A Work Project, presented as part of the requirements for the Award of a Master Degree in Finance from the NOVA – School of Business and Economics.

THE EXPANSION OF ROYAL CARIBBEAN CRUISES

CARLOTA BOTELHO DA COSTA REIS & 33823
MAFALDA ERBERT SILVA MANGO FERNANDES & 34055

A Project carried out on the Master in Finance Program, under the supervision of:

Francisco Antunes da Cunha Martins

03-01-2020

Abstract

The present master thesis “The Expansion of Royal Cruises” was developed in order to give investors’ a recommendation about Royal Caribbean Cruises, Ltd.

Royal Caribbean Ltd. is the second largest cruise line, behind Carnival Corp. Although the company was settled since 1968, it continues to innovate and keep up with new trends.

RCL will expand substantially its fleet, following the prospects of future growth in the global ocean passengers carried, worldwide.

A deep analysis was performed regarding RCL’s industry, competitors, business model, trends, financial situation, etc. which was reflected in our valuation through the Discounted Cash Flow model.

Keywords

Cruise, ships, tourism, expansion

This work used infrastructure and resources funded by Fundação para a Ciência e a Tecnologia (UID/ECO/00124/2013, UID/ECO/00124/2019 and Social Sciences DataLab, Project 22209), POR Lisboa (LISBOA-01-0145-FEDER-007722 and Social Sciences DataLab, Project 22209) and POR Norte (Social Sciences DataLab, Project 22209).

ROYAL CARIBBEAN CRUISES

COMPANY REPORT

HOTELS, RESORTS & CRUISE LINES

3 JANUARY 2020

CARLOTA REIS & MAFALDA FERNANDES 33823@novasbe.pt & 34055@novasbe.pt

The expansion of Royal Caribbean Cruises

Cruising through the end of a decade

- The tourism sector has been growing at a substantial pace. In the first two quarters of 2019, the international number of new arrivals grew 4% worldwide, in comparison to the same period in the previous year.
- The number of Global Ocean Cruise Passengers has been increasing every year, reaching the 30 million mark of passengers carried in 2019, translating into a 6.38% growth.
- To meet the expected increase in the number of passengers carried, RCL will increase its fleet by at least 19.23%, representing 31,550 additional berths.
- As a consequence, RCL will continue to present high investments levels superior a 1 billion dollars, until 2021.
- According to the valuation estimated by the *DCF* model, it was obtained a target price of $139.60 for RCL, which translates a positive return of 5.51% compared to the actual price. Considering the expected Shareholders' Gains of $2.53 it is obtained a total return of 7.42%.
- Hence, the valuation model reflects the analysts' assessments which translates into a BUY recommendation.

Company description

Royal Caribbean Cruises Ltd (RCL). Is a cruise company that operates 4 global cruise lines, being the second largest in terms of revenues. It offers more than 1,000 itineraries on all continents through their 60 ships. RCL is incorporated in Liberia with headquarters in Miami, Florida.

Recommendation:	**BUY**
Price Target FY20:	**139.60 $**
Price (as of 3-Jan-20)	**132.31 $**

Reuters: RCL.N, Bloomberg: RCL US Equity

52-week range ($)	94.50-134.80
Market Cap ($m)	28 227
Outstanding Shares (m)	209.631

Source: Bloomberg

Source: Bloomberg and Analyst Estimates

(Values in $ millions)	2019	2020F	2021F
Revenues	10 640	11 414	12 057
EBITDA	2 899	3 205	3 452
Net Profit	1 557	1 763	1 942
NOPLAT	677	402	451
CAPEX	2 234	1 175	1 301

Source: Analysts Estimates

Table of Contents

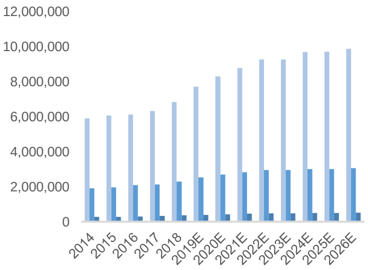
Executive summary

Company Overview

Royal Caribbean Cruises, Ltd. (RCL) is a cruise company that offers more than 1,000 destinations on all continents[1]. It was founded in 1968 as a partnership in Norway and nowadays is the second-largest cruise line in revenues. It is incorporated in Liberia although the headquarters of the group is located in Miami, Florida with offices and networks around the world.

Royal Caribbean provides cruise vacations through their numerous vessels all over the globe. It sells passenger tickets through their primary source of sales, the travel agencies partners or whether directly to the customers online. Moreover, it also offers online assistance regarding the customers’ reservations, transportations, hotel booking, if necessary, and air transportation before and after the cruise, through their *Air Transportation Program* which provides plane tickets with prices close to the cost.

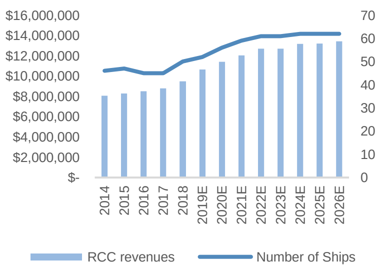
Chart 1 - RCL revenues by source



Source: Company Annual Reports; Analysts estimates

The company’s revenue streams are mostly delivered through the sale of passenger tickets and the proceeds derived from the onboard activities available and the services provided, *Chart 1.* In 2019, RCL’s revenues grew 12.07% mainly due to the increase in the sale of passengers’ tickets as well as onboard revenues, which is mostly explained with the introduction of 2 new ships. Hence, the revenues’ behaviour is positively impacted by the addition of new ships on the company’s fleet since it grants the possibility to carry more passengers and to obtain more proceeds from the cruise services, *Chart 2.*

Chart 2 - RCL total revenue and nº of ships



Source: Company Annual Reports; Analysts estimates

In order to maintain its operations running, RCL, historically, on average, spent 61% of its total revenues with operating expenses. Being commissions, transportation and others, other operating expenses (related to the ship's usage), payroll and related expenses and fuel consumption, the main operating expenses.

As for the firm’s fiscal policy, RCL taxes expenses are marginal. Alongside the other industry competitors, most of the firm’s income is exempt from taxation. Something mainly due to regimes and codes that the company’s earnings are under as is the case of *Section 883* of the U.S. Internal Revenue Code (*IRC*) and the U.K. Tonnage Act.

[1] 2018 Company Report

Company Description

Royal Caribbean Cruises Ltd (RCL), refers to the company's subsidiaries and/or affiliates, namely: "Royal Caribbean International" (RCI), "Celebrity Cruises" (CC), "Azamara Club Cruises" (ACC) and "Silversea Cruises" (SC), which constitutes the company's Global Brands. The company also owns interests in "TUI Cruises" (50% joint venture interest) and "Pullmantur" (49%), making them as Partner Brands. Collectively, they operate a total of 60 ships in the cruise vacation industry with an aggregate capacity of 135,520 berths, as of 31st December 2018.

Table 1 - RCL Global Brands, relevant numbers

	RCI	CC	ACC	SC
Nº of ships	25	13	3	9
Aggregate Capacity	82,500	26,070	21,000	2,650
Average Cruise Length	2-23	2-19	4-21	6-25
Ships on order	5	4	-	3

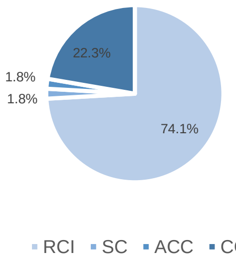
Source: Company Annual Report; Analysts estimates

The company's goal is to attract new customers while focusing on maintaining loyal guests through differentiated services, alongside an updated fleet that covers a variety of itineraries. RCL has the flexibility to capture different cruise market segments through its portfolio of brands, each with their marketing strategy and ship and crew composition.

- Global Brands

As of December 2018, RCL's Global Brands operate 50 ships, *Table 1,* in the industry with an aggregate capacity of approximately 113,320 berths. It currently has 9 ships on order until 2024, with 4 of them already available this year. Relatively to the Global Brands, RCI is the cruise line with the higher number of ships (50%), followed by CC, SC and ACC, in the same order for the percentage of passengers carried, *Chart 3*. Although the differences in marketing, target customers and capacity, Global Brands are treated as a single business given the similarities in the costs and revenue elements.

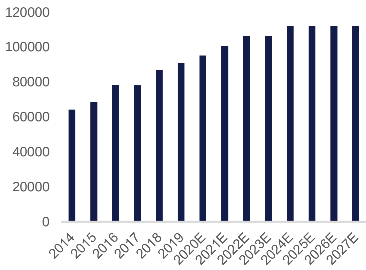
Chart 3 - Passengers carried in 2018 per brand



Source: Company 2018 Report

RCI is positioned to cover the broadest market segments within the industry. It has differentiated onboard activities such as modern waterslides, surf pools, escape rooms, skydiving simulators, bumper cars and a wide array of itineraries, which accomplished to appeal both contemporary and premium customers including families with children, younger couples and older ones. The brand operates 25 ships with an aggregate capacity of 82,500 berths and has 5 ships on order with an aggregate capacity of 25,300 berths, *Chart 4,* increasing its share within Global Brands. The cruise lengths within this brand vary between 2 and 23 nights.

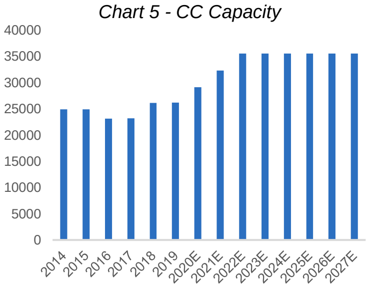
Chart 4 - RCI Capacity



Source: Company Annual Reports; Analysts estimates

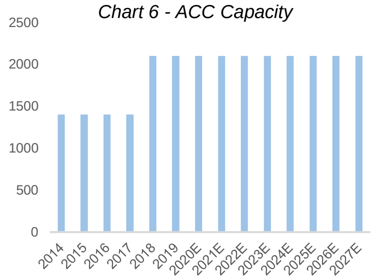
CC, however, is dedicated to the premium segment in the industry through modern and more luxurious experiences. For instance, it provides a Michelin star chef onboard, ballet theatres, luxurious spas, contemporary art exhibitions and ships conceived by engineers and designers with modern concepts. It also offers a wide

Chart 5 - CC Capacity



Source: Company Annual Reports; Analyst estimates range of routes through their 13 ships with an aggregate capacity of 26,070, *Chart 5*. It currently has 4 ships on order that will result in additional 9,400 berths.

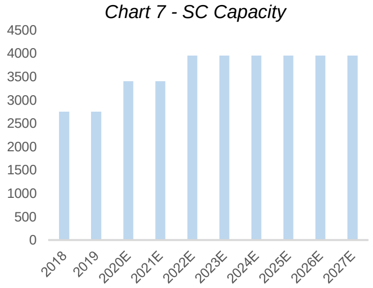
Chart 6 - ACC Capacity



Source: Company Annual Reports; Analyst estimates

ACC was intended to target a premium market though in specific geographical areas such as North America, United Kingdom and Australia. This luxurious market features small ships with higher standards of services and accommodation, as well as exotic destinations. The brands' program consists of delivering exclusive experiences through their distinctive itineraries, hence having longer cruise lengths ranging from four to 21 nights. Currently, it only operates 3 ships with an aggregate capacity of 2,100 berths, *Chart 6.*

Chart 7 - SC Capacity



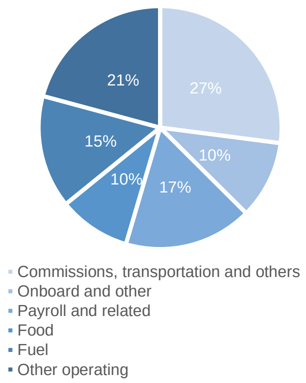
Source: Company Annual Reports; Analyst estimates

SC is also an ultra-luxury and expedition cruise line with similar characteristics as Azamara Club Cruises (smaller ships, high standards and personalized and exotic itineraries). Nonetheless, it comprises different remote destinations including the Galapagos Islands, Antarctica and the Arctic. Silversea has 3 vessels on order and operates 9 ships with an aggregate capacity of 2,650 berths, *Chart 7,* with cruise lengths ranging from 6 to 25 nights. This cruise line was only acquired in the 31st of July 2018 and it was a crucial procurement since it added more than 500 new destinations, allowing more exotic routes.

- RCL Operations – Value Drivers

As previously mentioned, RCL main source of income is a result of passenger's ticket sales and onboard revenues[2]. The average ticket price by RCL in the future must have into account the past practised prices, an adjustment to changes in inflation and likely changes resultant from the acquisition of new ships, in each respective region. The number of passengers carried is a result of the predicted occupancy rates[3] under the annual predicted capacity[4]. As for the revenues' resultant of onboard services and activities of RCL's ships, it is generated having as basis the number of cruisers carried and the individual revenues generated during a day by each one of them, having as basis historical revenues and adjustments to changes in the regional number of arrivals and inflation.

Chart 8 - RCL's historical operating expenses



Source: Company Report;

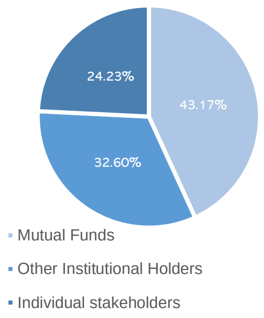
For RCL run its operations, the firm has several crucial operating expenses. Approximately 37%, *Chart 8,* of these expenses vary with the firms' revenues (commissions, transportations and others with ticket sales and onboard and other expenses with onboard revenues). Payroll and related expenses, food and other operating expenses, (representing approximately 48% of the firm's operating expenses) are highly dependent on the company's number of ships. Relatively to

[2] Also, through other revenues representing, on average, 3.6% of total revenues. Therefore, not considered as one of the main sources.
[3] Occupancy rate had in consideration the regional number of arrivals as well as the growth of the tourism sector.
[4] The predicted capacity is a consists on the Available Passengers Cruise Days (APCD) / Average cruise days.

the payroll, it relies on the cost per employee adjusted to the inflation and the number of employees per ship. Concerning food and other expenses, both depend on the cost associated for each individual ship. As for fuel expenses, represent 15 % of overall operating expenses not only depending on future changes in the oil prices but also on the firms' annual consumption.

- Shareholder Structure

Chart 9 - RCL Shareholder Structure



Source: CNN Business. 2019. Royal Caribbean Cruises Ltd

As of 14th February of 2019, Royal Caribbean's common stockholders were about 1,398[5], including institutional shareholders, with approximately 210 million shares outstanding. RCL shareholder's structure is comprised of 43.17% mutual fund holders, 32.60% other institutional holders and the remaining representing individual stakeholders, *Chart 9.* The most significant RCL's shareholders include *Arne Alexander Wilhelmsen*, which is the company co-founder and has a 12% stake. Right after there's *The Vanguard Group* with 8.55% share and *Capital Research & Management Co*. with 5.51%[6].

RCL's shareholders are mainly institutional holders, which act on behalf of their clients. This can have a negative impact on the company since this type of holders usually is more distant from the company and from their long-term objectives, which might result in a lower involvement compared to the individual shareholders. Regarding the mutual funds' investors, they can choose to disinvest, hence, the investment manager has no control and may be forced to liquidate the holding. As a result, this relationship doesn't encourage long-term commitment.

The Sector

Global Travel & Tourism and the Cruise Industry

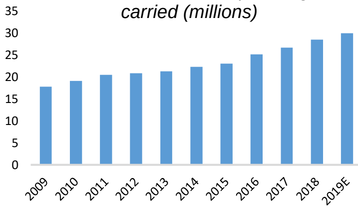
Chart 10 - International Tourism, growth in the number of arrivals

Source: World Tourism Organization (UNWTO), July 2019.

Over the decades the tourism sector has been proving to be one of the fastest growing economic sectors in the world, not only a result of persistent growth, *Chart 10,* but also a result of the diversity of the travel and entertainment options developed and the competition among the many available destinations. According to the World Tourism Organization (UNWTO), international arrivals grew 4% in the first two quarters of 2019 in comparison to the same period in the previous year.

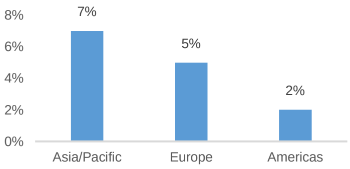
[5] 2018 Company Report
[6] MarketScreener. 2019. Royal Caribbean Cruises Ltd. Accessed 23rd October. https://www.marketscreener.com/ROYAL-CARIBBEAN-CRUISES-14206/company/

Chart 11 - Global cruise passengers carried (millions)



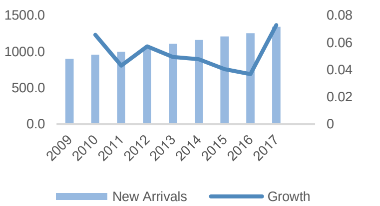
Source: CLIA, Cruise Lines International Association,2018

Chart 12 - 2018 Number of arrivals growth rate by region



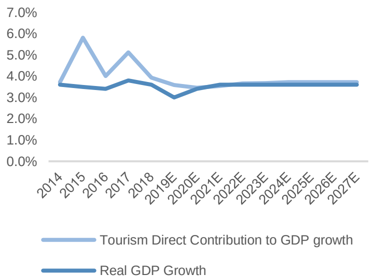
Source: UNWTO, 2018

Chart 13 - International historical new arrivals



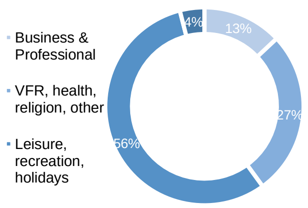
Source: UNWTO, 2018

Chart 14 - Tourism direct contribution to GDP and Real GDP growth forecast



Source: IMF. 2019. U.S. Real GDP growth; WTTC. 2019. Tourism Direct Contribution to GDP

Chart 15 - Global travelers' main purpose for destinations visits



Source: WTTC, 2018

As for the cruise industry it has been reinventing itself year after year. Nowadays, the focus is to transform the customer experience. Since the late 1960s, this industry has grown and continues to grow substantially in scale.

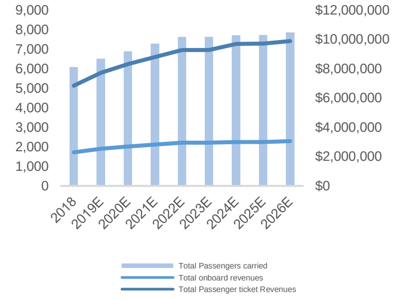
Since the word of mouth between passengers has an important impact on the decision of cruising, regardless of the company, an increase in the global cruise passengers (GCP) will affect every company. As it is possible to verify in *Chart 11,* the number of GPC has been increasing every year since 2010, having in 2018 a growth of 6.7% in relation to 2017. According to The Cruise Lines International Association (CLIA), it is expected an increase in this number, reaching the 30 million mark of passengers carried in 2019.

According to UNWTO, in 2018, Asia/Pacific has been the region with the highest growth rate, 7%, *Chart 12,* when it comes to the number of new arrivals, mainly a result by the Chinese outbound tourism[7]. The European region recorded a growth of 5%, continuing to be the world's most visited area. As for the Americas, the region presented the lowest growth of 2%, showing divergent results. In one hand the Caribbean region increased its number of arrivals by 11% mainly due to the US demand. But on the other hand, North America recorded 2% growth, while Central America (+1%).

Through the years, the tourism and cruise industry have been growing at a similar pace. From 2009 until 2017, the number of new arrivals grew on average 5.2% as for the same period, the number of global passengers carried grew at 5.23 %, *Chart 13.* When looking to the growth of the number of new arrivals as an indicator of the willingness to travel and to the tourism direct contribution to GDP growth forecast, *Chart 14,* it is expected an increase on demand. Adding this relation, the fact that in 2018[8], 56% of the travellers travelled with the purpose of *leisure, recreation or holidays, Chart 15, consolidating the positive outlook for the cruise industry*. When analysing the historical behaviour of the tourism sector, *Chart 13*, and the outlook for the future, according to UNTWO (1.6 Bn of new arrivals in 2020[9]), i*t is* expected an increase in the number of travellers in general, something that will impact the number of passengers carried. Consequently, it will also have a favourable impact on the revenues resultant from passengers tickets sales and onboard revenues*, Chart 16.* Resulting also in the increase of operational costs such as the commissions, transportation and onboard and other operational costs, *Chart 17.*

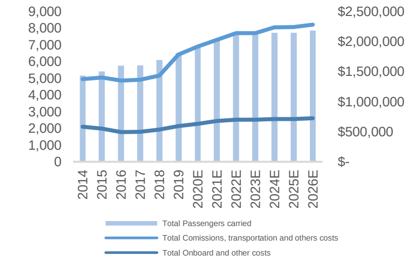
[7] UNWTO. 2019. "Chinese Outbound Tourism". Accessed 23rd October. https://www.e-unwto.org/doi/pdf/10.18111/9789284406159
[8] According to a Survey conducted by the World Tourism Organization, 2018
[9] CWW Travel. 2019. "Tourism Continues to Grow". Accessed 2 October.
https://money.cnn.com/quote/shareholders/shareholders.html?symb=RCL&subView=institutional

Chart 16 -RCL's Passengers Carried Forecast, Passengers tickets revenues and onboard revenues



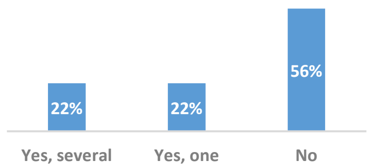
Source: Company Reports. Analysts Estimates

Chart 17 - RCL's Passengers Carried, commissions, transportation and others and onboard and other costs forecast



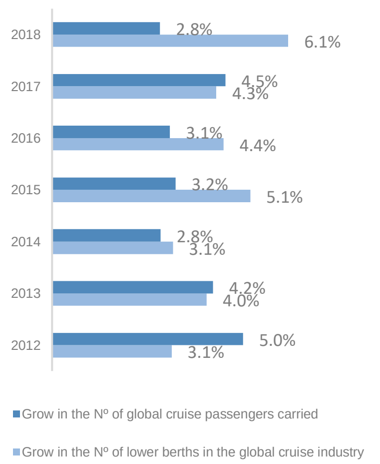
Source: Company Reports. Analysts estimates

Chart 18 - Share of U.S. travelers who have taken a cruise in the 2012-2017 period



Source: Statista Survey on US residents

Chart 19 - Growth in the number of lower berths in the global cruise industry vs the growth in the number of global cruise passengers carried



Source: Market Watch

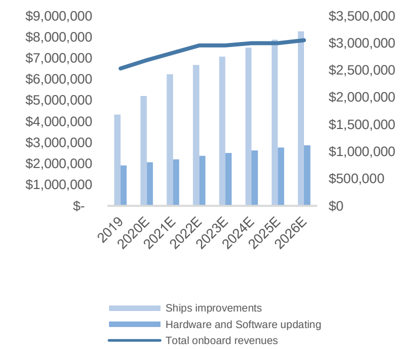
In 2018, the tourism direct contribution to the global GDP increased 3.9%, *Chart 14*, and it is expected according to the World Travel & Tourism Council (WTTC) to keep growing in 2019 and 2020. Even with occasional shocks, the receipts resultant from visitors' expenditures have been growing faster than the world economy. In 2018 the receipts grew 4.4% in comparison to the world's GDP of 3.6%. The main factors that have been leading to this positive growth have been the favourable economic environment, increase in the consumer purchasing power, the increase on the demand for air travels[10], the quick development of new technologies that have been reshaping customers travelling experience and also the new and innovative ways of payments that have been attracting younger generations.

The systematic expansion in the cruise industry went along it the main factors that have been boosting the tourism sector. The increase in income of the customer base and the rise in the income level in many countries, along the years, including economies in development contributed also to this expansion. Additionally, the majority of guests are first time cruisers, and according to *Chart 18*, in North America from 2012 to 2017, 56% of the inquired have never been on a cruise. This data shows the percentage of people that can be converted to "first-time cruisers", something that represents the potential an increase in demand, namely on the number of passengers carried for RCL. As mentioned before, this will affect the revenues resultant of cruise tickets sales and revenues on board, *Chart 16*, and the operating costs related to them, *Chart 17*. Even though the majority of the companies are focusing on attracting younger cruisers, the term "first-time cruisers" does not mean necessarily younger people. With the ageing of the world population, retired people can have the right profile to be part of this group. Not only by having more opportunities to go on cruises but also by their wealth. Attracting this type of customers will conduct to an increase in demand and creates the opportunity to increase firms' loyal customers base.

Nowadays, cruise companies are building bigger ships than ever before. Currently, the larger ships, have the capacity to take in more than 6,000 passengers, being the Symphony of the Seas of RCL, the largest ship at the moment. From 2015 until 2018, in general, the growth in the available capacity[11] has been higher than the growth in the number of cruise passengers carried, being 2017 an exception, *Chart 19.* Even though it is not a perfect and direct relation, the number of cruisers carried globally has been growing alongside the continuous increase in capacity.

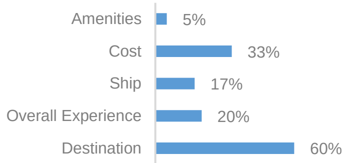
[10] The World Bank. 2019." Air Transport, passengers carried". Accessed 28th October. https://data.worldbank.org/indicator/is.air.psgr
[11] Available capacity excludes cancelled cruise days and maintenance days

Chart 20 - Onboard revenues and RCL's investment in ship improvements and others



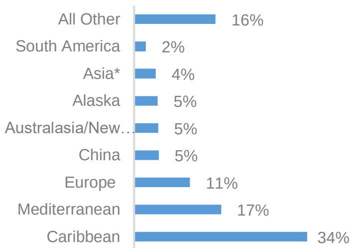
Source: Company Reports. Analysts estimates

Chart 21 - Factors Influencing Vacation Choice, 2018



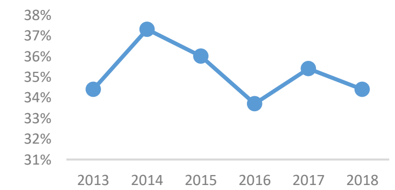
Source: CLIA. 2018. "Cruise Travel Report 2018"

Chart 22 - Global cruise industry deployment market share in 2018 by region



Source: 2019 Cruise Trends and Industry Outlook

Chart 23 - Market share of the Caribbean region in the global cruise industry's deployment from 2013 to 2018



Source: 2019 Cruise Trends and Industry Outlook

Figure 1 - 2019 Cruisers' Choice Destinations Awards, top 10

It is not expected that the demand meets straightway the supply, however, in the future, we believe that this increase is expected to be met. Besides being able to take advantage of economies of scale and to transport a superior number of passengers per ships, cruise companies are responding to consumer demand for a fuller onboard experience. For instance, by building larger ships, they can accommodate several amenities such as restaurants, bars, sports facilities, shopping centres, entertainment venues, communication centres and many others. In the end, the cruise ship is not only a way of transportation but the destination itself. Therefore, cruise lines became able to give an answer to the new travelling trends, keeping a mix of multigenerational customers based. With growth prospects in the number of passengers carried, this investment is expected to generate a positive effect on onboard revenues, *Chart 20.*

The variety of destinations available for its passengers and the different itineraries provided have also been a crucial factor for this growth. According to CLIA's 2018 cruise travel report "Cruisers use their trips as unique ways to experience and discover new destinations", being the younger generations, the ones showing more interest. Additionally, according to the same report, when it comes to the factors that influence the decision on vacation choice, for cruisers, the destination accounts for 60% of relevance, *Chart 21*.

Companies are being able to keep up with travel trends and adapting their itineraries as a result of it. In *Chart 22*, it is represented the global cruise industry deployment market share by region. Even though the Caribbean remains by far the most significant cruise market in the past 6 years, it has been losing its deployment market share, *Chart 23.* On the other hand, other regions have been becoming more trendy as for example Alaska, that in the past were thought to be an "inaccessible" destination. Even with political and financial turmoil, the Asia Pacific market has been growing at a fast paste. Namely, Singapore that has been elected as one of the top 10 destinations in 2019 by Cruisers' Choice Destination Award, *Figure 1.*

Even though this industry keeps growing at a larger scale several red flags can come up in the future. With all the luxury, new and innovative amenities and the increase in the number of cruisers, the industry is subject to several challenges such as social and cultural matters, safety and security, legal and fiscal and also environmental.

Cruise Industry: Participants

- Buyers, Suppliers, Potential Entrants

Besides the main industry players, it is important to consider several important participants, when analysing the business. First, the bargaining power of buyers which reflects the customers' ability to put a company under pressure and their influence on the company profitability. Clearly, Royal Caribbean's customers are essential to conduct the business but nonetheless, the company establishes their ticket prices according to their capacity and in order to maximize profits. The cruise industry customers can easily assess online or through travel agencies ticket prices from other competitors but are still subject to their itineraries, existing amenities and dates available. Hence, although the demand affects ticket prices due to the seasonality of the business, it only impacts until a certain level, since ultimately the company has the last call on setting the prices. Additionally, the bargaining power of the travel agencies is more relevant since they are the primary distribution channel in the industry and the main source of ticket sales. Due to the reliance on travel agencies, there is the need to practice competitive commissions because otherwise travel agents may be incentivized to sell tickets by other market participants.

As for the firm suppliers and their bargaining power, it comprises the ability of the company's suppliers to raise prices or reduce the quality of the goods delivered. The main suppliers of RCL are the ship manufacturers, who have low Bargaining Power since there is a reduced number of cruise lines and a substantial capital requirement to order a ship. Moreover, an increase in raw materials' prices can impact the shipbuilders' practised prices.

Lastly, the cruise industry is very condensed and subject to controlling organizations as CLIA which endorses policies and practices in the cruise business. This association embodies over 50 cruise brands that represent more than 95% of the cruise industry capacity[12] and hence is very influential around the regulatory and institutional policymakers, worldwide.

Since the main cruise brands dominate the market, it can be considered as an oligopoly. Nonetheless, each cruise brand has different branches that serve distinct clients and hence, different prices. New entrants would find hard to set competitive prices and develop strong brands that disrupted the resilient loyalty

programs of the competitors. Additionally, there's a huge financial barrier of acquiring ships and regulatory procedures.

Even though cruise lines also compete with other vacation alternatives for the leisure vacation segment as resorts and sightseeing destinations, the main players

[12] Carnival Corporation – 10k Annal Report 2018

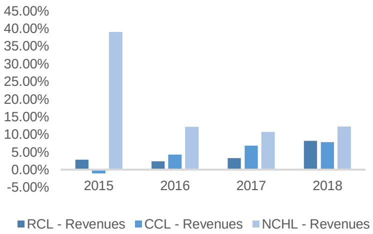
in the cruise markets are Carnival Corporation & plc (CCL), Royal Caribbean Cruises, Ltd (RCL) and the Norwegian Cruise Line Holdings Ltd (NCLH)[13]. Together these three companies are responsible for 80% of the industry market share. These three companies are all based in the US and have a very similar structure of revenues sources. The three of them, in the last five years, have presented net income margins on average between 10%-14%, *Table 2,* showing historically similar levels of profitability. The CCL has been for many years the leader of the industry caring 47.31%[14] of the industry passengers, being considered the largest cruise company in the world. The firm counts with 104 ships[15] with a passenger capacity of 237,000, declaring a revenue over $18 billion. This company serves mainly the mass and luxury market, is composed of 9 global brands, providing more than 700 ports worldwide, where over 70% of its revenues resulted from its passenger tickets sales. It is expected the addition of 3 new ships until 2022 to its fleet. Operating also in similar markets, NCLH has two global brands: Oceania and Regent. Along the years the company has been focusing on the development of a "Freestyle Cruising" experience to its customers, differentiating itself from the other two main competitors. With this strategy, NCLH makes its services available more appealing not only to younger generations and "first-time cruisers" but also to regular cruisers that want to experience something different. We believe that this strategy provides a competitive advantage to the firm. Since 2015, NCLH has been the one to evidence more revenues' growth within the three companies', *Chart 24*. Globally it has on service 21 ships reaching 420 destinations with approximately 40,000 berths. As for 2019, it will enter in service 6 new ships.

Table 2 - Cruise industry main players, relevant data

2018	CCL	RCL	NCLH
Fleet *	104	50	21
Global Brands	9	4	2
Berths	237,000	113,320	40,00
Revenues	18.9 Bn	9.5 Bn	6.1Bn
Net Income Margins**	11.60%	13.34%	12.73%

*Global brands ships
** 5 years average
Source: Companies 2018 Annual Reports

Chart 24 - Revenue Growth by company, 2015-2018



Source: Companies 2018 Annual Reports

When examining RCL's liquidity position, *Table 3,* it is possible to conclude that the firm has difficulty to meet its short-term responsibilities even if it uses all its current assets. Even though it is a clear liquidity problem this ratio level is common among the cruise industry players. Nonetheless, the situation itself implies a financial risk of not meeting its credit responsibilities. One of the main reasons behind this common situation is the deposits received from cruisers in advance, that end up as a 'current liability'. The same alarmingly situation happens when we look to the cash flow management capacity of the firm, *Table 4.* Even though a low Cash Conversion Cycle (CCC) is an ideal liquidity position, these firms present a negative CCC. Meaning that suppliers are financing the firm's operations, increasing, again the risk of not meeting its financial responsibilities. NCLH has the

Table 3 - Liquidity Ratios

2018	CCL	RCL	NCLH
Current Ratio	0.24	0.17	0.17
Quick Ratio	0.19	0.15	0.15
Cash Ratio	0.11	0.04	0.05

Source: Companies 2018 Annual Reports

Table 4 - Activity Ratio, Cash Flow Conversion Cycle (CCC)

2018	CCL	RCL	NCLH
ACP	7	12	3
AHP	15	11	23
APP	24	34	40
CCC	-2	-11	-14

Source: Companies 2018 Annual Reports

[13] Cruise Market Watch. 2019. "2018 Worldwide Cruise Line Market Share". Accessed 28th October. https://cruisemarketwatch.com/market-share/
[14] Cruise Market Watch. 2019. "2018 Worldwide Cruise Line Market Share". Accessed 28th October. https://cruisemarketwatch.com/market-share/
[15] Carnival Corporation – 10k Annal Report 2018

worst position of the three cruise lines. Being capital intensive companies, these numbers put more pressure in liquidity requirements, namely in the acquisition of debt to finance new projects.

Table 5 - Asset turnover

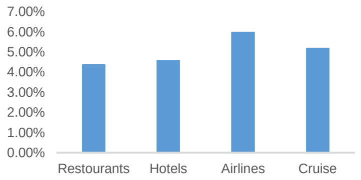
2018	CCL	RCL	NCLH
Asset Turnover	0.45	0.34	0.40

Source: Companies 2018 Annual Reports

As for the firm’s management of its assets in the most efficient way, CCL presents a better ratio, *Table 5,* but much in line with the asset turnover of RCL and NCLH. The numbers also show the potential risk that the three companies are under in terms of liquidity and the space existent to improve the efficiency of its assets in terms of revenues.

Global Travel & Tourism Industry: How are people spending their money

Chart 25 - Tourism growth on a CAGR from 2009 to 2017



Source: Deloitte, 2019 Travel and Hospitality Outlook

As previously mentioned, the main purpose of destinations visits in 2018 was for leisure, recreation and holidays, *Chart 25*. Inside the tourism industry, there are several sub-sectors such as accommodation, food and beverage services, transportation, recreation and entertainment and related industries (include travel agencies, tour operators, and others)[16]. Before analysing the cruise industry it is important to understand where the industry belongs within the tourism industry.

The cruise lines besides being a way of transportation from a place to another also belongs to the accommodation sub-sector, offering also several services that can be incorporated in the recreation and entertainment sub-sector (casinos, surf simulators, etc). Additionally, cruise lines can cover multiple locations, larger distances, and connect communities onboard. The segment can offer a level of immersion that other segments can’t provide. However, for a typical passenger, the option of cruising might be a bit riskier, raising safety concerns for reluctant travellers. Tourists that take environmentalism as a way of life might discard straight away this option. Also, the concern around the perception of “hidden costs” that can come along passengers’ holidays can be an unattractive feature.

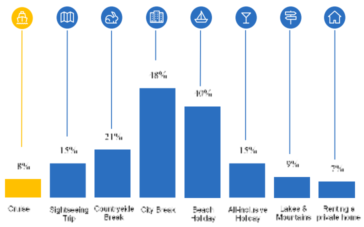
From 2009 until 2017, restaurants, hotels, airlines and cruise tourism grew on a CAGR of 4.4%, 4.6%, 6.0% and 5.2% respectively[17]. According to *Chart 25*, the cruise industry was the second sector with the highest growth in the mentioned period, right after the airline sector. Given the fact that cruise companies offer a “full-package” (flights to cruise ports, accommodation, amenities and others), the growth in the airlines' tourism can have a positive impact in the number of passengers carried, since RCL facilitates the management of booking flights to the

[16] Revfine. 2019. “Tourism Industry; Everything You Need to Know About Tourism”. Accessed 1st November. https://www.revfine.com/tourism-industry/
[17] Deloitte. 2019. “2019 Travel and Hospitality Outlook”. Accessed 30th October. https://www2.deloitte.com/content/dam/Deloitte/nl/Documents/consumer-business/deloitte-cip-ths-travel-hospitality-outlook-2019.pdf

departure ports. Hence, cruise lines have been providing an attractive way for people to spend their money.

Since leisure, recreation and hospitality represent the main drivers for people to visit other countries, it is important to give a close look at the travellers' preference for the type of holidays chosen. As it is possible to verify the *Chart 26,* City Breaks and Beach Holidays are the main preference as holiday type for travellers of the region. As for cruise tourism, it only counts with a popularity of 8%. Nonetheless, a survey conducted by Association of British Travel Agencies (ABTA), showed that 45% of the people between the age of 25-34 have never been in a cruise, and 53%[18] between the age of 18-24 have never been in a cruise either but notwithstanding, showed interest on this type of holiday. The results obtained, clearly prove the potential and the available room to grow of the tourism sector.

Chart 26 - Popular holidays type

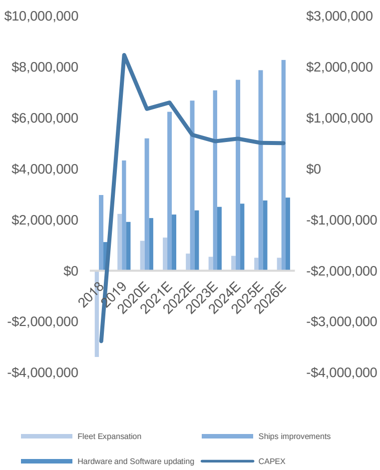


Source: ABTA, Associaton of British Travel Agents

Cruise Industry: Economic impact

The industry itself represents about 2%[19] of the overall Global Travel Industry according to *CLIA, 2019 Cruise Trends & Industry Outlook,* generating more than 1 million full-time jobs. Indirectly, the industry provides several types of jobs from food suppliers, engineers, manufacturers, port agents and authorities, transportation companies, tourist groups, hotels, etc. With an increase in the number of passengers carried over the industry globally, besides revenues, it also generates more onshore spending, contributing to the evolution of local economies.

Chart 27 - RCL's Capital Expenditures Forecast



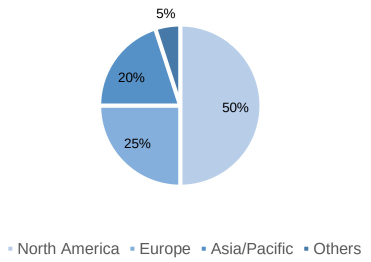
Source: Company Reports. Analyst estimates

Cruise Industry: Key factors & Challenges

As mentioned before, cruise companies and its ships are getting bigger than ever, and this increase in capacity is not happening only to RCL but also to the other 2 peers[20]. These companies are covering almost every part of the world and updating their fleets with the most recent technologies, increasing considerably its leverage in order to keep up with the respective growth. It is expected not only an investment in the acquisition of new ships but also in improving the firm's current ships and updating its software and hardware, *Chart 27*. This major investment started in FY19 and we believe that will continue to impact the firm's CAPEX plan in FY20 but in a lower amount, stabilizing in Y25-26 should stabilize. It is also

[18] ABTA. 2019. "Holiday Habits Report". Accessed 30th October. https://www.abta.com/sites/default/files/2018-10/Holiday%20Habits%20Report%202018%20011018.pdf
[19] CLIA. 2019. "2019 Cruise Trends & Industry Outlook". Accessed 30th November. https://cruising.org/-/media/research-updates/research/clia-2019-state-of-the-industry-presentation-(1).pdf
[20] Cruise Industry News. 2019. "2018-2019 State of the Industry Report". Accessed 30th November https://www.cruiseindustrynews.com/annual-cruise-industry-report.html

Chart 28 - Source of passengers carried by region 2018



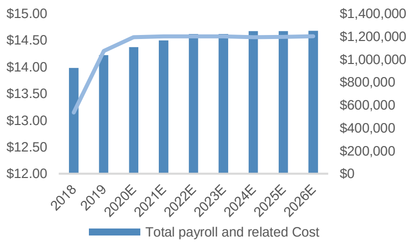
Source: CLIA – Cruise Lines International Association

important to note that this expansion plan increases the companies' exposure to risks, for instance, natural disasters, geopolitical tension, cyberattacks, and others.

As for the geographic areas, North America has the major source of cruise passengers, *Chart 28,* while the Chinese passengers represent a growing potential market. However, demand growth is not guaranteed. Both markets have been facing "periodic" challenges, such as trade political tensions. Additionally, the imminent risk of an economic downturn[21] might compromise the continued growth in the number of passengers carried. With a considerable increase in the supply, cruise companies might not be able to keep the high occupancy rates.

Being the consumer experience a priority and also the attraction of younger generations to the sector, the focus on technologies is one of the crucial elements for long-term strategies. However, in order to achieve these goals, cruise line employees will be a determinant factor. The tourism sector employs 1 in 10 people in the global economy[22], and with the perspective of increasing supply, companies will need to attract more talent. With the available workforce ageing[23] and the new generations becoming more educated with a focus on challenging and demanding careers, it can become an issue to find available talent to serve the needs of the cruise industry. Therefore, it is expected skills gap resultant of the ageing population, an increase in the overall cost per employee, *Chart 29*, and consecutively payroll-related expenses.

Chart 29 - Payroll and related expenses forecast



Source: Analysts Estimates

With all the environmental issues and challenges faced nowadays, cruise tourism growth will need to be environmentally sustainable. The cruise ships alongside with their passengers and crews produce a considerable amount of waste and CO2 emissions. Considering also all the environmental effect on the cities ports and on the routes taken by the ships, the cruise lines are responsible for 77% of marine pollution globally[24]. According to the *German watchdog Nabu Survey*, [25] a passenger that stands on the deck of a cruise ship is similar to been born in one of the world's most polluted cities evidencing the potential impact on passenger's health. With all these issues it is expected heavy regulation on cruise lines

[21] NY Times. 2019. "U.S. Economy Slows, Denying Trump 3% Talking Point". Accessed 15th November. https://www.nytimes.com/2019/07/26/business/economy/us-gdp-growth.html

[22] WTTC. 2017. "Tourism supports 1 in 10 jobs, outpacing global economy for 6th consecutive year, WTTC". Accessed 4th November.https://www.wttc.org/about/media-centre/press-releases/press-releases/2017/tourism-supports-1-in-10-jobs-outpacing-global-economy-for-6th-consecutive-year-wttc/#:~:targetText=Tourism%20supports%201%20in%2010%20jobs%2C%20outpacing%20global,for%206th%20consecutive%20year%2C%20WTTC&targetText=According%20to%20the%20research%2C%20Travel,impacts%20are%20taken%20into%20account.

[23] Delloite. 2018. "The longevity dividend: Work in an era of 100-year lives". Accessed 4th November. https://www2.deloitte.com/us/en/insights/focus/human-capital-trends/2018/advantages-implications-of-aging-workforce.html

[24] Windrosenetwork. 2018. "The Cruise Industry: Environmental Issues". Accessed 5th November. http://www.windrosenetwork.com/The-Cruise-Industry-Environmental-Issues

[25] The Independent. 2018. "Cruise ships still using 'dirtiest of all fuels' must be banned in European ports, says environmental group". Accessed 5th November. https://www.independent.co.uk/environment/cruise-ships-air-pollution-dirty-fuel-heavy-oil-europe-ports-nabu-a8502771.html

regarding environmental sustainability. For example, in this current year, sulfur emissions will be highly regulated implying new costs for cruise companies.

Macroeconomics Analysis

RCL operates in an international spectrum, macroeconomic factors regarding the regions where the company operates and where their customers are sourced will impact the company business according to the changes in the areas and their respective influence on the company. In the following section, it will be analysed relevant macroeconomic. Moreover, these factors assisted in the projection of key captions and assumptions in the valuation of RCL.

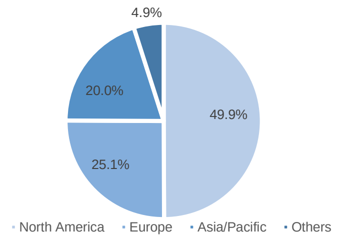
Table 6 - Industry Penetration rates per Region

Year	NA	EU	A/P
2014	3.46%	1.23%	0.06%
2015	3.36%	1.25%	0.08%
2016	3.43%	1.23%	0.11%
2017	3.56%	1.28%	0.15%
2018	3.59%	1.31%	0.19%

Source: RCL, Company Annuals Report

Royal Caribbean's macroeconomic analysis is segmented into the following four regions: North America, Europe, Asia/Pacific and Other Regions. The cruising business is nowadays a well-established holiday choice among North American and European customers, however, it is yet a developing sector in Asia and the other regions. Withal, industry penetration rates, *Table 6*, are still low and there is still a considerable number of first-time cruisers. Consequently, there is room for Royal Caribbean to expand its fleet, increasing the global passengers carried while improving its market share in the industry.

Chart 30 - 2018 Global Ocean Passengers

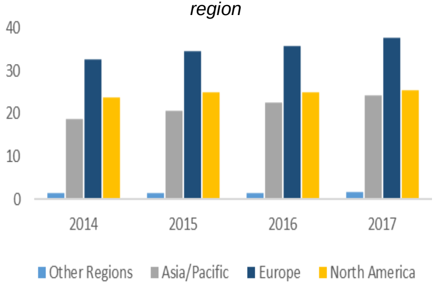


Source: CLIA – Cruise Lines International Association

North America

North America represents the region with the biggest weight in the global cruise guests, approximately 49,9% in 2018, *Chart 30*. Moreover, it is also is the area where Royal Caribbean collects more percentage of revenues and has more vessels operating in. According to the *CLIA,* North American passengers continue to present a positive growth, with an increase of 9% in 2018. Additionally, the number of arrivals in the region have been increasing for four consecutive years from 23.77 million arrivals to 25.38 million, *Chart 31*. From 2018 to 2019, North American real GDP growth decreased from 2.70% to 2.10%, *Chart 32*, which was primarily due to the international trade tensions and weak growth overseas[26]. Concerning the consumer price index, there's a substantially decrease from 2018 to 2019, with prospects for a stabilization afterwards, *Chart 33*.

Chart 31 - Number of new arrivals per region



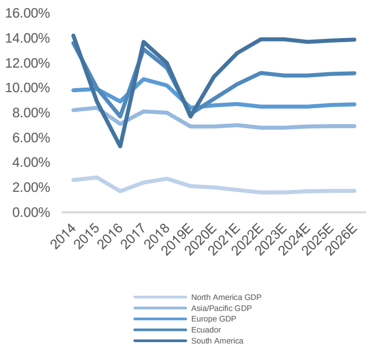
Source: The World Bank. International tourism, number of arrivals. 2017; analysts estimates

Europe

The European market is the second largest in the cruise industry, positioned behind the North America segment, representing 25.1% of the 2018 global ocean

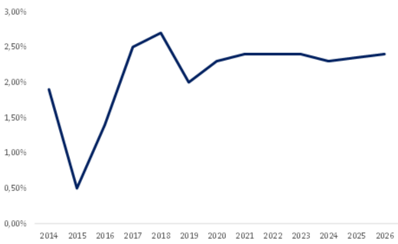
[26] NY Times. 2019. "U.S. Economy Slows, Denying Trump 3% Talking Point". Accessed 15th November. https://www.nytimes.com/2019/07/26/business/economy/us-gdp-growth.html

Chart 32 – Regions Real GDP growth



Source: IMF, 2019.

Chart 33 – U.S. Consumer Price Index



Source: IMF, 2019

passengers, *Chart 30*. In 2018, European ocean cruise passengers grew 3.3% compared to the prior year reaching 7.17 million travellers. The Western Mediterranean area continues to be the most popular itinerary within Europe, followed by Northern Europe. Additionally, the Eastern Mediterranean area presented a significant growth of 8.5%, which proves a beginning of confidence in that region[27]. German and UK & Ireland travellers continue to be the citizenship with the most volume among the total European passengers' volume.

Regarding Europe's number of new arrivals, there's a significant increase of 17,5% from 2014 to 2017, reaching 31,63 million, on average. From 2018 to 2019 the European real GDP growth decreased from 2.20% to 1.50%, which is a significative change that corresponds to the global economic slowdown. According to the IMF forecast, the European GDP growth will stabilize around 1.70% in the next years, *Chart 32*.

Asia/Pacific

In 2018, Asia/Pacific represented 20% of the global ocean passengers resulting in 5,701,000 travellers, which illustrated a positive growth of 3.9%. In 2019, there were 39 cruise brands operating in the region, totalling 79 ships. Compared to 2014, the number of ships in Asia/Pacific grew 58%. In 2019, there were 7 mega-ships (more than 3,500 capacity) and 18 large vessels (between 2,000 and 3,500 passenger's capacity) of the 79 in circulation[28]. After four years of consistent growth (2014-2017), the number of sailings experienced a slight decrease, registering 1,917 sailings in 2019 comparison to the 2,041 sailings in 2018. Nonetheless, the compounded annual growth rate in this region was approximately 31% from 2014 to 2018, *Chart 32*.

The Asia/Pacific real GDP growth will also decrease in 2020, projected by a fast recover immediately after.

Other Regions

Other regions represent the area with less impact on the company's revenues, but nonetheless comprises specific itineraries fundamental to capture all market segments, namely some exotic destinations which include Galapagos Islands, the

[27] CLIA. 2019. "2018 Europe Market Report". Accessed 14th November. https://cruising.org/-/media/research-updates/research/final-market-report-europe-2018.pdf
[28] . CLIA. 2019. "Asia Cruise Deployment & Capacity Report". Accessed 14th November. https://cruising.org/-/media/research-updates/research/2019-asia-deployment-and-capacity---cruise-industry-report.pdf

Panama Canal, South America, Antarctica and Arctic. In 2018, representing 5% of the global ocean passengers, reaching 1,406,000 travellers.

It was retrieved data about the prospects of the real GDP growth in Ecuador and in the South America region in order to know the region financial situation, *Chart 32*. It is possible to observe a substantial increase in the real GDP growth from 2019 to 2022. This strength in the economy is favourable to the tourism sector and therefore, RCL.

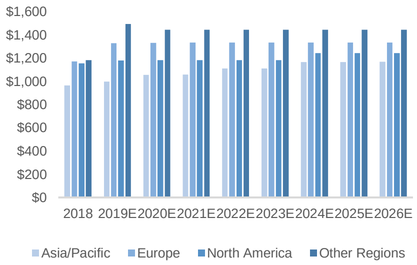
Valuation

In order to evaluate Royal Caribbean Cruises Ltd. and give a recommendation to investors, it was performed the Discounted Cash Flow Model (*DCF*).

Value Drivers – Revenues

With the purpose of forecasting Royal Caribbean's revenues, it was defined the core value drivers related to this caption and then applied to each of the four regions (Asia/Pacific, North America, Europe and Other Regions). Hence, RCL's revenues are segmented into Passenger Ticket Revenues, Onboard Revenues and Other Revenues as previously mentioned. Moreover, to obtain nominal values, it was considered the inflation rate of the United States, since the reporting currency is in U.S. dollars.

Chart 34 - Average Ticket Price per Region



Source: Analysts estimates

- ### Passenger Ticket Revenues

Regarding the passenger ticket revenues, it represents around 72% of the revenues and it incorporates the sale of passenger tickets and air transportation to the ships. The drivers selected, *Table 7*, for this section were the Number of Passengers Carried and the Average Ticket Price per Passenger.

Table 7 – Passenger Ticket Revenues, Value Drivers

Passenger Ticket Revenues
Number of Passengers
APCD
APCD per ship
ships
Occupancy Rate
∆ Number of Arrivals
Average Ticket Price per Passenger
U.S. Inflation Rate

Concerning, the Number of Passengers Carried, it relies on a cruise metric of capacity, the Available Passengers Cruise Days (APCD) and the Occupancy Rate. The APCD represents double occupancy per cabin (also known as berth), multiplied by the number of cruise days in a year. Additionally, to forecast the capacity, it was considered the APCD per ship with the number of ships operating in the year.

In regards to the Occupancy Rate, it is assessed with the past occupancy rate, considering the growth in the number of new arrivals in each region, *Chart 34*. An Occupancy rate above 100%, implies that more than two passengers occupied the same cabin.

In relation to the Average Ticket Price per Passenger forecast, it was obtained historical past practised prices adjusted to the U.S. inflation rate, which globally averaged $1,241.

- Onboard and Other Revenues

Table 8 - Onboard and Other Revenues, Value Drivers

Onboard and Other Revenues
Passengers Cruise Days (PCD)
APCD
Occupancy Rate
Revenue per Passenger per Days
Real GDP growth
U.S. inflation rate

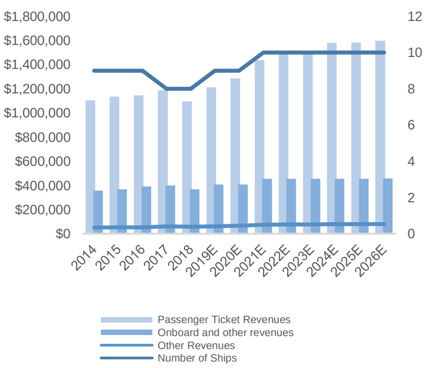
The Onboard and Other Revenues comprise the sales of goods/services onboard of Royal Caribbean Cruises ships as well as some percentage of revenues of third-party concessionaires and bareboat charters. It also includes procurement and management related services that RCL performs on behalf of unconsolidated affiliates. This section represents about 25% of RCL's total revenues. Onboard and Other revenues were further decomposed into Passengers Cruise Days (PCD) and the Revenues per Passenger per Day, *Table 8.*

The PCD is also a cruise metric that portraits the demand through the number of days spent in the ships by cruisers given the total number of passengers carried. Consequently, it can also be accessed through the APCD and Occupancy rate previously mentioned.

The Revenue Per Passenger Per Day takes into account the U.S. inflation rate and the purchasing power of consumer through the GDP growth. Moreover, the highest values observed in this caption, according to the respective region, were in the same year as the highest values on the passenger ticket prices revenues. From FY14-26E, the expected global revenues per passenger, per day, onboard is $56.15.

- Other Revenues

Chart 35 - Asia / Pacific Revenues



Source: Company Annual Reports; Analysts Estimates

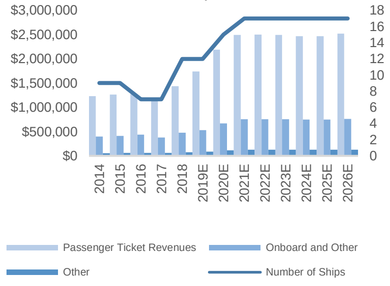
Historically, other revenues have been representing around 3% of total revenues. This component does not result from a specific source of revenues[29] and has been constant over the fiscal years with prospects to continue to present the same percentage. Consequently, they are expected to grow alongside the other two sources of income. The value drivers considered were applied and adjusted regarding each region behaviour.

Regional Impact

From the forecasted revenues of Asia/Pacific, it is possible to mention a significant growth in passenger ticket revenues in 2021 in comparison to the selected years (2014 to 2026), *Chart 35*. In this year, it is expected an increase in the number of passengers carried accompanied with the introduction of a new ship in the region,

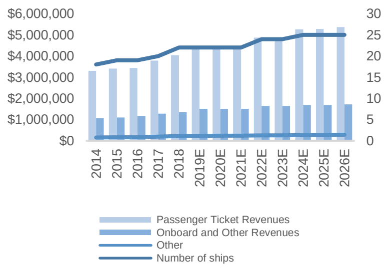
[29] Other revenues are the result of cancellation fees and other small sources of income for example

Chart 36 - Europe Revenues



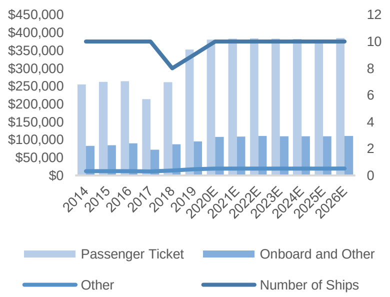
Source: Company Annual Reports; Analysts Estimates

Chart 37 - North America Revenues



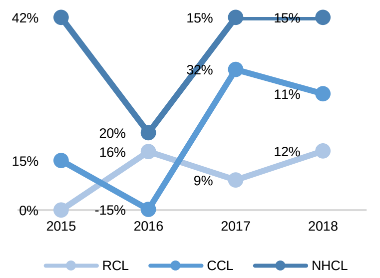
Source: 2018 Annual Report; Analysts Estimates

Chart 38 - Other Regions Revenues



Source: 2018 Annual Report; Analysts Estimates

Chart 39 - RCL, CCL and NCLH historical operating margin



Source: Companies respective annual reports.

namely *Oasis 5*, that will generate additional 5,500 berths. Furthermore, there’s an expected increase in the number of arrivals in the region of 0.02%.

Regarding the European Passengers Ticket Revenues, the highest growth forward is observed in 2020. This is due to the fact that Royal Caribbean will introduce three new ships in that region, namely Odyssey of the Seas, Celebrity Apex, and Silver Moon, combining a total of 7,700 berths in the region, *Chart 36.* In addition, the number of European arrivals is expected to grow in 2020 by 0.02%.

The height of the North American passenger ticket revenues is forecasted to be in 2022, *Chart 37*, for the same reasons above mentioned. It is expected the introduction of 2 new vessels: *Iron Class 1 and Edge 4*, with an aggregate capacity of 8,850 berths. The North America region represents the itinerary which contributes more to the company revenues. Keeping that in mind and according to the ticket revenues forecast, we can observe a positive growth.

As previously mentioned, Other Regions represent more exotic and “inaccessible” destinations, nonetheless key to address a broader market. In terms of revenues, represents about 4% of the total receipts. Since it provides more exclusive destinations, it also charges the highest ticket price *Chart 38.* It is expected the highest growth in 2020 with the acquisition of *Silver Origin*, adding 100 berths of capacity.

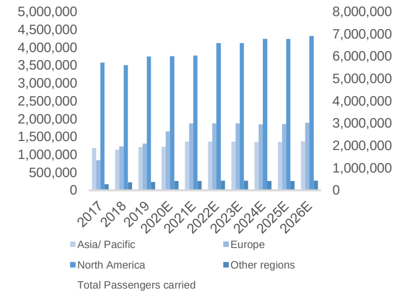
Operating Margin

With a strong and defined expansion plan in line for the future, it is important to pay a close look at the operating margin and its forecast. Historically, namely from 2014 to 2018, RCL’s operating margin has been growing on average 11%, annually. Even though it is a positive profitability ratio and during the mentioned period the company presents the same margin as CCL, in comparison to NCLH operating margin of 23%, it is considerably lower, *Chart 39.*

The main drivers of this slowdown on RCL’s operating margin come with the general increase of the firm’s cruise line operating costs. The commissions, transportations and others and the onboard and other costs are expected to increase since they are directly impacted with the revenues resultant from the ticket sells and from the onboard revenues, respectively, for each region. In order to attract and retain customers, RCL has an “Air2Sea program”[30]. This program enables RCL’s customers to pay a lower airfare for their ticket flight to the

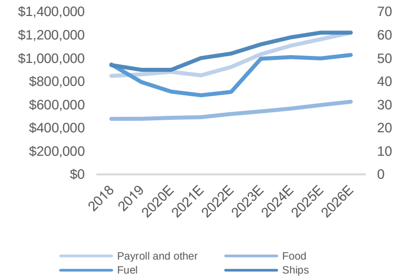
[30] Royal Caribbean International. 2019. “Air & Ground – Cruise Transportation”. Accessed 16th November. https://www.royalcaribbean.com/plan-a-cruise/transportation

Chart 40 - RCL's passengers carried forecast by region and globally



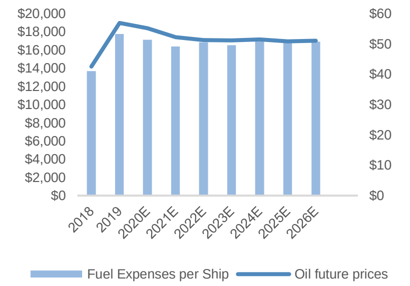
Source: Company Annual Reports; Analysts Estimates

Chart 41 – Operating costs and RCL's number of ships, forecast



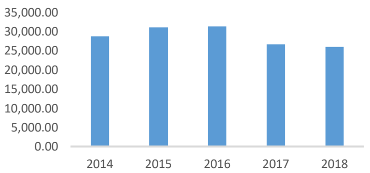
Source: Company Annual Reports; Analysts Estimates

Chart 42 - Historical and forecast fuel expenses per ship



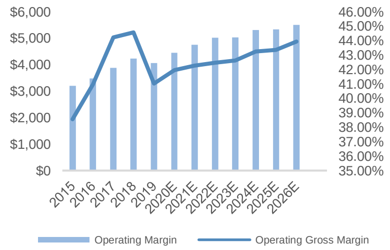
Source: Company Annual Reports; Analysts Estimates

Chart 43 - Historical RCL's annual fuel consumption per ship



Source: Company Annual Reports

Chart 44 – RCL's Operating Margin



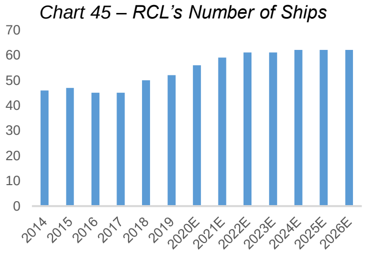
Source: Company Annual Reports; Analysts Estimates

departure port (and return). Additionally, the company offers a 110% refund in the form of a shipboard credit, if the difference in price paid by cruisers is not the lowest airfare in the market. This program comes with costs, and with the expected increase in the number of passengers carried, *Chart 40*, the cost of the air transportations is also expected to increase.

With the introduction of more 12 ships on the horizon, several costs that without these acquisitions were expected to remain relatively the same as Payroll, Food related costs (assuming an occupancy rate above 100%) or the amount of fuel consumed (adjusted to oil market prices) are expected to increase *Chart 41*. Something that will result in slower growth of the operating margin, in comparison to the past results but still a positive variation. With an overall increase of capacity, mainly for North America and Europe regions, it is expected an increase in the mentioned costs. By increasing the number of ships, more staff will be needed in order to maintain the standards of high quality required for this competitive industry. Additionally, it is also expected an increase in the payroll expenses per employee, given the new technological updates and mechanical alterations and acquisitions to RCL's fleet, adjusted to each country inflation. The same reasoning regarding capacity increase should be applied to the expenses with food and operating and others.

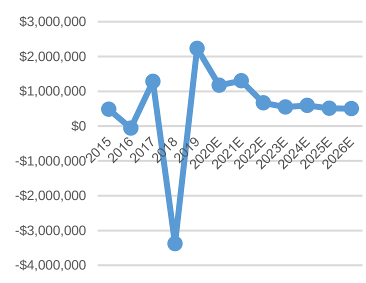
Even with hedging instruments, oil prices fluctuations can have a strong impact on the final earnings of the company's year. With the increase of ships number conducting to higher general fuel expenses, FY20 will be marked by the beginning of the reduction of these expenses for RCL, *Chart 42*. Since the expected oil prices are anticipated to smoothly decrease. Additionally, RCL has been adopting strategies to use "less energy", as for example the harnessing of ships wasted engine heat, the adjustment of ships speeds in other to optimize its fuel efficiency or the use of solar panels, in order to partially offset these costs fluctuations. Adding to this strategy, the acquisition of more energy-efficient ships since FY16 to its fleet, contributed to the reduction of fuel consumption from FY16 to FY18, *Chart 43*. Even with this more fuel efficiency strategy, given the capacity and size of the new acquired ships, as the Spectrum of the Seas that entered in service in 2019, with 4,250 berths and the Odyssey of the Seas that is expected to enter in service in 2020 with the same capacity, the fuel expenses per ship are expected to rise in these two years. After FY20, fuel expenses are expected to slowly decrease but remaining more less the same, going along with expected future oil prices

Chart 45 – RCL's Number of Ships



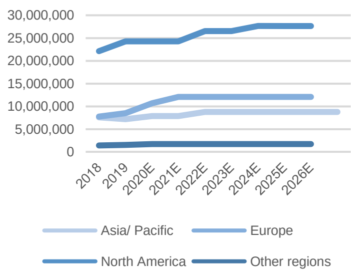
Source: Company Annual Reports; Analysts Estimates

Chart 46 - RCL's Capital Expenditures Forecast



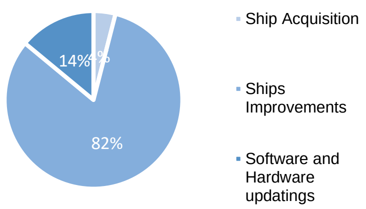
Source: Company Annual Reports; Analysts Estimates

Chart 47 - RCL'S APCD per region forecast



Source: 2018 Annual Report; Analysts Estimates

Chart 48- RCL's 2020 Capital expenditures structure



Source: Analysts Estimates

Moreover, as for FY20, RCL is expected to have an operating gross margin of 43%, presenting an upward trend afterwards, *Chart 44.*

Investment Strategy

Similar to the main players in the cruise industry, RCL has ongoing an expansion strategy. Besides being adding new ships to its fleet, more precisely 12 until 2024, *Chart 45*, it is also focused on updating and improving its current fleet. The firm's main goal, as already mentioned, is to attract the younger generations and the travellers that never went on a cruise, being the RCL's investment strategy crucial to achieving this.

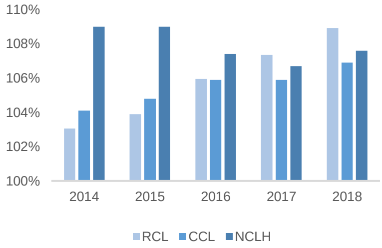
Therefore, with a focus in the addition of new ships, current fleet improvements and the introduction of new technologies and the software and hardware updating, it is expected that by FY21 the cruise company reach its higher capital expenditures level after FY19 highest level of investment, *Chart 46*. Given RCL strong competitors, it is foreseen that the main changes regarding investment are made before the end of 2021, as a result of the urgent need to meet its customers' expectations and recent trends. After FY21, these expenditures are expected to decrease.

The four regions where RCL operates, will all suffer an increase in the available capacity mainly until 2022, *Chart 47*. Besides the new ships on order being bigger, mainly on the Royal Caribbean International cruise line, they are the new generation of ships. Something that will be reflected on the individual ship costs contributing to the increase of the company capital expenditures. These acquisitions expense correspond to approximately 4% in FY20, a result of a gradual expansion strategy, *Chart 48.*

As for the ship improvements investment, it is expected to continually grow. Given the RCL's considerably large fleet size and its will of having a more energy-efficient and updated to the market trends fleet a continuous investment is expected. These improvements should be done gradually, given the ongoing ships acquisitions strategy. In 2020, it is expected that 82% of the capital expenditures come from improvements on the current fleet ships.

As for the software and hardware updating, it is also expected to go much in line with the ship's improvement, given the focus of becoming more and more energy-efficient and constant new regulation. Additionally, new technologies and digital tools are also in cruise customers' expectations. Therefore, it is anticipated that these expectations shall be met.

Chart 49 - Historical RCL, CCL and NCLH occupancy rates

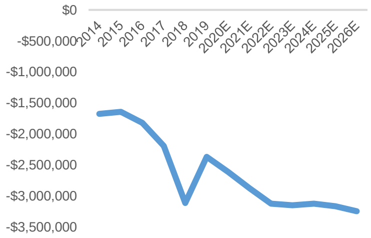


Source: Companies Annual Report

Historically, the cruise industry has been recording occupancy rates above 100 % from 2014 until 2018, [31]*Chart 49*. When looking to industry results and comparing with RCL's main competitors, the company has been presenting better occupancy rates in 2017 and 2018. Something that signals a positive outlook for the efficiency of the firm's investment strategy in the future on attracting more customers.

Net Working Capital

Chart 50 - RCL's Net Working Capital, Forecast



Source: Analysts Estimates

Historically, RCL has been presenting a negative net working capital, as previously corroborated in the firm's activity ratios, namely in it is the cash conversion cycle, these negative values were expected. The main reason behind these results is due to the firm's Customers Deposits. The deposits received from the sale of passenger cruise tickets are initially recorded as a liability since the service isn't immediately delivered. Thereafter, the company reorganizes this caption to Passengers Tickets Revenues, but only during the duration of the cruise. This measure of liquidity is expected to be slightly constant from FY22 onwards, *Chart 50*. In terms of liquidity, this is not a good position for RCL. However, this position is typical for the rest of the industry, nonetheless the risk that comes with it.

WACC

In order to discount the future cash flows projected for RCL, the Weighted Average Cost of Capital (*WACC*) was considered and calculated. Several assumptions were made regarding the *WACC* components. Keeping in mind while valuing through Discounted Cash Flows Model (*DCF*), it considers that the company capital structure remains constant.

Assumptions

In order to understand at which rate the company would be expected to pay on average to finance all its assets, the *WACC*, a target capital structure was defined. A comparison between RCL capital structure, in market values, with the average capital structure of the industry, using as proxy the industry main players (CCL, RCL and NCLH) on market values, *Table 9.*

Table 9 - RCL, NCLH and CCL

Company	D/EV	E/EV	D/E
RCL	30%	70%	42%
NCLH	35%	65%	55%
CCL	23%	77%	29%
Average	*29%*	*71%*	*42%*

Source: Bloomberg

Assuming that RCL's net debt book value as a proxy of its true net market value, the equity market value of RCL was computed through market capitalization. In October 2019, the firm's last adjusting closing price was off 118.86$, leading to a

[31] Cruise Industry News. 2019. "Cruise Industry News Annual Report and Industry Growth Forecast". Accessed 18th November. https://www.cruiseindustrynews.com/annual-cruise-industry-report.html

market capitalization of $22 Billion. Therefore, the RCL debt-to-equity structure in market values was off 0.42. As for the industry average capital structure, having as base the last four years (FY14 to FY18), the implied average Debt-to-EV also of 29% and an Equity-to-EV of 71%.

After analyzing the two results, it was possible to see that they are both much in line, conducting to the usage of the industry average capital structure inherent leverage and equity ratios to compute the WACC.

Cost of Debt

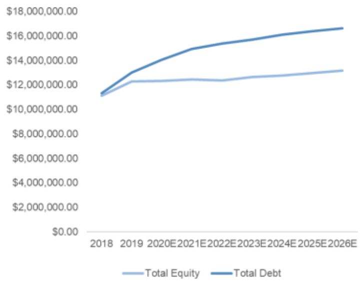
The way used to obtain the cost of debt was through the Default Risk Premium process. The bond used as proxy was one of the Royal Caribbean Cruises that matures in 15/10/2027 with a yield to maturity of 3.3133%. Moreover, the bond credit rating attributed by S&P is BBB-. In addition, the cumulative probability of default rate for a bond maturing in approximately 8 years and rated BBB is 2.76%, resulting in an annual probability of default of 0.35%. Hence, being the cost of debt equal to the yield to maturity minus the probability of default times the loss given default, we came to a result of 2.03%

Cost of Equity

The Cost of Equity applied in the *WACC* was calculated through the Capital Asset Pricing Model (*CAPM*). As for the risk-free, it was considered the 10-year US Government Bond yield as a proxy, yielding 1.78% in 19^{th} of November of 2019. Regarding the systematic risk of the CAPM, the beta, it was first computed the Raw Beta through the regression of the excess return of the company stock and the market risk premium from 01/01/2016 to 08/11/2019 on a weekly basis. The S&P index was used as a proxy for the market return. Through the regressions, it was obtained with 95% confidence a beta of 0,93 for RCL, with a lower and upper bound of 0.82 and 1.03, respectively. This result showed that firm is exposed to the systematic risk of 0.93, meaning that its returns move alongside with the market, without considering the impact of debt, but with less volatility than if the beta was superior to 1. Royal Caribbean's peers underwent through the same procedure to achieve their raw betas. Carnival Corp presents a beta of 0,89 while NCLH has a value of 0,98. Afterwards, in order to obtain a proxy for the industry beta, we computed an average of the four cruise lines and relevered through the industry target *D/E* ratio. By relevering this beta with the industry *D/E* ratio proxy, adding back the risk that comes with debt, RCL presented an equity beta of 1.32, representing the additional volatility that comes with debt. Finally, it was obtained a final cost of equity of 9.29%.

Debt-to-Equity Ratio

Chart 51 - Total Debt and Equity forecast



Source: Company 2018 Annual Report; Analysts estimates

Cruise industry main players' capital structure is mainly characterized for having, in general, more equity than debt. On average, they have a debt-to-equity ratio (*D/E*) of 0.42. As for the current moment, RCL has a *D/E* ratio of 0.42, being in line with the industry if using these three companies as a proxy. In the past 5 years, the firm has been financing is ships acquisition through debt, for the near future is expected that the funding needs to keep being financing by the same source of capital. Therefore, until 2024 it is expected an increase in this ratio even though it is expected to stabilize when the expansion strategy starts to stabilize, *Chart 51*. Given the verified changes in the *D/E* ratio, a target *D/E* ratio of 0.42 (the industry proxy) was considered for the purpose of *WACC* calculations.

As for the firm's payout ratio, alongside with the firms funding needs for its new acquisitions, it is expected that this ratio remains constant for the near term. As a payout reduction, seems very unlikely given the signal that sends to the market, an increase during the next five years, through a conserve view does not seem likely either. However, it can be expected a future increase of this ratio once, again, the available capacity of the firm stabilizes, and its contractual obligations become lighter.

Discounted Cash Flows Model

After an extensive analysis to RCL business and operations, financial results, peers and the industry where is in, the firm's total value estimated was of $42,754 *million*. Through the usage of the *DCF* model into a valuation horizon until FY2026, applying a terminal growth rate (*g*) of 2.74%. and subsequently, discounting the computed core cash flows at a *WACC* of 7.17%, the firm's total worth was obtained. 29% of the firm total value 'belongs' to debtholders making the firm's equity holders owners of $28,688 million[32]. Therefore, we expect a share price of $139.60.

Perpetuity Growth

After several consecutively periods of investment in news ships and fleet updates in FY26, we believe the firm reaches a steady state. Even though in this year the firm rate of return on new invested capital (*RONIC*) is of 14%, a substantial value

[32] Non-assets were added back to the EV to obtain RCL equity value.

for a steady state, the reinvestment rate (*RR*) was estimated to be of 16%. Therefore, the terminal growth rate (*g*) obtained for the perpetuity is 2.74%, not overpassing the forecasted World Economy real growth rate of 3.60%[33]. Given the firm historical behaviour when it comes to investment and growth and adding the fact of the industry itself is very concentrated in the three main players, we believe the firm will keep seeking opportunities to reinvest and innovate its business model.

Bearing in mind the impact of the *g* to the firm value and the uncertainty that goes along with the DCF model it was performed a sensitivity analysis to possible changes in the *g* and in the Weighted Average Cost of Capital (*WACC*).

Through the performance of this analysis, it is possible to observe the effect of the *WACC* and the *g*, on the company's share price. Hence, the share price of the company might vary from $93 and $351 if the growth rate and *WACC* lay between [2.66%;2.80%] and [5.0%;8.4%] respectively, *Table 10.*

Additionally, it is possible to infer that a 1% increase/decrease on the cost of capital has a greater impact than a 1% increase/decrease on the growth rate, hence being the share price more sensible to discount rate changes. As *Table 10*

Table 10 - Sensitivity Analysis to WACC and g, Output

		Growth Rate (g)							
		2.66%	2.68%	2.70%	2.72%	**2.74%**	2.76%	2.78%	2.80%
WACC	5.0%	$328	$331	$334	$337	$340	$344	$347	$351
	5.2%	$297	$299	$302	$304	$307	$310	$313	$315
	5.4%	$270	$272	$274	$276	$279	$281	$283	$286
	5.6%	$247	$249	$250	$252	$254	$256	$258	$260
	6.0%	$209	$210	$212	$213	$215	$216	$218	$219
	6.4%	$179	$180	$181	$182	$184	$185	$186	$187
	6.8%	$155	$156	$157	$158	$159	$159	$160	$161
	7.2%	$136	$137	$138	$139	$139	$140	$141	$142
	7.6%	$120	$120	$121	$122	$122	$123	$123	$124
	8.0%	$105	$106	$106	$107	$108	$108	$109	$109
	8.4%	$93	$94	$94	$95	$95	$95	$96	$96

Source: Analysts calculations

show for *WACC* values superiors to 7.2%, if the firms keep a growing at a *g* superior to 2.66% the firm will be destroying value. Given this sensitivity of the g, the results show us the importance of keeping the rates on invested capital superior to the cost of capital, otherwise, the firm will lose value.

Scenario Analysis

Table 11 - Scenario Analysis, Output

Scenarios	Share Price	Probability
Worst Case	$120.14	5%
Base Case	$139.60	85%
Best Case	$161.77	10%
Target Share Price	$140.84	

Source: Analysts estimates

The occupancy rate is a relevant value driver of RCL that has a considerable implication on the company's revenues, in each region. Hence, it was developed a scenario analysis, *Table 11,* having as basis the forecasted values, in order to study the impact of a change in the occupancy rate in RCL's valuation.

[33] World long-term real GDP growth for the FY2026

Given the fact that RCL is not the only company increasing its capacity, it exists the possibility of not meeting full occupancy rates given its direct competition. Therefore, a pessimistic scenario was considered, named Worst Case Scenario, with a 5% probability of occurrence which reflects a 5% decrease in the occupancy rate. This would result in a 13.94% decline in RCL's share price to $120.14.

On the other hand, an optimistic scenario is also taken into account, with 10% probability, which reflects a 5% increase in the occupancy rate. This will happen if the firm successfully presents a strong proposal of cruising experience versus its main competitors, increasing its passengers market share. Consequently, an increase in the cruise line occupancy enhances its value by 15.88% to $161.77.

Consequently, according to the changes in occupancy rates considered and their respective probabilities, RCL estimated share price would be $140.84.

This driver is a relevant element in RCL's revenues, and through this analysis, it is possible to infer that a significant change in the occupation rate might substantially impact the company value.

Scenario Analysis - Occupancy Rate

Worst Case Scenario								
Occupancy decreases 5%								
Probability - 5%	**2019**	**2020E**	**2021E**	**2022E**	**2023E**	**2024E**	**2025E**	**2026E**
Average occupancy rate	103%	103%	103%	103%	103%	103%	103%	104%
Total Revenues	$10 269 027	$10 885 734	$11 499 165	$12 112 058	$12 109 801	$12 567 378	$12 582 237	$12 817 332
Gross Margin	11%	10%	10%	10%	11%	10%	10%	10%
ROIC	0%	7%	7%	7%	7%	8%	7%	8%
Growth rate (g)	0.00%	0.00%	41.95%	85.09%	-0.18%	6.36%	-0.16%	3.26%
Share Price	$120.14							
Base Case Scenario								
Valuation developed								
Probability - 85%	**2019**	**2020E**	**2021E**	**2022E**	**2023E**	**2024E**	**2025E**	**2026E**
Average occupancy rate	107%	107%	107%	107%	107%	107%	108%	109%
Total Revenues	$10,639,561	$11,413,525	$12,056,647	$12,699,232	$12,696,872	$13,182,111	$13,197,809	$13,433,550
Gross Margin	42%	43%	43%	44%	44%	44%	44%	45%
ROIC	0%	8%	8%	9%	9%	9%	9%	9%
Growth rate (g)	0.00%	0.00%	30.21%	70.05%	-0.15%	5.95%	-0.12%	2.74%
Share Price	$139.60							
Best Case Scenario								
Occupancy increases 5%								
Probability - 10%	**2019**	**2020E**	**2021E**	**2022E**	**2023E**	**2024E**	**2025E**	**2026E**
Average occupancy rate	113%	113%	113%	113%	113%	113%	113%	114%
Total Revenues	$11 010 094	$11 941 316	$12 614 129	$13 286 407	$13 283 944	$13 796 844	$13 813 380	$14 049 768
Gross Margin	43%	44%	45%	45%	45%	46%	46%	46%
ROIC	0%	9%	10%	10%	10%	11%	10%	11%
Growth rate (g)	0.00%	0.00%	22.84%	59.27%	-0.12%	5.66%	-0.09%	2.37%
Share Price	$161.77							

Appendix

Financial Statement – Balance Sheet

Balance Sheet Forecast (*Thousands*)

CORE	2014	2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Operating Cash	$40 369	$41 495	$42 482	$43 889	$47 469	$53 198	$57 068	$60 283	$63 496	$63 484	$65 911	$65 989	$67 168
% of Revenues	*0,50%*	*0,50%*	*0,50%*	*0,50%*	*0,50%*	*0,50%*	*0,50%*	*0,50%*	*0,50%*	*0,50%*	*0,50%*	*0,50%*	*0,50%*
Trade and other receivables, net	$261 392	$238 972	$291 899	$318 641	$324 507	$353 249	$380 831	$413 314	$435 153	$429 906	$445 488	$447 585	$457 049
Inventories	$123 490	$121 332	$114 087	$111 393	$153 573	$150 776	$160 775	$169 146	$179 838	$183 130	$183 203	$183 750	$185 834
Prepaid expenses and other assets	$226 960	$220 579	$209 716	$258 171	$456 547	$333 811	$365 545	$399 280	$441 982	$455 593	$440 823	$446 802	$459 692
% of Revenues	*2,81%*	*2,66%*	*2,47%*	*2,94%*	*4,81%*	*3,14%*	*3,20%*	*3,31%*	*3,48%*	*3,59%*	*3,34%*	*3,39%*	*3,42%*
Derivative financial instruments, net	-$266 986	-$517 292	-$146 592	$51 856	-$58 911	-$53 497	-$80 199	-$25 252	-$41 837	-$44 504	-$51 542	-$47 291	-$42 650
Derivative financial instruments- Assets	$0	$134 574	$0	$99 320	$19 565	$66 380	$47 829	$56 204	$47 285	$54 217	$51 178	$52 016	$50 970
Fuel swaps	*$0*	*$8 239*	*$0*	*$21 023*	*$13 770*	*$13 773*	*$13 655*	*$13 486*	*$13 462*	*$13 386*	*$13 291*	*$13 201*	*$13 131*
Fuel Consumption	*1 352 000*	*1 400 000*	*1 409 000*	*1 332 000*	*1 350 100*	*1 372 775*	*1 365 969*	*1 355 211*	*1 361 014*	*1 363 742*	*1 361 484*	*1 360 363*	*1 361 651*
Δ Fuel Consumption		*3,55%*	*0,64%*	*-5,46%*	*1,36%*	*0,02%*	*-0,86%*	*-1,24%*	*-0,18%*	*-0,56%*	*-0,71%*	*-0,67%*	*-0,53%*
Foreign currency forward contracts	*$0*	*$126 335*	*$0*	*$78 297*	*$5 795*	*$52 607*	*$34 175*	*$42 718*	*$33 824*	*$40 831*	*$37 887*	*$38 815*	*$37 839*
Derivative financial instruments- Liabilities	*-$266 986*	*-$651 866*	*-$146 592*	*-$47 464*	*-$78 476*	*-$119 877*	*-$128 028*	*-$81 456*	*-$89 122*	*-$98 721*	*-$102 719*	*-$99 308*	*-$93 620*
Fuel swaps	*-$227 512*	*-$330 993*	*-$141 018*	*-$44 531*	*-$38 003*	*-$38 011*	*-$37 684*	*-$37 218*	*-$37 152*	*-$36 942*	*-$36 680*	*-$36 434*	*-$36 240*
Fuel Consumption	*1 352 000*	*1 400 000*	*1 409 000*	*1 332 000*	*1 350 100*	*1 372 775*	*1 365 969*	*1 355 211*	*1 361 014*	*1 363 742*	*1 361 484*	*1 360 363*	*1 361 651*
Δ Fuel Consumption		*3,55%*	*0,64%*	*-5,46%*	*1,36%*	*0,02%*	*-0,86%*	*-1,24%*	*-0,18%*	*-0,56%*	*-0,71%*	*-0,67%*	*-0,53%*
Foreign currency forward contracts	*-$39 474*	*-$320 873*	*-$5 574*	*-$2 933*	*-$40 473*	*-$81 865*	*-$90 344*	*-$44 238*	*-$51 971*	*-$61 778*	*-$66 039*	*-$62 874*	*-$57 380*
Property and equipment, net	$18 046 049	$18 551 262	$19 851 630	$19 493 712	$22 788 847	$25 022 679	$26 197 248	$27 497 947	$28 166 939	$28 709 192	$29 297 763	$29 804 240	$30 308 419
Capitalized Operating leases - Assets	$189 519	$226 516	$309 797	$241 468	$677 316	$402 496	$450 642	$500 469	$527 261	$573 770	$528 485	$549 264	$565 994
% Property and equipment	*1,05%*	*1,22%*	*1,56%*	*1,24%*	*2,97%*	*1,61%*	*1,72%*	*1,82%*	*1,87%*	*2,00%*	*1,80%*	*1,84%*	*1,87%*
Goodwill	$420 542	$286 764	$288 386	$288 512	$1 378 353	$1 378 353	$1 378 353	$1 378 353	$1 378 353	$1 378 353	$1 378 353	$1 378 353	$1 378 353
Δ Goodwill (hold it constant)		*31,81%*	*-0,57%*	*-0,04%*	*-377,75%*								
Fuel Swaps, net	-$270 254	-$325 055	-$86 910	$37 839	-$55 391	-$55 403	-$54 926	-$54 247	-$54 150	-$53 845	-$53 463	-$53 104	-$52 822
Fuel Swaps - Assets	*$0*	*$0*	*$14 151*	*$52 063*	*$9 791*	*$9 793*	*$9 709*	*$9 589*	*$9 572*	*$9 518*	*$9 450*	*$9 387*	*$9 337*
Fuel Consumption	*1 352 000*	*1 400 000*	*1 409 000*	*1 332 000*	*1 350 100*	*1 372 775*	*1 365 969*	*1 355 211*	*1 361 014*	*1 363 742*	*1 361 484*	*1 360 363*	*1 361 651*
Δ Fuel Consumption		*3,55%*	*0,64%*	*-5,46%*	*1,36%*	*0,02%*	*-0,86%*	*-1,24%*	*-0,18%*	*-0,56%*	*-0,71%*	*-0,67%*	*-0,53%*
Fuel Swaps - Liabilities	*-$270 254*	*-$325 055*	*-$101 061*	*-$14 224*	*-$65 182*	*-$65 196*	*-$64 635*	*-$63 836*	*-$63 722*	*-$63 363*	*-$62 913*	*-$62 491*	*-$62 159*
Fuel Consumption	*1 352 000*	*1 400 000*	*1 409 000*	*1 332 000*	*1 350 100*	*1 372 775*	*1 365 969*	*1 355 211*	*1 361 014*	*1 363 742*	*1 361 484*	*1 360 363*	*1 361 651*
Δ Fuel Consumption		*3,55%*	*0,64%*	*-5,46%*	*1,36%*	*0,02%*	*-0,86%*	*-1,24%*	*-0,18%*	*-0,56%*	*-0,71%*	*-0,67%*	*-0,53%*
Foreign currency forward contracts, net	-$100 646	$0	-$68 165	$153 908	-$5 264	*-$4 033*	*$15 289*	*$18 347*	*$35 649*	*$11 998*	*$15 450*	*$19 347*	*$20 158*
Foreign currency forward contracts - Assets	*$63 981*	*$0*	*$0*	*$161 672*	*$12 423*	*$47 615*	*$44 342*	*$53 210*	*$63 853*	*$44 289*	*$50 662*	*$51 271*	*$52 657*
Foreign currency forward contracts - Liabilities	*-$164 627,00*	*$0,00*	*-$68 165,00*	*-$7 764,00*	*-$17 687,00*	*-$51 648,60*	*-$29 052,92*	*-$34 863,50*	*-$28 203,20*	*-$32 291,05*	*-$35 211,85*	*-$31 924,51*	*-$32 498,82*
Intangible Assets, net	$848 766	$662 840	$288 386	$288 512	$1 378 353	$1 378 353	$1 378 353	$1 378 353	$1 378 353	$1 378 353	$1 378 353	$1 378 353	$1 378 353
Δ intangibles		*-21,91%*	*-56,49%*	*0,04%*	*377,75%*								
Accounts payable	-$331 505	-$302 072	-$305 313	-$360 113	-$488 212	-$432 102	-$466 281	-$503 931	-$545 658	-$549 179	-$541 648	-$546 516	-$555 414
Accrued expenses and other liab.	-$635 138	-$658 601	-$692 322	-$903 022	-$899 761	-$930 231	-$1 017 908	-$1 098 959	-$1 182 079	-$1 156 993	-$1 191 590	-$1 200 830	-$1 227 123
% revenues	*-7,87%*	*-7,94%*	*-8,15%*	*-10,29%*	*-9,48%*	*-8,74%*	*-8,92%*	*-9,11%*	*-9,31%*	*-9,11%*	*-9,04%*	*-9,10%*	*-9,13%*
Customer deposits	-$1 766 914	-$1 742 286	-$1 965 473	-$2 308 291	-$3 148 837	-$2 669 999	-$2 937 514	-$3 217 414	-$3 479 129	-$3 506 405	-$3 494 067	-$3 535 475	-$3 626 869
Period to deliever the service (days)	-79	-76	-83	-95	-119	-90	-93	-96	-99	-99	-95	-96	-97
INVESTED CAPITAL CORE BUSINESS	**$16 785 644**	**$16 804 454**	**$18 131 608**	**$17 716 475**	**$22 548 589**	**$24 927 649**	**$25 827 274**	**$26 915 689**	**$27 304 170**	**$27 872 852**	**$28 401 518**	**$28 890 466**	**$29 316 142**
Δ Invested Capital Core Business		*0,1%*	*7,9%*	*-2,3%*	*27,3%*	*10,6%*	*3,6%*	*4,2%*	*1,4%*	*2,1%*	*1,9%*	*1,7%*	*1,5%*
FINANCIAL	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020E**	**2021E**	**2022E**	**2023E**	**2024E**	**2025E**	**2026E**
Excess Cash	$148 872	$80 070	$90 121	$76 223	$240 383	$154 693	$157 045	$175 808	$195 274	$212 235	$197 661	$199 098	$206 217
% of Revenues	1,84%	0,96%	1,06%	0,87%	2,53%	1,45%	1,38%	1,46%	1,54%	1,67%	1,50%	1,51%	1,54%
Interest Rate Swaps	-$65 768	-$67 371	-$52 433	-$39 179	-$16 949	-$48 340	-$44 854	-$40 351	-$37 935	-$37 686	-$41 833	-$40 532	-$39 667
Capitalized Operating Leases	-$189 519	-$226 516	-$309 797	-$241 468	-$677 316	-$328 923	-$356 804	-$382 862	-$397 475	-$428 676	-$378 948	-$388 953	-$395 383
Commercial paper	$0	$0	$0	$0	-$775 488	$0	$0	$0	$0	$0	$0	$0	$0
Accrued interest	-$49 074	-$38 325	-$46 166	-$47 469	-$74 550	-$51 117	-$51 525	-$54 165	-$55 765	-$57 425	-$53 999	-$54 576	-$55 186
Openning Debt		-$8 443 948	-$8 527 243	-$9 387 436	-$7 539 451	-$10 002 211	-$12 752 907	-$13 769 914	-$14 658 323	-$15 077 537	-$15 389 661	-$15 838 683	-$16 113 097
Closing Debt		-$8 482 273	-$8 573 409	-$9 434 905	-$7 614 001	-$10 053 328	-$12 804 433	-$13 824 079	-$14 714 088	-$15 134 961	-$15 443 661	-$15 893 259	-$16 168 283
Average Debt		-$8 463 111	-$8 550 326	-$9 411 171	-$7 576 726	-$10 027 769	-$12 778 670	-$13 796 996	-$14 686 205	-$15 106 249	-$15 416 661	-$15 865 971	-$16 140 690
Overall Interest Rate		3,26%	3,27%	3,98%	3,34%	3,53%	3,61%	3,49%	3,55%	3,55%	3,53%	3,54%	3,54%
Long-term debt	-$8 443 948	-$8 527 243	-$9 387 436	-$7 539 451	-$10 002 211	-$12 752 907	-$13 769 914	-$14 658 323	-$15 077 537	-$15 389 661	-$15 838 683	-$16 113 097	-$16 338 365
Δ Nº of Ships		2,17%	-4,26%	0,00%	11,11%	4,00%	7,69%	5,36%	3,39%	0,00%	1,64%	0,00%	0,00%
NET FINANCIAL ASSETS	**-$8 599 437**	**-$8 779 385**	**-$9 705 711**	**-$7 791 344**	**-$11 306 131**	**-$13 026 594**	**-$14 066 053**	**-$14 959 892**	**-$15 373 437**	**-$15 701 213**	**-$16 115 803**	**-$16 398 059**	**-$16 622 384**
Δ Net Financial Assets		*2,1%*	*10,6%*	*-19,7%*	*45,1%*	*15,2%*	*8,0%*	*6,4%*	*2,8%*	*2,1%*	*2,6%*	*1,8%*	*1,4%*
Noncontrolling Interests	**$0**	**$0**	**$0**	**$0**	**$542 020**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**
EQUITY	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020E**	**2021E**	**2022E**	**2023E**	**2024E**	**2025E**	**2026E**
Total Shareholders Equity	$8 284 359	$8 063 039	$9 121 412	$10 702 303	$11 105 461	$12 303 257	$12 336 069	$12 452 858	$12 377 522	$12 641 423	$12 765 941	$12 989 527	$13 167 223
D/E	1,04	1,09	1,06	0,73	1,02	1,06	1,14	1,20	1,24	1,24	1,26	1,26	1,26
Δ Nº of Ships		2,17%	-4,26%	0,00%	11,11%	4,00%	7,69%	5,36%	3,39%	0,00%	1,64%	0,00%	0,00%
Transactions with Shareholders		$221 320	-$1 058 373	-$1 580 891	-$403 158	-$468 734	-$530 724	-$584 678	-$642 327	-$640 517	-$693 259	-$692 982	-$731 813
Payout Ratio	0,32	0,44	0,29	0,28	0,30	0,30	0,30	0,30	0,30	0,30	0,30	0,30	0,30

Financial Statement – Income Statement

Income Statement Forecast (*Thousands*)													
CORE													
North America	2014	2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Revenues	**$4 530 646**	**$4 657 028**	**$4 767 758**	**$5 260 801**	**$5 617 779**	**$6 136 578**	**$6 174 714**	**$6 196 137**	**$6 760 116**	**$6 759 087**	**$7 217 820**	**$7 227 519**	**$7 370 126**
Revenues - Passenger tickets revenues	$3 307 372	$3 399 630	$3 432 786	$3 787 777	$4 044 801	$4 412 581	$4 440 159	$4 462 278	$4 873 672	$4 871 171	$5 261 909	$5 270 471	$5 374 936
Revenues - Onboard other revenues	$1 070 393	$1 100 251	$1 174 089	$1 274 528	$1 355 150	$1 498 478	$1 501 448	$1 499 900	$1 633 480	$1 633 480	$1 684 467	$1 685 603	$1 718 052
Revenues - Other	$152 882	$157 146	$160 883	$198 496	$217 828	$225 519	$233 107	$233 959	$252 965	$254 437	$271 445	$271 445	$277 137
Cruise operating expenses:													
Commissions, transportation and others	-$770 339	-$786 047	-$757 372	-$816 985	-$848 384	-$1 018 077	-$1 024 440	-$1 029 543	-$1 124 461	-$1 123 884	-$1 214 035	-$1 216 011	-$1 240 113
% of passenger ticket revenues	-23,29%	-23,12%	-22,06%	-21,57%	-20,97%	*-23,07%*	*-23,07%*	*-23,07%*	*-23,07%*	*-23,07%*	*-23,07%*	*-23,07%*	*-23,07%*
Onboard and other	-$327 010	-$310 374	-$276 960	-$296 998	-$317 968	-$351 598	-$352 295	-$351 932	-$375 700	-$375 700	-$387 427	-$387 689	-$395 152
% of onboard other revenues	-30,55%	-28,21%	-23,59%	-23,30%	-23,46%	*-23,46%*	*-23,46%*	*-23,46%*	*-23,00%*	*-23,00%*	*-23,00%*	*-23,00%*	*-23,00%*
Payroll and related	-$475 654	-$483 585	-$495 435	-$511 220	-$547 340	-$597 367	-$608 146	-$608 754	-$664 096	-$664 096	-$691 074	-$691 420	-$691 766
Food	-$268 303	-$269 357	-$272 536	-$295 383	-$308 237	-$312 200	-$313 137	-$313 450	-$341 946	-$341 946	-$355 837	-$356 015	-$356 193
Fuel	-$531 629	-$446 564	-$400 479	-$408 213	-$420 492	-$573 762	-$554 181	-$522 701	-$559 276	-$558 180	-$586 292	-$578 276	-$581 318
Other operating	-$604 687	-$565 598	-$611 690	-$605 855	-$671 376	-$719 044	-$721 201	-$721 922	-$787 551	-$787 551	-$819 546	-$819 955	-$820 365
Total cruise operating expenses	**-$2 977 621**	**-$2 861 526**	**-$2 814 471**	**-$2 934 653**	**-$3 113 797**	**-$3 572 048**	**-$3 573 400**	**-$3 548 302**	**-$3 853 029**	**-$3 851 357**	**-$4 054 212**	**-$4 049 366**	**-$4 084 907**
Result/Operational Margin (North America)	**$1 553 025**	**$1 795 502**	**$1 953 287**	**$2 326 148**	**$2 503 982**	**$2 564 530**	**$2 601 315**	**$2 647 835**	**$2 907 087**	**$2 907 730**	**$3 163 608**	**$3 178 154**	**$3 285 218**
Asia/ Pacific	2014	2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Revenues	**$1 511 370**	**$1 553 529**	**$1 590 468**	**$1 651 100**	**$1 522 102**	**$1 680 025**	**$1 761 198**	**$1 967 940**	**$2 043 312**	**$2 042 980**	**$2 114 087**	**$2 116 766**	**$2 138 552**
Revenues - Passenger tickets revenues	$1 103 300	$1 134 076	$1 145 137	$1 188 792	$1 095 913	$1 211 873	$1 286 638	$1 438 010	$1 511 228	$1 510 452	$1 580 042	$1 582 494	$1 598 920
Revenues - Onboard other revenues	$357 070	$367 031	$391 662	$400 010	$367 170	$406 412	$408 071	$455 623	$455 623	$455 623	$454 540	$454 771	$459 216
Revenues - Other	$51 000	$52 422	$53 669	$62 298	$59 019	$61 741	$66 489	$74 307	$76 461	$76 905	$79 506	$79 500	$80 416
Cruise operating expenses:													
Commissions, transportation and others	-$256 976	-$262 216	-$252 650	-$256 410	-$229 864	-$279 605	-$296 855	-$331 780	-$348 673	-$348 494	-$364 549	-$365 115	-$368 905
% of passenger ticket revenues	-23,29%	-23,12%	-22,06%	-21,57%	-20,97%	*-23,07%*	*-23,07%*	*-23,07%*	*-23,07%*	*-23,07%*	*-23,07%*	*-23,07%*	*-23,07%*
Onboard and other	-$109 087	-$103 537	-$92 391	-$93 213	-$86 151	-$93 475	-$93 856	-$109 350	-$109 350	-$109 350	-$109 090	-$109 145	-$110 212
% of onboard other revenues	-30,55%	-28,21%	-23,59%	-23,30%	-23,46%	*-23,00%*	*-23,00%*	*-24,00%*	*-24,00%*	*-24,00%*	*-24,00%*	*-24,00%*	*-24,00%*
Payroll and related	-$158 673	-$161 318	-$165 271	-$160 446	-$148 298	-$182 084	-$185 370	-$206 173	-$206 173	-$206 173	-$205 967	-$206 070	-$206 173
Food	-$89 503	-$89 854	-$90 915	-$92 706	-$83 515	-$95 162	-$95 448	-$106 159	-$106 159	-$106 159	-$106 053	-$106 106	-$106 159
Fuel	-$177 345	-$148 968	-$133 595	-$128 117	-$113 930	-$174 889	-$168 921	-$177 028	-$173 631	-$173 291	-$174 737	-$172 348	-$173 255
Other operating	-$201 716	-$188 677	-$204 052	-$190 147	-$181 905	-$219 173	-$219 830	-$244 500	-$244 500	-$244 500	-$244 256	-$244 378	-$244 500
Total cruise operating expenses	**-$993 299**	**-$954 571**	**-$938 874**	**-$921 039**	**-$843 664**	**-$1 044 389**	**-$1 060 281**	**-$1 174 990**	**-$1 188 485**	**-$1 187 966**	**-$1 204 652**	**-$1 203 162**	**-$1 209 204**
Result/Operational Margin (Asia Pacific)	**$518 071**	**$598 958**	**$651 593**	**$730 060**	**$678 438**	**$635 636**	**$700 917**	**$792 950**	**$854 827**	**$855 014**	**$909 435**	**$913 603**	**$929 348**
Europe	2014	2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Revenues	**$1 683 176**	**$1 730 128**	**$1 771 265**	**$1 568 778**	**$1 991 780**	**$2 357 984**	**$2 970 764**	**$3 381 660**	**$3 382 734**	**$3 382 187**	**$3 339 059**	**$3 344 280**	**$3 410 388**
Revenues - Passenger tickets revenues	$1 228 719	$1 262 994	$1 275 311	$1 129 520	$1 434 081	$1 740 579	$2 191 270	$2 496 660	$2 498 838	$2 497 556	$2 465 590	$2 469 605	$2 518 368
Revenues - Onboard other revenues	$397 661	$408 753	$436 185	$380 066	$480 468	$530 750	$667 342	$757 313	$757 313	$757 313	$747 895	$749 073	$763 780
Revenues - Other	$56 797	$58 381	$59 769	$59 192	$77 231	$86 656	$112 152	$127 688	$126 583	$127 318	$125 574	$125 602	$128 240
Cruise operating expenses:													
Commissions, transportation and others	-$286 188	-$292 024	-$281 370	-$243 626	-$300 794	-$401 589	-$505 573	-$576 033	-$576 536	-$576 240	-$568 865	-$569 791	-$581 041
% of passenger ticket revenues	-23,29%	-23,12%	-22,06%	-21,57%	-20,97%	*-23,07%*	*-23,07%*	*-23,07%*	*-23,07%*	*-23,07%*	*-23,07%*	*-23,07%*	*-23,07%*
Onboard and other	-$121 487	-$115 307	-$102 893	-$88 565	-$112 735	-$124 533	-$160 162	-$189 328	-$189 328	-$189 328	-$186 974	-$187 268	-$190 945
% of onboard other revenues	-30,55%	-28,21%	-23,59%	-23,30%	-23,46%	*-23,46%*	*-24,00%*	*-25,00%*	*-25,00%*	*-25,00%*	*-25,00%*	*-25,00%*	*-25,00%*
Payroll and related	-$176 710	-$179 656	-$184 058	-$152 446	-$194 059	-$211 796	-$269 522	-$305 764	-$305 764	-$305 764	-$305 458	-$305 611	-$305 764
Food	-$99 677	-$100 069	-$101 249	-$88 083	-$109 285	-$110 690	-$138 778	-$157 439	-$157 439	-$157 439	-$157 282	-$157 360	-$157 439
Fuel	-$197 505	-$165 903	-$148 782	-$121 730	-$149 085	-$203 427	-$245 606	-$262 541	-$257 503	-$256 998	-$259 144	-$255 601	-$256 945
Other operating	-$224 647	-$210 125	-$227 248	-$180 667	-$238 036	-$254 936	-$319 627	-$362 606	-$362 606	-$362 606	-$362 243	-$362 424	-$362 605
Total cruise operating expenses	**-$1 106 213**	**-$1 063 083**	**-$1 045 602**	**-$875 117**	**-$1 103 994**	**-$1 306 972**	**-$1 639 268**	**-$1 853 711**	**-$1 849 175**	**-$1 848 375**	**-$1 839 965**	**-$1 838 055**	**-$1 854 740**
Result/Operational Margin (Europe)	**$576 963**	**$667 045**	**$725 664**	**$693 660**	**$887 785**	**$1 051 012**	**$1 331 496**	**$1 527 949**	**$1 533 558**	**$1 533 811**	**$1 499 094**	**$1 506 224**	**$1 555 648**
Other regions	2014	2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Revenues	**$348 663**	**$358 389**	**$366 910**	**$297 166**	**$362 189**	**$464 973**	**$506 849**	**$510 911**	**$513 070**	**$512 618**	**$511 146**	**$509 244**	**$514 484**
Revenues - Passenger tickets revenues	$254 524	$261 624	$264 175	$213 960	$260 776	$352 539	$380 248	$382 705	$383 598	$383 298	$382 010	$380 698	$384 649
Revenues - Onboard other revenues	$82 374	$84 671	$90 354	$71 994	$87 369	$95 346	$107 466	$108 914	$110 273	$110 023	$109 913	$109 420	$110 489
Revenues - Other	$11 765	$12 093	$12 381	$11 212	$14 044	$17 088	$19 135	$19 291	$19 199	$19 297	$19 223	$19 126	$19 346
Cruise operating expenses:													
Commissions, transportation and others	-$59 283	-$60 491	-$58 285	-$46 149	-$54 697	-$81 338	-$87 731	-$88 298	-$88 504	-$88 435	-$88 138	-$87 835	-$88 747
% of passenger ticket revenues	-23,29%	-23,12%	-22,06%	-21,57%	-20,97%	*-23,07%*	*-23,07%*	*-23,07%*	*-23,07%*	*-23,07%*	*-23,07%*	*-23,07%*	*-23,07%*
Onboard and other	-$25 166	-$23 885	-$21 314	-$16 776	-$20 500	-$22 883	-$26 867	-$27 229	-$27 568	-$27 506	-$27 478	-$27 355	-$27 622
% of onboard other revenues	-30,55%	-28,21%	-23,59%	-23,30%	-23,46%	*-24,00%*	*-23,59%*	*-23,68%*	*-23,76%*	*-23,68%*	*-23,71%*	*-23,71%*	*-23,70%*
Payroll and related	-$36 605	-$37 215	-$38 127	-$28 877	-$35 288	-$44 360	-$44 085	-$42 694	-$44 009	-$43 611	-$43 394	-$43 664	-$43 578
Food	-$20 648	-$20 729	-$20 973	-$16 685	-$19 873	-$23 022	-$19 720	-$19 202	-$19 921	-$20 684	-$20 247	-$20 015	-$20 065
Fuel	-$40 912	-$34 366	-$30 820	-$23 059	-$27 110	-$43 157	-$40 691	-$37 132	-$37 541	-$37 129	-$37 290	-$36 990	-$37 093
Other operating	-$46 535	-$43 526	-$47 074	-$34 223	-$43 285	-$54 084	-$52 955	-$51 284	-$52 864	-$52 386	-$52 126	-$52 450	-$52 347
Total cruise operating expenses	**-$229 147**	**-$220 213**	**-$216 592**	**-$165 769**	**-$200 752**	**-$268 845**	**-$272 049**	**-$265 839**	**-$270 409**	**-$269 750**	**-$268 673**	**-$268 310**	**-$269 451**
Result/Operational Margin (Other Regions)	**$119 515**	**$138 176**	**$150 318**	**$131 397**	**$161 436**	**$196 129**	**$234 800**	**$245 072**	**$242 661**	**$242 868**	**$242 472**	**$240 934**	**$245 033**
CONSOLIDATED CORE	2014	2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Total Core Revenues	$8 073 855	$8 299 074	$8 496 401	$8 777 845	$9 493 849	$10 639 561	$11 413 525	$12 056 647	$12 699 232	$12 696 872	$13 182 111	$13 197 809	$13 433 550
Δ Total Sales		2,79%	2,38%	3,31%	8,16%	12,07%	7,27%	5,63%	5,33%	-0,02%	3,82%	0,12%	1,79%
Total Operating Costs	-$5 306 281	-$5 099 393	-$5 015 539	-$4 896 579	-$5 262 207	-$6 192 254	-$6 544 997	-$6 842 842	-$7 161 099	-$7 157 448	-$7 367 502	-$7 358 893	-$7 418 303
Δ Total Operating Costs		-3,90%	-1,64%	-2,37%	7,47%	17,67%	5,70%	4,55%	4,65%	-0,05%	2,93%	-0,12%	0,81%
OPERATING MARGIN	**$2 767 574**	**$3 199 681**	**$3 480 862**	**$3 881 266**	**$4 231 642**	**$4 447 307**	**$4 868 528**	**$5 213 806**	**$5 538 133**	**$5 539 424**	**$5 814 609**	**$5 838 915**	**$6 015 247**
Employee Stock-based compensation	-$26 116	-$36 073	-$32 659	-$69 459	-$46 061	-$54 389	-$61 096	-$69 492	-$66 258	-$67 612	-$69 976	-$70 330	-$69 324
% of Total compensation	3,08%	4,19%	3,70%	8,14%	4,98%	5,25%	5,52%	5,97%	5,43%	5,54%	5,62%	5,64%	5,56%
Marketing SG&A	-$1 022 836	-$1 050 431	-$1 076 083	-$1 116 557	-$1 225 283	-$1 493 814	-$1 602 480	-$1 692 775	-$1 782 995	-$1 782 664	-$1 850 792	-$1 852 996	-$1 886 095
Marketing SG&A per Revenue	12,67%	12,66%	12,67%	12,72%	12,91%	14,04%	14,04%	14,04%	14,04%	14,04%	14,04%	14,04%	14,04%
EBIDTA	**$1 718 622**	**$2 113 177**	**$2 372 120**	**$2 695 250**	**$2 960 298**	**$2 899 104**	**$3 204 953**	**$3 451 539**	**$3 688 880**	**$3 689 148**	**$3 893 841**	**$3 915 588**	**$4 059 829**
Δ EBITDA		22,96%	12,25%	13,62%	9,83%	-2,07%	10,55%	7,69%	6,88%	0,01%	5,55%	0,56%	3,68%
Depreciation and amortization expenses	-$772 445	-$827 008	-$894 915	-$951 194	-$1 033 697	-$1 146 160	-$1 210 461	-$1 278 301	-$1 317 101	-$1 327 277	-$1 356 358	-$1 382 423	-$1 406 474
Lease Depreciation Expense	-$51 653,36	-$29 285,69	-$28 433,36	-$28 858,34	-$30 961,15	-$53 036	-$46 692	-$49 285	-$52 629	-$55 011	-$55 972	-$55 332	-$56 692
Credit Loss Rate	0,18%	0,18%	0,18%	0,18%	0,18%	0,18%	0,18%	0,18%	0,18%	0,18%	0,18%	0,18%	0,18%
Capitalized Operating leases	*$189 519*	*$226 516*	*$309 797*	*$241 468*	*$677 316*	*$402 496*	*$450 642*	*$500 469*	*$527 261*	*$573 770*	*$528 485*	*$549 264*	*$565 994*
Lease Interest Expense	*$347*	*$414*	*$567*	*$442*	*$1 239*	*$736*	*$824*	*$915*	*$964*	*$1 049*	*$967*	*$1 005*	*$1 035*
Operating Lease Expenses	*-$52 000*	*-$29 700*	*-$29 000*	*-$29 300*	*-$32 200*	*-$53 772*	*-$47 516*	*-$50 200*	*-$53 594*	*-$56 061*	*-$56 939*	*-$56 337*	*-$57 727*
% of Operating Leases of Capitalizes operating leases	27,44%	13,11%	9,36%	12,13%	4,75%	13,36%	10,54%	10,03%	10,16%	9,77%	10,77%	10,26%	10,20%
Depreciation	-$720 792	-$797 722	-$866 282	-$918 636	-$996 485	-$1 088 147	-$1 157 797	-$1 221 850	-$1 256 063	-$1 265 710	-$1 293 771	-$1 320 148	-$1 343 077
Property and Equipment, net (year before)	-3,99%	-4,30%	-4,36%	-4,71%	-4,37%	-4,35%	-4,42%	-4,44%	-4,46%	-4,41%	-4,42%	-4,43%	-4,43%
Amortization	$0,00	$0,00	-$200,00	-$3 700,00	-$6 251,00	-$4 977	-$5 972	-$7 166	-$8 409	-$6 555	-$6 616	-$6 944	-$6 705
Intangible Assets (year before)	0,00%	0,00%	-0,07%	-1,28%	-0,45%	-0,36%	-0,43%	-0,52%	-0,61%	-0,48%	-0,48%	-0,50%	-0,49%
EBIT	**$946 177**	**$1 286 169**	**$1 477 205**	**$1 744 056**	**$1 926 601**	**$1 752 944**	**$1 994 492**	**$2 173 237**	**$2 371 779**	**$2 361 871**	**$2 537 482**	**$2 533 165**	**$2 653 355**
CORE RESULT	**$946 177**	**$1 286 169**	**$1 477 205**	**$1 744 056**	**$1 926 601**	**$1 752 944**	**$1 994 492**	**$2 173 237**	**$2 371 779**	**$2 361 871**	**$2 537 482**	**$2 533 165**	**$2 653 355**
NON CORE	2014	2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Silversea Cruises acquisition transaction costs	$0	$0	$0	$0	-$31 800	$0	$0	$0	$0	$0	$0	$0	$0
Impairment of Pullmantur related assets	$0	-$411 267	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Restructuring charges	-$4 318	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Equity investment income	$51 640	$81 026	$128 350	$156 247	$210 756	$221 294	$232 358	$243 976	$256 175	$268 984	$282 433	$296 555	$311 383
		56,91%	58,41%	21,74%	34,89%	5,00%	5,00%	5,00%	5,00%	5,00%	5,00%	5,00%	5,00%
Other Income (expense)	$18 602	-$24 445	-$35 653	-$5 289	$11 107	$11 662	$12 245	$12 858	$13 501	$14 176	$14 884	$15 629	$16 410
		-231,41%	45,85%	-85,17%	-310,00%	5,00%	5,00%	5,00%	5,00%	5,00%	5,00%	5,00%	5,00%
Total	$65 924	-$354 685	$92 698	$150 958	$190 063	$232 956	$244 604	$256 834	$269 676	$283 160	$297 318	$312 184	$327 793
OCI													
Foreign currency translation adjustments	-$26 102	-$30 152	$2 362	$17 307	-$14 251	$0	$0	$0	$0	$0	$0	$0	$0
Change in defined benefit plans	-$7 213	$4 760	-$1 636	-$5 583	$7 643	$0	$0	$0	$0	$0	$0	$0	$0
(Loss) gain on cash flow derivative hedges	-$869 350	-$406 047	$411 223	$570 495	-$286 861	$0	$0	$0	$0	$0	$0	$0	$0
Total	-$902 665	-$431 439	$411 949	$582 219	-$293 469	$0	$0	$0	$0	$0	$0	$0	$0
NON CORE RESULT	**-$836 741**	**-$786 124**	**$504 647**	**$733 177**	**-$103 406**	**$232 956**	**$244 604**	**$256 834**	**$269 676**	**$283 160**	**$297 318**	**$312 184**	**$327 793**
FINACIAL	2014	2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Interest Expense, net of interest capitalized	-$258 299	-$277 725	-$307 370	-$299 982	-$333 672	-$450 139	-$497 760	-$512 089	-$534 651	-$546 556	-$559 157	-$570 822	-$578 616
Total Debt	*-$8 443 948*	*-$8 527 243*	*-$9 387 436*	*-$7 539 451*	*-$10 002 211*	*-$12 752 907*	*-$13 769 914*	*-$14 658 323*	*-$15 077 537*	*-$15 389 661*	*-$15 838 683*	*-$16 113 097*	*-$16 338 365*
Overall interest rate	3,06%	3,26%	3,27%	3,98%	3,34%	3,53%	3,61%	3,49%	3,55%	3,55%	3,53%	3,54%	3,54%
Interest Income	$10 344	$12 025	$20 856	$30 101	$32 800	$21 108	$21 429	$23 989	$26 645	$28 959	$26 971	$27 167	$28 138
Δ Excess Cash		-46,2%	12,6%	-15,4%	215,4%	*-36%*	*2%*	*12%*	*11%*	*9%*	*-7%*	*1%*	*4%*
Total	-$247 955	-$265 700	-$286 514	-$269 881	-$300 872	-$429 031	-$476 331	-$488 100	-$508 006	-$517 597	-$532 186	-$543 655	-$550 478
FINANCIAL RESULT	**-$247 955**	**-$265 700**	**-$286 514**	**-$269 881**	**-$300 872**	**-$429 031**	**-$476 331**	**-$488 100**	**-$508 006**	**-$517 597**	**-$532 186**	**-$543 655**	**-$550 478**
Total Comprehensive Income	**-$138 519**	**$234 345**	**$1 695 338**	**$2 207 352**	**$1 522 323**	**$1 556 869**	**$1 762 765**	**$1 941 971**	**$2 133 449**	**$2 127 434**	**$2 302 614**	**$2 301 694**	**$2 430 670**

NOVA SCHOOL OF BUSINESS & ECONOMICS

Financial Statement – Cash Flow Statement

Cash Flows Forecast (*Thousands*)

CORE CF	2014	2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E	2024E	2025E	2026E
NOPLAT	$946 177	$1 286 169	$1 477 005	$1 740 356	$1 920 350	$1 747 967	$1 988 520	$2 166 071	$2 363 371	$2 355 316	$2 530 867	$2 526 222	$2 646 650
Depreciation	-$720 792	-$797 722	-$866 282	-$918 636	-$996 485	-$1 088 147	-$1 157 797	-$1 221 850	-$1 256 063	-$1 265 710	-$1 293 771	-$1 320 148	-$1 343 077
Gross Free Cash Flow	$225 385	$488 447	$610 723	$821 720	$923 865	$659 820	$830 723	$944 221	$1 107 308	$1 089 606	$1 237 096	$1 206 074	$1 303 573
Net CAPEX		$478 435	-$59 432	$1 280 128	-$3 382 240	-$1 140 708	-$10 800	-$71 682	$595 480	$730 012	$711 815	$820 614	$845 603
Net working capital	-$1 446 208	-$1 421 980	-$1 612 602	-$1 936 310	-$2 654 953	-$2 211 067	-$2 439 577	-$2 679 321	-$2 904 318	-$2 923 471	-$2 900 291	-$2 937 865	-$3 012 541
Change in NWC		-$24 228	$190 622	$323 708	$718 643	-$443 886	$228 510	$239 744	$224 997	$19 153	-$23 180	$37 574	$74 675
Other Assets	$484 523	$421 338	$302 537	$601 567	$1 420 132	$1 502 141	$1 480 233	$1 497 356	$1 499 063	$1 486 376	$1 489 643	$1 491 027	$1 491 317
Capitalized Operating Leases	$189 519	$226 516	$309 797	$241 468	$677 316	$402 496	$450 642	$500 469	$527 261	$573 770	$528 485	$549 264	$565 994
Adjusted Operating Assets	$674 042	$647 854	$612 334	$843 035	$2 097 448	$1 904 637	$1 930 875	$1 997 825	$2 026 323	$2 060 146	$2 018 128	$2 040 291	$2 057 311
Other Liabilities	-$1 337 005	-$1 635 522	-$1 008 140	-$972 474	-$1 061 106	-$1 166 953	-$1 239 625	-$1 279 115	-$1 363 127	-$1 351 367	-$1 392 434	-$1 394 553	-$1 415 401
Other Assets, net	-$662 963	-$987 668	-$395 806	-$129 439	$1 036 342	$737 684	$691 251	$718 710	$663 197	$708 778	$625 693	$645 738	$641 911
Change in Other Assets		$324 705	-$591 862	-$266 367	-$1 165 781	$298 658	$46 434	-$27 459	$55 513	-$45 582	$83 085	-$20 045	$3 828
Investment CF		$778 912	-$460 672	$1 337 468	-$3 829 378	-$1 285 936	$264 144	$140 602	$875 990	$703 583	$771 720	$838 143	$924 106
Operating Free Cash Flow		$1 267 359	$150 051	$2 159 189	-$2 905 513	-$626 116	$1 094 867	$1 084 823	$1 983 298	$1 793 189	$2 008 816	$2 044 217	$2 227 678
NON CORE CF	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020E**	**2021E**	**2022E**	**2023E**	**2024E**	**2025E**	**2026E**
Non core Result	**-$836 741**	**-$786 124**	**$504 647**	**$733 177**	**-$103 406**	**$232 956**	**$244 604**	**$256 834**	**$269 676**	**$283 160**	**$297 318**	**$312 184**	**$327 793**
Non core Invested Capital	$98 152	$37 970	$695 515	$777 172	$405 023	$402 202	$574 847	$497 062	$446 789	$469 783	$480 225	$497 120	$473 465
Change in Invested Capital		$60 182	-$657 545	-$81 657	$372 149	$2 821	-$172 645	$77 786	$50 272	-$22 994	-$10 442	-$16 895	$23 655
Non-Operating Free Cash Flow		-$725 942	-$152 898	$651 520	$268 743	$235 777	$71 959	$334 620	$319 948	$260 166	$286 876	$295 288	$351 448
Change inNon-controlling interest		$0	$0	$0	$542 020	-$542 020	$0	$0	$0	$0	$0	$0	$0
FREE CASH FLOW		**$541 416**	**-$2 847**	**$2 810 709**	**-$2 094 750**	**-$932 359**	**$1 166 826**	**$1 419 443**	**$2 303 246**	**$2 053 355**	**$2 295 692**	**$2 339 506**	**$2 579 127**
FINANCIAL CF	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020E**	**2021E**	**2022E**	**2023E**	**2024E**	**2024E**	**2024E**
Finacial Result	**-$247 955**	**-$265 700**	**-$286 514**	**-$269 881**	**-$300 872**	**-$429 031**	**-$476 331**	**-$488 100**	**-$508 006**	**-$517 597**	**-$532 186**	**-$543 655**	**-$550 478**
Net Financial Assets	-$8 599 437	-$8 779 385	-$9 705 711	-$7 791 344	-$11 306 131	-$13 026 594	-$14 066 053	-$14 959 892	-$15 373 437	-$15 701 213	-$16 115 803	-$16 398 059	-$16 622 384
Change in Financial Assets		$179 948	$926 326	-$1 914 367	$3 514 787	$1 720 463	$1 039 458	$893 840	$413 545	$327 776	$414 589	$282 257	$224 325
Net Change in Equity		-$455 665	-$636 965	-$626 461	-$1 119 165	-$359 073	-$1 729 953	-$1 825 182	-$2 208 784	-$1 863 534	-$2 178 096	-$2 078 108	-$2 252 973
FINANCING CASH FLOW		**-$541 416**	**$2 847**	**-$2 810 709**	**$2 094 750**	**$932 359**	**-$1 166 826**	**-$1 419 443**	**-$2 303 246**	**-$2 053 355**	**-$2 295 692**	**-$2 339 506**	**-$2 579 127**
Control		*TRUE*	*TRUE*	*TRUE*	*TRUE*	*$0,00*	*$0,00*	*TRUE*	*TRUE*	*TRUE*	*TRUE*	*TRUE*	*TRUE*

Disclosures and Disclaimers

Report Recommendations

Buy	Expected total return (including expected capital gains and expected dividend yield) of more than 10% over a 12-month period.
Hold	Expected total return (including expected capital gains and expected dividend yield) between 0% and 10% over a 12-month period.
Sell	Expected negative total return (including expected capital gains and expected dividend yield) over a 12-month period.

This report was prepared by *Carlota Botelho da Costa Reis and Mafalda Erbert Silva Mango Fernandes*, a Master in Finance student of Nova School of Business and Economics ("Nova SBE"), within the context of the Field Lab – Equity Research.

This report is issued and published exclusively for academic purposes, namely for academic evaluation and master graduation purposes, within the context of said Field Lab – Equity Research. It is not to be construed as an offer or a solicitation of an offer to buy or sell any security or financial instrument.

This report was supervised by a Nova SBE faculty member, acting merely in an academic capacity, who revised the valuation methodology and the financial model.

Given the exclusive academic purpose of the reports produced by Nova SBE students, it is Nova SBE understanding that Nova SBE, the author, the present report and its publishing, are excluded from the persons and activities requiring previous registration from local regulatory authorities. As such, Nova SBE, its faculty and the author of this report have not sought or obtained registration with or certification as financial analyst by any local regulator, in any jurisdiction. In Portugal, neither the author of this report nor his/her academic supervisor is registered with or qualified under COMISSÃO DO MERCADO DE VALORES MOBILIÁRIOS ("CMVM", the Portuguese Securities Market Authority) as a financial analyst. No approval for publication or distribution of this report was required and/or obtained from any local authority, given the exclusive academic nature of the report.

The additional disclaimers also apply:

USA: Pursuant to Section 202 (a) (11) of the Investment Advisers Act of 1940, neither Nova SBE nor the author of this report are to be qualified as an investment adviser and, thus, registration with the Securities and

Exchange Commission (“SEC”, United States of America’s securities market authority) is not necessary. Neither the author nor Nova SBE receive any compensation of any kind for the preparation of the reports.

Germany: Pursuant to §34c of the WpHG (*Wertpapierhandelsgesetz*, i.e., the German Securities Trading Act), this entity is not required to register with or otherwise notify the *Bundesanstalt für Finanzdienstleistungsaufsicht* (“BaFin”, the German Federal Financial Supervisory Authority). It should be noted that Nova SBE is a fully-owned state university and there is no relation between the student’s equity reports and any fund raising programme.

UK: Pursuant to section 22 of the Financial Services and Markets Act 2000 (the “FSMA”), for an activity to be a regulated activity, it must be carried on “by way of business”. All regulated activities are subject to prior authorization by the Financial Conduct Authority (“FCA”). However, this report serves an exclusively academic purpose and, as such, was not prepared by way of business. The author - a Master’s student - is the **sole and exclusive responsible** for the information, estimates and forecasts contained herein, and for the opinions expressed, which exclusively reflect his/her own judgment at the date of the report. Nova SBE and its faculty have no single and formal position in relation to the most appropriate valuation method, estimates or projections used in the report and may not be held liable by the author’s choice of the latter.

The information contained in this report was compiled by students from public sources believed to be reliable, but Nova SBE, its faculty, or the students make no representation that it is accurate or complete, and accept no liability whatsoever for any direct or indirect loss resulting from the use of this report or of its content.

Students are free to choose the target companies of the reports. Therefore, Nova SBE may start covering and/or suspend the coverage of any listed company, at any time, without prior notice. The students or Nova SBE are not responsible for updating this report, and the opinions and recommendations expressed herein may change without further notice.

The target company or security of this report may be simultaneously covered by more than one student. Because each student is free to choose the valuation method, and make his/her own assumptions and estimates, the resulting projections, price target and recommendations may differ widely, even when referring to the same security. Moreover, changing market conditions and/or changing subjective opinions may lead to significantly different valuation results. Other students’ opinions, estimates and recommendations, as well as the advisor and other faculty members’ opinions may be inconsistent with the views expressed in this report. Any recipient of this report should understand that statements regarding future prospects and performance are, by nature, subjective, and may be fallible.

This report does not necessarily mention and/or analyze all possible risks arising from the investment in the target company and/or security, namely the possible exchange rate risk resulting from the security being denominated in a currency either than the investor’s currency, among many other risks.

The purpose of publishing this report is merely academic and it is not intended for distribution among private investors. The information and opinions expressed in this report are not intended to be available to any person other than Portuguese natural or legal persons or persons domiciled in Portugal. While preparing this report, students did not have in consideration the specific investment objectives, financial situation or

particular needs of any specific person. Investors should seek financial advice regarding the appropriateness of investing in any security, namely in the security covered by this report.

The author hereby certifies that the views expressed in this report accurately reflect his/her personal opinion about the target company and its securities. He/ She has not received or been promised any direct or indirect compensation for expressing the opinions or recommendation included in this report.

[If applicable, it shall be added: *“While preparing the report, the author may have performed an internship (remunerated or not) in* [insert the Company’s name]. *This Company may have or have had an interest in the covered company or security”* and/ or *“A draft of the reports have been shown to the covered company’s officials (Investors Relations Officer or other), mainly for the purpose of correcting inaccuracies, and later modified, prior to its publication.”]*

The content of each report has been shown or made public to restricted parties prior to its publication in Nova SBE’s website or in Bloomberg Professional, for academic purposes such as its distribution among faculty members for students’ academic evaluation.

Nova SBE is a state-owned university, mainly financed by state subsidies, students tuition fees and companies, through donations, or indirectly by hiring educational programs, among other possibilities. Thus, Nova SBE may have received compensation from the target company during the last 12 months, related to its fundraising programs, or indirectly through the sale of educational, consulting or research services. Nevertheless, no compensation eventually received by Nova SBE is in any way related to or dependent on the opinions expressed in this report. The Nova School of Business and Economics does not deal for or otherwise offer any investment or intermediation services to market counterparties, private or intermediate customers.

This report may not be reproduced, distributed or published, in whole or in part, without the explicit previous consent of its author, unless when used by Nova SBE for academic purposes only. At any time, Nova SBE may decide to suspend this report reproduction or distribution without further notice. Neither this document nor any copy of it may be taken, transmitted or distributed, directly or indirectly, in any country either than Portugal or to any resident outside this country. The dissemination of this document other than in Portugal or to Portuguese citizens is therefore prohibited and unlawful.

A Work Project, presented as part of the requirements for the Award of a Master Degree in Economics / Finance / Management from the NOVA – School of Business and Economics.

RCL – A CHANGE IN THE FISCAL PARADIGM

MAFALDA ERBERT SILVA MANGO FERNANDES, Nº34055

A Project carried out on the Master in Finance Program, under the supervision of:

Francisco Antunes da Cunha Martins

03-01-2020

Abstract

The present report “RCL – A Change In The Fiscal Paradigm” was developed in order to give a more detailed analysis regarding Royal Caribbean Cruises, Ltd fiscal context.

Even though the company was settled since 1968, it continues to innovate and keep up with new trends, continuing to grow. RCL has a history of marginal tax expenses, with prospects for the firm to continuing to grow, the impact of the change in this paradigm was analysed

A model was built through the *Discounted Cash Flow* model adjusted to the payment of corporate taxes on the firm’s income.

Keywords

Cruise Industry, Royal Caribbean, Taxes, Share Price

This work used infrastructure and resources funded by Fundação para a Ciência e a Tecnologia (UID/ECO/00124/2013, UID/ECO/00124/2019 and Social Sciences DataLab, Project 22209), POR Lisboa (LISBOA-01-0145-FEDER-007722 and Social Sciences DataLab, Project 22209) and POR Norte (Social Sciences DataLab, Project 22209).

RCL - A change in the Fiscal Paradigm

Royal Caribbean Cruises – Taxes

When looking to Royal Caribbean Cruises, Ltd (RCL) operations it is possible to understand that the firm operates on a consolidated basis. It gets together foreign companies and operates passenger cruise ships in international transportation. In a general way, most of the firm's income is exempt from taxation. Something mainly due to regimes and codes that the company's earnings are under. To start, RCL is incorporated in the Republic of Liberia[1] under the Business Corporation Act of Liberia. This country is far long known as a "*Tax Haven",* having a maritime fleet three times bigger than the United States[2]. Under the *Liberian Business Corporation Act of 1977*[3], foreign shipping income is not subject to taxation, attracting several cruise lines over the world. As RCL's subsidiaries are all incorporated on the Republic of Liberia and the firm itself is registered on the NYSE market, all its U.S. source shipping income is under the *Section 883 of the U.S. Internal Revenue Code*[4], therefore it is exempt of taxation. In case of RCL do not maintain these to variables, the mentioned incomes would be subject to the U.S. income corporate tax rate. The revenues that are not under *Section 883* are the ones that do not come from the international operation of its ships and subsidiaries, as is the case of revenues resultant of the sale of air and land transportation or shore excursions for example, which taxes are not supported by customers. Secondly, the firm has its head office of its international operations in the United Kingdom, having been able to take advantage of the UK tonnage tax regime, where it has fifteen ships registered[5].

[1] RCL, 2018 Annual Report

[2] The Offshore Manual & Directory. 2016. "Liberia - 'Flag of Convenience' Tax Haven." Accessed December13. https://www.offshore-manual.com/taxhavens/Liberia.html

[3] Liberia Corporations Registry. 2019. "Liberia Law". Accessed December 13. https://liberiancorporations.com/resources/liberian-law/

[4] Department of the Treasury – Internal Revenue Service. 2019. "Exclusion of Income From the International Operation of Ships or Aircraft Under Section 883". Accessed December 13. https://www.irs.gov/pub/irs-pdf/i1120fs.pdf

[5] Royal Caribbean. 2019. "Our Approach to Tax". Accessed December13. https://www.royalcaribbean.com/gbr/en/tax-strategy?country=irl

Exhibit 1 - Price per guest of 9-11 nights cruises for a room with a view to the ocean, in an aleatory RCL Cruise

SOUTHERN CARIBBEAN CRUISE - 10 nights		
Cruise Fare	$1,254.00	89%
Taxes & Fees	$155.38	11%
Price per guest	$1,409.38	
ALASKA INTENSIVE CRUISE - 9 nights		
Cruise Fare	$1,391.00	84%
Taxes & Fees	$271.39	16%
Price per guest	$1,662.39	
MEDITERRANEAN CRUISE - 10 nights		
Cruise Fare	$1,774.00	91%
Taxes & Fees	$181.58	9%
Price per guest	$1,955.58	
THAILAND & VIETNAM CRUISE - 9 nights		
Cruise Fare	$1,308.00	94%
Taxes & Fees	$89.27	6%
Price per guest	$1,397.27	

Source: RCL's Booking Website

This regime calculates the profits of the company having as basis the tonnage of the vessels of the ships under the regime. Even though, the majority of the firm's income is exempt of taxation, on a daily basis of its operations RCL actually pays taxes. Based on the ship's itinerary RCL's pays a fee to ports when its ships dock at a city port and taxes to local governments. The amount of port charges and taxes paid vary from city to city, but this cost is supported by passengers. In a consolidated way, these expenses can vary between 5-20% of the passenger's overall ticket price, *Exhibit 1*.

Cruise Industry Taxation Reality

RCL's reality regarding tax, general tax exemption is not an isolated case. Carnival Corporation, for example, is incorporated in Panama, and Norwegian is in Bermuda, benefitting also from similar benefits regarding tax exemption. Besides tax exemption of the majority of income, these companies must pay ports charges and taxes to local governments as RCL. Historically these charges have been supported by cruisers and given the crescent trend of landing taxes adopted by European cities these charges are expected to be reflected cruise ships tickets, *Exhibit 2*.

Exhibit 2 - RCL's average passengers ticket price, forecast

Source: Analysts estimates

As RCL, both other two main players benefit considerably because of the *U.S. Internal Revenue Code, Section 833*, explaining the extremely low effective tax rates typically paid

Exhibit 3 - Average effective tax rate by company

	Average Effective Tax Rate by company	Source
RCL	3.05%	Analist estimates
CCL	2.37%	CSI Market, CCL
NCLH	2.50%	CSI Market, NCLH
Overall	2.64%	

in the industry, *Exhibit 3*. Given the fact that this reality is common to the main three players of the industry, it was analyzed the impact of the change of this paradigm and its possible impact on the company under analysis value.

A Change of Paradigm

A change in Section 883 of the U.S. Internal Revenue Code

Sine U.S. sourced income accounts to more than 50% on these three companies, *Exhibit 4*, namely 58% on average to RCL the fiscal benefits resultant from the ruling of *section 883* can easily become a risk factor for the company.

Exhibit 4 - Average revenue percentage by region from 2016 to 2018

	Average revenue percentage by region (2016-2018)		
Revenues by geographic areas	RCL	CCL	NCLH
North America	58%	52%	61%
Europe	20%	32%	24%
Asia/ Pacific	18%	15%	8%
Other	4%	2%	7%

Source: Companies Annual Reports

The tax exemption, as already detailed, has a political nature, and with this comes insecurity resultant of a possible change of regulations or government. Even though historical this risk has not materialized this could become a reality. Therefore, it was analyzed the sensitivity of the firm's value to the possibility of change of the amount of U.S. source income exempt of taxes and even the total removal of this regime[6].

Exhibit 5 - Sensitivity Analysis - Change in Section 883, U.S. IRC

		Corporate Tax Rate										
		6.00%	9.00%	12.00%	15.00%	18.00%	21.00%	24.00%	27.00%	30.00%	33.00%	35.00%
% of Exemption	0.0%	$123.33	$120.39	$117.42	$114.44	$111.44	$108.42	$105.38	$102.32	$99.24	$96.15	$94.07
	10.0%	$124.00	$121.39	$118.77	$116.13	$113.47	$110.80	$108.11	$105.40	$102.68	$99.94	$98.11
	20.0%	$124.67	$122.40	$120.11	$117.81	$115.50	$113.18	$110.84	$108.48	$106.12	$103.73	$102.14
	30.0%	$125.34	$123.40	$121.46	$119.50	$117.53	$115.56	$113.57	$111.56	$109.55	$107.53	$106.17
	40.0%	$126.01	$124.41	$122.80	$121.19	$119.57	$117.94	$116.29	$114.65	$112.99	$111.32	$110.20
	50.0%	$126.68	$125.42	$124.15	$122.88	$121.60	$120.32	$119.02	$117.73	$116.42	$115.11	$114.24
	60.0%	$127.34	$126.42	$125.50	$124.57	$123.63	$122.70	$121.75	$120.81	$119.86	$118.91	$118.27
	70.0%	$128.01	$127.43	$126.84	$126.25	$125.67	$125.07	$124.48	$123.89	$123.29	$122.70	$122.30
	80.0%	$128.68	$128.43	$128.19	$127.94	$127.70	$127.45	$127.21	$126.97	$126.73	$126.49	$126.33
	90.0%	$129.35	$129.44	$129.53	$129.63	$129.73	$129.83	$129.94	$130.05	$130.17	$130.28	$130.36
	100.0%	$129.18	$129.18	$129.18	$129.18	$129.18	**$129.18**	$129.18	$129.18	$129.18	$129.18	$129.18

[6] In order to obtain the Sensitivity Analysis output a full model was built in the Excel delivered (Sheet: Individual_34055)

As it is possible to verify in the output obtained, ***Exhibit 5***, in case of losing its income tax exemption that qualifies to the mentioned Section of IRC, RCL's share price will be affected. The output shows that the share price can vary from $94.07 to $130.36 with different changes in the percentage of exemption that the company is under and with different possible corporate tax rates applied. Even though the stock price decreases it does not decrease as much as expected. Even though the payment of taxes is not a good thing for companies (in practical terms it is an expense), typical, these changes in politics are known in advanced. Therefore, markets should be expecting this change, also an alteration like this it should affect the all industry not only RCL.
Even though, in general, the share price decreases, if RCL only has to pay taxes on 10% of it the U.S. sourced income, the cruise line share price actually can increase. This change is mainly due to the fact that in general the firm 'does not pay' direct taxes but also does not benefit from the Tax Shield effect. By only having to pay 10% of total possible tax expenses the firm, the tax shield benefits overcome these expenses creating value to RCL's Shareholders.

In this analyze, it has only been considered U.S. source of income, and a change in the fiscal policy had an impact on the share price. If RCL's all income was subject to the payment of taxes the result would be different. Given that the company is characterized for being capital intensive, recurring to debt as a source of capital to finance its fleet expansion, it is expected that the firm would benefit considerably from the effect of Tax Shield. However, this reasoning as a limit given the risk that comes associated with such amounts of debt.

Final Considerations

Historically, this scenario of taxes exemption and regimes that protect cruise industry companies from paying taxes in the U.S. has never changed substantially, several attempts have been made in the past to change it. On the 9th of October of 2019, OECD proposed the taxation by countries of multinational companies with profits considerably high, regardless of their registration place[7]. Even though this proposal is mainly focused on digital companies, it is quite reasonable to infer that this scope reaches cruise lines companies given the industry history with taxes.

[7] OECD. 2019. "Secretariat Proposal for a "Unified Approach" under Pillar One". Accessed December 13. https://www.oecd.org/tax/beps/public-consultation-document-secretariat-proposal-unified-approach-pillar-one.pdf