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New Rec: Royal Caribbean (RCL: $104.28) September 2, 2019

Position: Source of funds **Downside potential: 29%**

$MM	Sep-19e	Dec-19e	Mar-20e	June-20e	F2019e	F2020e	F2021e
Revenue	3,216	2,496	2,550	2,904	10,957	11,499	12,189
Adj. EPS	4.26	1.43	1.25	2.63	9.54	10.10	9.48
Y/Y Gr	7%	-7%	-5%	4%	8%	6%	-6%
PE	na	na	na	na	11.0x	10.3x	11.0x
Cons Rev	3.23B	2.52B	2.62B	2.94B	11.00B	11.81B	12.98B
Cons EPS	4.37	1.46	1.29	2.78	9.67	10.77	12.18

Shares Out: 209.9M **Market Cap: $21.9B** **FYE Dec**

For more information on this name, please email brian@offwallstreet.com, or call Brian Rogers at 617 868 7880.

Concept:
1. Bulls think the cruise industry has fundamentally changed from prior cycles, and that RCL's record-high ROIC is sustainable through 2022. We think this is unlikely.
2. Cruise industry supply growth is accelerating, and cyclical macro tailwinds to cruise demand may be weakening. Unrecognized "shadow inventory" is coming online that should be a surprise, as we discuss in this report.
3. Emerging competitors MSC and Genting are aggressively building ships, and they appear to be focused on market share over ROIC. MSC previously disrupted the container shipping industry, and may now be following the same strategy in cruise. Investors seem unaware of this threat.
4. RCL is shifting its business toward short-itinerary cruises in the Caribbean. This may be less profitable business longer term. MSC is entering the short-itinerary business in November and has competitive advantages over RCL.

Summary: Royal Caribbean (RCL) is the #2 cruise line operator in the world by market share, with a fleet of 45 ships representing 138K passenger berths (Carnival is #1 with 104 ships and 237K berths). The company operates primarily under the "Royal Caribbean" and "Celebrity" brands.

US-based passengers account for 61% of RCL's revenues. Note that RCL is more exposed to the US consumer than the overall industry, where US passengers account for 47% of the total. By itinerary, North America / Caribbean represents 59% of RCL sales, Europe is 21%, APAC is 16%, and Other is 4%.

RCL's share price doubled between 2016-18, and has traded in a range since then. Over the past 5 years, the environment has been very favorable for RCL and cruise lines generally. Industry supply growth has been relatively muted (2%-5% p.a.) during a time when cyclical macro demand drivers (especially in the US where RCL is over-indexed) were improving markedly. As a result, cruise lines have enjoyed strong pricing power, and RCL's EBITDA margins and ROIC have risen to all-time highs.

The cruise business hasn't seen a meaningful downturn since 2012. Recent concerns about a potential recession notwithstanding, it appears that RCL investors continue to see relatively tranquil seas ahead. RCL's current 2.5x EV/sales multiple (near the high end of its 0.6x-3.0x historical range), implies that the market thinks RCL's current, historically-elevated level of margins and ROIC will be sustained for several years at least. This would mark a substantial change from what occurred in previous cycles, when peak returns were competed away in relatively short order.

"Street" analysts are overwhelmingly bullish on RCL, and point to its 11x P/E multiple (historical range: 7x-18x) as evidence that the valuation is relatively cheap (it does not appear, however, that the "street" has written much about the elevated P/S multiple and what that implies about longer-term profitability).

RCL is a large market cap stock, and well-covered by the "street," whose primary research focuses on surveying travel agents in order to gauge pricing trends 1-3 quarters out. Although recent "street" surveys have begun to reveal some slight hints of demand weakness, generally speaking, RCL's key business metrics have been very strong. The company is guiding to a solid +8% Y-Y growth in revenue per available passenger cruise day (APCD) for FY 2019, with relatively flat margins Y-Y, and management remains bullish in its commentary on booking trends.

Nevertheless, despite these strong numbers, RCL's stock price has failed to make any headway for 18 months. Why? Although the "street" appears focused on pricing trends a few quarters out (which are more easily survey-able), we think that RCL's stock price is driven more by the market's view of supply and demand trends several years into the future. It appears that RCL's stock price, then, may be incorporating a more negative view of longer-term supply versus demand. As we discuss below, we think this perception is likely to persist and strengthen.

Rather than focus on surveying near-term price trends, as the "street" does, our research takes an "Off Wall Street" approach and focuses on two different points. First, we take a longer-term view of the cruise cycle and where we are now. Second, we discuss the primary field research we have conducted on several emerging, and significant, longer-term competitive threats to RCL's business.

Although we don't think these competitive threats will meaningfully impact RCL's reported results over the next two quarters, we think that markets, which are looking several years ahead, are likely to reflect them in RCL's stock price, as their existence, and their potentially significant long-term impact, becomes more widely recognized.

It appears there are two main points to the current bullish thesis on RCL. First, much like the thesis that circulated about the airlines in 2013-14 (and which ultimately didn't play out), bullish investors think that the cruise industry is now sufficiently consolidated (RCL and CCL account for a combined 69% of berths) that supply increases have become more "rational," that these "rational" supply additions are unlikely to weigh on pricing, and that industry returns will, therefore, be sustainably higher than in the past. Bulls would point to the muted industry supply growth (and strong pricing) since 2011 to support this notion.

Second, encouraged by RCL management, and reassured by several years of solid demand growth, it appears that bulls have adopted an "if you build it, they will come," thesis regarding RCL's business. Put another way, bulls think that secular growth in cruise demand (driven by an expansion of cruising's appeal beyond the "newly-wed and nearly dead" to new groups of cruisers like Millennials) is sufficiently powerful that RCL and other cruise operators can fill new ships as fast as they can build them, while enjoying continued pricing power.

Putting this together, "street" models project that RCL will continue growing revenues by 8%-10% p.a. for the next 2-3 years, while sustaining all-time record margins and ROIC through at least 2022. As noted, RCL's price-to-sales ratio suggests that the market consensus reflects this outlook. Based on our research, we think this optimistic scenario is unlikely to play out.

First, we note that bulls have made similar arguments about a supposedly more "rational" cruise industry in every cycle going back to the mid-1990s. We provide illustrative examples from prior "street" research, below. In both the 1997-99 and 2004-07 periods, bulls erroneously interpreted a strong cyclical environment as a sign of a "secular" change in cruise demand. This never panned out, and the resulting supply response swamped industry pricing and ROIC. It would seem, then, that in betting on a reversion toward longer-term average ROIC, history is on our side.

Although we are not in the business of making macro calls, many of the cyclical macro drivers that provided a tailwind to cruise demand over the past several years, may be weakening. We discuss this more, below.

Much like the airline industry, the cruise industry remains a highly-competitive, capital-intensive business with a long lag time between demand growth and the associated supply response. And much like airlines, historical cruise industry returns have been dismal: RCL's recent record ROIC, after all, is only 9.5%, and over the 17-year period going back to 2001, RCL's return on capital has averaged only 6.3%, well below its ~8.5% cost of capital. Over the same time period, the company has generated negative cumulative FCF.

As in prior cycles, it appears that supply growth is now responding to the bullish conditions of the past 5 years. Based on the official cruise ship order book, supply growth is expected to accelerate to 5%-7% p.a. over the next several years (from 2%-5% p.a. between 2011-18). Measured by number of berths, the official backlog of new cruise ships represents a whopping 47% of existing capacity. This is extraordinarily large relative to history: in 2007, by comparison, the backlog represented only 30% of existing capacity.

The size of the official backlog is no secret, and the investment debate around RCL currently focuses on whether demand will be powerful enough to absorb it without impacting prices.

In this regard, the current setup for RCL appears remarkably similar to 1998-99 and 2005-07. As such, we think that selling RCL shares here would represent an attractive risk-reward even if based purely on historical precedent.

However, as noted, our research focuses on several issues that investors may *not* be aware of, and that we think represent additional, substantial risks to RCL's business over the next several years.

First, there appear to be substantial amounts of "shadow inventory" on top of the official cruise ship backlog, including inventory of cruise substitutes, that could ultimately weigh on cruise prices.

As we discuss below, new shipyards are in development in East Germany and China, and an existing shipyard may come back online in Japan. Although estimating the potential supply impact from this "shadow inventory" is uncertain and difficult, we think it could represent roughly ~30K berths per year of potential supply over the medium term, or ~7% of existing capacity.

The shipyard in Germany (owned by Genting, an RCL competitor) appears the likeliest to boost supply in the shorter term, and we think this shipyard is on track to produce 2 large ships per year, representing ~10K-~18K berths (depending on how one measures it, see below), starting in 2022, which are not reflected in the official industry order book. That represents ~1.8%-3.2% of current industry capacity.

At the same time, we note that Disney is about to launch its biggest theme park expansion for 30 years, which we estimate could attract an additional ~10K guests per day to Disney's US parks, the equivalent of 1.5%-2.0% of cruise industry capacity. We think that a Disney World vacation is a substitute for cruising and competes for the same vacation time and dollars. RCL investors don't appear to be focused on this issue.

Perhaps most importantly, we think that RCL investors may not appreciate the extent to which emerging competitors MSC and Genting could disrupt the existing players in the cruise industry. Our field work has focused on this issue.

Based on our research, which includes conversations with industry participants in the US and Europe, we think that MSC (with 10% market share) and Genting (3% share) might be more focused on growing their fleets as quickly as possible, and on gaining as much market share as possible, than on earning an attractive ROIC.

In the case of MSC in particular (which, please recall, is a private, family-owned company without public shareholders to satisfy), we note that the company already pursued a similar strategy in container shipping over the past 15 years, where MSC has continued to aggressively build new ships into the teeth of an industry price depression, to the point where MSC has gone from a relative minnow to the #2 player behind Maersk.

If our thesis about MSC and Genting's long-term strategy turns out to be correct, and as investors begin to recognize this, we think the market might even begin to ask serious questions about RCL's long-term earnings power. It may be difficult to imagine it in the current environment, with cruise industry returns bumping against all-time highs, but we think it plausible that, over the longer-term, the cruise industry could begin to look like container shipping, plagued by chronic oversupply, "irrational" competition, and lack of pricing power.

Turning back to the short term, RCL has recently boosted its results by shifting its business to more short itinerary (2-3 night) cruises in the Caribbean, taking advantage of its newly refurbished private island, Coco Cay. As we discuss below, we think this could ultimately prove to be less profitable business for RCL. Further, we note that MSC will begin competing in the short itinerary business in November 2019. MSC seems to enjoy some significant advantages over RCL in this business. We think "street" analysts' optimistic outlook for RCL's short-itinerary business could be misplaced.

Our $73 fair value estimate for RCL represents 7.3x our 2020 EPS estimate of $10.10. We note that RCL traded at 7x cyclical peak earnings in 2003, 2007, and 2011, and we expect the multiple to return there again. RCL traded at $73 as recently as late 2016.

To put our $73 fair value estimate into longer-term context, if RCL's ROIC reverts back toward its 6.3% long-term average, which seems likely, that would indicate that RCL's normalized, mid-cycle earnings power is approximately one-third lower than what it's earning today (putting it around $6.50/share). Our $73 target represents an 11.3x multiple against this hypothetical mid-cycle number, which is where RCL's stock price has traded against mid-cycle earnings in prior cycles.

Borrow information: RCL

Supply quantity	Short interest	Avail. to borrow	Date
168.4M	3.7M	164.5M	8.30.2019

Background:

Royal Caribbean (RCL), incorporated in Libera and headquartered in Miami, is the #2 cruise line operator in the world. Table 1, below, breaks out market share (by number of cruise ship berths) for the key industry players.

Table 1. Cruise industry market share (as of 2018)

Company	Berths (k)	% share
Carnival (CCL)	237	43%
Royal Caribbean (RCL)*	138	25%
MSC (private co.)	56	10%
Norwegian (NCL)	48	9%
Genting (678 HK)	16	3%
Disney (DIS)	13	2%
Others	38	8%
Total	546	

*Includes RCL's 50% stake in TUI and Pullmantur JVs, totaling 25K berths.
Source: Company data, OWS

RCL operates primarily under the "Royal Caribbean" (25 ships) and "Celebrity" (13 ships) brands. Both brands operate large ships, with average berths-per-vessel at 3,600 for Royal Caribbean and 2,600 for Celebrity. It also owns two small luxury brands, Azamara (3 ships, averaging 700 berths) and Silversea (9 ships averaging 300 berths).

In addition to its wholly-owned brands, RCL also participates in two JVs. The company owns a 50% stake in TUI Cruises, a JV with the German tour operator of the same name. This JV operates 6 ships averaging 2,300 berths, with a focus on the German market. RCL also owns a 49% stake in Pullmantur, which focuses on the Spanish market, and has 4 ships averaging 1,900 berths.

According to company disclosures, 61% of RCL passengers come from the US, while the remaining 39% are international. Therefore, RCL appears to be over-indexed to the US consumer, as industry data suggests that US passengers account for 47% of the global total.

By itinerary, the Caribbean / N. America accounts for 59% of RCL sales, Europe is 21%, APAC is 16%, and Other is 4%.

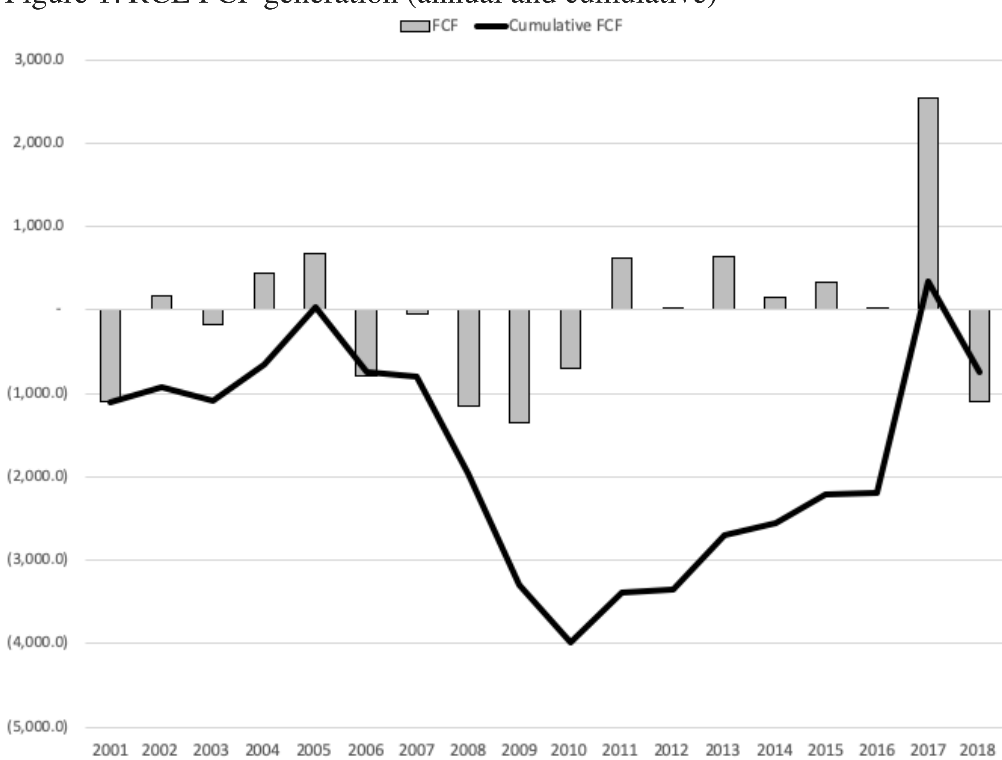
In the current market, a new, large, state-of-the-art cruise ship costs between \$1.1B-\$1.5B, which equates to roughly ~\$260K per berth. Although cruise ships physically remain in service for 30-50 years, RCL and other large operators have historically sold off their older cruise ships to regional players once they reach ~15 years of age. As of end-2018, the average ship in the Royal Caribbean / Celebrity fleet (weighted by number of berths) was ~11 years old.

Historically, RCL has ploughed nearly all its operating cash flow into CapEx for new and existing ships. There appears to be a kind of "arms race" dynamic in the cruise industry, whereby the newest and most amenity-filled ships command a premium, and the existing players must continue to invest in bigger and better product or else fall behind their competitors.

To that end, in the 18 years since 2000, RCL has generated a total of $26.9B of operating cash flow. Net of the proceeds from selling older ships (which totaled only $1.1B), RCL allocated $26.2B of this CFFO toward CapEx on new and existing ships, plus another $1.5B to fund the TUI and Pullmantur JVs.

Putting this together, it totals negative -$750MM in FCF generation for RCL over a nearly two decade period. By comparison, much-larger CCL generated $63B of CFFO and $14.3B of FCF over the same time period (which itself represents only a ~3.5% FCF yield on its average market cap). Figure 1, below, shows a timeline of RCL's FCF generation.

Figure 1. RCL FCF generation (annual and cumulative)

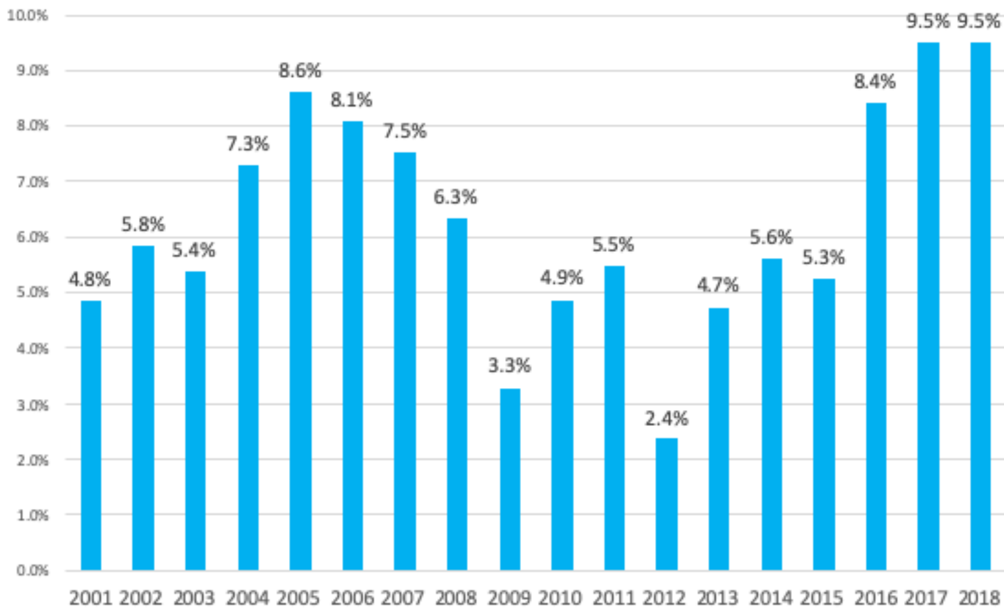


Source: Company filings, OWS

Despite generating negative FCF, RCL has returned $5B to shareholders during this 18-year period, consisting of $2B of buybacks and $3B of dividends.

This weak to nonexistent FCF generation translates into poor ROIC. Figure 2, below, shows RCL's return on invested capital from 2001 to 2018. Over this time period, ROIC has averaged only ~6.3%, which is substantially below RCL's ~8.5% cost of capital over this time period.

Figure 2. RCL return on invested capital



*Defined as NOPAT divided by average invested capital. NOPAT assumes a 0% tax rate.
Source: Company filings, OWS

Discussion:

1. The current bull thesis seems similar to arguments made near the top of previous cruise cycles. Historical precedent suggests that ROIC will probably mean-revert, as in the past.

As noted above, RCL bulls think that secular growth in demand for cruising will be sufficient to absorb new supply without impacting prices, and that industry consolidation means the existing players are not "irrationally" adding too much supply.

Below are select excerpts from "street" reports that put today's bull argument into historical context.

(Note that supply growth decelerated (in percentage terms) toward the end of the 2007 cycle. By comparison, supply growth is currently set to accelerate, as noted.)

2007:
"We project North American supply to grow at an average rate of approximately 5% between 2007 and 2009 . . . Comparatively, the region increased supply by 10% between 2001 and 2006. We believe this decreased pace of supply growth reduces the risk of overcapacity and could potentially bode well for pricing."

2005:
"Carnival and Royal Caribbean control more than 75% of the worldwide cruise market, which **we believe will continue to lead to more focus on rational pricing rather than gaining market share.** We think that both [RCL and CCL] have **grown more rational about building new ships** and are beginning to focus their attention on same-store sales and margin expansion potential.

"**The industry structure and moderate supply growth will produce a favorable environment in which to push net yields well beyond their former levels**."

2004:
"As RCL and CCL continue to **broaden the appeal of cruise as a vacation product** and increase market penetration . . . we would expect to see both companies **follow a rational pricing strategy instead of trying to take market share away from one another** . . . [resulting in] both companies generat[ing] significant amounts of free cash flow."

[Source: Historical "street" reports, OWS highlights/emphasis]

Last cycle, RCL's EBITDA per APCD (available passenger cruise day) peaked in 2005, and fell by -35% between 2005-2009. The stock price peaked shortly before the peak in EBITDA/APCD, in late 2004 (at $45), and ultimately dropped to $5 in early 2009.

1998:
"We believe that the position of the industry's leaders ha[s] improved notably during the 1990s, and that change should "protect" them in the softer economy anticipated for 1999 and 2000. [One] change is **industry consolidation**. The three major carriers represent a larger percent of the industry (65% in 1999, 40% in 1990). This allows each of them better control over pricing, routing, and demand. [Another] distinguishing element is that **several of the carriers (ships) that were very aggressive in pricing during 1991-1992 have gone out of business, putting less pressure on the overall pricing environment**.

"Between 1998 and 2001, weighted average industry capacity should increase at a 7.1% compound annual rate. This is faster than for any three-year period over the last ten years; however, **we do not believe this is, in and of itself, problematic for two key reasons: (1) Capacity increases have historically proven to generate demand.** (2) Between year-end 1998 and year-end 2001, we believe that 85% of the additions to service will come from Carnival, Royal, and Princess. We believe that the resulting **increase in industry consolidation bodes well** for those participants."

[Source: Historical "street" reports, OWS highlights/emphasis]

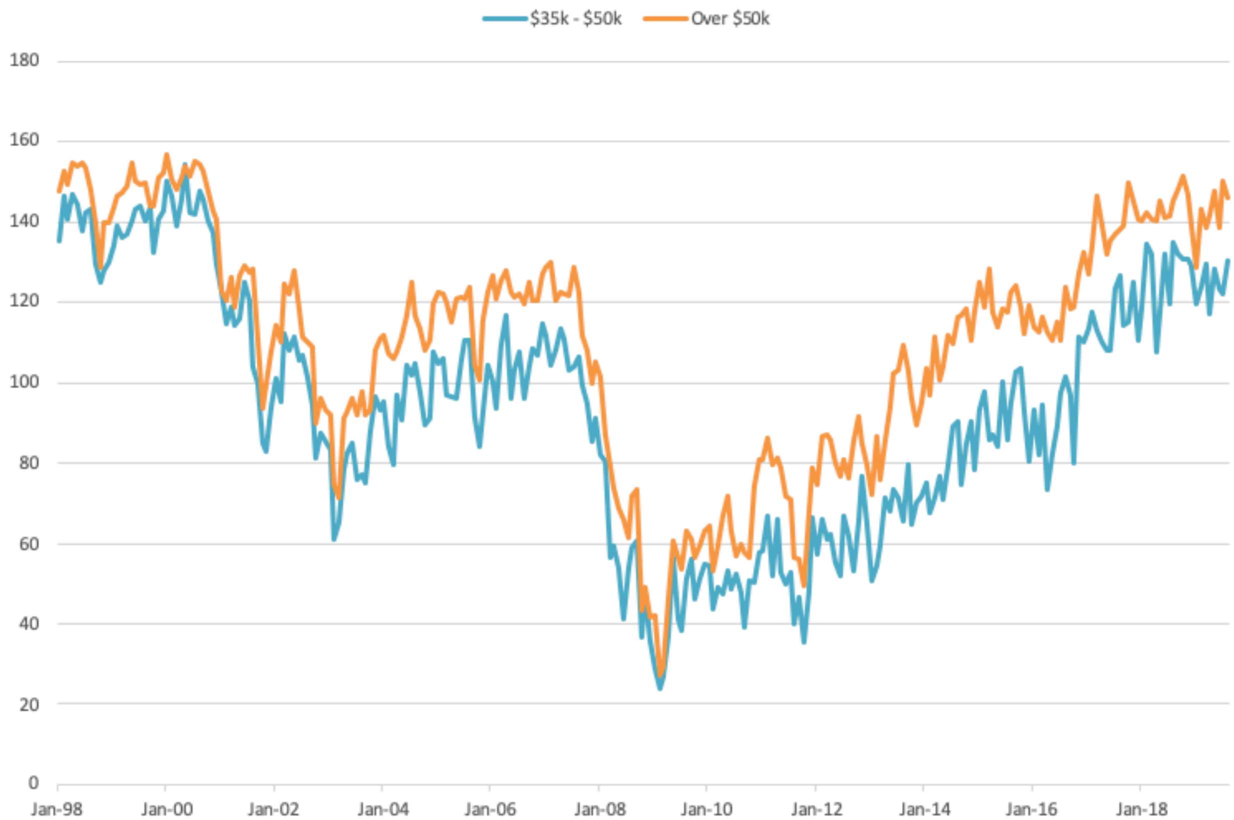
Two cycles ago, RCL's EBITDA per APCD peaked in 2000, and fell by -26% from 2000-2003. As in the last cycle, RCL's stock price peaked shortly before the peak in EBITDA per APCD, in late 1999. Between 1999 and 2003, the stock price dropped from $47 to $11 (-77%).

2. Cyclical macro drivers have provided a very strong tailwind to US cruise demand over the past several years. This tailwind is unlikely to get much better, and may be starting to fade.

We focus on a handful of select indicators that are specifically relevant to cruising demand, a big-ticket, highly discretionary service.

First, in late 2018, US consumer confidence hit its highest level since the 2000 Tech Bubble. Since then, confidence has plateaued. It appears further upside potential is limited, while a downward reversion to the mean is possible. See Figure 3, below.

Figure 3. US consumer confidence (selected income brackets)

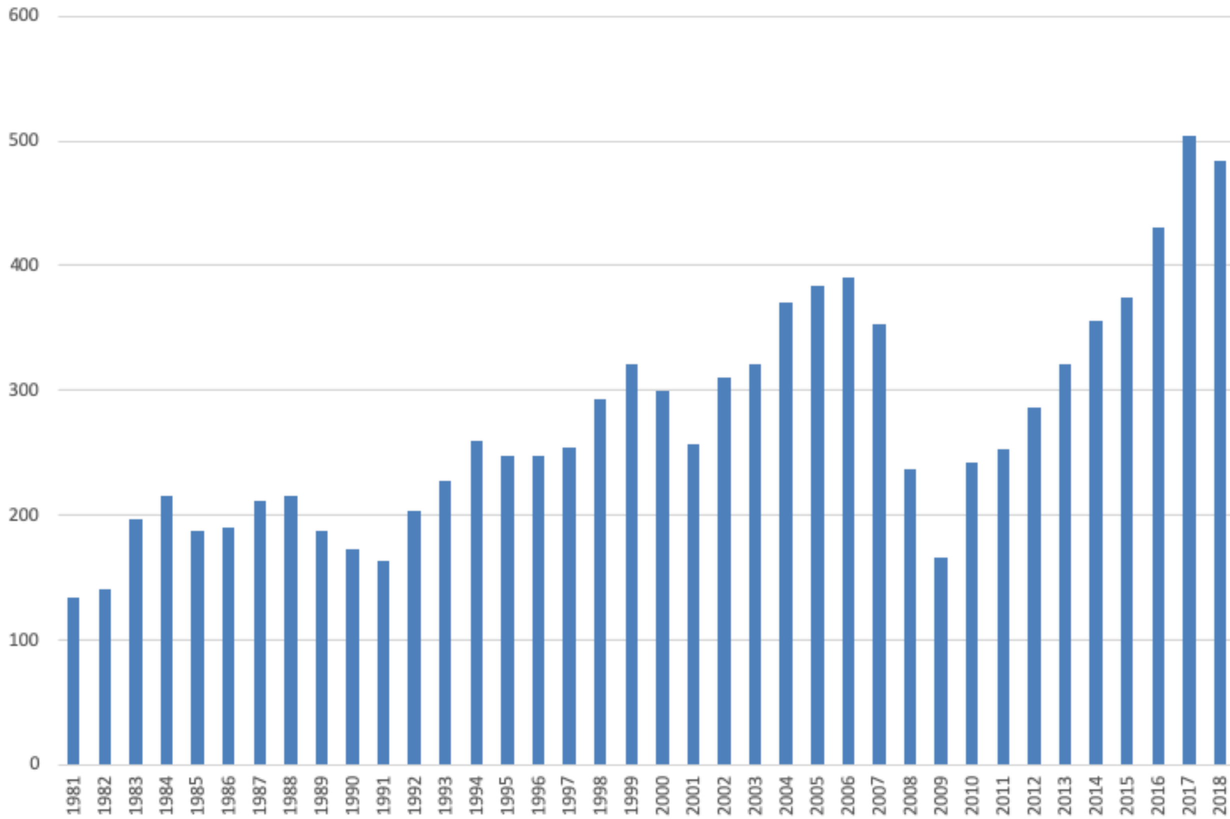


Source: Conference Board, OWS

More specifically, RV sales are a highly-cyclical bellwether for US consumer confidence, and we think they provide an especially useful gauge of households' willingness to spend on big-ticket leisure items (such as cruise vacations). Sales of RV units peaked in 2017, and are now declining by -20%-25% Y/Y. See Figures 4 and 5, below.

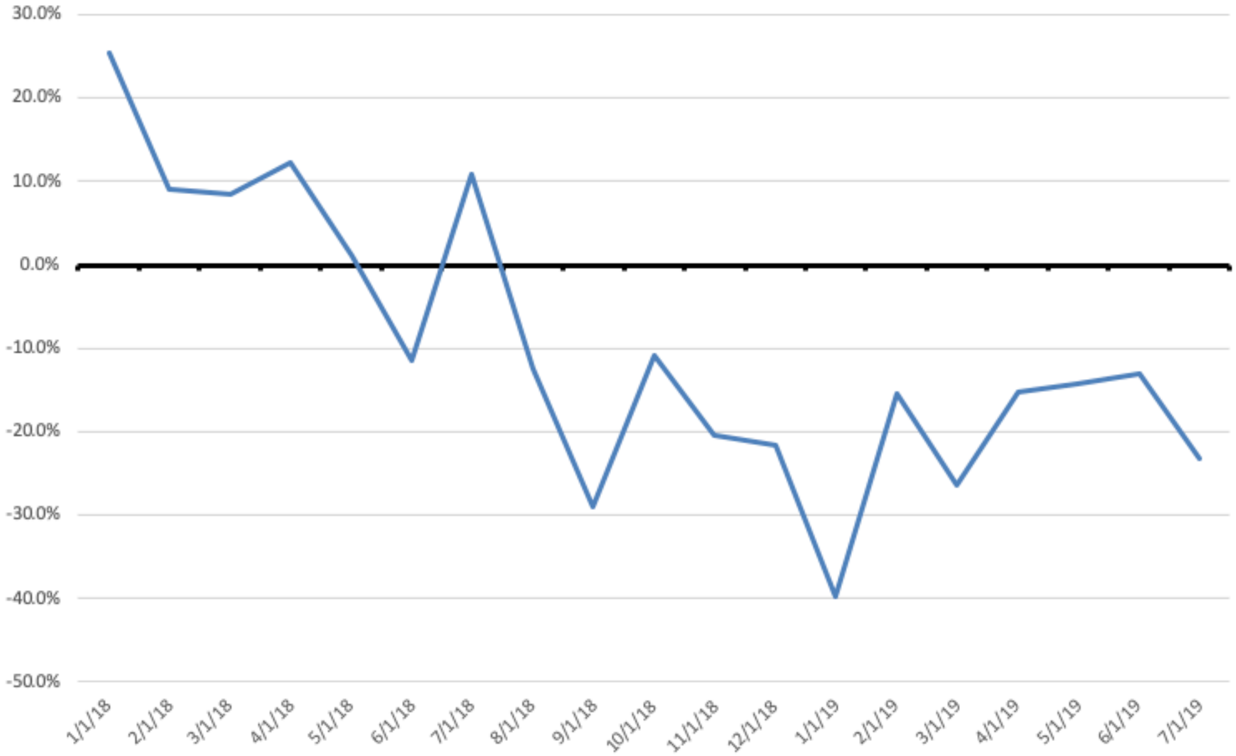
Interestingly, it appears that, in past cycles, RV unit sales peaked almost simultaneously with RCL's stock price (1994, 1999, 2005-06), and substantially in advance of a peak in RCL's fundamentals (as measured by EBITDA per APCD). The same pattern appears to be playing out in this cycle, at least so far.

Figure 4. RV unit sales - Annual



Source: RV Industry Association, OWS

Figure 5. RV unit sales – Monthly Y-Y%

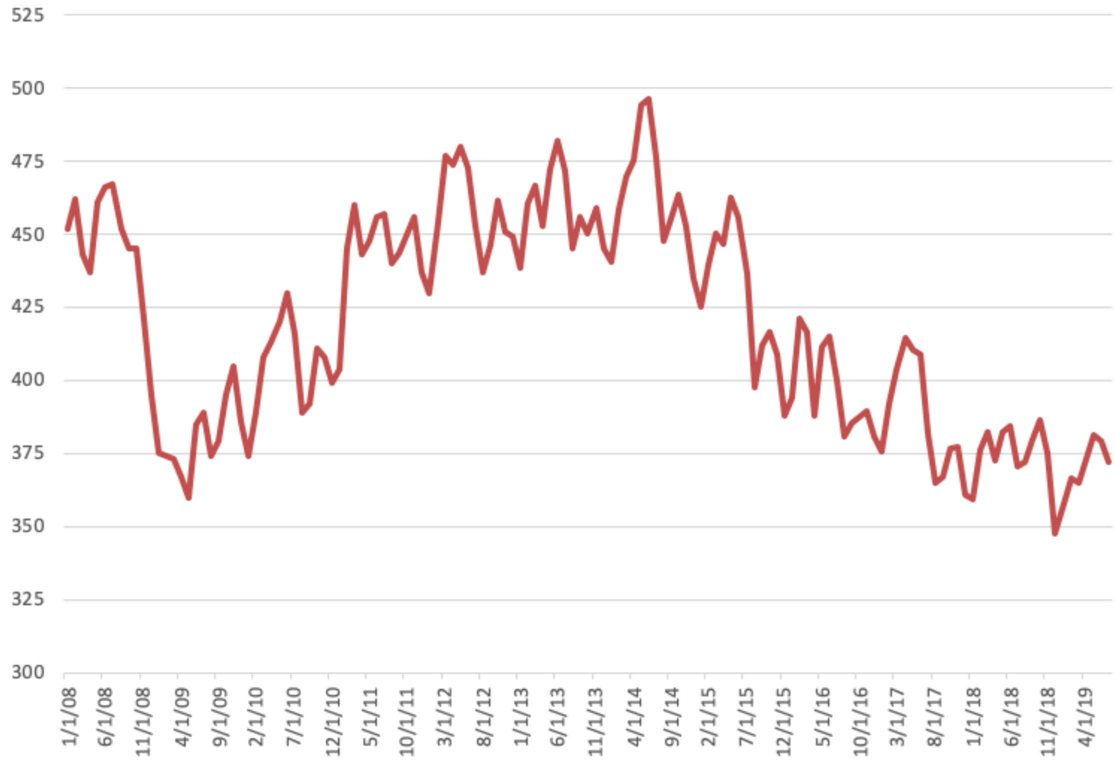


Source: RV Industry Association, OWS

Another macro tailwind to cruising has been the sharp decline, since 2014, of airline ticket prices, following the collapse in oil (remember, the vast majority of cruise passengers must fly to their port of departure).

This tailwind now appears to be fading. The average, non-premium airfare for domestic US flights (which would capture US passengers traveling to Florida for their Caribbean embarkments, the largest part of the cruise market) has roughly flattened out since early 2018. See Figure 6.

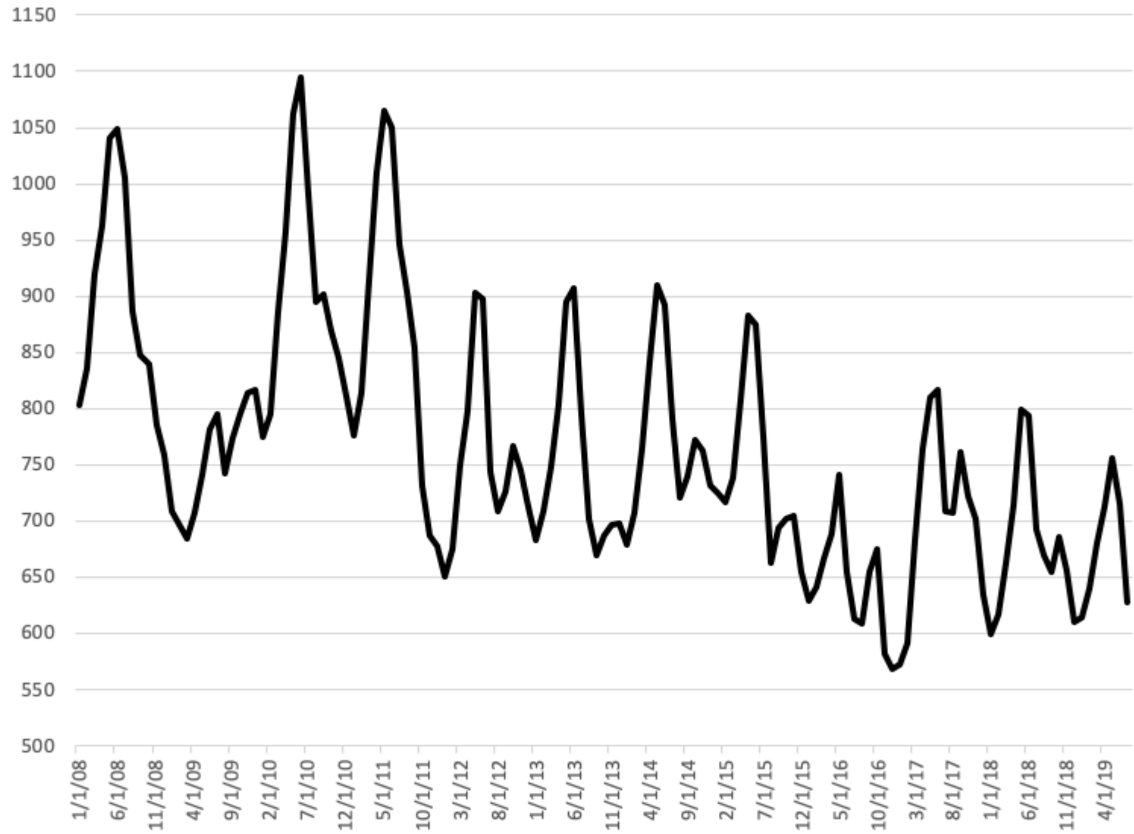
Figure 6. Average airfare cost – US domestic



Source: Airlines Reporting Corporation, OWS

Similarly, the cost of flying from the US to Europe (which would capture US passengers taking Mediterranean cruises, another large market segment), appears to have bottomed out, after a sharp post-2014 decline. See Figure 7.

Figure 7. Average airfare cost – US to Europe



Source: Airlines Reporting Corporation, OWS

3. "Shadow inventory" beyond the official order book, including inventory of cruise substitutes, could ultimately weigh on cruise prices. Investors may not be aware of this development.

As noted, the official cruise ship order book shows that growth in supply (i.e. from new ship deliveries) has begun to accelerate to roughly 5%-7% p.a. (as a % of existing capacity), from the 2%-5% p.a. pace that held since ~2011. This higher rate of supply growth is set to continue over the next several years. Investors are aware of the official supply data, and the debate concerning RCL currently centers on whether the market can absorb this supply without impacting prices.

However, bulls are encouraged by the perception that additional supply growth (on top of the official order book), beyond what's already known to be coming down the pipeline, would be next to impossible. This is because there are supposedly only 4 shipyards in the world capable of building large cruise ships: Fincantieri in Italy, Chantiers d'Atlantique in France, Meyer Werft in Germany, and Meyer Turku in Finland.

This notion of constrained supply has been repeatedly emphasized over the past few years by the management teams of the publicly-traded cruise companies:

> "We operate in an industry that is capacity constrained . . . [the shipyards] are full." [CCL 2Q 2019 earnings call]
>
> "The shipyard capacity is extremely limited. When you order a ship today, you won't be able to receive it until 2026 . . . Market access capabilities are limited." [TUI AG annual investors' meeting, Feb-2019]
>
> "We have constraints on capacity growth, a limited number of shipyards, which is a good thing." [CCL 4Q 2017 earnings call]
>
> "Moderate capacity growth . . . [has] been a focal point of a lot of conversation . . . The pipeline of supply is known and it's very constrained by limited shipyard capacity." [RCL 3Q 2016 earnings call]

Nevertheless, our research indicates that future cruise ship supply may be less constrained than the consensus assumes.

MV Werften / Genting

The first and most immediate source of incremental supply, which seems to be off investors' radar screens, is the MV Werften shipyard in Rostock, in East Germany.

MV Werften was acquired by Genting for €230MM in April 2016 (we discuss Genting's emerging cruise business itself in more detail, below). It consists of three large facilities in Wismar, Stralsund, and Rostock, Germany (about 3 hours' drive east from Hamburg).

The MV Werften facilities had never previously built any large cruise ships. The facilities were historically used mainly for retrofit and overhaul work, and for building merchant vessels. As such, at the time of Genting's acquisition, there was (justifiably) some skepticism in the industry that MV Werften could successfully build large ships there.

Here is the management of Fincantieri on a July 2016 conference call, when asked about the MV Werften acquisition a few months prior: "Just to be clear, [MV Werften has] never built one single cruise vessel . . . So I leave to you [to imagine] just what will happen building giant vessels in a location where they have never been made." We have been unable to find any other public mention of MV Werften since these comments made three years ago, and it appears that the matter was left at that.

However, contrary to Fincantieri's expectations, it appears that Genting has successfully turned MV Werften into a 5th major shipyard capable of producing large cruise ships. This would suggest that total shipyard capacity might be, roughly speaking, ~25% higher than commonly assumed.

Since acquiring the MV Werften facilities, Genting claims to have invested an additional €840MM in upgrading plant and equipment. As such, the MV Werften facilities appear to have implemented some cutting edge manufacturing technology.

Official events and unveilings (OWS has now spent many hours watching ribbon-cutting ceremonies starring local German politicians on YouTube) show that MV Weften has built a modular cabin production facility (https://www.youtube.com/watch?v=oBNBPbYPZyM), capable of producing 25 cabins per day on an assembly line. MV Werften contributed 98 of these new modular cabins for a hotel it just built (and opened two weeks ago) for shipyard employees, suppliers, and guests (https://www.ndr.de/nachrichten/mecklenburg-vorpommern/Werft-eroeffnet-Hotel-aus-Schiffskabinen,schiffskabine102.html).

MV Werften has also spent €100MM to build a robot-operated laser welding facility for steel panels, which is capable of producing 50% of the steel structure of a cruise ship with only 12 employees per shift (https://www.youtube.com/watch?v=rExPEcxl7nA). The company claims it is the most technologically-advanced panel production line in Germany.

At the time of acquisition, Genting laid out an ambitious plan to produce 9 cruise ships by 2021. Genting appears to be on schedule. According to local press reports, the company employed 1500 workers as of January 2018, and this increased to 2800 workers as of June 2019. The MV Werften facilities have already produced 4 smaller cruise vessels for Genting's luxury Crystal Cruises brand. Three additional, smaller, luxury vessels are due for completion between end-2019 and 2021.

Most important for our RCL thesis, MV Werften plans to complete two "Global Class" cruise ships in late 2020 / early 2021, and early 2022. Each of these has 2,500 staterooms with a nameplate capacity of ~5000 guests, but are actually designed to carry up to 9000 passengers, due to "flexible multi-berth" design (which includes 2 bathrooms, moveable furniture, and flexible "privacy walls" within the berth to essentially create 2 berths in 1).

Because these two "Global Class" ships were announced at the time of acquisition, they are included in the official cruise ship order book. However, because MV Werften is the only vertically-integrated shipyard in the industry (and presumably doesn't feel the need to issue press releases with new cruise ship order announcements), the official order book doesn't reflect the construction of any additional "Global Class" ships at MV Werften beyond these first two deliveries.

Indeed, the correspondent for a local shipbuilding trade rag has confirmed in interviews with Genting employees that the company actually plans to accelerate its building program for "Global Class" ships once the first two are delivered, building two "Global Class" ships every year (see here: https://www.motorship.com/news101/ships-and-shipyards/mv-werften-a-perfect-fit-for-genting).

Even if we just consider the "Global Class" ships (and not the other vessels being produced by MV Werften), and use the 5000-passenger nameplate capacity (instead of the 9000-passenger *de facto* capacity), the production schedule at MV Werften suggests a 2% annual increase in cruise ship supply for the period beyond 2021, on top of the 5%-7% p.a. already projected in the official order book.

We note that, a few days ago, MV Werften announced it had secured a €2.6B credit facility from a consortium of European banks, which will be used to finance the construction of its "Global Class" ships ("International Finance Secures Giant German Newbuilds," *The Motorship*, 27-Aug-2019). This might suggest that the banks view MV Werften's production schedule as proceeding relatively on time and on schedule.

Mitsubishi Heavy Industries

Until 2016, Mitsubishi Heavy Industries (MHI) built cruise ships at its shipyard at Nagasaki, Japan. In 2011, the company received a $1.3B order from CCL's AIDA brand to build two large ships. However, in April 2016, amid $1.8B in cost overruns, MHI announced it was exiting the large cruise ship business after the delivery of the AIDA vessels. The company afterward engaged in a major restructuring program.

2.5 years later, in November 2018, MHI declared that its restructuring program was complete. Around the same time, the company announced (https://www.cruisemapper.com/news/4538-mitsubishi-heavy-industries-enters-european-luxury-ferry-market) that it was entering the European "luxury cruise ferry" market, and would construct these ships in Nagasaki beginning in 2021. MHI also announced that it intends to double sales in its shipbuilding unit over the next decade.

It appears that MHI may be making tentative steps to re-enter the large cruise ship market. As noted, industry ROIC is at a peak, and shipyard capacity is constrained (except for MV Werften, which is only building for owner Genting). We think there is a moderate chance that in the next 2-3 years MHI could take another crack at building large cruise ships, given the prospective ROI on offer. Investors do not appear to be taking this into consideration.

CSSC (China)

In February 2017, Fincantieri, CCL, and Chinese shipbuilder CSSC announced an agreement to build two large cruise ships (for CCL) at the Shanghai Waigaoqiao Shipbuilding (SWS) shipyard. This represents the first foray by Chinese shipbuilders into the market for large cruise ships.

The first ships from CSSC, which has capacity for 4000 passengers, is scheduled for delivery in 2023. Although CCL has an option to order 4 additional large ships after the first 2, these are not reflected on the official industry order book.

At an October 2018 industry event, a Chinese industry observer said he thought it would take 3-5 years to fully develop the requisite supply chain to build the largest and most sophisticated cruise ships in China (putting us in the 2021-23 timeframe). See here: http://www.seatrade-cruise.com/news/news-headlines/chinese-yards-could-build-up-to15-cruise-ships-a-year-by-2030.html.

Although Chinese shipyards won't be producing large numbers of cruise ships in the near future, the magnitude of the potential supply capacity over the long term (3-5+ years) is substantial. Industry observers estimate that Chinese yards will eventually be producing anywhere between 6-15 large ships per year by 2030. That annual production capacity would represent a massive 5%-14% of the current global fleet. As CSSC makes progress on its way to the 2023 deliveries, we think investors could start to pay more attention to the long-term supply impact of Chinese shipyards.

Disney park expansion (cruise substitute)

With the construction of new *Star Wars*-themed lands at both Disneyland and Disney World, which are now in the process of opening to the public, Disney is making the largest expansion to its theme park business in 30 years (in inflation-adjusted dollar terms). In terms of sheer acreage, it's Disney's largest single expansion ever.

Disney's Magic Kingdom in Orlando is situated on 107 acres, and receives almost 21MM visitors per year, or an average of 57K per day. Maximum capacity at the park is 100K visitors, and Disney begins “phase 1” non-entries (i.e. turning people away) when daily attendance reaches 65K.

Disney is building 2 identical *Star Wars* lands in Orlando and Anaheim. Each will be 14 acres, which represents a +13% increase to Orlando’s footprint and a +16% increase to Anaheim’s footprint. Initial reviews of the park expansion have been very positive.

We estimate that each 14-acre Star Wars land has maximum capacity of ~13K visitors per day. We think Disney will cap attendance at roughly ~10K guests. If we assume very roughly that 50% of the visitors to *Star Wars* would not have otherwise visited the park, that implies roughly ~5K incremental visitors per day to each of Disney World and Disneyland, or ~10K total. That would imply a +9% increase to Disney’s total park attendance.

By comparison, when Universal Studios opened its *Harry Potter*-themed park expansion in 2010, attendance jumped by +30% Y/Y, according to *Theme Park Insider* (https://www.themeparkinsider.com/flume/201106/2532/).

RCL investors don’t appear to be paying much attention to this, but we think a Disney World vacation competes for the same vacation time and dollars as a cruise. ~10K incremental daily visitors is equivalent to 1.8% of total global cruise ship capacity.

Although it’s impossible to gauge the precise impact, we think Disney could have a negative impact on cruise booking demand (and therefore prices) as we head into late 2019 and especially 2020, when the *Star Wars* attractions will be fully up and running.

4. RCL investors may not appreciate the extent to which emerging competitors MSC and Genting could disrupt the existing players in the cruise industry.

Privately-held MSC is the #3 player in the global cruise industry with 16 ships and 10% share, just ahead of publicly-traded Norwegian Cruise Line (NCLH). Despite its size, “street” analysts don’t appear to pay MSC much attention. The company only entered the cruise business in 2003. Since then, it has focused on growing its market share through building new ships, rather than acquisitions, and MSC is now the largest standalone brand in the Mediterranean market.

MSC management and the founding Aponte family have spoken publicly in recent years about the company’s intention to expand beyond its home base in the

Mediterranean, and to attack the (much larger) Caribbean market, where RCL is most exposed.

MSC currently has only 2 ships stationed year-round in the Caribbean (i.e. Miami), and one more that sails seasonally. However, there are several key signs that MSC has big ambitions here, and that competitive pressure on the existing players (especially RCL) may be accelerating.

First, MSC has announced that in November it will transfer one of its largest, newest ships, the 4500-passenger MSC Meravigilia, from the Mediterranean into the Caribbean.

Meanwhile, MSC continues to aggressively build new ships. It is scheduled to take delivery of a new 4,500 passenger cruise ship in October 2019, and another 4,500 passenger ship from Chantiers d'Atlantique each year through 2025. In total, the company has said it plans to spend $15B to expand its fleet to 29 ships (compared to its current 16) by 2027. It appears that the majority of these newbuilds are destined for the Caribbean market.

To handle all this traffic, MSC is building a new 315K square foot passenger terminal in Miami, opening in 2022, which will be capable of handling turnover for two mega-sized ships simultaneously, for a total capacity of 28K passengers per day. The company appears to be accelerating its plans here. According to the Miami Herald (https://www.miamiherald.com/news/business/tourism-cruises/article224249970.html), the original plans called for a 9-acre site with room for one "7000-passenger" ship; in January 2019 the company signed a letter of intent to build a 16.5-acre with space for two large ships, double its original planned capacity.

MSC also appears to be putting in place a large-scale customer acquisition and marketing strategy to suit its expanding ambitions in the Caribbean among US customers. For example, in April 2019, the company struck a deal with Martha Stewart to provide Stewart-branded menus, curated shore excursions, and "surprise gift packages" for passenger cabins on its Caribbean itineraries. "It's almost as if MSC now stands for Martha Stewart Cruises," said one industry commentator.

We think the aggressive emergence of MSC challenges the bullish notion that future additions to cruise ship supply will be "rational" and won't, therefore, impact prices. Remember, MSC is a private, family-owned company without public shareholders to satisfy. Based on our conversations with industry participants in the US and Europe, we think that MSC may be more focused on growing its fleet as much as possible, as quickly as possible, at the expense of short-term (or even medium-term) ROIC.

There is precedent for this strategy in the container shipping industry, where MSC has gone from a relative minnow to the #2 player (behind Maersk) by aggressively building new ships, even in the teeth of a decade-long industry price depression (a recent article in the *Wall Street Journal* characterized the container shipping business as being in "an elusive search for stability.). MSC continued its aggressive building program throughout the entire post-2008 downturn, and if Maersk hadn't acquired Hamburg Sud for $4 billion in December 2017, MSC would now be the #1 player in container shipping by market share. Incidentally, just this week, MSC took delivery of the world's largest container ship, at 24K TEUs.

MSC has clearly acted as a disruptor in the container shipping industry, and we think it probable that the company is pursuing the same disruptive, long-term, push-for-market-share strategy in cruise, as well. As MSC's size becomes increasingly difficult to ignore, and especially as the company makes its presence felt more keenly in RCL's core Caribbean market, we think investors might start to pay more attention to this threat, and its long-term implications for ROIC in the cruise business.

We think that Genting may also prove to be a "disruptor" of the cruise industry, with a focus more on gaining market share than on earning an attractive ROIC. Like MSC, Genting clearly has ambitious plans for growth. After all, Genting has only 3 large cruise ships in its Dream Cruises fleet at present, but nevertheless saw fit to spend $1.1B (the price of a new, state-of-the-art ship) to acquire and develop MV Werften, because the existing shipyards didn't have sufficient capacity to meet its ambitious newbuild requirements.

What's more, Genting made this $1.1B bet despite what appears to have been substantial operational risk in converting MV Werften into a state-of-the-art shipyard capable of building the biggest ships (a risk that, as we discuss above, appears to have paid off). We don't think Genting would have made such a bet unless it had big plans for Dream Cruises, which is indicated by its stated intention to build 2 "Global Class" ships each year, after the first batch are complete.

It appears that Genting sees a long-term opportunity to dominate the Asian cruise market (which, according to statements the company made at a May 2019 industry event, includes Asian customers cruising on European and N. American itineraries). "We are here [in China] not just as passersby," the CEO of Genting HK told a Chinese reporter in April 2019, "We are here to be a serious player. We don't stay when the market is good and leave when the market is bad . . . We look at things on a long-term basis."

This might seem like empty words to please a Chinese audience, but it's notable that Genting appears to have accelerated its building plans (https://www.motorship.com/news101/ships-and-shipyards/lloyd-werft-gets-genting-cruise-work-after-all) in August 2018, almost a year after growth in the Chinese cruise market started declining sharply. Interestingly, at approximately the same time that Genting was apparently doubling-down on its growth plans, Norwegian relocated its *Norwegian Joy* from Shanghai to Alaska, after launching it with much fanfare in Shanghai just a year earlier.

If Genting, like MSC, is indeed prioritizing aggressive growth over ROIC, we think RCL and existing players could face a tough competitor. After all, as the only vertically integrated player in the cruise industry, Genting appears to enjoy advantages in both cost, and the time-to-market in incorporating new technologies into ship designs.

5. Bulls' optimistic outlook for RCL's short-itinerary business could be misplaced.

RCL has recently boosted its results by shifting its business to more short-itinerary (2-3 night) cruises in the Caribbean, taking advantage of its newly-refurbished private island, Coco Cay. Our discussions with industry participants indicate that customer demand is shifting toward these shorter trips.

A typical 2-night itinerary would leave Miami on a Saturday afternoon, arrive at Coco Cay on Sunday morning, then leave Coco Cay at 7PM to return to Miami, arriving there at 7AM Monday. A 3- or 4-night itinerary would add a stop at Nassau.

Investors seem optimistic about short-itinerary cruises and Coco Cay in particular, and management was very bullish in its 2Q19 commentary (the refurbished Coco Cay was just launched last quarter). However, we think this could ultimately prove to be less profitable business for RCL.

First, industry participants suggest that the customer base for short-itinerary cruises tends to skew younger and lower-income than for traditional cruises. RCL disclosures support this notion, as management said on its 2Q19 earnings call that 40% of guests on its short-itinerary routes were new to cruising altogether.

We think this could prove problematic for RCL if the short-itinerary routes take on a "booze cruise" atmosphere, rather than a more traditional cruising atmosphere. First, we think this customer base has a relatively lower willingness and ability to spend on onboard extras (apart from alcohol). With a short-itinerary cruise that stops at Coco Cay and Nassau over 3 nights, there are fewer opportunities to sell guests (high-ticket) shore excursions.

Further, there is anecdotal evidence that increasing numbers of cruisers (and especially the young and more alcohol-focused) are sneaking unauthorized alcohol onto ships. We've noticed that one of the leading websites for cruise deals, Cruise Critic, has begun sending articles with tips on how to sneak alcohol onto cruise ships. On Amazon.com, a "cruise flask kit" for hiding booze (it looks like a catheter bag) has over 1,700 reviews and earned a 4.5 star rating. There appear to be a burgeoning number of options for hiding alcohol, with everything from fake lotion bottles (911 reviews, 4.5 stars), to fake tampons (152 reviews, 4-star rating).

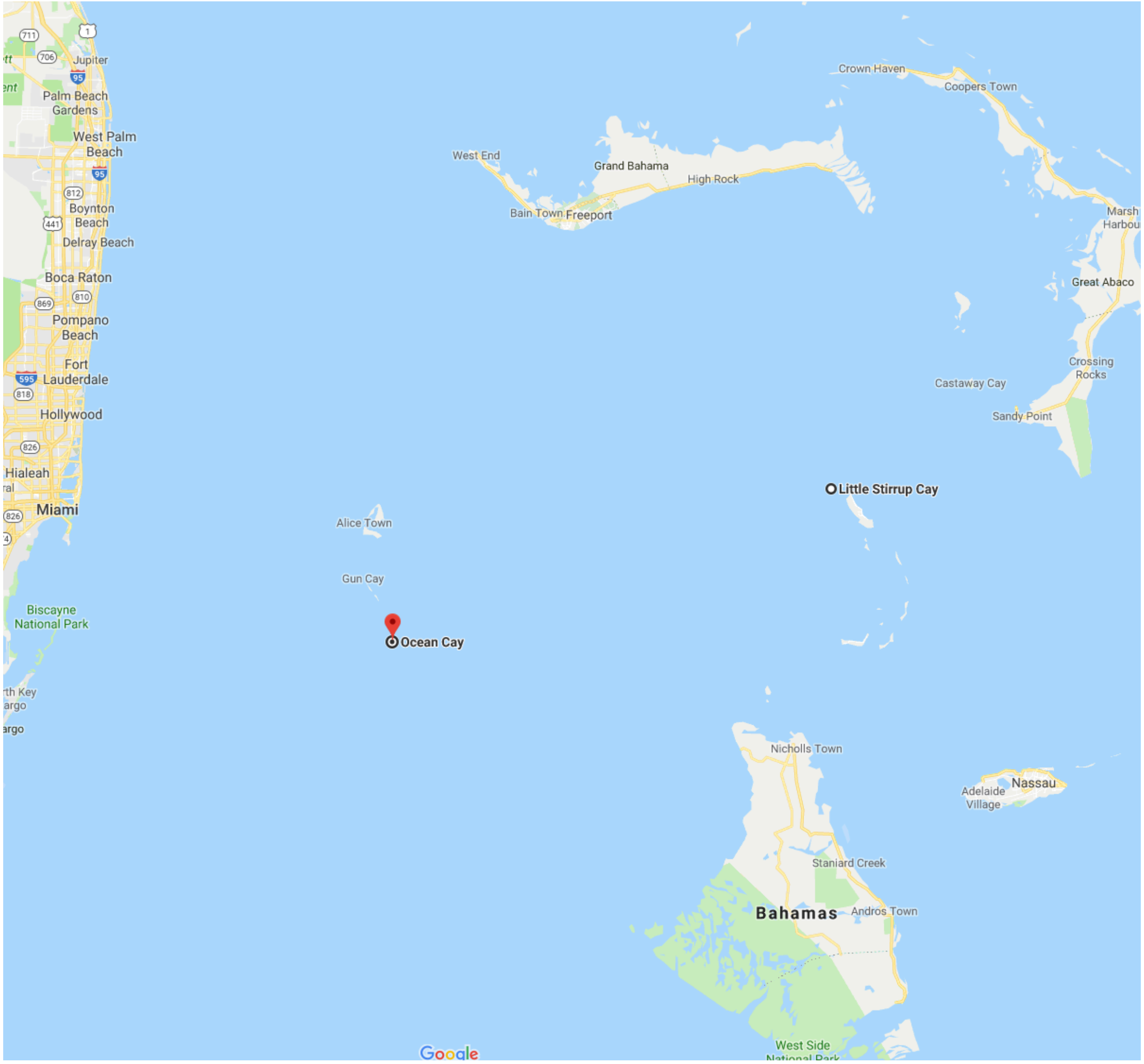
We also think the shorter itinerary suggests that RCL and competitors are probably drawing customers from a smaller geographic area, closer to South Florida. Based on our research, we think that customers are unlikely to fly long distances in order to take a 2- or 3-night "long weekend" cruise, whereas a 7-night itinerary is more of a true vacation that warrants long-distance travel.

RCL also faces a new competitor in short itinerary in MSC, which will begin competing in the short itinerary business in November 2019, with three ships (including the relocated Meravigilia). In November, MSC will also begin taking passengers to its own, new, private island in the Bahamas, called Ocean Cay.

It appears that MSC is pricing these itineraries aggressively. According to our analysis of online booking data, ticket prices for MSC's November and December 3-night itineraries are currently running at only ~$58 per night, on average. That is well below the ~$117 per night that RCL is currently seeking for 3-night itineraries over the same timeframe. Because short-itinerary cruises tend to book much closer to departure date (since it's effectively a "long weekend" cruise), we will continue to monitor these prices as we get closer to November.

Perhaps MSC's biggest advantage in the Caribbean, and particularly on the short-itinerary cruises, is the location of its private island. Ocean Cay is located only 60km east of Miami. This is less than half the distance from Miami compared to RCL's Coco Cay. The two locations are marked on the map, below (RCL's island is on "Little Stirrup Cay").

Figure 8. Map of Ocean Cay (MSC) and Coco Cay (AKA “Little Stirrup Cay”), vs. Miami



Source: Google Maps, OWS

Note that RCL itineraries must leave Coco Cay (Little Stirrup Cay on the map) by 7PM in order to arrive at Miami for their 7AM return time. By comparison, MSC’s ships can leave Ocean Cay at 12AM (midnight) in order to arrive at Miami by 7AM. This means that MSC’s Ocean Cay can, uniquely, provide both daytime *and* night time activities for guests (night clubs, DJs, dancing, etc.).

Ocean Cay’s proximity to Miami also means, according to statements made to Travel Market Report in January 2019 by MSC’s CEO, that MSC can offer its private island on all its Caribbean itineraries. As MSC continues to aggressively increase its presence in the Caribbean, we think this could prove a substantial (and durable) advantage over RCL and other cruise lines.

6. Recent results

RCL reported 2Q19 results on July 25. Total revenues of $2,806MM (+20% Y/Y) essentially matched the $2,797MM consensus. Reported EPS of $2.54 beat consensus of $2.45.

Passenger ticket sales of $2,017MM were up +21% Y/Y and accounted for 72% of total revenues. Onboard spending and other revenues of $789MM increased +19% Y/Y and made up the remaining 28% of revenues.

Available passenger cruise days (APCDs) totaled 10.4MM in the quarter, up +11% Y/Y on the delivery of new ships. Net yields (i.e. revenue per APCD after travel agent commissions) increased +8.2% Y/Y, and +9.4% Y/Y in constant FX terms. Excluding fuel, net cruise costs per APCD also increased +8.2% Y/Y, or +8.9% Y/Y in constant FX terms. This was below management's prior guidance of "+10.0%" Y/Y, which helped contribute to the EPS beat.

Fuel costs of $182MM increased +6% Y/Y. Total cruise operating expenses, including fuel, were $1,545MM, up +18% Y/Y.

SG&A costs totaled $377MM in the quarter, up +20% Y/Y. D&A of $312MM increased +23% Y/Y. Putting this together, total EBIT of $574MM represented 20.4% of revenues and was up +26% Y/Y.

The increase in operating income was partially offset by a +$30MM Y-Y (+37% Y/Y) increase in interest expense. After adjusting for 1x items, non-GAAP EPS of $2.54 increased +11% Y/Y.

For the 6-month period ended June 30, RCL generated $2,195MM in CFFO, of which $1,866 went toward CapEx, and $293MM went to pay dividends. The company did not repurchase any stock in the period.

RCL ended the quarter with $10.7B in net debt (excluding operating lease liabilities, which are now reported on balance sheet given the accounting change). That was up +$2.3B Y-Y from $8.4B as of 6/30/2018.

As of quarter-end, management expects to spend $3.0B in CapEx in 2019, $4.0B in 2020, $3.2B in 2021, and $4.0B in 2022. Capacity changes for 2019-22 are expected to be +8.1% Y/Y, +4.3% Y/Y, +8.3% Y/Y, and +9.2% Y/Y, respectively.

Management kept its 2019 revenue guidance unchanged. Net yields are expected to increase 8.0% Y/Y on a constant-FX basis, while net cruise costs per

APCD, excluding fuel, are expected to increase +10.25% Y/Y. Including fuel, net cruise costs are expected to increase +7.5% Y/Y in 2019. EPS guidance was raised by +$0.15 at the midpoint (to $9.60) to reflect the better-than-expected 2Q earnings.

7. Financial assumptions

We project total revenues of $10.96B in 2019 (+15% Y/Y), $11.49B in 2020 (+5% Y/Y), and +$12.19B in 2021 (+6% Y/Y). This compares to consensus projections of $11.0B (+16% Y/Y), $11.85B (+8% Y/Y), and +$12.98B (+10% Y/Y), for 2019-21, respectively.

The shortfall in our own numbers versus consensus is driven by our lower projections for net yield growth (i.e. growth in revenues per APCD, after commissions), primarily in 2020 and 2021.

As noted above, capacity growth is expected to be +4.3% Y/Y in 2020 and +8.3% Y/Y in 2021. On top of this growth in capacity (i.e. growth in APCDs), the "street" expects RCL to increase yields (i.e. revenue per APCD) by approximately 3.5% Y/Y in 2020, and approximately 1.5% Y/Y in 2021. By comparison, we are projecting net yield growth of less than 1% Y/Y in 2020, and negative yield growth (i.e. price declines) of -2% Y/Y in 2021.

We expect yields to fall short of expectations as industry supply and demand becomes less favorable into 2020-21, and as competition increases, particularly on the short-itinerary routes in the Caribbean, as discussed above.

We are projecting growth in cruise operating costs to be +6.5% Y/Y in 2020, and +11.5% Y/Y in 2021. This reflects capacity growth plus 2%-3% inflation each year.

Because RCL's is a largely fixed-cost business with high operating leverage, incremental margins are high. Our EBIT projections are $2.36B in 2020 (+5% Y/Y) and $2.22B in 2021 (-6% Y/Y).

Our Adj. EPS projections are $10.10 for 2020 (+6% Y/Y) and $9.48 for 2021 (-6% Y/Y). By comparison, the "street" is projecting $10.77 for 2020 and $12.18 for 2021. Note how our projected 2021 revenue shortfall on declining yields results in a substantial EPS miss versus consensus, due to operating de-leverage.

8. Valuation

Our $73 fair value estimate represents 7.3x our 2020 EPS estimate of $10.10. We note that RCL traded at 7x cyclical peak earnings in 2003, 2007, and 2011, and we expect the multiple to return there again.

To put our $73 multiple into longer-term context, if RCL's ROIC reverts back toward its 6.3% long-term average, which we think likely, that would indicate that RCL's normalized, mid-cycle earnings power is approximately one-third lower than what it's earning today (putting it around $6.50/share). Our $73 target represents an 11.3x multiple against this hypothetical mid-cycle number, which is where RCL's stock price has traded against mid-cycle earnings in prior cycles. We note also that RCL traded at $73 as recently as late 2016.

9. Risks

The key risk to our thesis would be that yield growth (i.e. revenue per APCD) exceeds our expectations on better-than-expected consumer confidence, or better-than-expected execution by RCL to drive onboard spending.

We also note that markets appear to be reflecting a higher probability of an economic slowdown or even recession. If this perception should change for the better, RCL's share price could rise to reflect the change.

10. Financial projections

A. Annual projections

	2017	2018	2019E	2020E	2021E
Revenues	8,778	9,494	10,957	11,499	12,189
Cruise OpEx	4,897	5,262	6,013	6,406	7,146
Gross profit	3,881	4,232	4,944	5,093	5,043
SG&A	1,186	1,303	1,517	1,468	1,541
D&A	951	1,034	1,230	1,268	1,280
EBIT	1,744	1,895	2,197	2,357	2,222
Interest income	30	33	28	24	24
Interest expense	(300)	(334)	(437)	(464)	(460)
JV income	156	211	133	132	132
Other	(5)	11	-	-	-
Net income	1,625	1,816	1,895	2,049	1,918
Minority int	-	5	29	38	38
Net income to RCL	1,625	1,811	1,865	2,011	1,880
Dil. EPS	$7.53	$8.56	$8.88	$9.57	$8.95
Dil. Shares	216	212	210	210	210
GAAP net income	1,625	1,811	1,865	2,011	-
Adjustments	-	62	137	110	-
Adj. Net income	1,625	1,873	2,002	2,121	-
Adj. EPS	$7.53	$8.86	$9.54	$10.10	$9.48
Y/Y%					
Revenues		8.2%	15.4%	4.9%	6.0%
Cruise OpEx		7.5%	14.3%	6.5%	11.5%
Gross profit		9.0%	16.8%	3.0%	-1.0%
SG&A		9.9%	16.4%	-3.2%	5.0%
D&A		8.7%	19.0%	3.1%	0.9%
EBIT		8.6%	16.0%	7.3%	-5.7%
Net income to RCL		11.4%	3.0%	7.8%	-6.5%
Dil. EPS		13.6%	3.8%	7.8%	-6.5%
Dil. Shares		-1.9%	-0.7%	0.0%	0.0%
Adj. EPS		17.5%	7.7%	5.9%	-6.2%
% of Sales					
Revenues	100.0%	100.0%	100.0%	100.0%	100.0%
Cruise OpEx	55.8%	55.4%	54.9%	55.7%	58.6%
Gross profit	44.2%	44.6%	45.1%	44.3%	41.4%
SG&A	13.5%	13.7%	13.8%	12.8%	12.6%
D&A	10.8%	10.9%	11.2%	11.0%	10.5%
EBIT	19.9%	20.0%	20.1%	20.5%	18.2%
Net income to RCL	18.5%	19.1%	17.0%	17.5%	15.4%

B. Quarterly projections

	2Q19	3Q19E	4Q19E	1Q20E	2Q20E
Revenues	2,806	3,216	2,496	2,550	2,904
Cruise OpEx	1,545	1,592	1,463	1,542	1,610
Gross profit	1,261	1,624	1,033	1,008	1,294
SG&A	377	362	363	371	365
D&A	312	312	314	317	317
EBIT	573	950	356	320	612
Interest income	6	6	6	6	6
Interest expense	(111)	(112)	(113)	(115)	(117)
JV income	33	33	33	33	33
Other	(22)	-	-	-	-
Net income	479	877	282	244	534
Minority int	7	7	8	8	9
Net inc. to RCL	472	870	274	236	525
Dil. EPS	$2.25	$4.14	$1.30	$1.12	$2.50
Dil. Shares	210	210	210	210	210
GAAP net income	472	870	274	236	525
Adjustments	60	25	26	26	27
Adj. Net income	532	895	300	262	552
Adj. EPS	$2.53	$4.26	$1.43	$1.25	$2.63
Y/Y%					
Revenues	20.0%	15.0%	7.0%	4.5%	3.5%
Cruise OpEx	17.5%	12.8%	7.5%	9.1%	4.2%
Gross profit	23.3%	17.2%	6.3%	-1.8%	2.6%
SG&A	20.4%	11.3%	10.8%	-10.6%	-3.1%
D&A	23.0%	20.0%	12.1%	8.5%	1.7%
EBIT	25.4%	18.7%	-2.3%	0.2%	6.8%
Net inc. to RCL	1.3%	7.3%	-13.3%	-5.7%	11.2%
Dil. EPS	2.4%	7.3%	-13.3%	-5.7%	11.2%
Dil. Shares	-1.2%	0.0%	0.0%	0.1%	0.0%
Adj. EPS	11.6%	6.9%	-6.9%	-5.2%	3.8%
% of Sales					
Revenues	100.0%	100.0%	100.0%	100.0%	100.0%
Cruise OpEx	55.0%	49.5%	58.6%	60.5%	55.4%
Gross profit	45.0%	50.5%	41.4%	39.5%	44.6%
SG&A	13.4%	11.3%	14.5%	14.6%	12.6%
D&A	11.1%	9.7%	12.6%	12.4%	10.9%
EBIT	20.4%	29.5%	14.3%	12.5%	21.1%
Net inc. to RCL	16.8%	27.0%	11.0%	9.2%	18.1%

C. Financial metrics

($MM)	
Price	$104.28
MV	$21.9B
Net debt	$10.7B
EV	$32.6B
BV	$11.5B
TBV	$10.1B

	2019E	2020E	2021E
EBIT	2,197	2,357	2,222
EBITDA	3,427	3,625	3,502
EBITDA-CapEx	427	-375	302
EV/EBIT	14.8x	13.8x	14.7x
EV/EBITDA	9.5x	9.0x	9.3x
EV/EBITDA-CapEx	NM	NM	NM