higher in Vegas. Any thoughts on that?

Unidentified Participant

(inaudible)

John T. Redmond - *Allegiant Travel Company - President and Director*

No. It's a good guess, though. So what happens with the take rate? You have competitive distribution channels, right. People have alternative ways, alternative channels to book rooms. Expedias, Kayaks, whatever. You can name them all. Direct. They can go direct. So to grow a take rate beyond certain percentage, it's impossible because of all the competitive alternative channels for a like product. So in Vegas, all those channels offer the same product. Can you imagine like -- to draw a crazy analogy, if the strip came to us and said, we want you to offer exclusively our room product. What does that mean? Well, our take rate would be 100%, right. You can't book through any other channel but us. This is 12% because you got all these other competitive alternative booking channels. How many booking channels are you going to have going into Punta Gorda when we have a resort there? What do you think we're going to do? One. Do you think we're going to let anyone else in when we have this? Hell no. What do you think Disney does in Orlando? Why do you think our take rate in Sanford is so low? They don't let anyone in. They don't have to. And they don't have an airline, right? They're just relying on everyone bringing all these people who are spending 5% to 10% of their leisure budget to go Florida, Orlando. We're sitting here at the best resort in Southwest Florida, and we're making a 12% assumption on the take rate. You think it's going to be higher than that? I'm not a betting man, but I'll take the over with anyone, that it's over 12%. So that shows you how I get to 12%. This (technical difficulty) we don't fly our plane. Why not? Right? You're flying into Fort Myers on someone else, you're flying into Sarasota on someone else. If we are sold out, we could get to that point. We don't have to raise rates. What happens when you're in this situation, do you think there's a fare war in Southwest Florida? Do you think that ever happens if we have a resort like this down there? Anytime, is there going to be a fare war? If there was, how long would it last? Maybe a day. Because you know what we can do? Offer free air, free airfare. How's that as a marketing gimmick. Because you know why, that's 10%. 10% of leisure spend. We're going to get the other 90%. So I say, okay, everyone who gets on our plane who is staying at our hotel, you fly free. Do you think any of those airlines flying into any of those areas in Southwest Florida can compete with that? That's why I said, this is game, set, match. Done. And that's (inaudible) take rate. It's all over. This resort protects the airline in that area against a fare war forever, ever, done. Right? That's why I get excited every day more and more as we develop out this resort. It's done.

This year -- this shows these airports. This is data, and you can go get from the deck. This is when people land there. There's a scatter pattern all over. Why? Because there's not a destination to go to. There's a waterfront. There's a beach. There's not a destination. We get all these small hotels, from 20-room to 100-room hotels, scattered all over the place, but no destination. And because people buy these small hotels, they can't invest in anything, right? They don't have restaurants and all that (inaudible) They have a barbecue pit. They don't have anything. They don't have that critical mass that gives them the scale to do this stuff. We're going to end up with a scale. That scatter pattern, 5 years from now, you're going to see it clustered around our resort. Those dots -- it's going to be amazing to do this in another 5 years. You're going to see a concentration of dots change like no other. Can't wait to show this slide in 5 years.

Okay. This is where I may fail miserably. Is there a button to push. So some of you may have seen this, but you think anyone down here can compete with that? Are you serious? And we're getting involved [in the other side now.] But this is what we're going to have. This is what world-class concept architects can create with our help. All of this. Every restaurant, we have 1 mile of water frontage with all restaurants. There's not one restaurant not facing or not on the waterfront. How do you think those restaurants are going to do when they're on the waterfront? 1 mile. We have 1 mile here. I'm not talking facing a pool, I'm talking facing the ocean. Facing west, facing a sunset, every restaurant facing a sunset. The most beautiful sunset you'll ever see going across the gulf. You think anyone can compete with this kind of a pool? Whose going to build a pool like this? That's why I'm saying this becomes an insurmountable barrier to entry. Done. Boardwalks. I mean, who develops this kind of stuff? We do. No one ever thought we would. But that's why I say, there is no one can compete with us. No fare wars, no nothing. It's all over down in Southwest Florida. This is magnificent. And we're taking this condo hotel approach to get someone else to pay for the hotel rooms. We'll end up with 75 rooms, expandable to 275 roughly and the F&B. But all the rest, we have like 6 acres of this 22-acre campus. That right there is a banquet facility. Could you imagine us -- what kind of banquets we can do? I can use our aircraft to charter groups in. Charter groups in. Who competes with that? And I can tell a group to come there, free airfare, free charter. Because one banquet function at that resort will pay for that airfare. Just one of those catering functions of the banquet group. I mean, the synergy and the opportunity is unbelievable. So we have a slow time of the year, we start going after big groups. We can offer free air. And who's not going to want to stay there? This rivals anything, anywhere, any resort, and you got the weather and you're on the waterfront. We have a new video that's coming out next week because now we've doubled some property on the side of the street. We've got more tweaks to this. Make it -- so it's going to make us even more money. And again, this is a vision of -- that's long term. We don't intend to build this entire 835 rooms day 1. But when you get into the development business, the worst thing you can ever run into is lack of land to expand. I mean, Disney, now just announced they're expanding in Tokyo. Can you imagine if they didn't have the land? I mean, you need land to be able to do something. So if you -- this thing is as wildly successful as we know it's going to be, you need the ability to keep rolling it. So we can grow this where it's the biggest, most significant category killer down there. Pretty impressive.

Now who wouldn't want to be down there dining. Restaurants, bars, I mean, unbelievable 1 mile of waterfront. But the shape of the site was what made it so cool too, because of that length on the water. This will tie into all the city's parks, everything else. All done.

This, we talked about. Put together a world-class team, like there's no better team than this. Then I told you about Paul Steelman. Paul did all this concept work. Paul's one of the largest architectural firms in the world, based here out of Vegas. He's done all the biggest and best and baddest properties anywhere. He is doing the big resorts for projects on the strip now, 8,000 rooms. We went right to him. And that's why. Then he's on board. L2 Studios, big out of Florida, do a lot of condo stuff down there. We put together a joint venture to do -- handle the GC, FPC for local firm. You need local firm for a lot of reasons that relates to understanding local issues. Manhattan Construction Group, they do huge condo projects in Florida. Most of you don't know them for that. Most of you know them because they're the ones who built the Dallas Cowboys Stadium. Right? So we're not talking about a junior achievement program here. This is world-class people that have been put together to do this resort. Of course, the law firms, you always need them. And we got the best local firm and the best condo specialist down in Florida. We're not making any mistakes here.

Future hires. Down the road, I'm going to need an F&B expert, food and beverage expert. I'm going to have to get a hotel person. I don't know how many people have been calling me from by prior life. "Hey, John, when can I start? When can I start?" These are going to be the easiest hires known to man. But I don't want bring to them on now, I don't need and don't want that payroll, we don't want anything yet. So we're just like, hold on, hold on, hold on. So we have a long list of people. That's why I'm saying, this is pretty straightforward.

This just gives you an idea what's in the project. I'm not going to go through it all. You've heard it; you can read it. So one thing I wanted to highlight is this bullet point up here about multiple approaches to develop. We could do anything. That's why we did it as a 10-tower development. We have no limitations. We can do 1 tower a time, 2 towers at a time, 3 -- whatever we want, we have the ultimate flexibility. Do this tower over here, this tower over there. But there's a logical way we'd want to do it. So this is an ideal approach. I've mentioned below, it doesn't lock us in anything. We don't lock and make any decisions until June. But the reason why I wanted to show this approach is this is one where it involves building all the Sunseeker assets on the 6 acres I talked about, which is basically the hotel, all the restaurants along that waterfront and 4 condo hotel towers. These are the one facing the water, these are ones that would sell for highest dollar value, obviously. We have waterfront. Water view, right on the Marina. So it's anyone's guess what these things sell for, but I know what the minimums are going to be.

And then of course, you put in all the site work and infrastructure for the remaining project. Because that way, when you start any other future tower, everything below the slab is done, you can build these things very quick. You talk about building each tower if you did one at a time in like 12 to 14 months. Because all the infrastructure is in, so just race up the building, you're done. So again -- but we don't have to make any decisions, nor are we today. We don't have to. We're just continuing developing the excitement, and come June, the board will sit down and figure out what do we want to do based on all the facts that we know at that point in time. So right now, we're just building it or approaching it in such a way that we maintain this maximum flexibility. Even HOAs and things that we're filing that we need to do, we're filing 10 separate HOAs. That way we maintain complete flexibility. We're going to go permit the entire project though. Why? Because then you're locked in to all the zoning, everything else at that point in time; zoning laws change, if anything changes, it doesn't impact us. Right, so we're taking a very prudent approach to how we develop it, how we approach it, how we design it. Make sure it's consistent in its look and feel, approvals, everything else, but then we keep 100% flexibility on how we develop it.

So this gives you an idea of the site plan, shows you all the towers and everything else. This is the part that you don't see in the video. So we're close to having the deal worked out with the city that we end up with this site over here too. That's not going to cost us anything. But we'll end up with that, and our new video will incorporate all that, and we'll make sure everyone sees that when it's all done. But basically, that ideal phase I talked to you about, it's building everything along the waterfront, including the pool and then all the outside towers would be left for later. And of course, the demand starts to pick up because of the excitement on a resort, people now are buying a dream. I mean, even if it puts down deposits, the things like that, they haven't -- there's no floor plans, there's no look and feel the room, there is no nothing. Like, no developer does it like that. Every developer who sells product, he's coming out of the ground before they ever think of selling a room, and they've got a pre-sales center and they're serving coffee, tea and doughnut. We're doing everything online. Like, we have nothing to give these people and they're getting excited. We have 7,000 people using our database, who signed up expressing an interest in this project. 7,000 expressed an interest in a dream. We don't have a defined date. We haven't started construction. We don't have a floor plan. We have nothing. Now we're getting all that. Next week, I'll have floor plans. So now we're in -- as we're moving forward, more and more of this are coming on, but these people are doing this with nothing. Just because they see some of this video and stuff, and they go, "Wow, pretty special." So this is kind of a phasing. You don't see anything being built over there, take out all the towers over there. This is kind of a phased approach.

So interesting thing in Florida, which of course all this has been a little bit of a learning experience. This first bullet was amazing to me. I don't know there is any place existed like that. When you take your deposits towards a purchase, you can use 20% of that 30% to -- and apply towards the cost of construction. So that helps fund a lot of the construction down there as we build these units, is the customer deposits.

Derisking. We already talked about that. Now we're started getting deposits, and again, people putting deposits on a dream. And it's difficult in today's world with the breach of security and everything else that happens everyday you read about, trying to get people to open up an e-mail and send $5,000 to some law firm they never heard of. That's pretty amazing to be able to get any progress on that regard. But this is what's going on right now. And again, we've talked about the design and how we're going to derisk that.

So one of the things that we're able to do, again, using our database. And I talked about that from the earliest time I came on board, that the one thing we want to do is figure out how to leverage that database, the data inside it and that how we can collect the data. So as we've been going through collecting these expressions of interest, people have been telling us what they want, who they are, all that kind of stuff. Like, when I first was looking at designing this project, we designed it as a 1- and 2-bedroom unit towers project. Had no 3-bedroom units in it. When we started seeing that, it was like, oh, that's kind of interesting. So we threw some 3-bedroom units into it by virtue of this data. So any developer building anywhere doesn't have that data. They don't have a database. So we are using our database to make prudent decisions on what to build. We're building what the customer wants, not what we think, right? And this [age] helps give you some security over what's going on. Because when you got 55% of your people who are signing up on this thing over the age of 55, you got a demographic, obviously, of people that have the wherewithal. They have the discretionary time which we knew because of -- they are our leisure customers and discretionary dollars. Especially when you got 20% of these people over the age of 65. You think any of those people are going to back out? I mean, when you start getting their deposits, these are solid, these people are in. And of course, that's the resident-type information we were getting. So when we run our internal models, I just rounded it to 75-25. But this is the actual data that came off our collection.

Hotel scope. Again, would you rather have 10 hotels with 150 rooms or 200 hotels of 10 rooms, like are down there now. Well, what we're talking about. We have one general manager managing that entire project instead of a whole bunch of them managing a bunch of different hotels scattered all over. You want to concentrate that effort to the extent you can in one large footprint, because the operational efficiency of doing that is unbelievable and the leverage we'll have on these margins with a project like that are incredible. So that's why we're doing it -- a big project in an area like that. And of course, the F&B options. There's a project that's down in this area right now, I mean, there is like thousands of cars go there a day and they're just drive-in. And you see the license plates, because I go study all that. The license plates are from all over the place. So what we're going to do is, everyone else has the dorm room now, who are all over there. People staying at all those hotels, what I call dorms, because they have no excitement, they're not going to come over here during the day to have dinner, lunch, breakfast, because we have all the restaurants, bars, everything else on the waterfront. So now of course, all those people and they're coming over. Now you can start selling them airlines, you can preach the Allegiant brand, you can sell them credit cards. You can do all that sort of stuff. So the opportunities are boundless of what you can do with all this walk-in traffic that literally is coming from all over the world. I mean, Florida, as I'm sure most of you know, has a big international visitation and especially down at Southwest as well. So this is why we're creating what we're doing down there, because this becomes just a vacuum sucking all this business in and we're going to be pitching everything that we do as a company in these locations down here. That's why the credit card use. I mean, the use of most credit cards is rather limited. But people, obviously, can earn points here. You're going to redeem points here. The loyalty program gets expanded, right, because now we started doing a noncard loyalty program, being able to use the hotel assets, expand the breadth and potential, and the reason for being a member and participating in those programs and you have this type of opportunity. And of course, [this time in the charter business] -- I mentioned that before. I have never been -- I mean, I've been associated with the largest hotels in the world, which is the biggest convention space in the world, but we were never in a position to offer free private airfare. We'll pick up your group at that airport and bring you here for free. Because of the amount of money we can make off you while you're here.

Everyone has seen this. This is kind of like a revenue split. These are gross number of room nights you can do down here. Just to point this out, 566,000 rooms nights basically that is the potential of this project. When you put that perspective, we do 100,000 room nights now outside of Vegas. We do total room nights with Vegas, 430, 000. This resort here blows all that away, blows everything we do away at this one location.

Food and beverage options, we've talked about; ancillary is incredible; all this stuff, you have it in the deck. These are dates. We've -- these have been out there a while, haven't changed. Again, we're still pacing these, but anything can happen in your development world. And that's it.

QUESTIONS AND ANSWERS

Unidentified Participant

A question for John.

Maurice J. Gallagher - *Allegiant Travel Company - Chairman of the Board and CEO*

Hold on.

John T. Redmond - *Allegiant Travel Company - President and Director*

Good.

Unidentified Participant

Just in respect to this passenger volumes that you showed for the region. And I guess, maybe this isn't a fair question, because it's not like folks surveyed people going to Vegas before it was a real entity, about what they would think about Vegas. But have you surveyed their intentions? Like, how many of those folks are actually going to their own second home? How many of those folks are actually going to visit their family? How many of those folks are actually going to stay on the gulf? So in those passenger volumes, have you done any survey work within your own customer base or customers across the airlines?

John T. Redmond - *Allegiant Travel Company - President and Director*

We haven't, but the survey work, if you will, that doesn't -- isn't exactly responsive to what you're saying. But when we geofence this and see where they're going, they're going to hotels. So they're not telling you they're doing that, but I can visually see they're going there. So a lot of these dots when we zoom in on it, we can see that they are actually going to all these hotels on Fort Myers and stuff. So there's a significant number of them. I can't quote an exact percentage, but we know there is a significant number going to hotels. But even the second-home owners. I mean, when we saw the frequency of visitation from a lot of people, that's why even the condo part of the project made it interesting as well, because that's going to address a lot of people who may be looking for that product.

Unidentified Participant

And just to follow-up. My second question was around seasonality. So you gave us occupancy, I don't know if you can give us a flavor for ADR or maybe even margins of this project kind of year 2, 3. But you have very strong seasonality kind of November through April, May. If you think about July or August, how do you think about rates and how do you think about the demand to go to South Florida in a July or August?

John T. Redmond - *Allegiant Travel Company - President and Director*

It's a -- the one thing that helps deal with issues like that are the concentration of excitement. So Vegas used to be a negative during the middle of summer. It's 110, 115, not a whole lot of people used to come here. Then all the sudden, they tried to figure out how to celebrate that concentration of excitement and use it as a -- to your marketing advantage. Arizona started doing it -- others started doing it. This -- one thing is for sure, if you're a tertiary property, during the seasonality, we're all coming here. Because you're going to go to the best, biggest, baddest place to go to. So you can price it differently. You can do all kinds of things differently. We don't see much seasonality on the airline. So we still know that we're bringing in a lot of volumes of people. So I don't see that the seasonality is going to play much. We gave that some thought, but we're looking at airline data. Of course, there is 10 million people who're still going down there. I mean, there's a lot of people with 1 resort like this in the entire area. That's why you are so excited by it. If there was 15 resorts down there, it might be a different story. Of course, we might not even be doing it. But there is nothing.

Unidentified Participant

John, can you talk about what's left to do on the financing side as you move forward? That's one. And then the second, just in hotels, how do you manage the risk around cost overbuilds? And I'm trying to assess whether or not there is a risk which you have to tap the airline for more dollars and that sort of thing?

John T. Redmond - *Allegiant Travel Company - President and Director*

Well, it's a very good point. I'll deal with the second point first. Just on the risk side, you hire good people, right? It's kind of like managing any business. If you have the right people, that's not going to happen. So that's first and foremost. The other thing that we would end up doing with our contractor, because we know given our first go around with this, a lot of people are going to concerns about it, not the least of which yourselves, is you get what they call a GMP or a Guaranteed Max Price. So you walk a contactor in that's bonded to a dollar spend. So when we -- we've already put together the best team. And we will be looking at getting a GMP on the project as well. So we won't be going over any number. Once we talk about it, schedule won't change other than (inaudible) like hurricane or dollar amount won't change. That won't happen. And the first question on financing. We're in -- as I said earlier, it's like the first inning of a 9-inning game. We know we don't have to be -- have everything buttoned down until we get to June, but we're just starting those preliminary conversations right now. I think we've had 1 or 2. And we'll have to have several more that hopefully I can give you a little bit more transparency in that regard at the year-end conference call, it should be late January. We should have a pretty good update by then.

Catherine M. O'Brien - *Deutsche Bank AG, Research Division - Research Analyst*

Katie O'Brien from Deutsche Bank. Two questions on the hotel. So first being, if -- say you got interest for 3.5 towers, what would -- of condos -- what would be the procedure? Would you build 3 and wait to get the deposits for the fourth? Or would you try to find some type of financing? Or would the airline's cash [be touched for that?] And then second, we talked a little bit about this last night over dinner, but what are you assuming is the breakeven for condo sales? At around what average price to get all that infrastructure paid for to kind of keep the draw on those condos?

John T. Redmond - *Allegiant Travel Company - President and Director*

Again, we're still working out all the detail. My gut -- and we're -- I wouldn't rely on my gut all the time, but I've been around a little bit. But the -- around a 400-condo room looks to me to be somewhat around a breakeven on the whole project. So that's kind of like when you look at that ideal phase that we're talking about, that's a reason why I kind of put that out there. Because if we can do a project like that, everything that we would do after that phase would just be profit-oriented. So that's kind of a good rough number to use.

Catherine M. O'Brien - *Deutsche Bank AG, Research Division - Research Analyst*

And then, again, just on that first question, what would you do if you had 3.5 towers worth of interest?

John T. Redmond - *Allegiant Travel Company - President and Director*

I mean, I would recommend to our board we go build it. I mean, once you come out of the ground on these towers, it's not an issue. I mean, it's -- these -- the demand has always been in Florida, always been in Florida. It will never go away in Florida. And when you look at this kind of a project, this is where everyone's going to want to come. This is the newest product down there. When you go look at the product down there now, from a condo standpoint or condo hotel standpoint, it is old. If we turn to GFC, hardly anything got built. So there is this gap of time that a lot of product didn't get built. There's projects going up in Sarasota now, they are pure condo products. They're like super expensive. There's condos selling at Sarasota for $7 million, $8 million. I mean, we're looking at a price point here, the highest, probably in the best location and the best tower being under $2 million, right? So we have a location, because of what we were able to acquire the land at, that gives us a lot more pricing flexibility. A lot of condo projects that are late to market, the land cost is significant, right? So it kind of forces a pricing. We got in a pretty good price, so we're going to have a lot of flexibility and also with, by our approach, we're not having all these significant sales and marketing expenses, like all the real estate commissions and all that, right? So those total, call it $100 million plus, so we're trying to avoid all of that. So everything we're doing is driving that profit opportunity of this project.

Unidentified Participant

Also a couple questions. What is you take rate so far? Or how many of those 7,000 enquiries are turning into deposits?

John T. Redmond - *Allegiant Travel Company - President and Director*

We're just starting to mine that data right now. So far, we already have right around 30 people who put up -- signed the form and put up their money.

Unidentified Participant

Okay. And then, just kind of more practically, I see you have a parking garage on the water. Why are you wasting waterfront on a parking garage?

John T. Redmond - *Allegiant Travel Company - President and Director*

It's a good question. You're really astute at that. So that's the city's land, right. So they are giving it to us. And they need parking for their park. We need parking for our restaurants. So when you have 2 people who have similar needs, it's a great opportunity. So that's why it's being done like that.

Unidentified Participant

This was just a question, I know you've not done a lot of in Florida. But just with projects like this, what's the -- how does it perform through a cycle? Like what when -- what do rates do, what does occupancy levels do and as you go through kind of a recession or [even out-turn?]

John T. Redmond - *Allegiant Travel Company - President and Director*

Well, the thing is we want to be in a position of is being the best in the best locations, because that helps insulate you to a lot of those factors, whether it's rate, seasonality, et cetera. And even in using Vegas here, since we're here, if one property lowers it's price, kind of like the airlines, everyone will follow suite because there's not a lot of product differentiation, right? Everyone is kind of offering the same resort, same room, same everything. The product differentiation here, and you see those pictures and that project versus any else down there, it's like from a 1 to a 10. Whereas on the strip, it's -- they are gradients that are so small that you'll move from one to another just based on price. So we're not going to be as subject to all that because of that. And the airline, of course, helps ensure that too, because you've got this distribution pipe that never stops.

Susan Marie Donofrio - *Macquarie Research - Senior Analyst*

Susan Donofrio of Macquarie. Just have a question, when I'm thinking through on the deposits, are you getting people that want to come down and check out the area? Are they pretty familiar with it? Are you going to have to fly people down? I mean, it's a pretty substantial amount, so I'm just trying to think through that.

John T. Redmond - *Allegiant Travel Company - President and Director*

So far we haven't had to fly anyone or we -- it hasn't been part of the strategy. Whether it becomes one, it's anyone's guess. But right now, we haven't. We don't have and we don't intend to build a sales office there. Because again, we're trying to keep this low-cost approach. We will build model rooms here, on campus here, in one of our buildings here. So the idea we could, is bring people to Las Vegas, show them a model room. We could even -- there's -- the sky is the limit on trying to market that. But we don't intend to do any of that. What we're intend to do is use virtual capabilities. So we're developing virtual abilities that will give you -- we can send you, for instance, a set of goggles that allows you to walk through your unit and walk through the project. So that's being developed now, because we're trying to sell to people who expressed interest in 49 out of 50 states. The only state that we didn't get anyone who expressed an interest from was Alaska. So we have 49 states. So it's not -- since it's a nontraditional way of selling, we had to come up with a nontraditional way of marketing it, right. Trying to show you what a room looks like. If all we're doing is selling to people in Florida, which we have about 1,100 people in Florida who have expressed an interest, you can pop a sales office there and they can all drive there and go look at it. But we have these 6,000 other people from all over that -- we need to address them as well. So that's why we're coming up with these other unique ways of selling the project.

Susan Marie Donofrio - *Macquarie Research - Senior Analyst*

And then just separately, when you think about managing the reservations for these properties, how is the build going with that? Are you just utilizing the airline capabilities you have already? Like, how is that working?

John T. Redmond - *Allegiant Travel Company - President and Director*

We're looking at developing our own web system. So the websites and all that, the front facing, if you will, that's standard, what everyone has, we're going to do the same. The back-end of that and how you actually manage the resort, we're coming up with some unique ways to do that because -- and I don't want to get into it significantly, but any of you who go to a hotel, you have to checkout by 11 and check in after 3. We're going to try to do it in such a manner that you pick your room, and you pick what time you want to check in and what time you want to checkout. Because we can then monetize the unused hours in that gap that currently exists in the hotel world. Because now you're not getting paid for that gap that goes unused in the hotel world. So through that development of that, we can use that to enhance our ability to manage productivity because we'll bring a software solution that doesn't exist, right. So now we're touting ourselves because we've got an airline, we've go software solutions, we got restaurant brands. So that's why I'm saying, no one will bring to the table what we will have to manage assets.

Unidentified Participant

I've got just 3 questions actually. When you look at some of the demographics that you provided, I forgot what slide it was, Slide 17. The residents type is 23% primary and 20% over age 65. What is your optimal mix of those 2 things? You made a comment that like those people over 65 are not going to back out, so presumably that's kind of the sweet spot. And then, what's the right -- what kind of mix from primary, secondary residents would you ideally like to have?

John T. Redmond - *Allegiant Travel Company - President and Director*

I mean, I would prefer the whole 100% of that be secondary. Because the more of rooms we have, the more hotel opportunity we have. So -- but there is no doubt, there's going to be some element of folks who are going to stay there for periods of time. So even if there was a secondary home, you stayed there during, let's say, 10 months out of the year, my opportunity with that unit isn't the same. So it could be -- in some person's mind, it could be a secondary home, but they may want to stay there during peak times even. So those are answers I don't have yet. You're almost going to have to put it out there and see how people react to it. But some of our programs that we'll come up with in terms of revenue split, you can flex that revenue split to direct people's -- their actions, right? So if I award a higher revenue split to them during peak times, they will -- they tend to vacate more. But that's something we're going to have to play around with as we get into it. But it's an issue down in Florida that I don't have any experience with. And one that there is pretty strong laws on how we can even advertise a project as a condo hotel. So even when we sell it as a condo, I can't pitch the hotel component until several months after. So it'll be sold upfront as a condo and then the hotel component will be pitched after. So this is dealing with all these attorneys and law firms and everything can get involved in this. Well, it's a security, right? Now you're selling securities in a building as opposed to a fee interest.

Unidentified Participant

Second question is, how are you going to manage construction noise? I mean, are people going to -- go down there and stay down there if you're going to be constantly like jackhammering and building things? I mean, is that going to create like 6 months in, people are going to be like, "this is not what I signed up for. This is a noisy situation" and word of mouth is going to start working against you and...

John T. Redmond - *Allegiant Travel Company - President and Director*

This -- that's one reason why we'd like to build that at the ideal phase, which is everything along the waterfront, get it done. So everything facing the water, all the restaurants, everything that people are going to enjoy, there would be no noise. The other is, of course, an 8 to 5, Monday to

Friday. And that you can concentrate in a relatively short period of time. But let's say, we had a 6-acre site. I mean, you could build your site and be done and the guy next door to you is building. So that noise from developing that always happens is unavoidable, whether it's your own creation or it's an adjacent developer's creation. So at least with our project because we've taken up everything, there is no other external developer that can create a problem. And everything that has this zoning, we own it all. So no one else has or will have this kind of zoning. So we shouldn't have any other developer down there.

Unidentified Participant

Because the video looks great, but that's obviously not what people are going to be getting when they get down there, so...

John T. Redmond - *Allegiant Travel Company - President and Director*

You know what's amazing is those buildings are 100-feet tall. The next closest building anywhere in the region is 20 feet. So -- well, Highway 75, which runs North/South in the State of Florida, you'll see that project from the freeway. So if you're driving down there, it's going to catch everyone's attention, that project.

Unidentified Participant

And then, the last question I have is on Slide 9, which you said was kind of the money slide. I guess, is it fair to assume that year 3, is that like 2023? Is that kind of...

John T. Redmond - *Allegiant Travel Company - President and Director*

I just put year 3 on there. I should have labeled it: scenario 1, scenario 2, scenario 3. Because as I was modifying it, I left the years on there. But if you look at it, the only distinction is the take rate goes from 11% to 15% -- or 10% to 15%, but it -- so the year labeling, disregard.

Unidentified Participant

Okay. And then, I don't know anything about hotels, but doesn't assuming 100% occupancy rates for hotels and for the condos at all times -- aren't they usually lower than that? Or is it -- you're saying you're just going to move the price points around?

John T. Redmond - *Allegiant Travel Company - President and Director*

No. What I was showing there is if we ran 100%, we couldn't accommodate the demand given those take rates. So if you had a 12% take rate, our occupancy would be at 103%. So that's all we're saying is, you put ever room out there...

Unidentified Participant

No, I can see. Okay, I get you.

John T. Redmond - *Allegiant Travel Company - President and Director*

Yes. We couldn't be able to accommodate that.

Unidentified Participant

I see, okay.

John T. Redmond - *Allegiant Travel Company - President and Director*

But you're totally right.

Maurice J. Gallagher - *Allegiant Travel Company - Chairman of the Board and CEO*

Let's move on. So -- sorry.

John T. Redmond - *Allegiant Travel Company - President and Director*

One last comment I want to make, because it shouldn't go unmentioned. When you look at the airline space, and I looked at -- at it real quick, because I always wanted to make an investment in this company. I have stock in this company as all of you folks know, but I looked back over the last couple of years and looked at the management teams in this space and who has invested and who has done what, right. There hasn't been one airline executive -- forget boards, I'm talking about management teams. There hasn't been one insider or management who has bought one share of stock in their company in the last year. No one. FY '17, not one person, but me, right. I'm the only guy, and I'm the only nonairline guy who has bought a share stock in their company. And then you go back 3 years, and look at all these management insiders, I've purchased more stock than any of these insiders. Any of them. And these guys are long-term executives. You think I don't believe in this model? You think I don't believe in this project? I stepped up to the plate, right. You have to give that some thought, because I really -- the comment I'll leave you with, is the one that guy wrote in Forbes, "don't bet against Allegiant." This will work. Don't do that. I'm not making a bet. So I don't use that term. I'm making an investment. We're here for long haul. This project is going to work, so I just want to leave you with that. Thank you.

PRESENTATION

Maurice J. Gallagher - *Allegiant Travel Company - Chairman of the Board and CEO*

Thank you. The last one is Scott Sheldon.

Scott D. Sheldon - *Allegiant Travel Company - CFO, COO & Executive VP*

This on? Well, John, I do have socks, and I have best Nikes on, so. Good morning. Nice. So a little bit about operations, obviously, it's a little change in direction from the first hour of the morning. I really wanted to break this part of the presentation into really 3 segments. There's a lot of things within the operation we could talk about. Specifically, I want to talk about basically day 1. Basically when John and Maury asked me to step into the Interim COO role, which is basically early summer -- basically post summer. So what are the things that we're working on that are longer-term initiatives that's going to allow us to sustain increased operational capabilities? And then lastly, the fleet transition, which everybody is well aware of what's going on.

So day 1, we had some pretty high profile departures. Late May, early June, so Jude Bricker. We also lost our VP of Maintenance. VP of OCC. So basically, not ideal, particularly going into our summer season. As you guys all know, that's our heaviest flying. So I had to quickly take inventory of basically where we're at. What's the organizational capabilities? What were the initiatives that were ongoing? Basically either affirm the direction and/or let's -- we need to change the priorities. And so, as you can see, there are some problematic trends. The top 2 slides -- or excuse me, graphs shows that not only are we having less planes available every day, we average about 8 aircraft out of service higher than we did in '16. We're also taking longer to fix them. So bottom left, it's driving increased cancellations. So if you look at the first half of '17 over '16, cancellations are basically up about 26%. Costs during that same period are up about -- excuse me, 70%. What's not on here is, you would see if we had dispatcher liability, our MD-80 fleet continues to degrade. We bottomed in June. We ran about 91% dispatcher liability on our MD-80 fleet. And so definitely some problematic trends.

In the summer period, there's not a lot you can do. There is not a lot of leverage you can pull. You're basically locked and loaded for the summer. And then most importantly, it's impacting a lot of our customers. So up to 3.5%, that's a tremendous amount of damage to the brand. It's a lot of headache and heartache on our team members out in the field. And so one of the things we're going to focus on, we're going to attack the completion factor. That's one of the things we could control. As you can see, between the goalposts, it was a nice recovery based on the trajectory where we're going on. It basically neared 16, first half is -- excuse me, the half of the year, we were pacing about 0.5 lower in completion factor. We had a really rough June. We introduced some interim team members in senior positions and really rolled up our sleeves. And here are the things that we focused on. Rate out of the gate, I think, we definitely had a lot of cultural issues, particularly at the line level. Our franchises as we like to call them, are some of our bases where we actually house planes and all our infrastructure. They're really segmented. They weren't operating as a group, particularly on the maintenance side. St. Pete, Stanford and Las Vegas. We basically went in and replaced the maintenance management all the way down to the supervisor level. We eliminated maintenance contractors. So basically we supplement peaks with contract workers. That's not ideal. It's tough to innovate them into our culture. Typically, the productivity of these folks are not nearly what they would be if they were dutiful employee. We actually put a lot of folks out of training. We had a bunch of folks in in-depth Airbus training, trying to get these guys up to speed as we continue to convert mixed bases into full Airbus bases. We basically pulled these folks out of the classroom and put them back on the line. We set up a dedicated data service team. So basically if you look at how the operation runs, maintenance control, controls all aspects of maintenance. So if the plane is green, that's great. If a plane is red and it's broke down, these folks seem to manage the process in order to get it back to down there. And when you have upwards of 20 planes broken, it's really hard to manage the day-to-day in addition to getting these planes fixed and back into circulation. And so we set up a dedicated team. These are very confident folks. These are basically kind of tech ops folks, very knowledgeable in all aspects of an aircraft. So basically after a certain time period, a plane would then be transferred. And so saw a huge improvement just by standing up this team. We actually reached out to Airbus and brought on a couple additional Airbus support members, specifically in our maintenance control. What's not on here is we actually enhanced our Cincinnati base to act as a forward recovery base. We deployed more techs in the Cincinnati for help recoverability in the Midwest and the Northeast. The other 2 sides, I think, is what I'm most proud about, and especially with my partners in the back that operate within the organization; orange is 2016, blue is 2017. If you look at the left side, that's basically the impact line maintenance can have. So if you look at the hours per cycle, so when a plane breaks, how long does it take you to get it back up and running. 2016 is relatively flat. So 35 hours at the low, 50 hours at the high. It's irrelevant based on the [black] hour fluctuation over this time period that trends relatively flat. As I mentioned, we saw some really negative trends. We actual peaked at nearly 60 hours per event in June. And we have change in leadership. Enhanced focused on, obviously, getting these things back into circulation. We increased the efficiency and the productivity back down to 15.5 hours, which is unheard of, especially, once again, right in the middle of summer. So right side, this is more of a planning exercise. So the rate at which the plane breaks is highly correlated with our planning group and reliability group. And you're seeing a nice recovery there as well. So the end game of this show that we recovered well. The summer actually ended up being a decent summer, all things considered. I think the graph is intuitive enough, but I think there's a couple of things to highlight. If you look at first half of 7 -- excuse me, the 1 2Q versus 3 4Q, cancellations were up 26%, costs were up 70%. Back half of the year, cancellations then took a dive down to 64%; costs came down by 40%. And so there's a huge rebound. The yellow box is basically what would be targeted if we hit a 95 -- excuse me, a 99.5 completion factor, controllable completion factor, which is essentially pulling about $20 million in costs. So once again, it's incredibly costly to run a poor operation. It's incredibly impactful on not only the internal folks, our team members, but our customers. And so encouraging trends, the question then is, again, how do you sustain this? So post-summer, so we're through the fire, what are the things that we can do? What are the initiatives that we can launch in order to maintain the sort of cadence? We talked about changing the culture at the local level, so getting stations and fly pilots, materials, all the work together at the local level. But more importantly, what do we do with the leaders here at HQ?

So what you see here is, collectively there's 68 heads through maintenance stations, OCC and procurements. And the 2 that we're really focused on that I think that the biggest impact in the summer was maintenance and procurement in particular. So you have 3 new Vice Presidents. I think the math is nearly 10 new directors. Obviously, a number of managers. But basically 55% of all operational leadership has changed over. And this doesn't include the realignment of certain work groups. So how do we best realign folks to execute under maybe different leadership. But very proud about this. This is really yet to really take hold. This is really longer-term initiatives. We're not done yet. I think there's still more changes that we can make, but it was a good first step.

So materials. I joked with Chris Toro, who is our VP of maintenance. I'm most excited about this aspect of our initiatives. I actually stole one of Trent Porter's directors, managers. He's now our maintenance planner; very bright kid. We realigned reliability underneath this gentleman. But I think what we're doing here is going to get Chris maybe 1.5 out of reliability out of our Airbus fleet. And so, it's a really just a big change in philosophy. This is going to take a little longer to flush through the organization. Operating an all MD-80 fleet is very different than an Airbus fleet. You can afford to have heavy sparing when you're talking about million-dollar assets.

And so basically if you look at the previous approach, it was very, very reactive. There was little to no analytical-type work being done. Change in philosophy. I mean, the Airbus, in general, talks to you in real time. A lot of the stuff, and I think second bullet there -- excuse me, the first bullet under change of philosophy is how do you change, how do you take unscheduled maintenance events and basically make them scheduled.

And in a lot of cases, you can do that. And so, that's kind of the focus we have. We're going to take aircraft sparing down. We're going to have less spares. We operate, basically, the summer with 12 spares. Single fleet type, at the end of this transition, you're going to have easily half of that. So we got to get better. We got to have better coverage on materials. We got to have better tooling. We've got to have better support for our techs to be able to fix these planes real time.

So very excited about this. The last bullet, obviously, how do you take cancellations, turn them into delays and then the delays into on time? And so very, very excited about this. I think we're just scratching the surface on what this can do for the organization.

A little bit about the fleet. This is quite the undertaking. I don't think people really appreciate how difficult this is. When we looked at project 60, which was basically an initiative back a couple of years about what's going to be our 60th aircraft. At the time, we just had the 75s and the MD-80s, we introduced both flavors of the A320 -- the A319 and A320. But basically, it's incredibly complex. You got ETOPS operations. You got all the different support requirements for all the fleet types. But the training capabilities need to be aligned with all fleet types. It was really, really complicated. And we're kind of -- we're I think -- we're over the hump and definitely the end is in sight. But it's definitely not without a lot of risk though. Most important thing for '18, we're going to be down a single mix fleet base for the summer of 2018. That is really important. We operated 2017 with up to 6 mix bases. That's difficult when you have to have all your materials and tooling specific to that fleet on-site. Your text have to be trained in both types. Your cargo and pilots have to be balanced. I mean, it's incredibly complex. And so being able to basically get down to a summer profile of one base. In particular into Sanford, which is a little bit easy operating environment for MD-80s, should derive a significant improvement in the year-over-year operating performance of the airline. And so very, very excited about this. BJ and Greg and his team were able to secure 5 planes, specifically in order to allow us to execute to this plan.

So another couple of things to mention. 2018, you'll see the introduction of our first [max packs.] Basically, the reconfiguration of our A320s from 177 to 186. That's important, because it does introduce additional complexity, which could drive the induction time line to be longer than we anticipate. We do have a lot of slack in our induction pipeline. I mean, when you think about retiring 37 planes, growing by 30 with all different types of trace planes. So engineering orders, materials, all this stuff has to be aligned and literally sequentially be executed flawlessly in order to meet basically summer as well. But the team has been -- has absolutely been executing. So we still have kind of a mini sprint to go. Basically through April, we're taking a lot of planes. We have a new induction facility that we're going to use in 2018. So we're introducing another variable that can impact us.

And then obviously, some of the -- maybe some of that risks that we can talk about for the summer, in particular, is just aircraft sparing. Moving all the 80s to Stanford. The risk there is that if the 80s are retired faster -- if you look at 2017, there were 3 tails. As we've gone through each quarter of that we retired early, which have impacted sparing levels, it did impact the summer of 2017 results.

So depending on unscheduled removals of power plants, aircraft damages, anything that can really take a plane out of service, knowing that it's going to sunset in a number of months. It's not likely going to see a return to service. And so that's the some exposure on the op side.

Next couple of slides is just visually showing how we're going to reduce the complicity from 2016. So 2016, 85 planes, 3 fleet types. So 75, ETOPS, A319s, A320s, MD-80s, mixed bases, very, very complex. 2017, so this is mid transition, you actually increased the number of mixed bases, but you're decreasing the level of complexity with retirement of the 75. And then -- here is the summer strategy for '18. And so we feel it's a good plan, I think it's a plan we can absolutely execute to. What we're doing on material side, we're getting a lot of our text really up to speed. You're starting to see some really good progress. And so I'm really excited about what the operating profile is going to look like come summer of next year.

Last couple slides. Trent's going to hit on this quite a bit. But when you look at 37 planes being retired this year, growing by 30, the question that comes up over earnings calls of just pilot productivity. This is the reason why, when you look at basically, a 60- to 70-year window in order to train a pilot on a new type. And you're retiring so many planes and introducing so many planes, you got to have excess pilots just because of the math ins and the outs. And so we -- this is a known risk that we've mitigated by over hiring. Our attrition rate is really low. So post CBA, which is August of last year, we've seen a really settled down and normalized run rate for attrition in pilots. If you can see the linear line starting to go down, so Trent will talk about some productivity improvements that we're making that we're going to see in the cost side. But this will continue to accelerate as you get into '19.

And then lastly, we always look about single feet type, what was the profile of -- on an FTE basis for pilots. So 2012 was the last time we had a single feet type, which was about 5.8 heads. When you normalize that for the new 117 [rolls] that took affect a number of years ago, the CVA and then just the thrash between training and over staffing, we basically peak in '18 at nearly 10 heads per aircraft.

And then, it settles back down by 2020. And so, like I said, slight improvement in 2018, accelerated into 2019 and hopefully normalized by 2020.

Maurice J. Gallagher - *Allegiant Travel Company - Chairman of the Board and CEO*

(inaudible) utilization.

Scott D. Sheldon - *Allegiant Travel Company - CFO, COO & Executive VP*

Yes, and utilization rates. So good point, Maury. So 1.5 heads from 2012. That's I think we were running about 5.5 hours back then. So this is a substantial increase. We're running about 6.5 right now. It's trending to 7. And so that's definitely a big driver in the number of heads and so.

With that, that's everything I have. Any questions?

QUESTIONS AND ANSWERS

Unidentified Participant

Just -- I'm trying to understand, you had more spares this year. So will that be just having to retire MD-80 sooner that's kind of cause some problems? I'm just kind of curious as to what drove it.

Scott D. Sheldon - *Allegiant Travel Company - CFO, COO & Executive VP*

Yes. So the plan was to enter the summer with 12 spares. The problem we had with that is in April of this year, we retired 2 planes that we anticipated retiring. One in the back half of the third quarter and one in 2018. And so 2 tails were bought up. In addition, there was an MD-80 that had substantial damage to a cargo door, which basically took it out of service for about a month. So we missed all of June. And it was the plane we put into storage. And so basically, we were down 3 planes from what we had planned.

Unidentified Participant

Scott, are you able to quantify what the operational efficiency has done in terms of your ability to maintain fares or raise fares? And what that cost has been? And then maybe, what is the cost to push those people out on to other flights? And what's the impact there? And how much approval will you see?

Scott D. Sheldon - *Allegiant Travel Company - CFO, COO & Executive VP*

You know I'd probably defer to Lukas, when you talk about operational -- the operational impact on fares and demand. Without a doubt, there's a lot of damage. When you think about the number, 3.5% of our passengers, it's just not acceptable. I mean, Lukas can weigh in on that.

Unidentified Participant

So on the materials planning front, how -- like where do you see the opportunity in terms of completion factor there? And then, do you have an estimate for every point of completion factor saves us x amount of dollars per year?

Scott D. Sheldon - *Allegiant Travel Company - CFO, COO & Executive VP*

Yes. So the slide I had up there, it was a target of 99.5%. Right now, we're running 99.9% and we have been for last 3.5 months. So I think that's definitely attainable. If you look at -- historically, we've been running about 98.5%, maybe to 99% over the last couple years. I think that 0.5 point is worth about $20 million. So it's a substantial amount of money that we think we can carve out of this. Assuming a lot of these initiatives take hold, we continue to grow the right people, have the right leadership in place, and more importantly, making sure the planning group can get ahead of these trends that we're seeing.

Rajeev Lalwani - *Morgan Stanley, Research Division - Executive Director*

Rajeev Lalwani, Morgan Stanley. Scott, in terms of the improvement you've seen in operations from '16 into '17, is that being impacted at all by just having less MDs and more Airbus aircraft, just a better aircraft, if you will? And then, just thoughts going forward as we look into '18 and '19, what impact is not having an MD have?

Scott D. Sheldon - *Allegiant Travel Company - CFO, COO & Executive VP*

Yes. So a couple data points. If you look at the dispatcher liability, the Airbus year-over-year, it's basically flat over the time period that we're talking about. You've seen a degradation in the MD-80 dispatcher liability. Obviously, the mix of planes is changing. So you're seeing a slight bump there.

I think, what a fully mature fleet should look like based on kind of what we -- what the initiatives are, I think you should be running at 98.5%. That's kind of rate and midpoint of what our MSN spread is, so the age of our aircraft, how we operate them versus who's operated them in prior lives in addition to some of our North American counterparts and so.

The -- post-June, the MD-80 has seen a dramatic snapback. So we're running about 95.5% reliability. So we gained another 4.5 points back. And you're starting to see the Airbus tail trend up. And it's really hard. I mean, a lot of the initiatives we're talking about where we haven't taken hold yet. Typically as you deploy critical and potentially critical parts, a lot of this is just taking hold. We talk about a $20 million parts initiative. We're basically going from an MD-80 sparing profile, which is, I'm going to have minimal parts on hand. I don't mind. I'll launch the plane versus, I never want to launch a spare and I'm going to have all the parts on hand and so I think you're going to see and maintain a completion factor, which is much different than we've ever seen in the past. And I think you'll see those trends, which is out of service per event and the event per 100 is, I think, you'll see those continue to go down.

Unidentified Participant

So just a follow-up to Savi's question. So I think you had a plan in place for this summer to have this massive or exaggerated sparing ratio and it drove this improved performance. As you look to next summer, do you have a feel for how much you'll be able to drive sort of capacity growth in the peak periods that you weren't able to drive this year?

Scott D. Sheldon - *Allegiant Travel Company - CFO, COO & Executive VP*

Yes. So sparing lives with all the 80 assets deployed at the east and then everything west would be Airbus, I think you're going to run basically 2.5 Airbus spares and you'll be 8 in MD-80 spares. I think -- and I think it's in the guidance section, you're seeing fixed fee being brought down pretty dramatically year-over-year. A lot of that has to do with just availability as well. So I think there's absolute impact. I know Lukas would like to fly a lot more. The problem I think we have is, until the trend settles down, it's really tough for him to have any sort of certainty. It's tough for me to have -- with air -- to have flight crews and productivity start to bounce up, so we need to normalize it. Absolutely, if we hit some of the numbers, there's absolute opportunity for more flying.

And it's 2 or 3 months are not really the trend I'd like to see. I think we need to just continue to put more time behind us. But absolutely, I think there's opportunity to increase there.

Unidentified Company Representative

Any other questions? Let's come back at 10. Thank you.

(Break)

PRESENTATION

John T. Redmond - *Allegiant Travel Company - President and Director*

Everyone ready to go again? I don't want to keep monopolizing this conversation, but Maury wanted me to make on other comment of one other development that -- I met a gentleman down there on -- so individual in Florida, very influential gentleman. His name is [Sid Kitson]. Super, super nice guy. But he's doing a development in Southwest Florida as well. He's on -- I mean, I think they started with over 100,000 acres that they purchased some time ago. Private equity was involved, et cetera, et cetera. During the GFC, he took out all of his partners, he end up having it to himself. But they're building 25,000 homes down there. 25,000. And this is -- probably it's inland from Fort Myers. So just to give you a geographic understanding as to where's is that. So this part of Florida -- Southwest Florida is booming. It's taken off. And we're just in the right place at the right time. When there is 25,000 more homes down there, I mean, they don't compete with us. Obviously, these are first or second homes. But it's more traffic down there, more reason for people to come down there. I talked to him even about, we're going to have a giant sales office on our property. That's going to pitch everything Allegiant, whether it's an airline, whether it's a restaurant seat or whether it's a resale of a condo. Because we'll have real estate office ourself, but obviously doesn't cost us anything. We'll just sell condos on behalf of our owners and collect the commissions as opposed to someone else. But I talked to Sid, and he wants to pitch all of his 25,000 rooms at our resort as well.

So it just another interesting data point for you to understand what's going in that part of the world. They're building this resort so it's off the grid. They have their own power. They have 800 acres of solar farm. And he's taken an approach like ours, which is why he reached out. He wanted to meet with us, because he thought we were being more creative than him in our approach. Because -- he wanted to be off the grid. He's got 800-acre solar farm. He's doing their own waste removal. They created their own utility company and they're charging everyone in the development. So they're making money off every single aspect of what they're doing at this development. And they just started selling into it now. But it's just crazy what's going on in this part of Florida. It's unbelievable. And we just happen to be in that sweet spot.

Greg, it's all yours.

Gregory Clark Anderson - *Allegiant Travel Company - Principal Accounting Officer, SVP of Treasury and Secretary*

Thanks, John. Hey, everyone, and welcome. I think I know most of everyone here, but if I don't, my name is Greg Anderson. I'm going to walk us through the fleet and treasury slides. I did want to mention Robert Neal or B.J. Neal is here as well. B.J. is our resident expert on many things, but particularly the fleet. So on the Q&A session, B.J. will certainly -- has agreed to help me out on that.

So on this first page, Scott introduced a really similar slide to this. So I'm not going spend a lot of time here. I just wanted to hit some highlights on the fleet transition, particularly in 2018, we have -- we're halfway there. And today, as Scott mentioned, the execution has been excellent. It's been cross-departmental between our fleet, induction, flight ops, everyone has gotten together, laser-focused on the execution and it has really been outstanding.

But we have our work cut out for us in 2018. And Scott mentioned this. On the left graph, you can see MD-80s. We'll have 37, we're going to take that down to 0. Then on the right graph, you can see our Airbus, we have 52. We're going to increase that by 30 up to 82.

A lot of work. While we built a lot of confidence in this past year to the team and just the execution, but how we got here and how we're able to go ahead and accelerate the retirement of the MD-80 to November 2018. I want to point to this adding 30 Airbus. So 6 months ago, that number was 14. And over the past 6 months, our fleet planning team has been able to source, opportunistically, another 16 aircraft that we're going to place into service -- Airbus aircraft that we're going to place into service in 2018. So that gave us more confidence to accelerate that retirement.

And I wanted to touch on one thing about the MD-80 fleet, with sun-setting, we know that, but the impairment. So it was mentioned, this impairment. We mentioned it on the earnings call. We're working through it, so just to give a little background in the impairment and how this comes up. When we decided to accelerate the fleet retirement for the MD-80s, it triggered an accounting rule that said, the utilization of this aircraft isn't as much, so now you have do an impairment test. And the impairment test is made up of about 2 different checks. First, is the fair market value less than the carrying value? Absolutely, the fair market value of these MD-80s are less than the carrying value of $38 million.

But then you go into what's called a recoverability test. And basically, what a recoverability test tells you is, if you have enough net cash flows to exceed or meet that $38 million you have in carrying value, you don't write down the asset. If you do or if you don't have enough cash flows, you do need to write that down. And you write it down at the fair market value.

And so the fair market value we believe is -- it's not nearly -- it's, I can't say insignificant, but it's fairly low. So what we'll likely do is take the entire $35 million or $38 million and just write it all off, just because I don't want to mess with it going forward. But I do want to say this is a real hot topic for the PCAOB and our regulators because as we look at this recoverability test, we're looking forward into the future and using estimates. So that's what we're doing. That's what we're spending our time on right now, we're just locking down those estimates. We're working with KPMG to make sure everything is tight. And then, I would expect next week or the following week, to be able to confirm that, yes, this -- we triggered the impairment and we can go ahead and give our 100% affirmation on that.

But the reason I wanted to mention that is because for the rest of the deck, there's a couple of slides that Trent will speak to you at the end that talks about the fleet impairment.

So the 186 seat modification. Scott mentioned this. This is also internal. We call it the [max pack.] And what we have as compared to last year, we have 21 fewer Airbus A320s that we expect to modify from 177 seats to 186 seats. And the reason is because they're currently ineligible. So if you're MSN or you're manufactured by Airbus in or around the year 2000 then there's not a specific STC that allows us to modify those aircraft and to add the additional seats.

Now we may go through and we may -- it's a capital investment for us to pay Airbus for that STC. And that's a decision we haven't made yet, but we may still do it. But since it's not in our plan going forward, we decided it was more conservative and probably appropriate to exclude those aircraft. And so that's our showing -- that's what we're showing you here, there's a reduction of the 21 fewer Airbus -- or the -- to the [max pack,] I'm sorry.

But it's not all bad. And there's some good in that I wanted to point out as well. Those deals that we talked about earlier were -- just recently, there was an ALAFCO deal, where we sourced 13 aircraft. They are going to come and be delivered in 2018 for the most part. So we'll have -- if you see 2018, we now have 11 more 186-seat aircraft in earlier. And also, the plan now is that we'll modify these aircraft before they're even placed in service for the most part; all the aircraft, all 48 that you're seeing up there. If you compare that to the MD-80s, we were pulling them out of service doing the modification and then putting it back in. So the reason we like this approach is it de-risks in a couple ways. One, you're going to do it, because you're doing it before you're placing it in service. So the modification is going to take place; and it reduces the time out of service, if you pull it out. You may find something else wrong with the aircraft or this or that. So we like that approach and we're happy about that.

The fleet growth. This is a slide that I get really excited about, personally. Since 2013, we have sourced 98 Airbus aircraft. 86 of them are used. And that's unbelievable. And I think even more importantly, all 98 of those aircraft that we have sourced, we've done it at opportunistic prices. We never chase price. We did it for what makes sense to our brand and our company.

That's a huge achievement. And we want to go out and over the next -- by the time we get to 2020, we want to source 12 additional Airbus aircraft, particularly the 320 that's configured -- that we can configure for 186 seats, but we'll only do that opportunistically. So you could see on this -- on the graph on the left, all the way through 2018, we're covered. We have all the aircraft we need. We go into 2019, there are 6 incremental that we're looking for. And if you look at 2020, we're looking for roughly 6 more, to give us that 12.

And how are we going to go out and find this? That's what this graph or this funnel on the right represents. So if you start from the top, that represents the world A320 aircraft -- worldwide A320 aircraft fleet. For 12,800 Airbus A320 series are either in production or in service. You take it a layer down, 7,300 are actually in service. One more layer down, 4,300, those are just A320s, excluding the 18s, the 19s and the 21s.

You go down another layer, these are CFM powered. So there's 2,350, those are the specific aircraft that we would look for, will have CFM powered. But we're used Airbus operator -- or we like to source used Airbus. So we want to take it down to another level. So you get to 950, which those are age of 7 to 17. And then actually our sweet spot is that 12- to 14-year range, that's what we'd like to transact on. So that gets us down to that bottom level. So that's roughly 350 aircraft currently out there that we're looking at.

And I want to just -- I guess, really cool. The first time I went to an ICETECH Conference was earlier this year and just how well our fleet planning team knows all these aircraft. We go to these conferences and B.J. Neal and his team, we sit in, and we talk to lessors or other airlines. You start going through the fleet. And we know -- or I shouldn't say we, our team knows that other lessors and other airlines' fleet better than they do. I mean, B.J. and also -- they'll just say, okay, now you have this aircraft here, this aircraft here, and they'll look and they'll check and they'll say, oh, yes, you're right. So I think that was pretty cool too. I mean the point I want to make on that though is just we know it's out there. We know who operates them, and we're in constant communication with these folks. B.J. and his team did a fantastic job of that.

One last thing to add too on this is, is as the Neo becomes more available, we think that'll provide opportunity in the CO for us. Of course, that's what we'd like to see.

On the fleet plan. I don't think I'll spend too much time on this. It's rather straightforward. I'd add 2 things. The first being that this includes those placeholder aircraft, the 6 in 2019 and the 6 in 2020. And then we drew this arrow in here from '17 to 2018. And the reason I wanted to show that is because we're reducing the total number, but we're adding 30 Airbus aircraft. Airbus aircraft are more productive. We're going to continue to be able to grow. I won't spend a lot of time on that. I know Lukas is going to talk about that, but I just wanted to highlight that. There's going to be 30 additional Airbus aircraft in 2018.

So CapEx. A little bit about capital deployment. Now first thing we want to do is reinvest back into the business. That's our #1 priority here. So we put this CapEx slide together. I want to mention a couple of things. One, the placeholder aircraft, those 12 that I keep mentioning. Those are included in 2019 and 2020, at an average about $18 million per. The other thing I'd want to mention is Sunseeker is not included, other than the land. That's what's been authorized by the board at this point. And to the points that John was making earlier, we just don't have enough information to provide any accurate forecast on that. So all of Sunseeker is excluded here.

Maybe a little bit about the graphs and what they mean. The blue, that's just straight aircraft, pretty straightforward. The orange, that's our other, sometimes referred to as maintenance CapEx, other -- 1/3 of that is typically IT, another 1/3 of that would be our convertibles and another 1/3 would be just other such like spare engines and our resource training facilities is a good example for 2017.

Then like spare in Frontier, we capitalize maintenance on our Airbus aircraft. So we're showing that as well, that $35 million in grey. It goes [on per route] and then of course, the land for Sunseeker.

2017 a huge CapEx year. We know -- there's a lot of new aircraft that we purchased in 2017. We also -- if you recall, we announced it the last quarter, we acquired 4 purchase in advance for our carrier aircraft. That's a big capital investment. Those won't go into service until 2018, but the capital outlay is going to take place in 2017.

If you look at 2018, you see the CapEx, particularly for the aircraft is rather low, when you compare that to 30 additional Airbus aircraft. So I'd want to remind everyone that we have those 12 aircraft from easyJet, we purchased back in 2014. Those will be delivered -- about 8 or 9 of them will be delivered in 2019 -- 2018. And then, also there's ALAFCO, the 13 ALAFCOs. Those are under capital lease structure and so there's not a capital outlay for that. And then, finally, the Alitalia, the 4 that I mentioned, there's $100 million -- there's about $80 million to $100 million in the 2017 numbers.

Then just moving forward, if we look the -- I think the CapEx run rate 2020 is kind of a normalized CapEx run rate when you think about the business moving forward.

So next section we want to talk about is debt. And a couple things. This is -- these graphs both on the left and right, they represent debt or current commitments that we have today. So they'll likely change. I mean, this is a fluid number, and so this will likely change over time but as of today these are the commitments we have. I want to spend some time on the debt balances on the left, kind of break it out, that gray area. That's new -- that's senior secured debt on new aircraft. The blue is the used aircraft. Senior secured on the blue -- or on used aircraft. And that one is the high-yield bond or unsecured.

So on the new aircraft. We've done -- the team has done a terrific job on financing the new aircraft. We have the flexibility. We have the rates and we have the advances that are all, in our views, exceeded expectation. Our flexibility, I mean, the prepayment penalty after year 2 is gone. So we can prepay all that debt when we want. As part of advances, we're well above LTVs of 75%. And then, as far as the rates are concerned, we're out there. We had some (inaudible) margin of 135 basis points up to 150 on average over 3-months LIBOR. And those are really attractive rates. We're really proud of that. The team did a fantastic job. A lot of appetite for those aircraft.

On the used. The blue section, we can see that's amortizing rather quickly. So we're delevering rather quickly. I mean -- maybe I should add that we levered up now, and that was to get us through the transition, but it's coming off rather quickly and it's primarily because of the used. And I do want to mention the high-yield bond. In this example, we are showing this is being in place kind of in perpetuity. It does come up. The [book] comes due in July of 2019. So what we're doing is we're assuming we're going to refinance that. We haven't made that commitment yet, but I just -- we wanted to show that -- we'll explore that over the next year, 1.5 years, so that's something that's on the top of our mind too.

And on the right, the borrowing capacity. This is important, so this is all the unencumbered aircraft, and what we think we can borrow on. This is important to us as well because on the high-yield bond side, we go out, we look to refinance the bond. We don't get the rate. We like -- we have another levered to pull, which will be the unsecured side, potentially.

And the last slide, I'll talk to is the return to shareholders. Just wanted to give a quick update. So -- since the beginning of our share repurchase program, we've spent $605 million. That's about an average purchase price of $85 per share. We've taken 30% of our shares off the table. From the dividend side, we have -- we spent $260 million on our quarterly dividend, about $0.70 per share, and that's going to stay in effect going forward.

I think it's interesting if you look at it on a per -- or an annual basis, the time line below the graph, you see a lot of that's been over the last 4 quarters. Very shareholder-friendly in returning excess capital back to our shareholders.

With that, we'll happily open it up to any questions.

QUESTIONS AND ANSWERS

Savanthi Nipunika Syth - *Raymond James & Associates, Inc., Research Division - Airlines Analyst*

Just a quick question. On the debt, how are you thinking about -- I know that didn't include some aircraft that you haven't purchased yet. Like what do you think is the right level of debt, or how do you think about liquidity? I know the CapEx was at a peak, so it should be improving, but...

Gregory Clark Anderson - *Allegiant Travel Company - Principal Accounting Officer, SVP of Treasury and Secretary*

Yes. So that's a great question. We -- so at the peak, if you think about it from a leverage and the way we think about our leverage ratio is debt-to-EBITDA. We're going to be about 3 turns. We -- historically, we want to be at about 1.5 turns. I mean, that's historically what we've ran at. And so we're comfortable with 3 turns, but we're going to continue to push to delever and get us down under that 2 turns or -- and then, 1.5 turns. But I would add too, Savi, that we are -- we do like a little bit of unsecured as well. So we'll keep -- if the market permits, we'd like to keep that on there as well. It gives us additional flexibility. Duane?

Duane Thomas Pfennigwerth - *Evercore ISI, Research Division - Senior MD and Fundamental Research Analyst*

So just on CapEx. The experience, I guess, just with the passage of time has been a numbers for next year or the following year, you throw out a placeholder and it sort of goes up. Right?

Gregory Clark Anderson - *Allegiant Travel Company - Principal Accounting Officer, SVP of Treasury and Secretary*

Yes.

Duane Thomas Pfennigwerth - *Evercore ISI, Research Division - Senior MD and Fundamental Research Analyst*

And certainly appreciate that you've had this massive refleeting effort. So I just want to push you a little bit here in terms of these numbers. Do you have a lot of confidence that CapEx is actually going to materially be lower than the run rate this year? Or are these placeholders like we've experienced for the last few years?

Gregory Clark Anderson - *Allegiant Travel Company - Principal Accounting Officer, SVP of Treasury and Secretary*

Well, I -- Well, for 2018 and going on, it will be materially lower than 2017. I mean, if everything -- if you think about 2018, all the aircraft we have we're committed to, to this day, that we're going to bring in. And the majority of them are not capital-intensive. So easyJet aircraft that we purchased in 2014 or it's the capital lease aircraft. So when we look at that $195 million, I mean, we're confident in that number. So just for the aircraft CapEx, that's going to be a sustainable number in 2018. And then, as you get forward, we put in -- for 2019 and 2020, we put in those 6 aircraft placeholders to -- I mean, that's 12 total but 6 per year. We have that built into this CapEx as well. So I mean, deals may come and go and we're opportunistic, but for what we're anticipating, we'll really spend some time to carve this up and make sure this is accurate as we can forecast today.

Duane Thomas Pfennigwerth - *Evercore ISI, Research Division - Senior MD and Fundamental Research Analyst*

So what would make that $390 million, $500 million or $600 million? What would happen in the business that would make that a materially different number?

Gregory Clark Anderson - *Allegiant Travel Company - Principal Accounting Officer, SVP of Treasury and Secretary*

Yes. I mean, I think, as far as the -- so if we just break it down by piece. If you go into the Airbus heavy maintenance, we're kind of locked and loaded there. We know what those -- what that's going to be because we had -- we know how much we utilized the aircraft, so the $90 million that's kind of locked and loaded. The $75 million, that's just our historical run rate on that. We don't anticipate anything going up materially there. And then, the other is just the [max pack.] I don't -- I can't think of anything that can materially increase that to $500 million, unless we were to go out and place another Airbus -- or I'm sorry, if we were to go out to acquire some more used Airbus aircraft. But we don't -- we're not planning on that and we don't need to.

Maurice J. Gallagher - *Allegiant Travel Company - Chairman of the Board and CEO*

We can bring the 20 40 stuff forward (inaudible)...

Gregory Clark Anderson - *Allegiant Travel Company - Principal Accounting Officer, SVP of Treasury and Secretary*

Yes. And that's a great point, Maury. Because I think, Duane, you asked the question at the last Investor Day to Maury about [taking pride] that we're going spend -- it was over $1 billion over the next 4 or 5 years. But the numbers, if you look in total, haven't changed. It's the same, it's just spread out now in different periods.

Helane?

Helane Renee Becker - *Cowen and Company, LLC, Research Division - MD and Senior Research Analyst*

Greg, on the ALAFCO aircraft, they -- you said they are doing the work ahead of the time when they come in. What's the condition of those aircraft now and do you -- are you going to have to pay maintenance reserves on them going forward?

Gregory Clark Anderson - *Allegiant Travel Company - Principal Accounting Officer, SVP of Treasury and Secretary*

Yes. And B.J., do you want to -- I don't want to -- do you want to take this question, B.J? I mean...

Robert Neal

So, Helane, the aircraft are delivering just fresh from a C check. So we'll do all the inspection and everything to just minimize any risk that we would have of fallout when you open the airplane up. And then, we'll do the [max packs] mod after we take it.

Other question. Maintenance reserves, we're not payment reserves.

Gregory Clark Anderson - *Allegiant Travel Company - Principal Accounting Officer, SVP of Treasury and Secretary*

All right.

Unidentified Participant

I think, you have the opportunity to trade up into more A320s that can be modified to 186 seats by 2020. Or would that be opportunity or that would be...

Gregory Clark Anderson - *Allegiant Travel Company - Principal Accounting Officer, SVP of Treasury and Secretary*

It is a potential opportunity. So we have, let's say, 20 potential aircraft, 177 seat-variant A320s. There's just not the STC in place from Airbus that certifies us, at this point, to increase or take them to 186 seats. But if we -- we could choose to invest in that and spend some money with Airbus to go ahead and get that certification. And if that's the case, then yes, we can take those 20 up. If that's the case and Airbus comes backs and approves it, we could take those 20 up to 186 seats.

Unidentified Analyst

Please, could you trade out of the ones that don't have the STC in to...

Gregory Clark Anderson - *Allegiant Travel Company - Principal Accounting Officer, SVP of Treasury and Secretary*

It -- yes, for the most part, they're already in service. But we already have the majority of them in place today and then the others are just coming in. We're already firm committed to those. But I think 20 of them are in service today and then 5 more come in over the next couple of years.

PRESENTATION

Trent Porter - *Allegiant Travel Company - VP of Financial Planning and Analysis*

Figured how quick it works. So all right, we get it. Good morning, everybody, I am Trent Porter, and we'll start off by talking about costs. We'll talk about some of the good things and the bad things that are going on with the 2017 CASM. I wanted to start off with the waterfall that we showed at last year's Investor Day. So the first part of this graph, the left side of that graph, the first 5 items are same 5 items that you'd see last year. And the reason I wanted to do that was to highlight that what we forecasted to happen, did happen as we thought it would happen. And had those been the only items that would have driven CASM up, we would have ended up within the range that we had forecasted. With the primary driver there being the pilot costs, the new contract that we had go in place in August of 2016. And then, various depreciation items, partially offset by the fewer heavy maintenance -- noncapitalized heavy maintenance events that we would be doing on our MD-80s.

A couple unexpected items that happened. The Hurricane ASMs that added some cost pressure. And then, also accelerating the retirement of the MD-80s pushed some pilot inefficiencies into 2017 through training and through needing to hire more heads for that. And with that, we saw an incremental $0.05 added to our CASM. Again, it's also been the only couple items there that we would have ended within the range that we had guided to at the time of last year's Investor Day.

However, on January 27, we eliminated our credit card surcharge. And the credit card surcharge was taken as a contrary expense to offset the credit card fees that we had. And eliminating that credit card surcharge, we saw about $0.002 (sic) [$0.05] increase in our CASM. And that pushed us up to where we guided to in a range, in the third quarter call, of up 11% to 12%. Now Greg touched on the possible impairment of the MD-80 fleet. And with that impairment on the MD-80 fleet, we'd see about another $0.0025 (sic) [$0.25] in CASM, offset partially by the depreciation that we'd forgo on our forecasted depreciation for the MD-80s. And we'd end the year up 14.5% to 15.5%.

So let's talk about 2018 costs. And in 2018, we are going to see these 3 different cost areas impacted by the accelerated retirement of the MD-80s as well as the impairment. First, the fuel expense. Fuel expense with the earlier retirement of the MD-80s and the increased utilization on the Airbus, we will see a higher ASM production per gallon than what we had initially thought. We are projecting that to be 77.5 to 79.5. And I did also want to highlight that our current forecast, the fuel curve we're using is as of November 17. And it put it at about $2.17 per gallon for us.

On the maintenance side. Because of that accelerated retirement, we're going to see fewer MD-80 heavy maintenance events, noncapitalized heavy maintenance events. So we'll see our maintenance expense per aircraft per month decrease. And we're projecting that range to be $95,000 to $105,000 per aircraft per month.

And then, finally, on the depreciation. The additional aircraft and the additional heavy maintenance will drive depreciation expenses up higher but with us taking the impairment in 2017 on the MD-80s, we'll see that partially offset and we'd be projecting our cost per aircraft per month on the maintenance side to be $120,000 to $130,000 -- depreciation, sorry, I said maintenance. Yes, depreciation side.

The contract would be a 5-year term. It would add about $8 million of expense for next year. And over the life of the contract -- or over the term of the contract, it would be about $57 million.

Voting is expected to be completed by the end of December. And we're really excited to have this one done. It's been 6.5 years in the making. And we love our flight attendants and want them to be able to put this to bed as much as we do.

I wanted to highlight on here, the rates and the rate increases that we're going to see for the flight attendants. And I added on there the pilots, as a comparison. So the majority of the cost increase that we're going to see with the new contract is going to be in rates. And the initial increase is going to be 15.5% on average rate increase for 2018.

I put the pilot increase at 2.5%. That 2.5% actually went in place in August, but the -- because it was in the second half of the year, we projected that piece out to be into 2018. Then you can see beyond that, in 2019 through 2022, the range for the increases are between 1 and -- 1% and 2% there for both agreements.

I also want to highlight the crew productivity numbers. With the new contract in place for the flight attendants, we actually don't expect to see an impact -- a negative impact on our productivity for our flight attendants. We are projecting it actually to go up this next year based off of what we agreed to in the contract as well as the reserve utilization and other analyses that we're diving into.

I added on here the pilot productivity numbers because we are also projecting to have an increase in our pilot productivity, albeit, we're not returning to the levels that we will see in 2020. We will still have inefficiencies due to the accelerated retirement of the MD-80s and the transition into the airbus aircraft, as Scott Sheldon highlighted earlier.

So on the bottom, to reconcile with the numbers that we gave you for 2017, as it relates to the transition, our fuel numbers came in close to what we had projected, $6 million, and then our ex-fuel numbers actually came in higher. It came in at about $29 million additional expense versus the $21 million that we had projected. And the bulk of that is, as I mentioned before, due to the transition, the accelerated retirement of the MD-80s and pushing some of those training events and heads into 2017.

We wanted to update the cost per passenger side by aircraft fleet type. And what this slide shows is our fully allocated costs on a by aircraft-type basis for the last 12 months. I also want to highlight that for the heavy maintenance depreciation, we took a normalized steady-state -- once we get all the fleet in and we're seeing normal heavy maintenance or -- of equal cadence on the heavy maintenance events, what that depreciation would look like. So we've added that to the 319s and 320s to make it more of an apples-to-apples comparison with where the MD-80s are.

The MD-80s cost per passenger is about $102, the A319s was $100 and the A320s was $92. If you were to remove the heavy maintenance piece of that, that we allocated there, it would have been $94 for the A319s and $87 for the 320s.

I also want to highlight that this is taking the last 12 months. So over the last 12 months, our average weighted seat per aircraft on the 320s was about 178 seats. So as we move through the [max pack] project, we'll see this number come down even more for the 320s.

And finally, I want to end with our 2020 CASM estimate that we provided last time and provide you guys with an update of what the credit card surcharge would do to that 5 99 number that we had provided previously. You'll see there the majority of the items on the left side of the waterfall graph have stayed relatively the same. One of the big differences or one of the slight differences is on the pilot productivity slide -- side, we have added additional expense that we'll be pulling out as we transition. And as I mentioned, we had pulled it into 2017. The other numbers are relatively close, to bring us to the 5 99 CASM ex-fuel in 2020. Adding in the credit card surcharge for that time period would add about $0.003333 to bring us to 6 28 CASM ex-fuel.

And with that, I'll open it up to any questions.

QUESTIONS AND ANSWERS

Trent Porter - *Allegiant Travel Company - VP of Financial Planning and Analysis*

That's great. Helane.

Helane Renee Becker - *Cowen and Company, LLC, Research Division - MD and Senior Research Analyst*

I don't know if this is a question for you or a pricing question. But when you think about the pricing of -- do you think about it, well, it costs us $102 per passenger to fly this person, so we should charge a 20% margin, so fares should be $122? Or do you approach it that way or do you just kind of come up with fare and hope this works out? And that's my first question. My second question. At any of your airports around the country, are there major construction projects going on that you have to think about in terms of increased landing fees?

Trent Porter - *Allegiant Travel Company - VP of Financial Planning and Analysis*

So on the first question, I'll take the opportunity you gave to me to punt it and I will hand that one over to Lukas. We do look at flight profitability in helping us make the decisions that we make. As far as major construction projects that would increase landing fees, there aren't any that I'm aware of, but we've got Keith Hansen here, who would be able to answer that question more thoroughly if we'd like. Do you want to bring the mic to him?

Keith Hansen

Thanks, Trent. There isn't anything on the radar that we're particularly concerned about right now. If you think about the way our airports are divided up, most of the -- most of our service, where we have a ton of capacity, think of places like Sanford, PIE with, of course, the exception being Vegas, we've got deals there that protect us in place for a long time. The places that would concern us would be Vegas. They just completed their T3 project, so we're not seeing anything huge there coming down the pipe. So I think for now, we're in a very good spot when it comes to airport construction cost. Sorry, say that again?

Helane Renee Becker - *Cowen and Company, LLC, Research Division - MD and Senior Research Analyst*

(inaudible)

Keith Hansen

LAX? LAX is always under construction. American is doing a huge [bid] project right there now, but a lot of that is being funded by them. So again, we don't expect to see a whole lot of those costs hit us, other than what's already out there and been reported. They have their projections out for the next 7 to 10 years-or-so right now. And so, we expect that to kind of continue the way that it's going.

Trent Porter - *Allegiant Travel Company - VP of Financial Planning and Analysis*

Thanks, Keith.

Helane Renee Becker - *Cowen and Company, LLC, Research Division - MD and Senior Research Analyst*

It's just a quick question. I was just taking a look at your MD-80 and the A320, A319 projections versus when you first kind of launched on the fleet strategy and the costs have kind of gone up quite a bit versus -- I mean, not on the maintenance side surprisingly. It's actually on some of the ownership cost side and other things. I was just wondering as you kind of get the fleet in here, like what you've seen that's different versus kind of expectations? And as you take out the MD-80s and you utilize the A320s on the kind of lower utilization as well, what kind of impact that has on this kind of comparison?

Trent Porter - *Allegiant Travel Company - VP of Financial Planning and Analysis*

So the previous comparison that we had put out there actually wasn't a fully allocated last 12 months. It was an estimate of what we are projecting on a specific aircraft, so the direct expenses. So we fully allocated it here. You will see some cost increases because of that. We also didn't have -- on the ownership piece, specifically, we didn't have a steady-state number for the heavy maintenance depreciation number added in there. So that's going to be the biggest difference on that one.

Helane Renee Becker - *Cowen and Company, LLC, Research Division - MD and Senior Research Analyst*

Okay. And then, (inaudible) as you change -- as the -- like I'm guessing right now your MD-80s are the low utilization aircraft as you kind of switch to an all Airbus fleet. How does that utilization model work with the Airbus and these kind of cost comparisons?

Trent Porter - *Allegiant Travel Company - VP of Financial Planning and Analysis*

Well, we are deploying our Airbus and specifically, our new Airbus on the heavier utilization flying at [lines] and opportunities there. And, yes, our MD-80s will continue to pull down utilization. This next year, we'll see an additional decrease on the MD-80 utilization as we're continuing to deploy the 320 series aircraft.

Helane Renee Becker - *Cowen and Company, LLC, Research Division - MD and Senior Research Analyst*

Okay.

Trent Porter - *Allegiant Travel Company - VP of Financial Planning and Analysis*

Duane?

Duane Thomas Pfennigwerth - *Evercore ISI, Research Division - Senior MD and Fundamental Research Analyst*

So just on 2018. Appreciate the move to earnings guidance and away from the points, but maybe you could just talk a little bit about, more comprehensively, the top 3 headwinds, the top 3 tailwinds. And it feels like your capacity growth guidance moved up for 2018, which should help your unit cost profile. So just -- I know there is not a formal bridge from last quarter where the view was they're going to be down in 2018, but if you could just help us think about that incrementally given a higher growth plan?

Trent Porter - *Allegiant Travel Company - VP of Financial Planning and Analysis*

Okay. So some of the headwinds that we'd see -- I'll take the easy one first, the head transition. The variability of retiring the fleet. If we are looking at some of the heavier maintenance events, we need to retire tail. That could impact us significantly as we go through this. The negotiations that we have going on, we do have a tentative agreement with our flight attendants that could be rejected, similar to what happened last time. We could be back into that mode. As it relates to our other work groups, working with the dispatchers who have also unionized and also a small group, where we're working through those negotiations. And other potential headwinds would -- I'd really go back to the transition because that's going to be the biggest issue. Some of the biggest tailwinds are the operational improvements. Those are items that we should be able to see significant decreases in our interrupted trip expenses that we spend when we have to cancel a flight and things like that. If the contract does get approved or does pass with the flight attendants there, that could be a potential tailwind in labor relations and working with our flight attendants and rebuilding that relationship. And then, the very last part of the question, would you mind repeating it?

Duane Thomas Pfennigwerth - *Evercore ISI, Research Division - Senior MD and Fundamental Research Analyst*

No, that was it. You just rattled it off.

Trent Porter - *Allegiant Travel Company - VP of Financial Planning and Analysis*

Okay. Rattled it off. Thanks, Duane. Yes?

Unidentified Participant

For the next 11 months, after you write off the MD-80s, doesn't your ownership costs and heavy maintenance costs go away because you're going to ground any plane that has a heavy maintenance issue, I assume. So that cost -- you have a $22 cost that ought to just dropout for the next 11 months.

Trent Porter - *Allegiant Travel Company - VP of Financial Planning and Analysis*

So on the MD-80 heavy maintenance, we will still see some heavy maintenance events on the MD-80s to get them to fly during our peak periods where we would earn back the money we would spend and invest in that. But, yes, after 2018, that expense -- the non-capitalized heavy maintenance events would go away.

Unidentified Company Representative

Any other questions?

Trent Porter - *Allegiant Travel Company - VP of Financial Planning and Analysis*

Thank you.

Unidentified Company Representative

Thank you.

PRESENTATION

Lukas Johnson

All right, how's everybody doing today? I'm a little under the weather, sorry. So, I think I do know everybody here and the couple of times I see you guys a year, I'm definitely wearing a suit and never flip-flops and shorts or anything else that I'd be wearing in the office.

So, I want to breakdown the presentation into a couple different sections. The first one is the most common kind of network capacity growth, future potential for the airline side that we're typically getting every year from all of you. Then breaking out some of the revenue initiatives we've got going into this year, next year and 2020 and to kind of an eComm, co-brand side and then a traditional revenue management side.

So on the network side, we'll start off with 2018 ASM growth. It's a little bit higher, I think, than most people were expecting. We did, as Greg and everybody else has mentioned, secure a couple of different aircraft that we weren't able initially -- say, 6 months ago, weren't in our fleet plan. That's brought us to accelerate the end of the MD-80 in terms of the retirement as well as grow a little bit more.

So, in terms of the growth profile, this is a little bit exaggerated in terms of the average lines of flying, but the first 3 quarters will be higher than the fourth quarter. Basically, once we hit the August period, we should -- after the peak summer growth, we're going to start accelerating the MD-80 return pretty quickly. By the end of Thanksgiving, just about a year to the day from now, we should be out of the MD-80. Fourth quarter still will actually have some growth even though it doesn't really show it on the average lines of flying because the Airbus is higher utilized than the MD-80 and that is driving part of the ASM growth between 11% and 15%. It's just, we're flying the Airbus on more off-peak days and (inaudible) on those off-peak days.

In terms of the growth profile between peak and off-peak, I'll cover that in a little bit. We still will have more off-peak growth throughout the year, but it's not going to be the same as 2017 where in the summer, we had a significant headwinds (inaudible) revenue because we were cutting down peak day growth.

In terms of networking capacity flexibility. So one thing we've always been able to do on our model and we are finding that we still have the ability to do is the ability to manage our capacity and flex up and down through any of the macro environments. So you can see this is the percentage of our network, percentage of our capacity that we did not fly -- that was flying the previous year for same store. And so you can see every time we have a fuel spike, 2008, 2011, we tend to cut or change quite a bit on our network and flip it out. In 2015, 2016 under very low fuel prices, we're going to be very stable. A lot of things run a lot more because that's going to be (inaudible) profit. In 2017, it ticks up a little bit. But at every point along the way, we still feel the ability to manage -- a large fuel increase or demand shift increase up or down.

We still manage our capacity on a single round-trip basis, more granular in our capacity planning process than any another airline out there. We're still planning week-to-week, round-trip to round-trip, on our schedules.

So took a different approach this year in terms of displaying what the runway would be. We actually had an interesting slide, colorful slide, in terms of the future growth, and we kind detailed 450 routes that we would potentially have by the end of the decade that we could grow into.

This one kind of identifies a little bit more of the regions we'll target. And it kind of talk about -- we typically get a question, okay, what inning are you at for this phase of growth? And so this will help visually represent that. So if you start in the lower left-hand corner, you can see our tiny origination cities, which you see some representatives. So this is our Grand Island, Nebraska's. We're going to be the -- virtually the only service out of these smaller towns. And we're mostly finished with the growth of those 2, the largest destinations would be like a Las Vegas and an Orlando.

Moving forward to the small section. This is your Syracuses or your Knoxvilles or places like that, that we're going to be still an important part of our network, and there's still definitely opportunities. We're a little bit more saturated.

And then obviously, the last couple of years, we focused on the mid-sized opportunity. Even though we've grown so significantly in this segment, you can see that we're not even 25% saturated on the mid-sized. And considering Cincinnati is 6 planes worth of growth for us and we're not nearly saturated in this segment, we certainly feel pretty strongly about the ability to grow, at least on the airline side and find future network opportunities.

Obviously, on the right side, we've left this nice large box open. This would be represented by the Atlantas of the world is what I've used in terms of things that have not never been on our radar. It's still not on our radar. We're not planning any time in the future to be serving these as origination markets. We'll serve the largest destinations like L.A., even start up Newark service last year, but that's a destination focus. We're looking at those, of taking smaller, mid-sized city passengers to those destinations rather than -- we're not going to compete on New York to Florida because that's an over-served market already.

In terms of the fleet transition, just to kind of visualize why -- what's driving this bullishness and obviously (inaudible) and beyond the planes being old of why we switched out from MD-80 to Airbus. And modeled out the kind of current EBIT per aircraft of 100 sample fleet size. And this is really driven by 2 things. It's -- simply, it's much better operator economics on the Airbus as well as -- because it has much better variable margin profile, you are able to fly these on more and more days, and profitably. Whereas the MD-80 really couldn't make money on virtually anything but the 4 peak days, which was Thursday, Friday, Sunday and Monday.

Airbus utilization is almost 50% higher than the MD-80 under this projection and then, obviously the EBIT is pretty significant. And this is well under the 2018 fuel price. This doesn't include any of the initiatives we're working on from a revenue side.

So off-peak growth. We have had a lot of discussions in the last couple of years in terms of why we're growing off-peak and what's the TRASM impact? And so what I'm trying to -- at least give a little color about how to model this. The 2 big drivers about why we've -- where we dramatically increased it since 2014 is low fuel [ops] in 2015, 2016 was the big driver where we're going to -- we added a ton of flying. It was very, very accretive. And you can see in those TRASM dilutive -- massively (inaudible) accretive for us.

In terms of 2017, 2018, that's more driven by Airbus, as you have a more efficient fleet, a more -- a higher margin profile fleet. We are still finding opportunities to grow in the off-peak. And we always get the question, when is this going to stop? We're at 30% now. We started 5 years ago about 20% off-peak growth. What's the natural limit? Other carriers are around 40%, 42%, which is a typical 3 out of 7 ratio for those off-peak days. And you can kind of -- I'd read the bottom (inaudible), this is a natural curve to when we start seeing incremental EPS not be there, we're going to obviously stop off-peak flying growth. So we're probably a year or 2 away from hitting that sweet spot at the current kind of macro revenue and fuel price curve. So 30% to 32%, 33% is somewhere in the range that we target at this current demand level for kind of optimizing that.

So in terms of co-brand card, we can't show a ton of data. The bank part or Bank of America is pretty restrictive in terms of what we can show so I've got a very nice graph on the right side with no y-axis, but you can see there's a lot of [sign-ups]. And from our initial projection -- and the base initial projection, based on other carriers that they have and what we thought our profile was, we've both significantly exceeded our forecast. So that's been a very positive sign. There's a couple major drivers for that. One, it's a -- because we're so late to the game for credit cards, we're able to design this specifically around our leisure-based customer. We have a higher percentage of leisure traffic than any other carrier and it's the #1 redemption option. So people want this product and it's simply what we're giving them. We designed the card -- it's not a 25,000 miles you've flown and takes you multiple years for one of our customers to go out and get a round-trip. It's designed like an Amazon Prime card that you go out and you've spent x amount of money. Next time, you got to purchase a ticket, it's got a $10 or $20 or $30 automatic redemption. So you get this customer cycle that's much more rewarding and kind of leisure-focused. So we do see very high engagement with our customers so far on that, and we feel pretty confident that the closed distribution -- we don't sell through GDS, so we're marketing to 95%, 100% your customers versus 50%, 60%, 70% of your customers, which is a big improvement over what the projection would be.

And then, small city take, there was a lot of questions. It was a -- kind of a -- not really a risk-reward, but kind of an uncertainty, small cities, rural cities, tend have much lower credit card take rate than major cities and that's where the majority of our customers have been focused. It's been very strong, and small cities actually have been outperforming typically. If you've got good utility, a number of destinations or a number of -- a decent amount of capacity in the city. So this kind of our initial conservatism around will somebody in a small city take this credit card, has been kind of reassured. So we think that's -- it's certainly going forward.

In terms of tailwinds for this program. Again, we're 1 year into the program. We just finished our first year. Our company's got many years of experience in terms of optimization. So we're still learning around messaging, offers -- tailored offers and personalization by what reaches our customers best. So I certainly think we're going to be able to sustain some of this growth. Each time we add an additional destination from a city, you have additional utility. Obviously, card take increases. It's not a surprise, Cincinnati has got 20 destinations for us. It's also the strongest credit card city for us that -- there is a certainly a linkage between the utility a customer can see and when they take our card. So as we develop a lot of these mid-sized cities, we expect the cardholder profile to follow along with that.

And in terms of non-card, we're planning on working on our non-card loyalty system. All other airlines, decades ago, started out with their non-card loyalty program and that was about share-shifting and competition and competing between different programs for us and that would make sense because we have so many noncompetitive routes. We don't need to share-shift between everybody, it's about enhancing third-party revenue and now enhancing the card. And that's really going to be the focus our non-card loyalty program along with Sunseeker and everything else we're looking to do. There's a lot of tie-ins. And so we're really looking at designing a program that's unique and fits us, rather than a traditional -- what you think of as a traditional airline loyalty program.

In terms of the contribution last year, we came out, again, with that smaller estimate of $10 million. We updated it through the year, and we're going to finish this year around $17 million as earnings impact. We are updating the 2020 number a little bit to reflect that kind of increase in forward bookings. Eventually, I think it would be unlikely we're going to sustain 50% or 100% increase in take versus what our initial projections were, but certainly there is some upside that we're going to be shooting for, for that.

In terms of eCommerce projects, we had pretty large 2020 initiatives, that new number -- earnings number associated with that. So just very high level, some of the projects that hit the 2017 revenue numbers were listed above here. We didn't accomplish everything we wanted this year, but we certainly -- the projects that were completed were pretty effective in raising some of revenue estimates and that's -- a couple of these are part of the reason that we raised fourth quarter guidance along with the revenue management system. So each of these are small and incremental, especially A/B Testing that through adding 5 or 10 or 15 bps of revenue, they all add up to some pretty significant numbers.

One example I'll share is -- there was an A/B Test for when we redesigned our bags page. Bags typically has a secular decline as a customer becomes more aware -- and every airline sees this, just customers take less, they pack better or they don't like bag fees, right? So redesigning this pre- and post-launch, we're still able to raise the revenue on bags. And then priority boarding, kind of the same thing, where it's a much more significant increase. And this is simply by messaging merchandising better, you're kind of blocking and tackling on the e-commerce side.

So revenue management. Last year had a bunch of different slides explaining a brand new revenue management system that we had just launched. It was very, very early on. You can see the percentage of ASMs that we'd flown versus -- just launched at last year's Investor Day. We were very bullish on what the effect would be. We made -- we already talked about that it's kind of a modularized system that we're going to make a lot of major modifications to. We're a little bit slower in pushing those out this year, but the thing I'm most excited about is that we're pretty confident after so many major changes, the fourth quarter, we'll raise the revenue guidance because of the systems kicking in and showing positive -- very significant positive results.

So November, December is about 80%, and that's the first time we've really been at a pretty significant percentage of our flying under the new system.

The system, at its core, improves flight forecasting, flight -- all along the way in terms of a system that nobody else is really using. It's a system that makes the most sense for us because we've got a 70%, 80% of our flights have no other direct competition or anything that would be remotely similar and even when there is direct competition, most of the time, it's at a price point that wouldn't be competed against for us.

So without having to sit there and kind of play match monkey and match prices with other carriers, we're able to go out and really try to optimize around what our flight forecasting should be. So again, yes, this year, a little bit slower. If we'd been, say, 3 months earlier, we would have hit our original 2017 target, but the thing that I'm bullish about is, we're in -- and the results are going through 2018, we're going to get most of the impact -- or at least half of the impact, maybe 2/3 of the 2020 number, ASM adjusted for that, if you're looking to project that out.

So this beautiful little colorful box last year explaining one of the more complex aspects of the revenue management system. So on the very left side, you can see a typical revenue management system, whether it's looking at Chicago-New York or it's looking at, say, short hauls to Las Vegas. A traditional -- every other revenue management system out there combines flight history of like-minded flights by market and region. And so it's a region and a haul. So the short-haul Las Vegas, with the old system, it would, say, take all of our California routes, all of our Nevada routes, all of our Arizona routes to Las Vegas and aggregate that flight history together. And say, all of those look like each other. The new system that allows -- if you took a look at the little tan box, it goes out and says, okay, let's put every single flight in our flight profile history together and say, what looks like each other? And so you could have an Orlando long-haul that looks like a Las Vegas short-haul. And it says -- I know it doesn't have the same regional capacity or regional similarities, but when you actually look at historical demand and what we expect this to be, those match most similarly.

So going through, I'm going to walk through another example, specifically for the short-haul Las Vegas into the largest box, which would be a late-booking, peak flight.

So talking about that one example, short-haul Las Vegas into a late-booking peak flight, what's been the major change? And if you really want to be simplistic about (inaudible) other management system's core function, it's about, can you balance what the future demand is going to be versus what demand has already came. What this is showing is that, previously, about 25% of our flights, we had the right booking curve for -- on the old system or a very accurate -- plus or minus 5%. Under the new system, for these specific markets, if you're putting them on the best-fit historical demand, 70% of the markets -- or 70% of the flights are within plus or 5 -- plus or minus 5% accuracy.

And so what are the problems if you don't have the right demand curve? If you sell out too early, obviously, you didn't charge enough, so there's a unit revenue improvement by being more accurate in the system. If you were expecting a ton of demand to come later on and you didn't, that's when you start getting into lower load factors because you're assuming demand that will not yet come in. The biggest effect for this for the fourth quarter, you're going to start seeing increased load factors for November and December and expect all through next year. As the system rolls out, it has significant year-over-year percentage of flights that are flown on this. You're going to start seeing much more accuracy in terms of (inaudible) [factor up.]

One other kind of module that the new system does and it's a very common thing in revenue management systems that the old system did not do, was model out unconstrained demand. So you can see in the orange line on the left, typically, in the old system, you'd say, okay, you can only ever sell 100% of your flight, 100% occupancy, so you're going to go through and model -- model a curve out like that, and you're going to cut out a little bit of the demand towards the end because you're going to sell out your flight. The new system, honestly, just says, okay, if we had 200 seats or 230 seats, we would have been able to sell those out at the current fare structure. So on the right side, you can see the new system will model out yield increases that will get it towards a 100% optimized.

And finally, on the fixed fee revenue side. We had a really big year this year. We saw some improvements obviously throughout the operation, throughout the year. We've had some additional capabilities. [There was] ad hoc charters and -- -- due to the increased operation efficiency, and it's been an awesome year in terms of the ad hoc side.

For next year, we're expecting because of fleet transition, we shrunk it down a bit, we're going to cut off some of that availability to the ad hoc side because the fleet transition is going to take priority. Still very bullish on this for the long term. The -- for the longest time MD-80s, we couldn't sell them just from a standpoint that's not the most attractive for a customer. If you're a scheduled service customer, you don't really care -- you're going to book your flight, you don't really care what plane you're on. If you're a charter customer, a high -- kind of high-touch customer, you're going to care much more about a getting a brand new plane or a newer plane than a 30-year-old plane that could potentially have an irregular operation or [ruin it]. It's a much different customer than our scheduled service side and we're getting a revenue premium on our Airbus travelers as well as much more availability or demand coming in for an Airbus product.

So rolling everything up, one thing I'm going to talk about is -- there wasn't a slide, but just kind of touch off of Greg's slide. Fleet productivity -- and also Scott's slides. So I think there's a question related to are you going be able to fly more with improved operation? And what's the spare count going to do and are we going to be able to get some of [that away]?

Originally, we had a modest improvement in fleet productivity, which is really about, we're moving spares and flying more planes in 2020 and that's due to the Airbus. We've updated that guidance, reflecting an improved operational number that everyone feels confident about in terms of the numbers of spares we're going to need over the coming years. So you're not going to see a ton of benefit in that 2018 because we're going to be fairly tight through the fleet transition. But starting 2019, you're going to start seeing a permanent planned sparing reduction that is going to generate additional revenue.

Most of the estimates are relatively similar. We are bumping up a couple for 2020. 2017 came in a couple higher, a couple lower of where we initially estimated but, again, we're very bullish that we are going to be able to hit these numbers. And we're one year closer to knowing some of the timing of these.

And all this leads into the fact that we raised the fourth quarter revenue guidance. I'm glad that Chris spoiled this, so that I have nothing nice to talk about at the end of this. But it was a great result from our original guide as -- on the third quarter call, a couple of things happened. [I'll] touch the demand stronger, which is little bit of a vague term. But last year you'll remember, there was a pre-election, post-election difference in bookings. With pre-election, we came in significantly stronger. Post-election, we're trending significantly less, so it wasn't as much of a boost. The last year, that's more the normal demand curve and pre-election, there was just a lot of kind of funny business going on.

And then, revenue initiatives performing better. A lot of that -- most of that's the revenue management system and that's why we're so confident going into 2018 as this thing is rolled out. ASMs are running on it. You're seeing over 1 point of TRASM benefit on the new system versus the old system as well as a lot of the smaller commercial projects that I listed on the eCommerce side and some of those that we're looking at.

QUESTIONS AND ANSWERS

Lukas Johnson

So I believe with that, I will open it up to questions. Kevin?

Kevin William Crissey - *Citigroup Inc, Research Division - Director and Senior Analyst*

Lukas, how are you going to measure the revenue -- you got 80% of ASMs on the new reservation -- revenue management system. Assuming that goes to 100%, how are you going to measure in 2020, how much better you would have done versus the system you're no longer using?

Lukas Johnson

Well, that's -- it's a great question. And it's why we've had a slow rollout. The first half of the year, we were -- you could say probably treading water between the new system and the old system. Some fights are doing better, some flights are doing worse. And we are very careful that we're not rolling out system that would be negative. So we'll be focused on that throughout the year; made some major program changes related to -- okay, every flight that's not doing well, every segment that's not doing well, what can we do to improve that; and obviously the ones that are being priced very well are reducing error, continuing to do more of that. So we feel pretty confident now that we're at 80% when you're comparing to 20% we had last -- there's a couple of ways to slice it -- but, you've got the flights last year that were on the old system, which was most of those. You got the flights this year that are on the old system, the 20%. And then you've got the flights that were [new new]. So it's a lot of triangulation and we'll be able to do that all through next year, which is most of flights were on the old system, we've got some of the fights on the new system. And at least for the next year, you going to have good comps in terms of that, and I'll be able to share more, but the fact that we are seeing such a positive gain now on both the triangulation of the new system to the ones that were on the new last year and the new to old gives us the confidence to give that estimate. 2020 -- between 2019 and 2020, it's going to be like a traditional pricing initiative. You're going to have measure to last year. It's going to be much harder to do that unless you're experimenting specific module changes, where you make a permanent change on one and a permanent change on the other.

Kevin William Crissey - *Citigroup Inc, Research Division - Director and Senior Analyst*

Sure. And if I could follow up with a different question. A319s, A320s, how do you think about the difference between those? You talk about Airbus versus MD-80s, but how do you think about the 19 versus....

Lukas Johnson

That's a great thing. That's a benefit that I have not included in [there], but one thing we're excited about on the planning side is that next year, we're getting our first split basis in terms of [156-seat] A319s and 186 A320s -- or 177 seats. And it's going to allow us to do demands -- kind of on-demand capacity shifting in terms of, up until this point, the Airbus in a mix bases has generally been used for operational purposes. You're taking along with flying lines and lines that you were worried at about operations -- your highest departure lines putting on Airbus -- kind of being revenue neutral in that respect. And now you're going to be able to get out a much better match demand. Again, this is a benefit that we're kind of holding back that we should see next year. That as we complete these transitions, I expect our largest 3 to 4 bases to have split A319 and 320 fleets and then to be able to match demand those much better. So we're actually very excited on the network side on that.

Kevin William Crissey - *Citigroup Inc, Research Division - Director and Senior Analyst*

(inaudible)

Lukas Johnson

I mean it's just seats. I mean the trip cost is very similar on those -- in the 20s. Again, we have an algorithm that goes through and runs revenue-optimized schedules for the 20 -- I mean, everything that's going to want to sell 30 more seats, gets the 20.

(inaudible)

Unidentified Participant

Lukas, so on Slide 57, you show this EBIT per aircraft of $5 million. You're going to have 100 airplanes in your fleet by year-end '19. So 5x 100 is $500 million of EBIT for 2020.

Lukas Johnson

That's correct.

Unidentified Participant

And you go to Slide 70 and you're showing $244 million of earnings from these initiatives, some of that's going to be embedded in that, obviously, but some of that's going to be incremental, so let's just cut that -- I don't know, to $100 million? Are you -- revenue is going to do what it's going to do, fuel is going to do what it's going to do, but all else equal, are you basically suggesting this company should be earning like $500 million, $600 million in EBIT in 2020?

Lukas Johnson

I mean, that's what the slides would project, yes. I mean, if you can do the math, it's...

Unidentified Participant

Okay. I just wanted to make sure. That's my only question.

Unidentified Participant

I just had a question. I'm just adjusting to your new EPS guidance for the year. So as you go through the year, and you're not giving quarterly guidance anymore, which I certainly can understand. Will you be giving us whether you're on track for the year? My concern is that you reach towards year-end and all of the sudden, you're totally off.

Lukas Johnson

Yes, and I think Scott is going to cover that right after me, the plan throughout the year with the shift to the new EPS guidance in terms of when we're going to update and all of that. Yes, the plan, without spoiling it for Scott is (inaudible) based on certain events.

Unidentified Participant

Okay, okay. That's my only question.

Helane Renee Becker - *Cowen and Company, LLC, Research Division - MD and Senior Research Analyst*

Lukas, it's Helane. So can you ask -- answer the question that I posed before about, do you take costs per passenger and (inaudible).

Lukas Johnson

Oh no, I would fire anybody in the revenue group that does cost-based pricing. So no -- it's a question. Nobody goes through and says our cost is $50 for the seat, so let's charge $60. You charge the maximum you're allowed, within reason. For low-cost carrying, you have kind of caps on fundamentally how much we want to charge the markets. If you're ever that profitable in a market, you add more seats or you do something else, you serve more destinations, you add capacity to it. We never want to over-margin a specific market, but we're never going -- yes, there is no amount like that's a great deal. We're just going to put it and cap that price.

Unidentified Participant

Lukas, 2 questions for you. First, in terms of underserved markets in that 80%-or-so that you've historically targeted, is that still a good number? As you look out the next couple of years, will that hold? That's the first one. And the second, as it relates to just higher fuel to the extent that oil prices continue to move up, should we not worry about ASMs or growth having to come in given that you now have the Airbus fleet?

Lukas Johnson

So, I'll take the first one in terms of the target for our non-competitive markets. And obviously, if you're looking at Slide 56, it gets more competitive further to the right you get and the further kind of on the bottom you get in terms of the large destinations and, that mid-size to large, pretty much every one of those opportunities is going to be competitive. These are 2 larger markets. This would be your (inaudible) Orlando, who will compete with multiple other carriers, and we do really well. And the key for us in these competitive markets is not to overcapacity. We have -- this is a -- if you take out a mid-sized market, we're going to have a large segment that's going to be noncompetitive markets and a segment that's going to be competitive, but we're going to be serving profitably. And the key for us is, we're not pushing people out of markets that -- certainly, I don't think we're going to be able to push out. And I think it's about optimizing capacity relative to the customers that are going to be using our close distribution. We're only going to serve like an x percentage of that market. So that could be 10% of the market, that could be 20% of the market in the competitive market, we're not going to be going out and trying to push out -- and what was the second question, sorry?

Unidentified Participant

(inaudible) Airbus fleet (inaudible).

Lukas Johnson

What do you mean by less growth, sorry?

Unidentified Participant

(inaudible)

Lukas Johnson

Yes. I mean, we're always going to be adjusting to whatever the macro environment is. So if fuel goes up, we're little bit less sensitive just because it's more fuel efficient, but that doesn't mean you're not sensitive to higher fuel. It's still a majority cost in the fleet.

Catherine M. O'Brien - *Deutsche Bank AG, Research Division - Research Analyst*

Katie O'Brien, Deutsche Bank. So on the summer quarter guide up on RASM, it sounds like that's mostly on Allegiant-specific initiatives. So with that, are you saying that you haven't seen an improvement in the industry pricing environment or more that you're inflated -- more inflated for that given your monopoly route structure?

Lukas Johnson

Yes. I mean, we're always more insulated typically on these on guides, but there was -- I kind of try to break out with the 75 and the 100. I'd expect the 75 to apply to most other carriers, depending on how they wanted -- how they guided in the third quarter call. And for the 100, it's going to be more Allegiant-specific, I'd expect.

Catherine M. O'Brien - *Deutsche Bank AG, Research Division - Research Analyst*

And I just had 1 quick follow up. On the credit card program, I know, obviously, you've seen some great growth just on the airline draw, but what kind of draw do you expect when you add a hotel into that portfolio? And just like any preliminary thoughts on how you're going to build rewards or earnings around the hotel?

Lukas Johnson

Yes, I mean, that's what we're going through with non-card loyalty program. That's why it's so important to make sure you've design a program so it's future proof. We wouldn't want to design a program that's only for an airline (inaudible). We need to be focusing and we are focusing on what is a -- it's about customer loyalty rather than a airline loyalty program. So for us, I think there's a million synergies. John went through a ton of the synergies that we're thinking about when we're going through with that. And in terms of the area, Punta Gorda has been our strongest take market for the credit card. It's repeat traffic. It's second homeowners. It's all the reasons that we get excited about Punta Gorda that shows up in the card data as well.

Duane?

Duane Thomas Pfennigwerth - *Evercore ISI, Research Division - Senior MD and Fundamental Research Analyst*

I was hoping you could elaborate a little bit on the commentary around the election comps? What you've thought it would do versus what it is doing?

Lukas Johnson

Sure. So a little bit more in-depth. Last year, if you remember, the fourth quarter guides that everybody talked about [as being] amazing December demand and et cetera, et cetera. Going into the guides this year for the fourth quarter, I think us and most other carriers were a little uncertain about, which one was the true demand period. Was it the pre-election period or was it that post -- kind of December bump? Obviously, we grew a little bit more conservative in the sense that we were assuming the pre-election period was more at the norm and that the post -- we weren't going get that. In fact, we actually are seeing that we're getting that post-election year-over-year similarity and that, I think, was more of an aberration last year for the pre-election. I don't know if that runs in the first quarter or not, but (inaudible), but I think the [inbound] is a little bit better, it's pretty stable. And I think all this lead into a little bit more core demand.

Duane Thomas Pfennigwerth - *Evercore ISI, Research Division - Senior MD and Fundamental Research Analyst*

And just for the follow up, just to an earlier question. Specifically, what changes in competitive fare structures are you seeing as fuel has rallied?

Lukas Johnson

It's all anecdotal for us in terms of...

Duane Thomas Pfennigwerth - *Evercore ISI, Research Division - Senior MD and Fundamental Research Analyst*

But you see it. I mean, to be fair, you're everywhere in the U.S, so you see it.

Lukas Johnson

Yes. We see -- anecdotally, we are seeing less -- I'd call it trash fares than you did over the end of December and fall period. So yes -- so we're seeing, anecdotally, a cleaning up of some of that and cleaning up a little bit of the close-in pricing that some of the markets were having. You're not talking dramatic improvements, you're not talking 2014 pricing environment, but you're talking about not doing really poor decision-making on a revenue management side.

I think, there's a couple of other questions that I wrote down. Someone had a question on improved fares from operations from lowering cancels. That's a long tail. That's a customer, if you -- if you've alienated a customer, they're never going to come back. But if you had a good operation, that's expected. And so, that's more of a long tail over a multi-year period that you're going to see that booking come back or be slightly higher. It's not something you can point to and say, first quarter, improved operations from the fourth quarter is going to lead to this fare increase. Yes, and I think that was it.

Helane Renee Becker - *Cowen and Company, LLC, Research Division - MD and Senior Research Analyst*

And Lukas, just 1 question. We've only heard about this a little bit, but you do have on the ULCC side, one of your competitors that are trying to do this mixed strategy and having some overlap with you. And it's been a while now, just what you're seeing on that front, any change there? And then, what's been kind of Allegiant's response in those markets?

Lukas Johnson

Yes, I think -- yes, I mean, there is one carrier that's still figuring out the strategy that -- and certainly has some overlap with us. And I think, the overlap, again, it's going to be in this mid-sized to large box. And going into this year -- several years ago when we are planning out the strategy, we knew we weren't going to be 100% carrier in this market. And it's just the mentality that when somebody is coming in, I'm not going to be able to -- these are markets that could be 200, 300, 400, 500 passenger daily markets as opposed to a traditional Allegiant 40-daily market. And I'm not going to go out and act like -- put 500 seats into this market and say we're going to own this. Because I don't think that's the optimal strategy. I think optimally, you're in these markets, we're going to serve what we're going to serve profitably. And if we go out -- because we have such good customer retention in terms of our distribution that you train people up and they go to your site and x amount of them are going to want to go to these major destinations, Orlando and to Vegas out of these competitive markets. I think for us, it's about naturally growing that versus trying to compete away on something. Now, if somebody comes into a tiny market or small market that you're the only carrier in, then typically we'll be much more competitive, but there's not going to be nearly as much encouragement. There's just not -- you can see by the opportunity, there's just not a ton of opportunity for some of the other carriers to go out and go smaller. So I think it's -- again, it's all the friction bumping you're going to see on the right side of this Slide 56 and -- I mean, last year, I got a million questions on Akron. It's not an important -- the area we're trying to explain, it's not -- I think it's overblown. I think when people are thinking about it. We, generally speaking, are in control of our own destiny when we choose to compete and not in -- we know that there's going to be some fluctuations until one of the carriers really sets a strategy.

Helane Renee Becker - *Cowen and Company, LLC, Research Division - MD and Senior Research Analyst*

Just 1 last one on this kind of market opportunity. I know, [Kencord] was a unique opportunity where you get -- went into a larger market with a secondary airport. Have you seen any more opportunities for that and how has that progressed?

Lukas Johnson

Yes, I mean -- yes, absolutely. We launched Destin 2 years ago, which is in the panhandle handle of Florida and nobody is flying down there. And we went -- our first week, we launched 2 markets and (inaudible) 7 markets the next week. This is pulling capacity from somewhere else. So we were going to be basing planes there. We started basing planes there this year. So we started seeing dramatic growth on a lot of these secondary destinations. Now those are different. I don't know that Punta Gorda was a unique situation where you had a perfect airport that fit the Allegiant model and a perfect kind of customer base in terms of the destinations and the city overlaps, but we're finding more and more of those up and down the coast. So I think we'll continue to do innovative things in terms of not just serving same route -- where -- when we start our network search, we're not looking at what does everybody else flying -- which most of the carriers start at. We start at what's the most underserved opportunities.

Unidentified Company Representative

All right, let's come back at 11:30 and we'll finish up.

(Break)

PRESENTATION

Unidentified Company Representative

Good to go? Okay. All right. So we're in the home stretch. Definitely want to give you some 2018 guard rails before you leave. One of the biggest aspects is we're moving away from a TRASM, CASM, ex-fuel type approach. We're going to start guiding full year EPS. Part of the presentation today has given you a lot of data points. We know it's a kind of different change in direction, but we think that with what we've given you, ultimately, earnings is what matters. And so as the story becomes a little more little more complex, 2017 is a year, in particular, where there appeared to be a lot of noise, but the underlying fundamentals were relatively the same. So we think this approach is going to work. Ideally, what we do is, we're going guide to $8 to $10, and what we'll adjust basically at the end of the second quarter or as needed depending on market conditions. And so you won't be seeing the traditional disclosures that we will have put out in the past.

Regarding filings and SEC disclosures, over time, you'll start to see airline and then kind of non-airline-related costs and returns and revenue, but that's going to be slow to build.

Just to reiterate some of the data points we want to give you, $8 to $10 per share. We're using a 4-year fuel cost of $2.17. Basically, the logic behind that is about $61 to $63 per barrel in crude, that's about a $0.40 to $0.44 increase in [crack] and what's in the plane. You guys can model out and say whatever you guys would like. ASMs were down 77.5 to 79.5. If you use the midpoint, that's basically a 7.5% increase in fuel efficiency. Interest expense, we're going to give you some data points there, $50 million to $60 million. 2017 is going to come in around $40 million. So you have a full year in 2018 of a lot of the financing that took place this year. In addition, this contemplates raising capital -- or excuse me, securing secured debt against the remaining 2 planes and 4 used planes. And so it should be up roughly $10 million to $20 million. Tax rate is relatively consistent, 37% to 38%. If you go back historically, that's basically been the run rate. Share count is relatively stable as well.

The impairments, if you look at the next slide here, impacts the full year adjusted CASM [Ex]. So unadjusted would be down -- or excuse me, up 11 to 12, which was basically in line with prior guidance. Lukas talked about TRASM. Scheduled versus system, ASMs basically in line with each other. A lot of that's driven by less ad hoc flying that we anticipate in 2018 given the sensitivity around the remaining fleet transitions.

CapEx, $335 million, that's down roughly $330 million from 2017. As Greg mentioned, a lot of our lift in 2018 has already been pre-purchased. A lot of these are 13 easyJet planes that we bought back in 2014.

Depreciation and maintenance. We've guided these historically. Depreciation for aircraft $120,000 to $130,000. 2017 is coming in around $115,000 to $120,000. So we're seeing a slight increase there. The offset would be maintenance, as we no longer are doing heavy maintenance on the 80 fleet, you're going to see this come down pretty dramatically over time. 2017 came in around 1 05 to 1 10, and so you start to see non-heavy maintenance expenses really start to subside.

And then fixed fee. $35 million. That's down from about $45 million in 2017. So $8 to $10 EPS, we'll reguide potentially at the back half of the second quarter. With all the information we've given you here, we think that definitely allows you to try and gauge how successful we think 2018 can be. With that, Maury, I'll turn it back over to you.

Maurice J. Gallagher - *Allegiant Travel Company - Chairman of the Board and CEO*

Well, thank you, all. Any final questions? Yes, Hunter.

Hunter Kent Keay - *Wolfe Research, LLC - MD and Senior Analyst of Airlines, Aerospace & Defense*

Okay. Maury. Is there a -- are you guys targeting a long-term earnings growth rate too over the next few years or a long-term margin target or anything like that? Any kind of longer-term initiatives we should...

Maurice J. Gallagher - *Allegiant Travel Company - Chairman of the Board and CEO*

I think that I certainly want to see the number from $8 to $10 go up and will go up in out years. If you do the simple math that Lukas was putting up there -- I think you were the math student, too. The numbers are going up. And so as far as margins go, we've said, I think, over past years, 20% operating margin is -- above that, you're probably going to have [product] pressures coming down, but we'd like to maintain that on a professional level. That's exceptional in this industry, but we've got a bunch of exceptional stuff going on too. So those are guides that I think are in a good range for where I'm sitting anyway.

Hunter Kent Keay - *Wolfe Research, LLC - MD and Senior Analyst of Airlines, Aerospace & Defense*

Just on tax rate. If we get tax reform to 20% or 23%, where does that 37% to 38% go on a...

Maurice J. Gallagher - *Allegiant Travel Company - Chairman of the Board and CEO*

Down.

Hunter Kent Keay - *Wolfe Research, LLC - MD and Senior Analyst of Airlines, Aerospace & Defense*

How far?

Maurice J. Gallagher - *Allegiant Travel Company - Chairman of the Board and CEO*

(inaudible), we're going to track pretty straightforward, right? Although if you -- cash taxes are going to go to nothing if -- practically, but we'll, I think we're [clearing] at 37%, 38%, right? So it goes to a 22%, 21% whatever it is. I mean, I'm not that -- I mean, I'm -- I can't read the newspaper anymore so I'm not that -- keeping up with a lot of stuff. But yes, it's a win -- we're a domestic player. We just -- we pay full taxes. We accrue -- we're not accruing -- we accrue at that, but we're not quite paying that. We're in the mid-20s typically, where we've been historically.

Unidentified Participant

(inaudible)

Maurice J. Gallagher - *Allegiant Travel Company - Chairman of the Board and CEO*

Yes.

Unidentified Participant

But if they eliminate the state tax deductibility for corporations?

Maurice J. Gallagher - *Allegiant Travel Company - Chairman of the Board and CEO*

You're way above my pay grade here with figuring the detail out on that. That's all-inclusive in the 37%, 38%, so it'll be a mix, but...

Unidentified Participant

My question was obviously, most of Sunseeker gets capitalized, but obviously some parts do not. I assume, what, sales and marketing maybe? Is there any idea yet what we should include for next year for Sunseeker? I don't even need numbers, I'm just talking about categories.

John T. Redmond - *Allegiant Travel Company - President and Director*

Well, I don't think you can assume 0. We have -- so far, we haven't spent any and we don't plan to spend any in sales and marketing. To the extent there was, since it's not anticipated at this point, it would be de minimus. But everything that you're going to see going forward is all capped.

Unidentified Participant

One more, this may be also for John. So what's the next step after the initial deposit fee? And then, are we going to continue to maybe get updates? I think, today, you guys shared there's about 30 in the first month or so. Are we going to get updates on Allegiant calls on how that's progressing?

John T. Redmond - *Allegiant Travel Company - President and Director*

I think that makes sense for us to be as transparent as possible on that. So sure. We have these 7,000 expressions as we said. That's -- in the real estate world, they call those leads, right? So we develop those leads every single day. We snipe everything that goes out to our passengers from a marketing standpoint. So we send out e-mails, everything. Those are all sniped with Sunseeker ads. So we're going to continue to do that. It's all free marketing, if you will. And we grow those leads each and every day. So we're going to, of course, in earnest now, start mining those leads and hopefully, the number grow significantly over time. We'll start having more sales material, et cetera, et cetera. So it makes it -- the efforts easier as you get that material, but we're probably, realistically, less than maybe 3 weeks to 1 month away from having better marketing material. But in terms of having definition around start dates, even for prospective buyers, I mean, that's probably an early January time frame issue, too. So that's the obvious [me], putting ourselves in that position. Everyone wants to know. well, when can I move in and what's it looks like. So every day that passes, we're developing that more and more. So that's why I always say, the best months, of course, are ahead of us.

Unidentified Participant

And so do you need certain number of those 5,000 initial deposits to get to the stage where you would sell some someone a spec apartment?

John T. Redmond - *Allegiant Travel Company - President and Director*

Well, we can't sell anything by law in the state of Florida until you have documents filed with the state. And those documents require further development of plans, like -- you have to -- that's why, like, the production architects would start doing that. So they're just getting started with that. We think that we will probably be in a position to file those documents with the state maybe in February. So we can't even then go to a sales contract until -- that's why I said, like the back end of Q1 or early Q2. So we're going to continue to [mind] these with the target being March, April to be able to start going into a sales contract.

Unidentified Participant

Just for you John also. Are you getting tax abatements on the property and then -- or is it too soon to tell or know yet? And then, will you pass those onto the buyers of the condo [side]?

John T. Redmond - *Allegiant Travel Company - President and Director*

We haven't gotten any of those conversations yet because we're still dealing with land issues and all the other development-type issues one would deal with. To the extent we received any of those, we would keep them for ourselves. There is no doubt.

Maurice J. Gallagher - *Allegiant Travel Company - Chairman of the Board and CEO*

Any other questions?

Well, I want to thank you all very much. As you can see, the strategy that we've talked about as a travel company and numerous questions about when are you going to be a travel company? It's starting to evolve, perhaps a little later than we would have liked. But I couldn't be more excited about where we are. I think you heard the enthusiasm from the largest stock (inaudible) in the airline space for management here on my right. It's coming together. There are going to be pitfalls. Yes, we're going to have some bumps in the road, but that's what you pay us for, that's what management does. We've shown ourselves to be flexible and reactive to what the world deals out. So this is a good story. There's a lot of other stuff in the works. We didn't even talk about the IT infrastructure today, so it's become pretty much de rigueur for us. But that's all a tool set that we're going to need, and we are using to do more of what we're doing today.

So thank you all very much. No forecast on the next one of these, but we'll be talking to you in another couple of months. And I'm sure we'll have more information for you. Thank you, again. Have a good day.
