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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Third Quarter Allegiant Travel Company Earnings Conference Call.

(Operator Instructions) Please be advised that today's call is being recorded. (Operator Instructions)

I would now like to hand the call over to Sherry Wilson. Please go ahead.

Sherry Wilson - *Allegiant Travel Company - Director of IR*

Thank you, Michelle. Welcome to the Allegiant Travel Company's Third Quarter 2020 Earnings Call. On the call with me today are Maury Gallagher, the company's Chairman and Chief Executive Officer; John Redmond, the company's President; Greg Anderson, our EVP and Chief Financial Officer; Scott Sheldon, our EVP and Chief Operating Officer; Scott DeAngelo, our EVP and Chief Marketing Officer; Drew Wells, our VP of Revenue and Planning; and a handful of others to help answer questions.

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

Any forward-looking statements are based on information available to us today. We undertake no obligation to update publicly any forward-looking statements, whether as a result of future events, new information or otherwise. The company cautions investors not to place undue reliance on forward-looking statements, which may be based on assumptions and events that do not materialize.

To view this earnings release as well as the rebroadcast of the call, visit the company's Investor Relations site at ir.allegiantair.com.

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

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

Thank you, Sherry, and good afternoon, everyone, and welcome to our October 2020 conference call.

First, let me thank all of our team members, their spouses and families as we continue to fly in these perilous times. Our passengers are very important to us, and team members are doing a yeoman's job as always. Again, thank you.

I'm happy to say we can report some optimism -- some, mind you, but with the understanding there's still a ways to go. The only way back will be one step at a time as it appears. In the early days, we had little to no view on how we were going to get back to the top if we had fallen into this abyss. Today, however, we have a good sense of where we are and are beginning to believe we can return to our former state.

In February, we were looking at a record year. After March 1, it turned to record losses, pre-COVID and post-COVID, respectively. This generational event has changed how we think. In the early 1980s after -- 1990s rather, after the Soviet Union fell, there was a proclamation by a certain historian that it was the end of history as we knew it at that time. So it was after March 1 this year, it's the end of our history as we know it.

Year-over-year comparisons are meaningless. Month-over-month is what is important. And the further, I remind you, we get away from March, the better our results will be. But for June, each of our subsequent months has improved consecutively since that time. And we expect this trend to continue through the end of this year and into 2021.

And given this new measurement approach, we had a very good quarter. In fact, September wasn't a cash burn month, but rather it was a cash flow breakeven month. Breakeven, by the way, includes jet service and other payables. Also, this is without any CARES payments.

On the P&L front, excluding special items, Q3 had a breakeven operating profit. And if you take September out of that mix, by itself, we had a 17% operating margin, our best month in the past 2 quarters, with actually better margins than we had in June. This operating profit, however, was aided by our CARES payments.

This climb out of this abyss has been a slow one and will continue to be slower than we would like, small percentages each week with possible setbacks in the not-too-distant future. But we are seeing a better October than September, and we believe the same can be said as we look into November and December. You will hear from Greg about how strong we are positioned with cash going forward. And I want to highlight that we might be the only carrier who has not had a dilutive equity offering nor taken the extensive government loan package.

Our total debt levels have only increased $130 million from year-end 2019 levels at the end of Q3. We did, however, add $150 million number additional debt in early October. Furthermore, our aircraft debt amortizes within 5 years -- very quickly. And on an annual basis, we are paying approximately $200 million in principal plus our interest cost.

Our Q3 debt payments were $50 million, with just over half of that total paid in September. Yet we had sufficient cash flow from operations to cover these debt payments and other special items during the final month of Q3. But perhaps the best position we find ourselves in is our future CapEx requirements.

Many others have large order books in front of them priced at pre-COVID numbers. Almost everyone will want to do sale/leasebacks to finance those purchases. Terms will certainly be more difficult, I would think, than the pre-COVID numbers. We, however, have minimal obligations going forward.

In our delayed May report for the first quarter, I touched on the overnight change in our industry between the suppliers and operators. Historically, there's been a natural tension between our 2 groups, a zero-sum game of sorts, if you will. For the past 15 years, aircraft demand has been incredibly strong, particularly with the economic emergence of China, India and others. As a result, suppliers have held the upper hand; witness the recent 7- to 8-year order backlogs between Boeing and Airbus.

Fast forward to November 2020, and the advantage has changed, namely it's moved to our side of the ledger. This is particularly true for carriers such as us that trade in used aircraft. The airline industry took it on the chin this year. The leasing industry has not seen the immediate problems faced by the airlines. Early on, no one understood the depth of this malady, and we were hopeful we would be in full rebound by now.

And while we are seeing a slow, steady rebound in the leisure segment here in the U.S., many places in the rest of the world still haven't found bottom. As a result, it appears 2021 will be a tough year for many aircraft owners. The Far East is upside down as we understand it, particularly carriers such as AirAsia, and many aircraft have been parked in the U.S. and Europe.

The hope that a significant rebound will be happening in the next year, I believe, is fading. It doesn't appear our COVID problems will leave anytime soon. International governments are making up travel rules with each passing day. Now we are fortunate here in the U.S. we have a large, robust country with a well-heeled leisure travel segment.

It appears the U.S. domestic leisure space will pull itself up and out of the pandemic in the coming months, hopefully in 2021. But as the apparent pandemic fatigue is setting in, people want this exercise to be over. Additionally, they're knowledgeable about what the risks are and are judging their actions accordingly. We will be the beneficiary, I believe, of this rebound in domestic travel.

An added bonus will be the availability of inexpensive aircraft and associated parts, motors, et cetera, in the coming 12 to 24 months, perhaps longer. If so, we'll be able to substantially lower our ownership costs and add capital assets with minimal cash outlays.

I'll repeat my comments from our last call, namely we continue to be the best of the worst. The U.S. airline industry will struggle for years, a number of years to come, I believe, particularly with respect to business and international traffic. Allegiant, with our focus exclusively on domestic leisure traffic, our flexible model plus our excellent cost structure -- you'll hear some of that from Greg in a bit -- should emerge from this fray better than most in the coming 12 to 24 months.

Our shareholders are fortunate to have such a capable management group, which has shown its depth and understanding of how to maneuver in this extreme environment. Speaking as a shareholder, I know I'm grateful we have this talented team.

Lastly, our team members have been the true heroes in our world. I want to, again, personally thank each one for all they have done during this trying 7 to 8 months. You are the backbone of this company.

In the meantime, in the airline space, we will take care of our business, and we are survivors with a great company and an excellent business model.

Thank you very much. And with that, I'll turn it over to John.

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

Good afternoon. Thank you, Maury, and good afternoon, everyone. Hard to imagine after all we've gone through the last 8 months dealing with an industry-devastating pandemic, that we'd be sitting on the highest cash balance in the history of the company, of roughly $850 million at month-end while only adding roughly $300 million in debt and no dilutive equity, as Maury mentioned.

Quite an accomplishment and a testament to the efforts of the entire Allegiant team. I would be remiss if I didn't take this opportunity to thank them for their incredible efforts during these unprecedented times.

Through the combination of a resilient business model, a very broad domestic network, leisure traveler-focused, quick and aggressive cost cutting and continued financial discipline, we are weathering the storm better than anyone such that we no longer will be referring to cash burn. Not only is the term creatively defined and seemingly unique to each carrier, it no longer applies to us. Greg will get into this with more detail in his remarks.

It was very important for us to get the term out of the vernacular and was a guiding principle as we level set the entire organization. Since the Q1 earnings call, we have stated the #1 priority was strengthening our balance sheet.

We have come a long way since then, but our focus has not and will not change. We will continue paying down debt in a meaningful way as we move through 2021. Furthermore, our cost initiatives to date will put us in a position for our CASM -- our 2021 CASM-X to be below 2019 levels.

With regards to Sunseeker, I have no new updates nor has there been any change to our approach or strategy. We have spoken to many and remain open to equity investments by others. While our conversations have been encouraging and we remain optimistic, I have nothing to report at this time.

Our strengthening balance sheet and improving cash position should not be a sign we are positioning ourselves to restart the project. It's all about flexibility, and we believe there will be incredible generational opportunities to purchase planes in the coming years. Cash and low leverage will be golden. Stay tuned.

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

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

Thanks, John, and good afternoon, everyone. First off and before I get into providing some color on the third quarter, I want to start by saying thanks and expressing how proud I am of the entire Allegiant team and all of our partners throughout the network. Our operational results in 3Q were terrific. Your continued focus on health and safety, the sensitivity and care you show our guests and each other, and most importantly, the consistency in your daily execution is making an impact in restoring customer confidence in travel.

As you'll hear from the rest of the leadership team here shortly, we are certainly seeing signs of life, signs that customers are becoming increasingly confident in returning to the air, and your efforts will be as critical as ever as we move into 2021.

Now quickly on to the third quarter, despite the obvious continual challenges of operating in a COVID environment, which the highlights can be seen in our press release, there are 2 areas I wanted to comment on today. First is our core operational performance, where virtually every measurable metric is up year-over-year. The operations team produced a seasonal best for D0 and A14 production. And with our controllable completion factor trending back to pre-COVID levels, we produced just $2.5 million in irregular ops cost, a dramatic bounce back from our second quarter lows.

In addition, the operation team received tremendous help from the planning group. Drew and team's continued strategy of casting a wide net, creating as many selling opportunities as possible, and a volatile demand environment, has its inherent operational challenges. That being said, this group's execution and the resulting schedule integrity for the third quarter had a tremendous downstream impact on the operation.

As an example, disruptive cancellations, which we define as cancellations within 7 days of travel, were over 6,700 during the second quarter off a base of nearly 17,000 total cancellations. As we exited the third quarter, our disruptive cancellations were just under 400 off a base of 6,800 total cancellations, so a 94% decrease.

This not only reduced significant costs, but coupled with better operational execution, drove our Net Promoter Score back to pre-COVID levels. Once again, a great result, a great bounce back in a very difficult environment.

And secondly, I wanted to take a few moments and comment on labor. As you recall from our second quarter, we are in active discussions with both the unionized and nonunionized labor groups about a number of different cost-saving measures with varying levels of success. It's with mixed emotions I can report, although we are ultimately successful in negotiating the right deals with the right partners, many folks were -- left the organization, but we are looking forward to a successful 2021.

Ops labor costs, both direct and indirect, will be substantially down and ops headcount productivity, which we define as heads per aircraft, should return to levels not seen since 2013.

On the unionized front, we were able to successfully negotiate near-term deals with dispatchers, flight attendants, and as of last night, our pilot group. I'd like to thank each of our union partners and leaders for their tireless efforts. Each agreement contain attributes -- different attributes, but I can say unequivocally, all contain the right and appropriate balance of cost flexibility while maintaining near full operational capabilities.

On the nonunionized front and although we have a number of cost-saving voluntary programs in place, we made the difficult decision to rightsize the organization fairly aggressively, both in restructuring and reductions in force. I want to sincerely thank those individuals who are no longer here. They were instrumental in helping make Allegiant what it is today. And for that, I thank them.

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

Scott Wayne DeAngelo - *Allegiant Travel Company - Executive VP & CMO*

Thank you, Scott. Our commercial approach remains focused on leveraging the strengths of Allegiant's unique business model, being focused solely on domestic leisure travel, selling directly to our customers and having a proprietary commerce platform.

As they have so many times before, these aspects of our business model have enabled us to stimulate and capture demand in a fashion that has us outpacing the field in terms of relative web search traffic and leisure travel bookings, while at the same time, reducing our sales and marketing cost per booking by 75% versus prior year.

Ultimately, our greatest commercial advantage has been the ability of our organization to pull together and solve for the cost side of the equation, while maintaining the majority of our flying schedules and not making unnatural changes to our network strategy. Doing so has us seeing light at the end of this pandemic tunnel, even amidst current levels of uncertainty.

While the initial impacts of the COVID-19 pandemic shutdown saw our number of bookings drop as much as nearly 90% below prior year back in April, before coming back to prior year levels briefly in mid-June, each subsequent shockwave has seen about half the negativity as the one before it.

In mid-July, bookings fell to as much as 50% below prior year before gaining strength again through the end of September. And even now with recent headlines of rises in the number of COVID-19 cases, bookings appear to be stabilizing around the 25% to 30% below prior year.

Based both on what our customers are saying and what our customers are doing, we see a clear divergence in terms of their attitudes toward the pandemic and their intentions toward leisure air travel. That is to say, customers believe the situation may once again be getting worse, but their leisure travel activity or their travel booking intent remains largely unchanged.

Corroborating our own customer insights, which are gleaned through weekly tracking surveys that our marketing analytics team began building back in March, is tremendous data analytics work by our corporate intelligence team who's been expertly translating a variety of external data -- most notably, the consumer mobility data made available by Descartes Labs.

This mobility tracking data shows that consumers nationally exhibit their highest level of movement since the pandemic began toward the end of this past quarter. And even with choppiness in the past several weeks, consumer mobility remains near that high point and on the rise as we head towards holiday travel.

While pandemic fatigue among consumers may certainly account for some of this dynamic, many of our customers are also feeling more confident that they can smartly and safely begin resuming important aspects of their lives. This includes everyday activities like shopping and eating out, but also leisure travel activities like visiting family and friends, taking vacations to beaches and national parks or traveling to and from their second vacation homes.

But this growing confidence to travel by air, again comes with conditions. And for many customers, the most critical condition is that the flight must be nonstop, which of course is a hallmark of Allegiant's there-and-back approach to operate. Customers we surveyed were travel booked already, regardless of the airline, told us a single factor that most impacted their purchase decision during this time was finding a nonstop flight.

Also, a strong majority of customers, regardless of whether or not they had travel currently booked, made it abundantly clear that the prospect of connections or layovers, typically occurring in crowded hubs, has a major negative impact on their intention to fly during the pandemic.

While overall visitation to our website, allegiant.com, has been down versus last year, not surprisingly, it's worth noting that the vast majority of web visitors are coming at little or no cost and without the possibility for competitive interference by either directly entering the URL, allegiant.com, or by clicking on a link from one of our targeted marketing e-mails.

In fact, web visitation from direct URL and e-mail marketing was actually up by more than 15% versus last year. Conversely, web visitation from general search pools like search engines and online travel agencies, which we of course don't sell through but we do advertise on, is down by more than half versus last year.

The fact we communicate directly with and sell directly to our customers sets us apart from those who depend primarily on search engines or OTAs for leisure travel bookings. As a result, despite lower overall visitation to allegiant.com, visitors have been converting at rates that are considerably higher than pre-pandemic levels.

During the third quarter, about 2/3 of our bookings were directly attributable to tactics associated with our co-branded credit card or e-mail marketing campaigns. As mentioned in past calls, these programs focus on featuring work-from-home, away-from-home air and hotel packaged offers for Las Vegas and Florida destinations; reverse travel from larger cities to less populated national park or beach areas; and targeted promotions based on age groups, family composition and/or second vacation home ownership.

Looking forward, web searches at allegiant.com continue to show improvement for all travel weeks through late February. And in particular, search volume improvements concentrated around Thanksgiving and the weeks of Christmas and New Year's are especially encouraging.

Third quarter also saw the debut of Allegiant Stadium on Monday Night Football's MegaCast this past September 21. More than 15 million viewers tuned in and billions of impressions were generated through broadcast and digital media. In fact, sports media measurement firms reported that Allegiant was the NFL's fourth-strongest performing brand on social media ahead of iconic brands such as Pepsi, Lexus and Gatorade.

Most importantly, Allegiant Stadium has enabled us to build awareness during a time that our traditional advertising tactics have been virtually nonexistent; and drive web traffic from our major origin cities such as Cincinnati, Indianapolis and Pittsburgh, which were each up in web business by 50% to 60%; and large new cities for Allegiant, like Chicago, Boston and Houston, which were each up in web visits by 60% to 80%.

And most reassuring has been the heightened impact Allegiant Stadium exposure has had on marketing activities such as e-mail marketing. Around the games played at the stadium, we've seen web visitation from e-mail marketing increase by more than 200% above its already relatively strong levels.

And finally, going the distance for health and safety remains foundational to all that we do. And that includes proudly sharing our ranking by Safe Travel Barometer as the #1 airline among North American carriers and among the top 5 worldwide for best COVID-19 Traveler Safety Measures.

But that wasn't the only award we earned this quarter. For the second consecutive year, the Allegiant World MasterCard was voted by USA TODAY readers as the #1 airline co-branded card. Our card loyalty program continues to be a shining example of how Allegiant continues to provide added value and flexibility to customers during these uncertain times.

And with that, I'll turn it over to Drew Wells, Head of Revenue Management and Network Planning.

Drew Wells - *Allegiant Travel Company - VP of Revenue & Planning*

Thank you, Scott, and thanks, everyone, for joining us this afternoon. Our third quarter revenue was down just more than 50% year-over-year, with scheduled service ASMs down 6.5%. Overall, I'm quite pleased with unit metrics staying relatively flat on the nearly 60% jump in ASMs versus second quarter, as Maury mentioned earlier.

The third quarter was interesting in that we never saw troughs as low as April nor peaks as high as June for booking demand. However, a much more metered and consistent growth provided some stability and cautious optimism throughout the quarter, especially as it correlated very well with improvements in Scott's customer sentiment data.

In fact, despite the revenue peaks around the 4th of July and Labor Day, the load factor in the last 2 weeks of September were the best of the quarter. As we look ahead, October will continue the load factor expansion we experienced through September. We've maintained TSA throughput share outperformance and are roughly double where we were last year.

However, there will still be uncertainty as we enter the winter. Our fourth quarter ASMs should finish around 15% below last year in total, but will continue to be quite variable. Appropriately matching capacity to demand remains our main objective, and the peak Thanksgiving and Christmas weeks should see at least 30% more flying than the weeks earlier in those months.

The approach of casting a wide net continues to provide us with insight that we could not have gotten otherwise. Despite justifiable concerns around leisure demand in September, we held a significant portion of our schedule for sale and were able to record arguably our best month of the pandemic.

We believe that we've been the fastest to react to the significantly changing environment, and we will continue to be nimble as we approach some potentially large demand peaks and valleys. I am very thankful for everyone's perseverance and flexibility on the Allegiant team as we slowly climb out of the canyon.

And with that, I'd like to pass it over to Greg.

Gregory Clark Anderson - *Allegiant Travel Company - Executive VP, Principal Accounting Officer & CFO*

Thank you, Drew. Good afternoon, everyone. And I too want to echo the comments in praise and appreciation for our dedicated team members. Their professionalism and hard work throughout this unusual period has been key in keeping us well positioned.

For the third quarter, our daily bookings averaged just over $2 million, resulting in an actual cash burn of $1.3 million per day. And this compares with our cash burn expectations of just over $1 million.

The month of September, typically our lowest performing month of the year, was cash flow positive for the airline. And as a reminder, our cash burn definition takes into account cash from ops, total debt payments and CapEx. It excludes aircraft CapEx and also excludes any cash and tax benefits received from the CARES Act.

As Drew mentioned, we saw slow and steady improvement in demand throughout the quarter. Recent trends are encouraging. And at both September and October, each are averaging more than $3 million per day in bookings.

Turning to costs, despite a capacity reduction of only 9.4%, our cash operating costs, which exclude ownership and special items, were down more than 3x that amount at 29%. Our adjusted CASM-X, which excludes special items and benefits from CARES Act, for the quarter was $0.0625 and less than our full year '19 CASM-X of $0.065.

We have worked hard to pull every lever we have in our operation to cut costs and preserve cash. The list of measures we have taken is long, extensive and innovative. Regrettably, that list does include some strategic reductions to our workforce. It is heartbreaking to lose valued colleagues and friends, and we all share in that loss. These position eliminations came as a last resort, but are also incredibly meaningful in helping us get back to a breakeven cash flow status.

Turning to our balance sheet, throughout the pandemic, one of our top financial priorities is defending our balance sheet while ensuring sufficient liquidity to withstand the weakened demand environment. We are pleased with the progress to date, as we ended the third quarter with net debt of $840 million, which is even less than our net debt at year-end 2019 of $950 million.

Our ability to navigate the pandemic without a material negative impact to our balance sheet is attributable to the following year-to-date cash inflow items: employee voluntary pay reductions and leaves, PSP grants and associated loans of $177 million, NOL carryback refund to date of $95 million with an additional $125 million expected to be received in early 2021, financings of $300 million and year-to-date EBITDA, excluding special items, of slightly positive at $2 million. And as a data point, we expect EBITDA to remain positive at average daily bookings of around $2.7 million or above.

These cash inflows were offset by the following year-to-date outflows: CapEx of $190 million and heavy maintenance of $40 million. And this includes the $46 million for Sunseeker. Also, Sixth Street Partners termination payment of $15 million and total debt payments of $152 million, which includes $38 million of interest.

And subsequent to the third quarter, we issued $150 million private placement bond, backed only by the collateral already pledged to our existing term loan. Not having to post incremental collateral was important as it allows us to maintain greater fleet flexibility by keeping 22 of our aircraft unencumbered.

Pro forma for this bond, our cash balance was roughly $850 million. And at September's and October's booking levels of over $3 million per day, we are flirting with cash flow breakeven. While the environment remains fluid and bookings will certainly ebb and flow, our data suggests these average booking levels are sustainable moving forward. As such, we believe we have ample liquidity to see us through to a full recovery in demand.

Given our sound financial footing, we declined to participate in the government loan program that would have provided the company with access to an additional $270 million in borrowings. Because we no longer view liquidity as a key risk to Allegiant, we will not be explicitly providing cash burn guidance going forward. Instead, we prefer to direct our messaging towards traditional areas such as capacity, op expense and capital expenditures.

We expect the fourth quarter capacity reduction of around 15%. And we expect our total operating cost to be down closer to 25%, which assumes a fourth quarter fuel cost per gallon of $1.35 and implies a total airline CASM of down 10% year-over-year. We have made a number of long-term structural cost improvements to cope with the reduced demand for airfare. And in total, we expect structural cost changes to equate to about $75 million in annual operating cost savings. These include $40 million in labor, $15 million in marketing, $15 million in IT and another $5 million in other. And as a result, we expect CASM-X fuel to be meaningfully reduced based off the 2019 capacity levels.

Looking to CapEx, for the remaining 3 months of 2020, we expect total CapEx, including heavy maintenance, to be roughly $130 million. And 75% of this relates to the acquisition of 5 A320 aircraft. Options to finance these aircraft are readily available. But given our current liquidity position, additional borrowings may not be required.

We expect to end 2020 with gross debt of about $1.65 billion. And based on our current booking trends, we expect to end 2020 in a net debt position of roughly $875 million, which too compares favorably to our ending 2019 net debt of $950 million.

Turning to fleet, we expect to end the year with 93 aircraft in operations, 5 in temporary storage and 8 planned for permanent retirement. As we look towards '21 and beyond, we are not burdened with a costly fleet order. We believe this is a key strategic advantage for Allegiant. In addition, we continue to see an influx of potential deals for used A320ceos at prices significantly discounted from pre-COVID levels.

The post-COVID environment may provide a unique opportunity to either strategically replace aircraft and/or grow our fleet depending on demand. At the economics we are seeing, such deals should lead naturally in averaging down our ownership cost, further improving our already industry-leading low fixed cost structure. In addition, by enhancing our fleet flexibility, we expect to further reduce future heavy maintenance costs.

As an example, recently, we were presented with an attractive opportunity to bring in a leased A320 in 2021. And so we quickly actioned retirement of an older A319, which was due for a costly maintenance visit. The leased A320 will have lower ownership cost than the 319, more seats, and we will harvest the engines from the A319 to avoid costly heavy maintenance CapEx. As Maury mentioned, there are more potential fleet transactions where we would have the ability to minimize upfront cash requirements, that's helping to keep our future CapEx at lower levels.

For '21 CapEx, including heavy maintenance, we currently anticipate $125 million. This includes $40 million for 2 aircraft to be delivered in early '21. Prior to COVID, we estimated our '21 CapEx spend would have been at least $100 million higher just between the incremental heavy maintenance and other non-aircraft CapEx.

We currently expect to end 2021 with between 98 and 103 aircraft in operations, with travel demand determining when we return to service our aircraft and temporary storage.

And in closing, we are very well positioned. We have sufficient liquidity to manage through the crisis. Our debt levels are modest. Our quickly amortizing debt will have offset the equivalent of around 40% of the debt we raised since the onset of the pandemic. This will happen by year-end. And then we think the remaining balance could be offset by next year -- by next year's end.

We also expect our full year interest expense in 2020 to be around $55 million, which is 25% less than the $75 million interest we paid in 2019. And currently, we expect 2021's full year interest to be lower than 2020.

So to the best of my knowledge, Allegiant is the only carrier since the onset of the pandemic to nearly double its cash position, lower net debt, reduce interest expense, all without issuing an equity dilutive transaction. This provides us confidence we will continue to remain very well positioned on the other side of this pandemic.

And with that, let me turn it over to the operator.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Mike Linenberg of Deutsche Bank.

Michael John Linenberg - *Deutsche Bank AG, Research Division - MD and Senior Company Research Analyst*

I'm listening to this call, and I'm just thinking what planet are you guys on? Because it doesn't at all seem to reconcile with the planet that I'm on with respect to being an observer of the industry. So congratulations on getting to breakeven and really essentially positive free cash flow. I guess, a couple of questions here.

And Greg, I guess you ran through kind of the big sort of ticket items for why CASM-X in 2021 will be below 2019. You talked about the $75 million of structural change. And is there anything sort of incremental to that? Or -- you had highlighted labor. You talked about IT, marketing and other. Is that what's driving it? Or are there other elements of efficiency? And maybe it's -- you guys are building in just lower aircraft ownership costs in 2021 for any sort of incremental shells that you bring on, just given where the market is today versus where it was pre-COVID. Any additional color there?

Gregory Clark Anderson - *Allegiant Travel Company - Executive VP, Principal Accounting Officer & CFO*

Sure. Thanks for the comments. Let me start with the last point. No, we're not building in any improvements in our ownership cost through some of the strategic kind of initiatives we're looking around the fleet side. We wouldn't do that until deals were actioned. So we're just taking a conservative approach on the fixed side of the cost house. But no, you're spot on. I think the major areas that we're focused on: one, and Scott hit on this in his opening remarks with labor and productivity. As John mentioned, we've level-set the organization, and we're going to rebuild and we're going to be more productive.

To put that into perspective, I think in 2019, we had roughly 50 FTEs per aircraft. In 2021, we expect to have 38. And we haven't had that level of productivity since back in 2015, I think, and before. So that's a big one.

Marketing, I think I'd like to -- DeAngelo is here. I can give him and his team a shout out, because they -- through this pandemic, they find ways -- they have found many ways to be more surgical and more efficient with the capital that we can provide to them, and they're getting better. And so we feel comfortable and confident to take our marketing budget down, and that's a structural improvement.

And then IT and the other areas that you mentioned, there's just -- there's a lot of improvements from there. We think we'll be more productive and just better on the other side because of this.

Michael John Linenberg - *Deutsche Bank AG, Research Division - MD and Senior Company Research Analyst*

Great. And then just my second question, and this is really for Maury and John. As we come up to the election, Dems versus Republicans, and this is not me trying to call out what you're -- politically which side you're leaning toward. I'm just curious, depending on how things play out, what outcome is better to Allegiant? And what I'm really moving towards is the fact that if we do get a blue wave, the concern is that in the past, we've seen the Dems being much more aggressive in sponsoring legislation that, to some extent, would undermine the Allegiant model, i.e., kind of a return of regulation on seat size and the like, on one hand.

On the other, airline employees are their peeps and don't want to do anything that undermines the businesses that they work for and reregulation ultimately impacts profitability and ultimately impacts what union employees can earn. So there's some tension there, and that's what we've seen in the past. And the possibility maybe of additional stimulus, which is good for the overall economy. So I know it's sort of a broad question. How do you think about Allegiant, whether we get a blue wave or we end up getting something in between, what's best for Allegiant?

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

I'll go first, and John can follow-up. In the many years I've been doing this, my goal is just to hold steady and not to go ahead, just can you hold where you're at and see what you can stay away from. Certainly, we've seen the blue side has been very much a regulation. And down here, we've got a lot of deregulation under Mr. Trump's administration with just loosening things up and allowing us to do things.

I think the seats thing has been settled, but I'm not going to sit here and say it has. You open up Pandora's box if you go in and try and reregulate the seats in the airplane. I can't speak for anybody that way. I just know that you start -- kind of rolling that forward, it's going to be a huge problem. And this industry is already being subsidized by the federal government in effect. And if you want to take seats out of the airplane, the economics are pretty simple.

So while there's talk about that, I don't know that you'll see that happen. I think you'll see a lot of labor initiatives. They're already on record saying they want to improve the ability for people to unionize and in fact we're already a union industry. So there's probably not a lot of downside there. But the biggest downside would be a green movement where you want to see the older airplanes go away for improved green, which has so by neos and the new engine types. (inaudible) would be a plus for Boeing, GE and those types -- Airbus, for that matter.

So we'll have to see. But if I take our model, one thing we do well is we adapt. And we're going to make it work for (technical difficulty). We're just a pass-through agent. They increase the cost, we'll pass it through. That's what we do well. And we'd probably be better at that than anybody else. John?

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

All right. Yes. I mean Maury's comments, of course, I echo those, they're spot on. I think when you look at the team here, for this entire year, we've never had a conversation on what-if at all. We only deal with things that we can control, and that's what we've been focused on, right? So we've just been spending a lot of time doing everything that Greg just referenced. One of the biggest ones, of course, was just level-setting the organization from a labor standpoint.

I think the further away you get from 10.1, the less likely -- there's a retroactive component to whatever may happen, right? Just because every airline has taken whatever steps it feels to be able to rightsize its organization. So labor is what it is. But our focus is just trying to control what we have control over. And I think we've moved very quickly and aggressively to deal with all that since the onset of all this.

Operator

Our next question comes from Duane Pfennigwerth of Evercore ISI.

Duane Thomas Pfennigwerth - *Evercore ISI Institutional Equities, Research Division - Senior MD*

Maybe just a network question. Obviously, preference for direct flights certainly resonates right now. It's always been a part of the model, but it certainly resonates right now. And so many dots have been taken off of the domestic map, not from an Allegiant perspective, but from a U.S. airline industry perspective. And so I wonder if you could talk a little bit about new market opportunities that may be opening up. It feels like there would just be a lot of green space for your low-frequency model right now, given where capacity is.

Drew Wells - *Allegiant Travel Company - VP of Revenue & Planning*

Yes, Duane, this is Drew. And I think you're spot on. We had already communicated a significant number of runway pre-pandemic and didn't have any concerns about our ability to grow, and there will certainly be incremental opportunities that stem from this. I think we're trying to kind of be level-headed about how we approach this and not trying to grow too fast into this with uncertainty, but not trying to sit back either and trying to find that right balance, I guess.

So I think you'll see things from us that we know that there's going to be growth available. So I'll give you kind of a big generic answer here, saying that, yes, opportunities exist, and we will be looking for them, timing kind of of TBD.

Duane Thomas Pfennigwerth - *Evercore ISI Institutional Equities, Research Division - Senior MD*

So far, it's been preserving what you have and preserving connectivity that you had and less diversifying into new markets, is that fair?

Drew Wells - *Allegiant Travel Company - VP of Revenue & Planning*

Largely fair. We've had one route announcement that was relatively small by our standards, less than 10 routes. Kind of strengthening where we're strong, particularly from a destination perspective. And those have all started off quite well. We haven't had our first flight on any of those yet, but still in the booking phase there. But certainly, I would agree that there's more that will come from this.

Duane Thomas Pfennigwerth - *Evercore ISI Institutional Equities, Research Division - Senior MD*

And then just for my follow-up on non-airline, I apologize if this is in the disclosure. But can you just tell us where non-airline revenue and cost and kind of loss was here in the third quarter? I imagine it's a lot skinnier. And what your outlook is going forward? It feels like what we should be solving to is sort of the airline CASM-X from 2019, not the overall CASM-X. But would appreciate your thoughts there.

Gregory Clark Anderson - *Allegiant Travel Company - Executive VP, Principal Accounting Officer & CFO*

It's Greg again. Thanks for the question. And yes, I think the spirit of what you mentioned is correct. It's the focus back on the airline. But maybe I'll just run through the 3 non-airline business lines, starting with nonstop. So that's been -- for the third quarter, that was closed down, very minimal costs associated with that. Nothing to report. No revenue there. As far as Sunseeker, similarly, it was very minimal cost, maybe $1 million or so throughout the quarter that we paid just for security or just to make sure we're protecting our investment in that asset.

And then with Teesnap, that still remains an asset held for sale. Team has done a really nice job of being self-sufficient there, restructuring that organization. That's actually turned to a positive position. So it's actually earning cash and it has for the past 6, 7 months. So -- but we'll still explore strategic options there, and we are. And we have nothing to report today, but once we have more, we'll report back on that front.

Operator

Our next question comes from Savi Syth of Raymond James.

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

Just on the fleet side, I recognize you're going to be opportunistic with things that come up. But right now, how many kind of aircraft do you have grounded? And what's your plan as you look to 2020 CASM-X being less than 2019? And is that assuming kind of 2019 levels of flying?

Gregory Clark Anderson - *Allegiant Travel Company - Executive VP, Principal Accounting Officer & CFO*

Yes. I mean we're not -- we haven't come out and given capacity guidance on '21. I was just pointing or just saying as a data point based on 2019 capacity, we would expect CASM-X to be less. But as we think about the fleet, Savi, we're going to go ahead. As far as where we sit today, we have 5 that are on storage, temporary storage. We're considering all fleet -- or flexible fleet kind of, if you will. So depending on the environment and demand, we would bring those back into service.

Last call, I think we mentioned we had identified 7 aircraft for retirement. But given the deal I just mentioned in my opening remarks, that's now up to 8. And we'll retire the majority of those through this year and with a few stragglers into next year.

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

Got it. And then just a quick question on the vouchers within ATL. It seems like maybe 65% of the ATL is vouchers. What are you seeing in terms of usage of those vouchers? And has that kind of trend changed as bookings have moved up?

Gregory Clark Anderson - *Allegiant Travel Company - Executive VP, Principal Accounting Officer & CFO*

Yes. Definitely, we've seen the voucher redemptions trend increase. So I think like pre-COVID, it was like 1% or 2%, it was really small as compared to revenue. Right now, it's at 15% to 20%. So we've definitely seen an increase. We're working through those. So I think the last report I had, Savi, since March, through the end of the quarter, we had issued about $350 million in credit vouchers. And so we've burned through, I think we're at $220 million now, so -- right? So we burned through about $130 million.

I mean the cadence of those issuance of credit vouchers has come down significantly. To put that into perspective, I think March was $150 million alone. And so -- and then I think October -- October to date is much less than September, which was less than August. So we're burning through it. But there -- we will see. But yes, I think that's -- am I missing anything, Drew, on that? Anything else you want to add?

Operator

Our next question comes from Hunter Keay of Wolfe Research.

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

A little bit more on Sunseeker. John, for you, you said you're optimistic. What did you mean by that? Are you just basically suggesting you're optimistic that this project can still occur, just not in the way that it was originally intended, not on your balance sheet? Is that what you're getting at when you say that -- when you use that word?

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

No, it more relates to the conversations we're having with people that will be able to find some sort of a solution that hopefully would involve additional equity partners. So we've had a lot of great conversations. There's several doing due diligence work. We realize it's obviously a big project for people to look at, but we've had some great conversations. So that's all I was getting at is that we're optimistic about these conversations we've had and people's level of interest.

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

I got it. Okay. And then I think probably one for Scott Sheldon. Can you elaborate on the terms of the pilot agreement that you reached last night? Is this reduction in minimum pay guarantee? I mean what gives you flexibility to grow or shrink if conditions warrant, like we've been seeing from some of your competitors? Anything you could -- and is it final or do you still have to vote on it? Can you just give us some more color on that, please?

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

Yes. Thanks for the question. Yes, so as we said back in 2Q and we communicated this to the pilot group that there was a possibility that we could furlough up to 275 folks. That would obviously drive a number of downgrades. We had already actioned 100 of those 275. That was basically as of October 1. The next 100, we were getting ready to action basically October 31.

Unfortunately, we didn't have a lot of preventative and voluntary programs in place, meaning just voluntary leaves, flexibility on when schedules are at release, so we get a better idea of what Drew and team wants to fly. So these guys -- basically, we were shooting over different possibilities literally up until late last night. So basically, our furlough profile is capped at 130. If you think about the 130, 60 of those were new hires that hadn't even been bidders on the line yet. So ultimately, the impact of the 130 and the associated 30 downgrades is minimal.

If you look at what we want to go fly even margin and even through the summer and targeting a 98 or 103 aircraft profile, we can do that very comfortably. If we want to bring these folks back, we can. So that's basically kind of the language in what was agreed to yesterday. But we didn't change rate. We didn't change the guarantee. But it's sizable savings when you think about the 30 downgrades and just the 130 that were on payroll that are no longer on.

Operator

Our next question comes from Joseph DeNardi of Stifel.

Joseph William DeNardi - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Airline Analyst*

Maury, can you talk a little bit about kind of the timing of when you think you would start to invest more meaningfully in the business again, I guess, primarily on the aircraft side? And maybe the magnitude of the investment that you think you'd be willing to make at this point?

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

Well, Joe, I think that we're going to feel that out as we go along with the ability to add airplanes with minimal cash approaches. It makes it easier for us to add new equipment. I think we'll also have the benefits of lower cash requirements for (technical Difficulty]. And so our cash balances should stay very, very nice. But I think in the next 3 years, we can add a good number of shuttles with some minimal amount of money out there, powered by the (inaudible) agents who are out there. We can do fixed rates that are, candidly, we can get an A320 now for a release rate that's the same as we're paying for a A319 on the depreciation stuff.

The other piece of this is we like to own airplanes, particularly as you get mid-level, towards the back-end of their lives. You don't want to be returning older airplanes. It's tough to do that on a lease basis. So we think we can still structure deals where we effectively reverse the purchase. Instead of putting your money down upfront with debt, you let the owner of the airplane carry the paper, and we buy it out of the backside.

So when you think about that, you don't have to put much capital up, you can add the shells. I think we'll have to just see. We debate inside and go fast, make -- just take your time. But as the data reveals itself, it appears there's opportunities out there. And 1 or 2 things we can do, we can certainly grow shells where we can replace 319 perhaps with 186-seat airplanes.

You can get an airplane with 186 seats, 30 more seats than the 319 for the same ownership cost. The marginal cost to fly that airplane is minimal. And my way of looking at it is, I want a 747 on Sunday and I want a Cessna on Tuesday. But I'll take the benefits of flying the 747 around during the week to have those profit potential seats on the peak days.

Joseph William DeNardi - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Airline Analyst*

Maury, are you on the go-fast or the take-your-time side of the argument?

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

Yes.

Joseph William DeNardi - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Airline Analyst*

Okay. Okay. And then maybe a question for Drew. Just on the network side, can you talk about kind of the level of competition that you're seeing now? And then probably more importantly, what -- how much less competitive the network will be on the other side of this as you're thinking about it?

Drew Wells - *Allegiant Travel Company - VP of Revenue & Planning*

Yes. We've certainly seen level of competition come down over the last 6 to 8 months. There's been a handful of new leisure-oriented markets announced by other carriers on top of us. By and large, those have already been competitive routes, so they're incrementally new to us, just some incremental seats, which never a great thing, but not quite the same as new competition.

We've been heading back down -- and maybe someone else here knows the exact number -- we've down south of 15% competitive, I believe, over the last few months. So in a markedly better position than we've been in the last several years, for sure, as we began making a series of network investments that elevated that number a touch.

As we move forward, all of the routes that we talked about, pre-pandemic, only about 10% of those were competitive. And we're going to enable us to kind of build that moat even deeper and wider.

And I think as a lot of industry network decisions take place, that number will get even better as routes come open. So I could see us living in a world closer to 10% for a while. That might be a touch optimistic, but I think is plausible as we look forward in the short to medium term.

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

I think one of the things too, just to add on what Drew said, when you look at that, even on those competitive routes, the pricing environment going forward with the levels of debt that all these carriers have added is going to be very interesting. We haven't done that. So our pricing structure is not going to be completely out of whack, where the competition can't say that. I mean they're going to have interest expense that is incredible for a long time.

Operator

Our next question comes from Helane Becker of Cowen.

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

I'm not sure who, but the Stadium was referenced in, and it actually -- I haven't been there yet, but it does look like a really nice stadium. And I'm kind of wondering if you have been able to determine the revenue benefit versus the cost and what it's been -- and I know it's only been about a month or so -- what it's been so far, maybe? And where you see the track you see it going? So maybe the return on that invested capital?

Scott Wayne DeAngelo - *Allegiant Travel Company - Executive VP & CMO*

You bet. This is Scott DeAngelo. Thanks for the question. I'll give you the constructs of how we think about it. There's 2 basic ways. One is I mentioned and do a bunch of goofy big numbers in terms of billions of impressions, millions of viewers. That we take and is all able to translate into what you would have to spend to get that anyway. And as Greg mentioned earlier, we've been able to pull down by $15-or-more million in marketing based on what that investment is able to get us. So that's one way we talk about that, the cost side of the value and what we're able to take down.

And then conversely, on the revenue side, I mentioned the kind of lift we see in e-mail marketing. But the same thing is true of anything and everything we do. Because of that heightened sense of awareness, we measure the baseline lift. Let's say 1% of people get our e-mails, open them and click through, and now that goes to 1.1%, 1.2% and just play that small ballgame all the way to see what that return is. And so we measure that as well.

The line in the sand is that we need what is roughly 2/10 of a percentage point, 20 bps across everything that we do to get several million more people in the funnel over a year's time, meaning to the website. And then all other things equal, that gets us over a hurdle rate of what the investment is. So without specific numbers, that's how we think about it from a construct point of view and then how we measure it.

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

Okay. Actually that's pretty helpful. And then I know that this question was sort of asked. For my follow-up question, but Maury was breaking up, so I didn't really get the answer other than maybe he said lease rates on A320s are about equal to what they are for A319s. So are you looking at acquiring -- I mean, any aircraft that you would bring on above maybe what's already there, the 103 that was referenced as where you can end the year -- are you looking at bringing them on as owned aircraft or as leased aircraft? I would think owned aircraft would make more sense than leased aircraft.

Gregory Clark Anderson - *Allegiant Travel Company - Executive VP, Principal Accounting Officer & CFO*

This is Greg. Maybe I'll just kick it off real quick and then Robert Neal is in the room who heads -- he's our Treasurer and heads up our fleet acquisition team. The way we're looking at it is what makes the most sense and the best economics. So Maury -- I think what Maury was alluding to or getting at is there's deals out there where we don't have to put up capital upfront. We can get kind of really strong rates -- lease rates and then pay in the back-end, kind of like a reverse mortgage type thing.

But yes, so we're just looking at deals that make sense. We're not going out. We're looking at almost the onesies and twosies to see if it makes sense to either replace the existing aircraft that are coming up on heavy maintenance events or if they're -- if they're -- sorry, they're coming near retirement age as well. But with that, let me turn it over to B.J, if he has anything to add, color on that side.

Robert Neal - *Allegiant Travel Company - VP of Fleet Planning & Corporate Finance*

Yes. I think it's probably a little bit of both. I mean we want to own our aircraft at the end of the day, and most folks we work with know that. But I think near term, there's probably some really good opportunity for natural lease expiries from other carriers over the next 24 months, and that's where we've seen the most benefit.

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

What Maury was saying, just so you have that data point correct, what he was referring to, just to give you an idea of how the market is, what he was saying is that we are seeing deals with a lease rate on a 320 that's less than the ownership cost on a 319.

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

Okay. That makes more sense.

Operator

That's all the time we have for questions. I'd like to turn the call back over to Maury Gallagher for closing remarks.

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

Thank you all very much. Appreciate your inputs, and we'll see you again in another 90 days. Have a good week.

Operator

Ladies and gentlemen, this does conclude the conference. You may now disconnect. Everyone, have a great day.