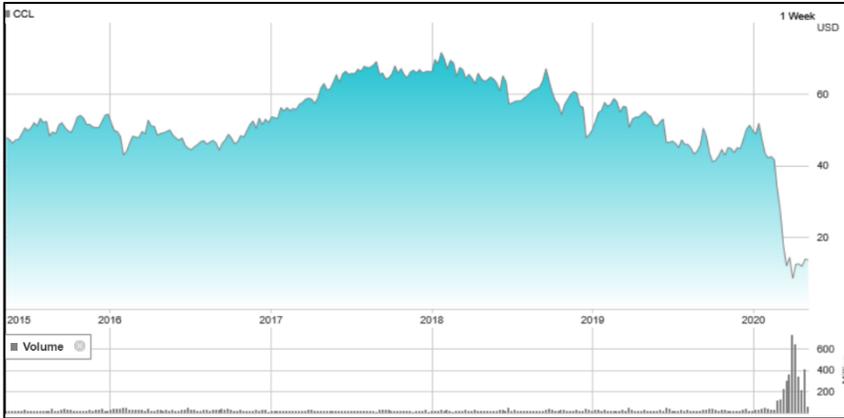




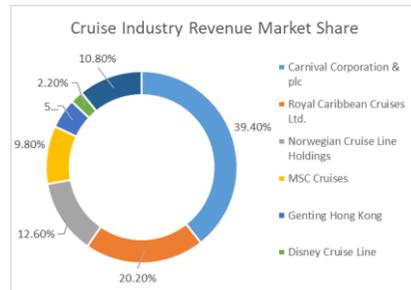
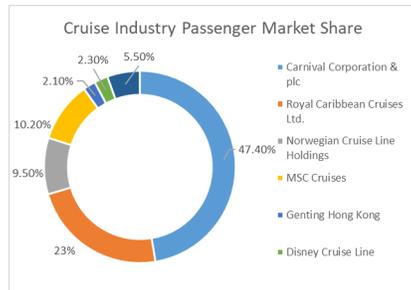
# CARNIVAL CORPORATION & PLC (CCL)

Graham Lewis  
Applied Portfolio Management  
Professor Dr. John M. Longo CFA

Spring 2020



Summary Financial Results									
	Historical				Projected				
	2017	2018	2019	2020	2021	2022	2023	2024	2024
Revenue	\$17,510.0	\$18,881.0	\$20,825.0	\$10,204.3	\$19,286.0	\$21,262.9	\$23,219.0	\$24,872.2	
Growth		7.8%	10.3%	(51.0%)	89.0%	10.3%	9.2%	7.1%	
EBITDA	4,744.0	5,342.0	5,436.0	(204.1)	3,008.6	3,317.0	3,622.2	3,880.1	
Margin	27.1%	28.3%	26.1%	(2.0%)	15.6%	15.6%	15.6%	15.6%	
Growth		12.6%	1.8%	(103.8%)	1574.2%	10.3%	9.2%	7.1%	
EPS				(\$1.23)	\$2.10	\$3.00	\$3.65	\$4.14	
Net Debt			9,127.0	15,613.8	12,264.2	10,418.0	9,120.0	5,581.5	
Total Debt			9,127.0	15,613.8	12,264.2	10,418.0	9,120.0	5,581.5	



**BUY - Recommendation**

Sector: Consumer Cyclical  
Industry: Travel Services

Key Data Points	
Current Price:	\$12.98
Price Target DCF:	\$41.52
Perf YTD	-71.79%
52 Week Range	\$7.80 - \$54.87
Last Dividend Qtrly: (16.79% yield)	\$0.50
Current P/E	4.81
Forward P/E	8.74
Debt/Equity	0.53
Current Ratio	0.30
Price/Book	0.40
ROA	4.20%
ROE	7.60%
Gross Margin	41.30%
Oper Margin	10.40%
Profit Margin	8.90%
Market Cap	12.01B

**Investment Summary:**

- Carnival Corporation & Plc carried 47.4% of all passengers who embarked on a cruise and owned 39.4% of all cruise industry revenue. Carnival Cruise Line is the leader in market share in both passengers and revenue.
- Cruise line industry was growing at 6.8% per year prior to COVID-19.
- Post COVID-19, industry growth is projected to shrink 51% before returning to pre-COVID-19 growth in 2022.
- The Cruise Industry is under a “No Sail Order” for 100 days starting on March 14<sup>th</sup>, 2020.
- A long history of dividend payments at an annual \$2 a share and dividend growth for past 5 years .
- They recently raised \$3 billion of 11.5% senior secured and \$1.75 billion of 5.75% senior convertible notes due 2023.
- Carnival Corporation & Plc offered public equity of 62.5 Million common shares at \$8 a share to raise \$1.25 Billion.
- Carnival Corporation & Plc can sustain about 15 months (From April 1<sup>st</sup>, 2020) without any revenue which according to UBS Securities analyst Robin Farley, which is longer than their 2 biggest competitors (Royal Caribbean and Norwegian Cruises).

**1. Company Overview:**

Carnival Corporation was founded in Panama in 1972, and Carnival plc was founded in England and Wales in 2000. Carnival Corporation and Carnival plc operate as a dual-listed company or "DLC". The two companies are combined, and they function as a single economic entity through contractual agreements between separate legal entities. Carnival Corporation's common stock is traded on the New York Stock Exchange under the symbol CCL and Carnival plc is traded on the London Stock Exchange under the symbol CCL. Both have the same economic and voting interest, but their shares are listed on different stock exchanges and are not fungible.

Carnival Corporation & plc is the world’s largest leisure travel company and among the most profitable in the cruise and vacation industry. They are the largest cruise company with 104 cruise ships carrying 45% of global cruise guests operating in North America, Australia, Europe, and Asia.

Carnival Corporation & plc mission is “Together, we deliver joyful vacation experiences and breakthrough shareholder returns by exceeding guest expectations and leveraging our industry-leading scale”. Carnival Corporation & plc is led by Arnold W. Donald, who has been President and Chief Executive Officer since 2013.

**Brand Overview:**



Brand	Overview
Carnival Cruise Line	<p>“Fun For All”                      Known as “The World’s Most Popular Cruise Line”                      Founded in 1972 and has grown to one of the most recognizable brands in the cruise industry.                      In 2018, it carried over 5.4 million guests by targeting people who "choose fun" and live life to the fullest.                      Fleet of 27 ships designed to provide fun and memorable vacation experiences at a great value.                      Cruise duration typically is 3 to 8 days, with almost all ships departing from 20 U.S. homeports.                      CCL provides year-round cruises in The Bahamas, the Caribbean and Mexico and also operates seasonal cruises in Canada, New England, Alaska, Hawaii, Bermuda, and Europe.</p>

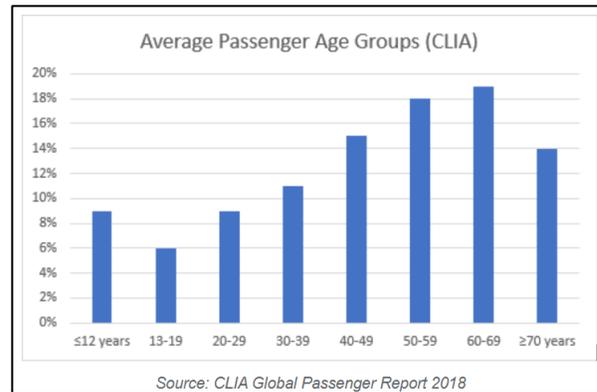
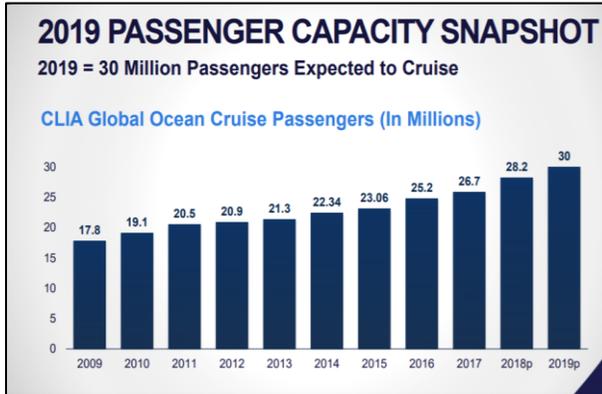
Princess Cruises	<p>“Have It Your Way” Known as the world’s largest premium cruise line. Began operations in 1965 and has been awarded “Best Cruise Itineraries” 11 times by Recommend Magazine. Fleet of 19 ships offering upscale experiences and visiting over 350 ports around the globe. Cruise durations typically are 3 to 20 days with longer exotic sailing from 25 to 111 days. Carries over 1 million passengers each year.</p>
Holland America Line	<p>“Savor The Journey” Began operations over 145 years ago for passengers looking for the most complete and immersive culinary experience at sea. Fleet of 14 midsize ships designed for classic style cruises to more than 425 ports, in 98 countries, and all 7 continents. Cruise durations range from 1 day to once-in-a-lifetime Grand World Voyages of more than 100 days. Carries over 800,000 passengers each year.</p>
P&O Cruises (UK)	<p>“World Of Choice” Known as the leading and most recognized cruise brand in the UK Began operations in 1977 and provided British tailored premium cruises to 230 destinations around the globe. Fleet of 7 ships carrying over 130,000 passengers each year. Cruise durations typically are 2 to 17 days.</p>
P&O Cruises (Australia)	<p>“Like No Place On Earth” Known as Australia’s leading cruise operators and voted Most Trusted Cruise Operators" by Readers digest in 2016. Founded in 1932 and offers a relaxing cruise with contemporary design, great food, friendly service, and a variety of exciting activities. Fleet of 4 ships travelling to destinations around Australia, New Zealand, Asia, and the South Pacific. Cruise durations typically are 3 to 16 days. Carries around 100,00 passengers each year.</p>
Seabourn	<p>“Let Us Show You The World” Began operations in 1988 and provided the finest ultra-luxury travel experience. Fleet of 5 smaller ships focused on personalized service and guest relations, which offer a unique style of travel. Cruise durations typically range from 7 to 14 days and visit over 400 destinations throughout the world, including Europe, Asia, the South Pacific Islands, Australia, and New Zealand, the Americas and Antarctica. Carries only 100,000 passengers each year.</p>

Costa	<p>“Grande Come il Mare” – As Big As The Sea          Known as Europe's number one cruise line          Costa is also the leading cruise line in China          Founded in 1948 and offers Italy's finest with beautiful Italian art and unique interior designs to their cruises.          Fleet of 17 contemporary ships carrying over 2 million passengers each year. Its ships are deployed in the Mediterranean Sea, Northern Europe, the Caribbean, Brazil, Argentina, the Arabian Gulf, and the Indian Ocean.          Cruise durations typically are 7 to 20 days with longer exotic trips from 20 to 30 days.          Chinese cruises durations are typically 4 to 5 days.</p>
AIDA Cruises	<p>“Home Of The Smile”          Known as the market leader in the German-speaking cruise market          Began operations in 1996 by offering premium quality and relaxing cruise.          Fleet of 13 of the world’s most state-of-the-art ships providing casual cruises.          AIDA visits over 230 ports, including destinations such as North America, Northern Europe, Western Europe, Southeast Asia, the Canary Islands, the Mediterranean, the Caribbean, Baltic Sea, the Indian Ocean, the Azores &amp; Cape Verde, and Dubai.          Cruise duration typically is 3 to 21 days.</p>
CUNARD	<p>“Getting There is Half The Fun”          Globally recognized as the most famous ocean liners in the world          Founded in 1840 and is Renowned for impeccable White Star Service, gourmet dining and world-class entertainment,          Regularly schedules transatlantic service between New York and London.          Fleet of 3 ships visiting destinations in Africa, Alaska, Australia &amp; New Zealand, the Caribbean, the Panama Canal, U.S Eastern Seaboard, European river cruises, the Mediterranean, Southeast Asia, The Orient, the U.S West coast, and more.          Cruise durations typically are 7 to 14 days.          Carriers only 100,000 passengers each year</p>

## 2. Industry Analysis:

### Industry Growth Analysis:

#### Demand Trends:

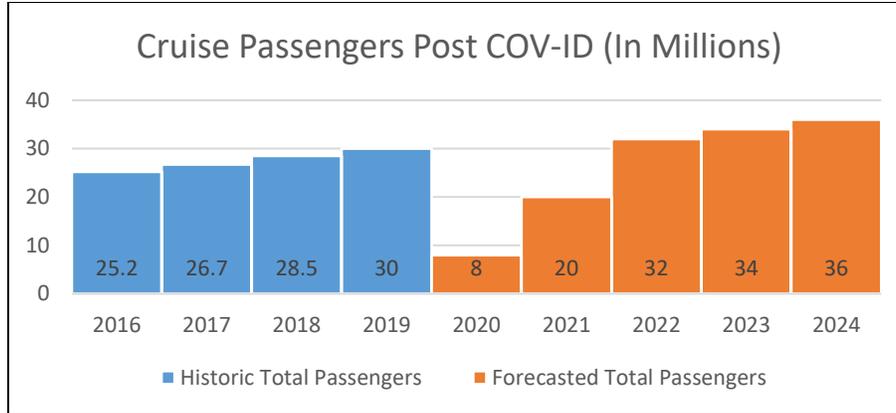


“It’s (COVID-19) been devastating temporarily. ... Travel is going to return, travel and leisure, and when it does, we’ll return with it. Social gathering at some point will return, and when it does, people will want to cruise,” Donald said on CNBC’s “Closing Bell” on Tuesday, April 14<sup>th</sup>. “We’ve had substantial bookings. Bookings for 2021 are strong.”

CNBC Interview

Prior to the COVID-19 pandemic, Cruise Line International Association predicted 32 Million people were projected to aboard a cruise ship in 2020. The cruise industry over the last 5 years has seen its total demand for cruises increase from 23 Million in 2015 to 32 Million projected in 2020 with an average growth rate of 6.8%. According to the CCL 10k, the sustained growth in the cruise industry can be contributed to high overall satisfaction with cruises and changes to consumer behavior. Cruise guests have overall higher satisfaction than land-based hotels and resort vacations. According to the CLIA, 82% of cruisers likely to book a cruise as their next vacation. Cruises unique ability to meet luxury living while visiting multiple destinations without having to pack and unpack constantly. Also, the generations of Baby Boomers and Millennials favor experiences that trend positive for cruises. In North America, Baby Boomers at retirement age as increased from 48 Million in 2015 to 56 Million in 2020. By 2030 this Baby Boomers at retirement age will be 73 Million. The Millennial generation will surpass the Baby Boomers size at retirement age in the future and favor experiences even more. The majority of passengers are older, with over 82% of cruises being booked by persons over the age of 34.

Post COVID-19, the cruise industry has been halted due to health concerns surrounding the virus. Total cruise passengers for the remainder of 2020 are widely unknown and are based solely on government policy. Currently, the Centers for Disease Control has a “No Sail Order” in place for up to 100 days starting on March 14<sup>th</sup>, 2020.



### **Wide Appeal:**

Cruising provides something for every generation, from kid clubs to an array of entertainment designed for teens and adults. Cruises also vary in destinations and a diverse range of ship size and price points to satisfy varying tastes and income levels. To encourage first time and repeat cruisers and to compete with land-based vacation alternatives, the cruise industry continues to focus on their marketing efforts, enhance training of travel agents, and collaborate with well-known/liked brands offering the following:

- ✦ Expanded entertainment options, shipboard activities and land-based excursions
- ✦ Enhanced internet and communication capabilities
- ✦ Flexible dining options including open-seating dining
- ✦ Beverage package options
- ✦ Branded specialty restaurants, bars and cafés
- ✦ Money-back guarantees

### **Market Opportunities:**

The global cruise industry is relatively small in comparison to the wider global travel industry.

Region	2018 Total Passengers	% of Population
1. North America	14,240,000	2.46%
2. Western Europe	6,731,000	3.43%
3. Asia	4,240,000	0.10%
4. Australasia/New Zealand/Pacific	1,460,000	0.52%
5. South America	883,000	0.21%
6. Scandinavia/Iceland	225,000	1.07%
7. Eastern Europe	213,000	0.07%
8. Africa	154,000	0.01%
9. Middle East/Arabia	111,000	0.03%
10. Caribbean	56,000	0.13%
11. Central America	47,000	0.10%

No region has more than 3.5% traveling on cruises as a percentage of the total population in 2018. Though travel numbers were up by 2 million in 2019p, as a percentage of the total population, the increase is relatively small. There are large, addressable markets with low penetration rates. Markets such as Asia, who have experienced economic growth and raised discretionary income levels, could fuel a drastic increase in demand. The cruise industry in 2018 only has 0.1% of the total population abroad a ship.

### **Ship Mobility:**

The mobility of cruise ships enables cruise companies to move their vessels between regions to maximize profitability and to meet changing demand. Cruise ship mobility allows the cruise industry to change destinations easily, immediately adjust to changes in demand by region and it gives them a competitive advantage of traditional land-based vacation alternatives.

### **Passenger Capacity:**

Prior to COVID-19, Cruise passenger capacity has grown at a rate of 6% over the last 3 years. More capacity will allow the growth of cruise passengers to continue.

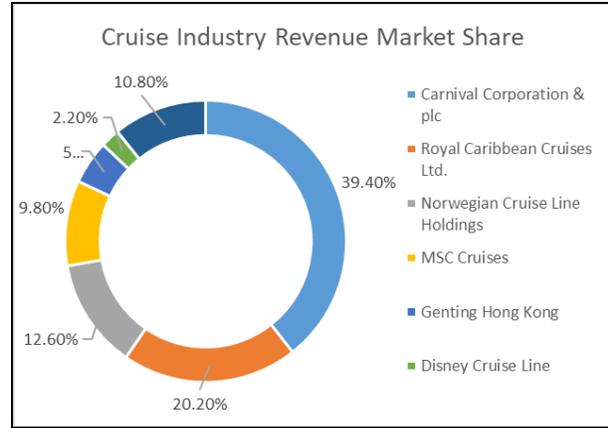
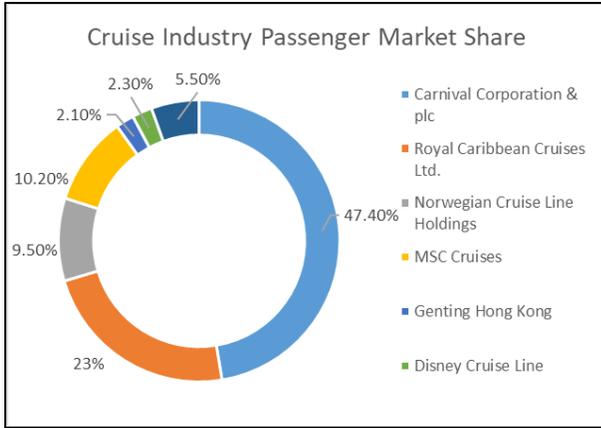
Post COVID-19, the overall capacity of cruise line ships will be adjusted to adhere to growing social distancing guidelines. Fair adjustment to capacity is 10-20% below the current max level in the short term. Note Carnival Cruise Lines ship capacity is much lower than the cruise industry as a whole.

This could be a competitive advantage depending on the guidelines/government policies in the future.

<u>Year</u>	<u>Average Passenger Capacity (a)</u>	
	<u>Global Cruise Industry (b)</u>	<u>Carnival Corporation &amp; plc</u>
2017	490	230
2018	520	230
2019	550	240

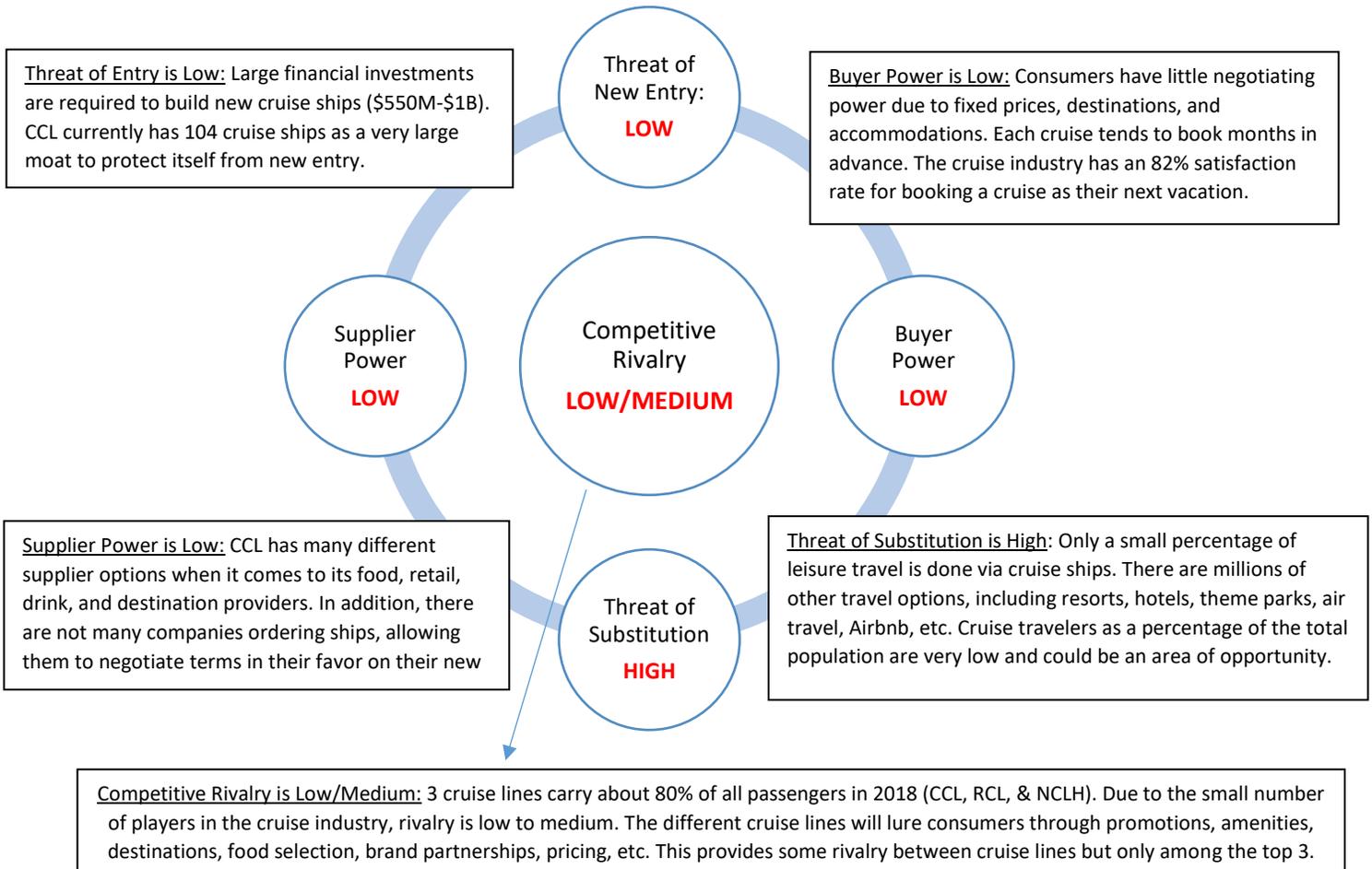
### **Market Share Analysis (MOAT):**

In 2018 According to CLIA, Carnival Cruise Line & plc carried 47.4% of all passengers who embarked on a cruise and owned 39.4% of all cruise industry revenue. Carnival Cruise Line is the leader in market share in both passengers and revenue. Carnival also owns the most ships with 104 currently under assets. Cruise ships take a duration of 1 year to 18 months to build in addition to 500 Million to 1 Billion dollars. The second closest competitor has 44 fewer ships, and the third closet has only 24 ships. Carnival is positioned very well for additional passengers. Also, CCL has lower average capacity in their ships vs. the industry. This will allow for growth on their ships if need or are already positioned well in the event of future capacity restrictions on cruise ships due to CCL.



Company Name	Market Share	Number of Ships	Yearly Passengers	ROA	Oper. Margin
Carnival Corporation & Plc	39.40%	104	12.9M	6.70%	15.70%
Norwegian Cruise Line Holdings Ltd	20.20%	26	2.8M	6.10%	18.70%
RCL Royal Caribbean Cruises Ltd	12.60%	60	6.1M	6.40%	18.80%

**Porter’s 5 Forces on Carnival Corporation & PLC:**



### 3. Impact of COVID-19 on Carnival Corporation & plc:

#### First Quarter 2020 Summary Information published by CCL on March 19th, 2020

- ✦ U.S. GAAP net loss of \$(781) million, or \$(1.14) diluted EPS, for the first quarter of 2020, compared to U.S. GAAP net income for the first quarter of 2019 of \$336 million, or \$0.48 diluted EPS. First-quarter 2020 net loss includes \$932 million of goodwill and ship impairment charges, reduced by net gains on ship sales.
- ✦ First quarter 2020 adjusted net income of \$150 million, or \$0.22 adjusted EPS, compared to adjusted net income of \$338 million, or \$0.49 adjusted EPS, for the first quarter of 2019. First quarter 2020 adjusted net income excludes net charges of \$932 million for the first quarter of 2020 and net charges of \$2 million for the first quarter of 2019.
- ✦ The impact of COVID-19 on the first quarter 2020 net loss is approximately \$0.23 per share, which includes canceled voyages and other voyage disruptions, and excludes the impairment charges described above. Other previously disclosed voyage disruptions, noted during the Corporation's December earnings conference call, also impacted the first quarter 2020 results by approximately \$0.12 per share.
- ✦ Total revenues for the first quarter of 2020 were \$4.8 billion, higher than \$4.7 billion in the prior year.

The CDC currently recommends that travelers defer all cruise travel worldwide and has a "Warning - Level 3, Avoid Nonessential Travel" in place. In addition, the U.S. Department of State, along with other countries around the world, have advised travelers not to go on cruises. Carnival Corporation & plc, Royal Caribbean Cruises, Norwegian Cruise, have suspended all operations on March 13<sup>th</sup>, 2020.

2 Holland America cruise ships (The MS Zaandam and MS Rotterdam) with COVID-19 positive passengers were stranded at sea for weeks. The fallout from these 2 cruises has had a tremendous negative impact on Carnival Corporation & plc's brand and public image. On the Zaandam at least 107 guests and 143 crew members had reported "flu-like symptoms," and that 9 passengers aboard had tested positive for COVID-19, 4 passengers died (2 from COVID-19, 2 from other conditions). On March 28<sup>th</sup>, 1,450 healthy passengers from the MS Zaandam were transferred to the MS Rotterdam. Both ships were not given permission to embark and remained in the news until April 2<sup>nd</sup>.

Prior to Holland America, the Diamond Princess Cruise ship was the first cruise ship to have a major outbreak on board. The cruise ship was quarantined at Yokohama, Japan, for a month starting Feb 4<sup>th</sup>. 712 passengers tested positive for COVID-19, and 14 people died. Carnival Corporation was in the news negatively for COVID-19 due to the Diamond Princess since early Feb.

Immediately after the Diamond Princess, the Grand Princess was also in the news negatively for COVID-19. The Grand Princess was the first U.S. Cruise ship in the news for COVID-19. The cruise ship embarked in San Francisco on Feb 11<sup>th</sup> for Mexico. Over 100 passengers tested positive for COVID-19 and 2 passengers died, including the 1<sup>st</sup> reported COVID-19 death in California.

### Post COVID-19 Outlook:

2020 is largely unknown as to when Carnival Corporation & plc will begin operations. Bookings for 1st half of 2021 have shown promise for a return as bookings are slightly higher than the prior year. CEO Donald stated on CNBC "Closing Bell" the industry will bounce back along with the rest of the travel industry. Carnival cruise can sustain about 15 months without any revenue, which according to UBS Securities analyst Robin Farley is longer than their 2 biggest competitors.

Below is an image by Kyle Walsh of CNBC, which shows Carnival Cruise stock price after each major incident, which caused negative press and brand damage. As you can see, the stock price has rebounded from every major incident prior to COVID-19.

Carnival Corporation & plc being able to recovery as they have in the past from COVID-19 will be challenging. First, widespread testing will need to be accomplished. They will need to invoke new protocols that require testing prior, during, and after the cruise completes. This will mitigate but not altogether remove the risk of infection during the cruise. In addition, renovations might be required on the HVAC systems on the cruise ships. Last, a complete overhaul to how often cruise ships clean their facilities and to the specs needed to kill COVID-19 will be required. All of these measures should be made readily available to cruisers to ensure they are not only safe but feel safe as well.

Until a vaccine is created and widespread immunity is possible, understanding how the virus spreads and taking actions to mitigate it will need to be the most critical priority once operations resume.



#### 4. Valuation:

Company Name	Dividend Yield	Payout Ratio	Current P/E	Forward P/E	Average P/E	Price/Book	Debt/Equity	Current Ratio	YTD Performance
Carnival Corporation & Plc	16.79%	4.81%	4.81	8.74	16.53	0.37	0.53	0.3	-74.46%
Norwegian Cruise Line Holdings Ltd	N/A	N/A	2.66	19.07	18.85	0.37	1.04	0.2	-80.41%
RCL Royal Caribbean Cruises Ltd	8.74%	4.42%	4.41	8.45	17.36	0.68	0.88	0.1	-70.44%

Carnival Corporation & plc currently is priced at its historic low in its almost 50-year existence. The forward P/E (next fiscal year) for CCL indicates that cruises will begin to rebound from the COVID-19 impact to their daily operations. CCL was able to make its dividend payment of \$0.5 on Feb 21st, 2020, continuing its long-standing payment history. Carnival offers a substantial dividend yield to its investors and has shown dividend growth since 2011. The current dividend yield is 16.79% and a payout ratio of 4.81%. From Warren Buffett and Ben Graham's point of view, the company is undervalued and well-positioned in its industry. Currently, CCL has a 0.37 price to book value, and its P/E is 1/4<sup>th</sup> its historical average. COVID-19 has impacted all the leisure and travel industries, not just the cruise industry. As COVID-19 becomes a distant memory, Carnival Corporation & Plc will return to their historical P/E.

#### Revenue Projections:

Prior to COVID-19, the cruise industry was growing at a rate of 6.8%, with 32 Million passengers expected to embark on a cruise in 2020. Carnival Corporation & Plc own 39.4% of the passenger market share, which would indicate around 12.6 Million passengers would travel on a Carnival Corporation & Plc owned cruise ship in 2020. Under these conditions, revenue would have grown from \$20.8 Billion to \$22.2 Billion in 2020. However, COVID-19 caused a complete operational shutdown of the entire cruise industry starting on March 13<sup>th</sup>, 2020. Due to this, revenue streams have stopped, and a loss of \$1 Billion occurs for each month out of operations. 1<sup>st</sup> Quarter 2020 results indicated a net loss of \$781 Million however, revenue grew to \$4.8 Billion from \$4.7 Billion in 2019. These losses were due to \$1 Billion in goodwill and ship impairment charges caused by COVID-19.

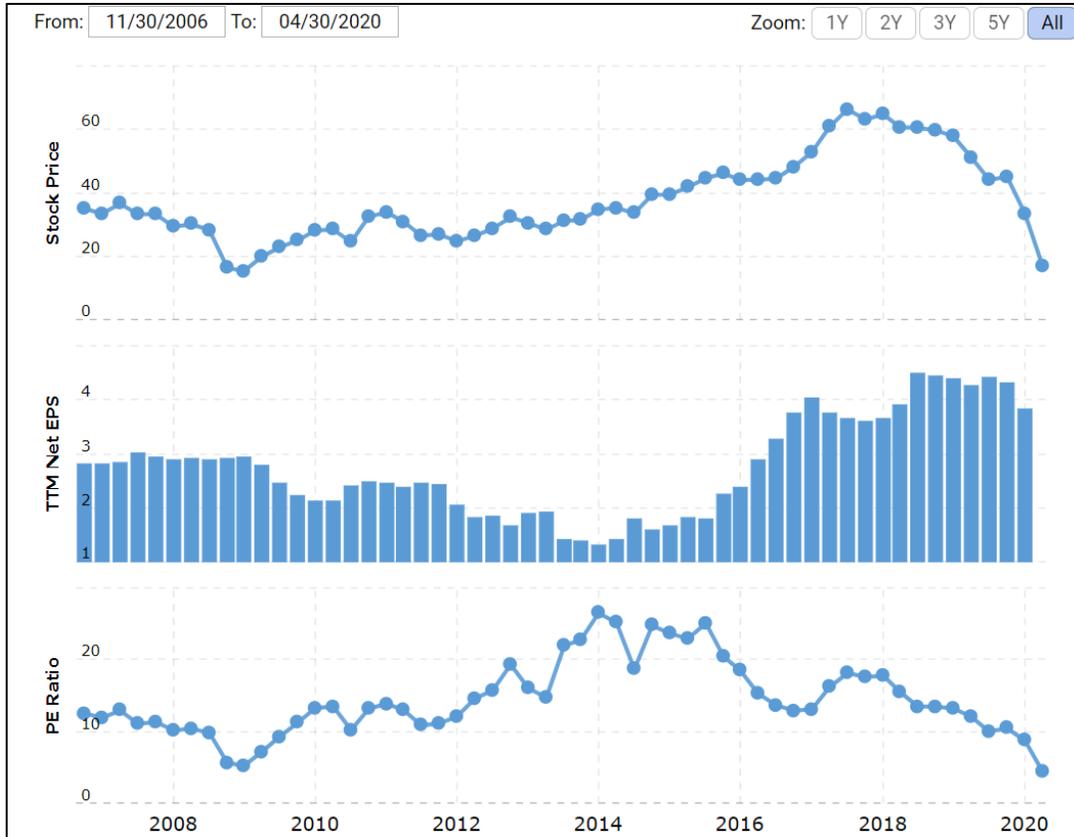
Adjusting for COVID-19, revenue for Carnival Corporation & Plc is expected to decrease by 51% from \$20.8 Billion to \$10.2 Billion. The result on earnings per share will be -\$1.23 for the fiscal year 2020. However, bookings for Q1 2021 are slightly higher than Q1 2020, which will result in a sharp return of sales/revenue for Carnival Corporation & Plc in 2021 with a growth of 89%. Growth will begin to stabilize after 2022.

Summary Financial Results								
	Historical			Projected				
	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	\$17,510.0	\$18,881.0	\$20,825.0	\$10,204.3	\$19,286.0	\$21,262.9	\$23,219.0	\$24,872.2
Growth		7.8%	10.3%	(51.0%)	89.0%	10.3%	9.2%	7.1%
EBITDA	4,744.0	5,342.0	5,436.0	(204.1)	3,008.6	3,317.0	3,622.2	3,880.1
Margin	27.1%	28.3%	26.1%	(2.0%)	15.6%	15.6%	15.6%	15.6%
Growth		12.6%	1.8%	(103.8%)	1574.2%	10.3%	9.2%	7.1%
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Net Debt			9,127.0	15,613.8	12,264.2	10,418.0	9,120.0	5,581.5
Total Debt			9,127.0	15,613.8	12,264.2	10,418.0	9,120.0	5,581.5

**Price Target: \$41.52**

Current DCF Estimate Assumptions:

- ✚ Return to operations due to COVID-19 will occur before Year End 2020
- ✚ Growth for 2020 is -51% due to COVID-19.
- ✚ Return to operations will be sharp with growth from 2020 to 2021 of 89%; growth will normalize by 2022
- ✚ EPS will be negative in 2020 with a net loss of \$1.23 per share but will return to \$2.1 in 2021



### Why Buy Carnival Corporation & PLC:

- ✚ Currently trading down over 70% on the year due to COVID-19. The pandemic is temporary no matter how long it last and the demand will return. Long term outlook should put the price back to historical P/E of 16.53x earning. A return to pre-COVID-19 pricing would be a 460% return.
- ✚ Securing liquidity for 15 months but more importantly longer than its competitors could be advantageous. The weaker companies could exit the market allowing CCL to gain even more market share in the long term future.
- ✚ Carnival Corporation & PLC has a long history of weathering the storm. Pandemics are not new to the cruise industry and have shown its resiliency in the past.
- ✚ Fairly large MOAT due to the high cost of building new cruise ships and its large portion of market share
- ✚ Current price to book is 0.4 with debt to equity still a modest 0.53
- ✚ A high yield dividend stock returns capital to investors and will continue to once operations resume
- ✚ Long term outlook on demand growth was strong prior to COVID-19

## 5. Risks:

### 4 potential risks surrounding the cruise industry and Carnival Corporation & Plc:

1. Uncertainty as to when Carnival can begin to generate revenue and resume operations.
  - a. Currently, all sailing has been suspended until June 26<sup>th</sup>. Will Carnival Corporation & Plc begin cruising immediately or slowly will be determined as it gets closer.
2. Legal troubles over COVID-19 infections and deaths on Carnival Corporation & Plc.
  - a. Insurance coverage could be paying for these lawsuits in the short term but long term, insurance premiums will increase. In 2019, a Royal Caribbean cruise ship passenger was not able to disembark and died on their ship. The settlement of this case amounted to \$3 Million. A fair estimate due to the high publicity of COVID-19 deaths on cruise ships, I would value the legal liability risk at 3-4 times that from 2019. With 15-20 deaths and 1000 positive cases, the total legal exposure could be \$250-350 Million.
3. Uncertainty around capacity and passengers returning to normalized numbers
  - a. Carnival is positioned well against capacity as their ships run below the industry averages but could stress the business model if capacity is too low.
  - b. Passengers eager to fill ships will take time to return. This problem could extend as long after COVID-19 as faded from recent memory.
4. Managing additional debt that was taken on due to prolonged delays in operation.
  - a. Carnival Corporation & Plc did not get any government assistance for COVID-19 stimulus.
  - b. Added new shares, convertible debt, and pulled on its revolver.
  - c. The added leverage could be catastrophic if hit with another financial crisis at the same time.

## 6. Field Research:

Disclaimer – The surveyed demography due to my personal social circles is most likely skewed towards ages 20-44, young professionals from the north east of the United States. The survey was posted on my LinkedIn and Facebook accounts. The survey was completed from April 25<sup>th</sup>- 28<sup>th</sup>, 2020.

The objective of the survey was to get an understanding of where consumers stood in regards to travel, their sentiment towards cruises amidst the COVID-19 pandemic.

The sample size is 113 randomly selected individuals who are all currently under stay at home orders by their state government. This is important to keep in mind while reviewing the results.

### Summary of the Results:

#### Traveling Industry:

- ✚ 67% of the sample population is afraid to gather due to the ongoing COVID-19 pandemic.
- ✚ If the stay at home order was lifted, 49.5% would feel comfortable going to a concert/sporting event.
- ✚ If the stay at home order was lifted, 67.2% would travel again.
- ✚ 88.5% of the sampled population misses traveling.
- ✚ Most would feel comfortable traveling again in 2020, with 29.2% by summer and 32.7% by fall. Only 1.7% stated they would never travel again.

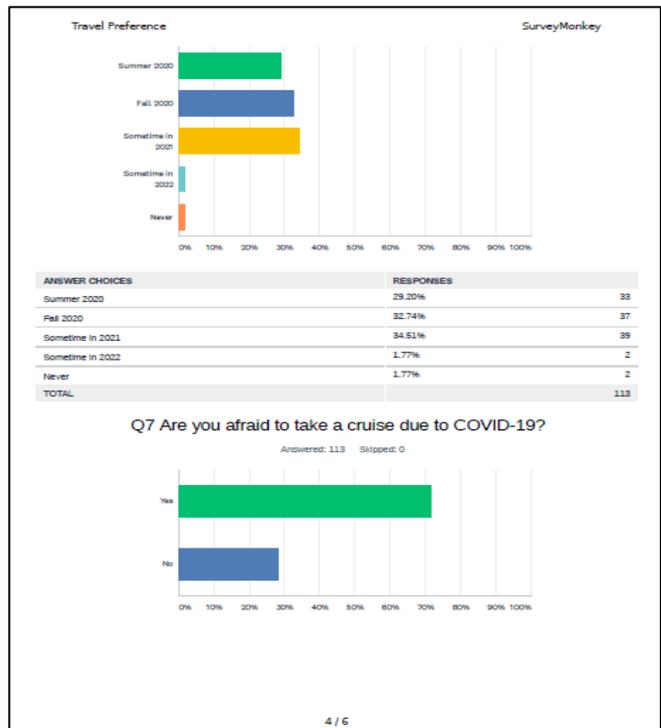
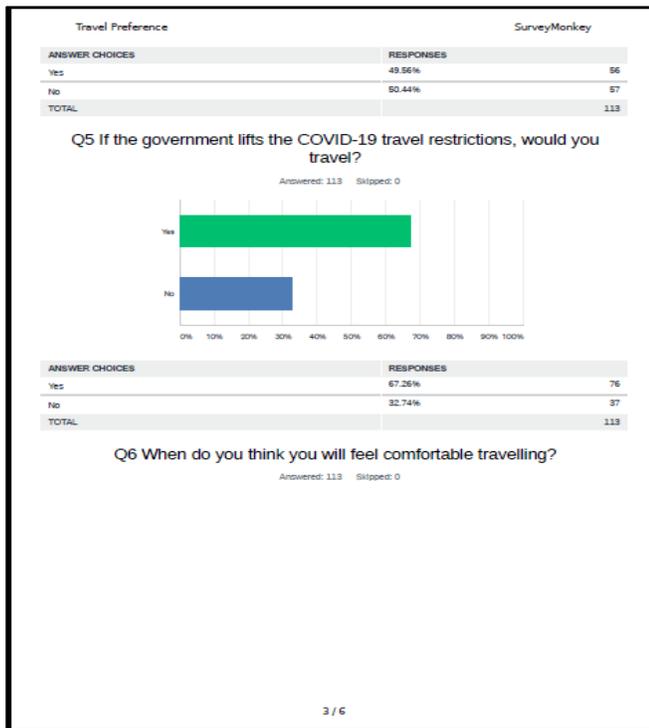
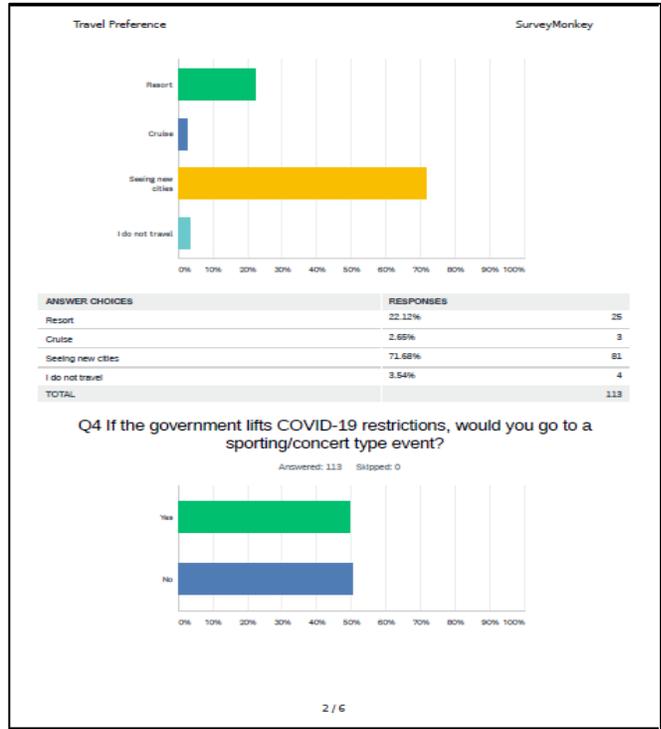
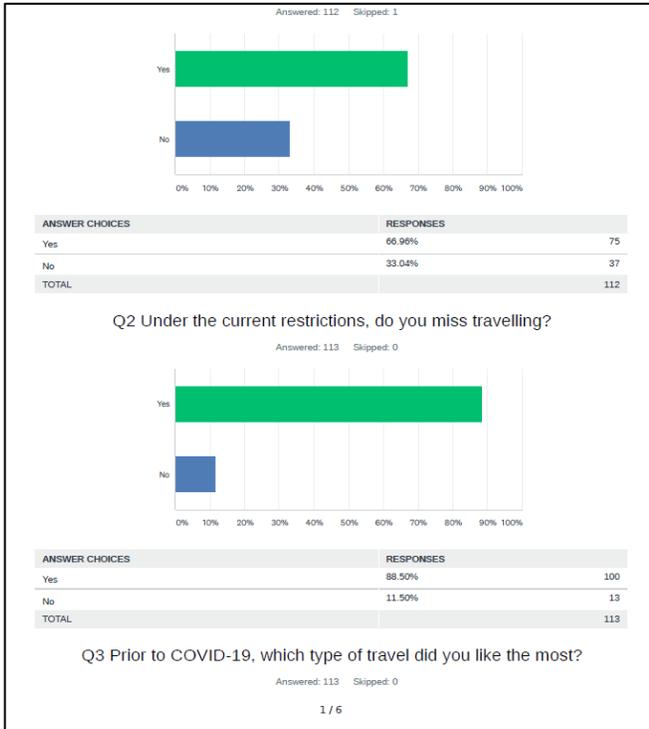
#### Cruise Industry:

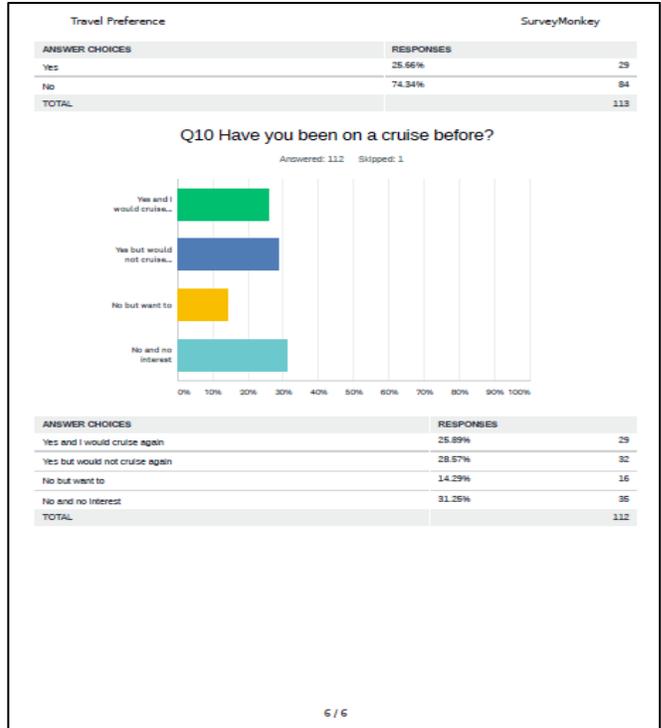
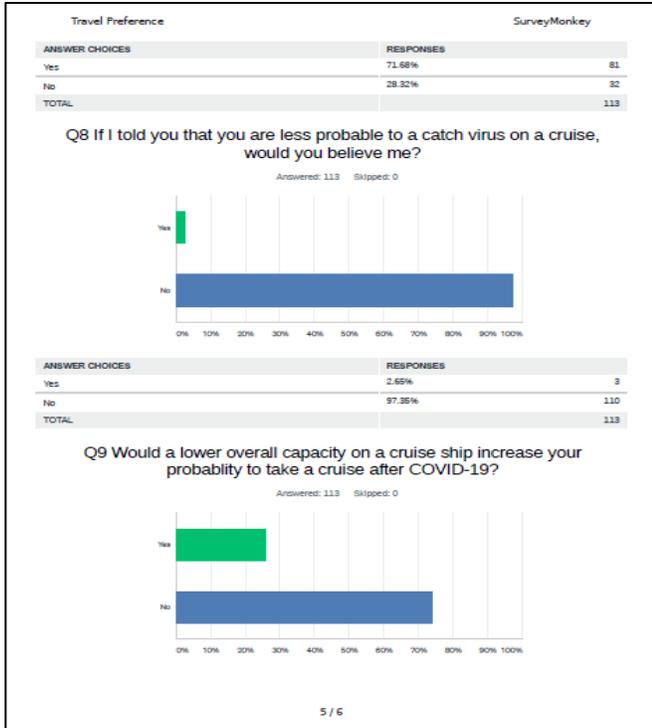
- ✚ Of those who travel, only 2.7% enjoyed cruising the most. This correlates directly with the total population who cruises.
- ✚ Only 28.3% are not afraid to cruise during the COVID-19 pandemic.
- ✚ Overwhelmingly people believe that cruise ships are more susceptible to getting a virus even if told that was not the case. The CEO of Carnival Corporation stated on CNBC that cruise ships are less likely to spread viruses due to their cleaning standards. 97.3% of the sample population would not believe those statements regardless of facts.
- ✚ Only 25.6% would increase their probability of cruising if total capacity was lowered on cruise ships.
- ✚ 25.9% of the sampled population has been on a cruise and would cruise again.
- ✚ 28.6% of the sampled population has been on a cruise and would not cruise again.
- ✚ 14.3% of the sampled population has not been on a cruise but want to.
- ✚ 31.2% of the sampled population has no interest in cruising

Overall the results of the survey demonstrate the current uncertainty surrounding risk taking while traveling. The steep drop from 82% satisfaction in cruising to a mere 25.9% would cruise again now is concerning but optimistic. The sharp decline in a short amount of time can be reversed quickly once COVID-19 has effective treatment or is normalized in similar fashion as all other pandemics before this one. Repeating this survey in a year time would highlight the quick changes in consumer behavior.

## 7. Appendix:

### Survey Results:





**Financial Statements:**

<b>CARNIVAL PLC</b>		
<b>GROUP STATEMENTS OF INCOME</b>		
(in millions, except per share data)		
	<b>Years Ended November 30,</b>	
	<b>2019</b>	<b>2018</b>
<b>Revenues</b>		
Cruise		
Passenger ticket	\$ 6,350	\$ 6,483
Onboard and other (a)	1,905	1,580
Tour and other	390	272
	<u>8,645</u>	<u>8,335</u>
<b>Operating Costs and Expenses</b>		
Cruise		
Commissions, transportation and other	1,249	1,215
Onboard and other (a)	583	251
Payroll and related	935	899
Fuel	678	715
Food	424	434
Other ship operating	1,648	1,724
Tour and other	274	179
	<u>5,791</u>	<u>5,417</u>
Selling and administrative	896	915
Depreciation and amortisation	721	710
	<u>7,408</u>	<u>7,041</u>
<b>Operating Income</b>	<u>1,237</u>	<u>1,293</u>
<b>Nonoperating Income (Expense)</b>		
Interest income	8	4
Interest expense, net of capitalised interest	(20)	(21)
Other income (expense), net	16	(84)
	<u>4</u>	<u>(100)</u>
<b>Income Before Income Taxes</b>	<u>1,241</u>	<u>1,193</u>
<b>Income Tax Benefit (Expense), Net</b>	<u>(40)</u>	<u>(29)</u>
<b>Net Income</b>	<u>\$ 1,201</u>	<u>\$ 1,164</u>
<b>Earnings Per Share</b>		
Basic	<u>\$ 6.37</u>	<u>\$ 5.71</u>
Diluted	<u>\$ 6.36</u>	<u>\$ 5.70</u>
 (a) Includes the effect of the adoption of new accounting guidance of \$342 million for the year ended November 30, 2019.		
The accompanying notes are an integral part of these financial statements. These financial statements only present the Carnival plc consolidated IFRS Financial Statements and, accordingly, do not include the consolidated IFRS results of Carnival Corporation. In accordance with Section 408 of the Companies Act 2006, the Company has not presented its own Statements of Income or Statements of Comprehensive Income.		
<p>Within the DLC arrangement the most appropriate presentation of Carnival plc's results and financial position is considered to be by reference to the DLC Financial Statements. Under the contracts governing the DLC arrangement, the Carnival Corporation &amp; plc consolidated earnings accrue equally to each share of Carnival Corporation common stock and each Carnival plc ordinary share and for this reason we also provide the U.S. GAAP earnings per share for Carnival Corporation &amp; plc in the Group Statements of Income. Set out below is the U.S. GAAP and adjusted consolidated earnings per share included within the DLC Financial Statements of the DLC Annual Report and the Business Review section of the Strategic Report for the years ended November 30:</p>		
	<b>2019</b>	<b>2018</b>
DLC basic earnings per share	<u>\$ 4.34</u>	<u>\$ 4.45</u>
DLC diluted earnings per share	<u>\$ 4.32</u>	<u>\$ 4.44</u>
DLC adjusted diluted earnings per share	<u>\$ 4.40</u>	<u>\$ 4.26</u>

<b>CARNIVAL PLC</b>		
<b>GROUP STATEMENTS OF COMPREHENSIVE INCOME</b>		
(in millions)		
	<b>Years Ended November 30,</b>	
	<b>2019</b>	<b>2018</b>
<b>Net Income</b> .....	\$ 1,201	\$ 1,164
<b>Other Comprehensive Income (Loss)</b>		
<b>Items that will not be reclassified through the Statements of Income</b>		
Remeasurements of post-employment benefit obligations .....	(2)	14
<b>Items that may be reclassified through the Statements of Income</b>		
Changes in foreign currency translation adjustment .....	(154)	(264)
Other .....	35	76
	(120)	(188)
<b>Other Comprehensive Income (Loss)</b> .....	(121)	(174)
<b>Total Comprehensive Income</b> .....	\$ 1,079	\$ 990

**CARNIVAL PLC  
BALANCE SHEETS**  
(in millions)

	Group		Company	
	November 30,			
	2019	2018	2019	2018
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and cash equivalents .....	\$ 219	\$ 368	\$ 82	\$ 267
Trade and other receivables, net .....	275	202	80	64
Inventories .....	230	231	83	98
Prepaid expenses and other .....	225	157	116	66
Total current assets .....	948	959	361	496
Property and Equipment, Net .....	14,277	12,985	3,805	3,848
Amount Owed from Subsidiaries .....	—	—	2,176	739
Goodwill .....	582	595	142	141
Other Assets .....	532	484	296	262
Investments in Subsidiaries .....	—	—	5,457	5,472
	<b>\$ 16,338</b>	<b>\$ 15,022</b>	<b>\$ 12,235</b>	<b>\$ 10,957</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>Current Liabilities</b>				
Short-term borrowings .....	\$ 231	\$ 848	\$ 231	\$ 621
Current portion of long-term debt .....	329	168	289	126
Amount owed to the Carnival Corporation group .....	474	268	515	322
Accounts payable .....	361	328	108	105
Accrued liabilities and other .....	844	738	432	395
Customer deposits .....	1,883	1,768	1,150	1,101
Total current liabilities .....	4,122	4,117	2,725	2,671
Long-Term Debt .....	3,257	2,007	2,132	1,258
Other Long-Term Liabilities .....	300	361	158	209
<b>Shareholders' Equity</b>				
Share capital .....	358	358	358	358
Share premium .....	186	173	185	175
Retained earnings .....	11,076	10,257	9,060	8,161
Other reserves .....	(2,961)	(2,250)	(2,384)	(1,874)
Total shareholders' equity .....	8,659	8,537	7,219	6,820
	<b>\$ 16,338</b>	<b>\$ 15,022</b>	<b>\$ 12,235</b>	<b>\$ 10,957</b>

Net income for the Company was \$1.3 billion in 2019 (\$1.7 billion in 2018).

The accompanying notes are an integral part of these financial statements. These financial statements only present the Carnival plc consolidated IFRS Financial Statements and, accordingly, do not include the consolidated IFRS results of Carnival Corporation.

The Carnival plc Group financial statements (registered number 04039524) were authorised for issue by the Board of Directors on January 28, 2020 and signed on their behalf by



**Micky Arison**  
Chairman of the Board of Directors



**Arnold W. Donald**  
President and Chief Executive Officer and Director

Within the DLC arrangement the most appropriate presentation of Carnival plc's results and financial position is considered to be by reference to the DLC Financial Statements.

**CARNIVAL PLC**  
**STATEMENTS OF CASH FLOWS**  
(in millions)

	Group		Company	
	Years Ended November 30,			
	2019	2018	2019	2018
<b>OPERATING ACTIVITIES</b>				
Income before income taxes	\$ 1,241	\$ 1,193	\$ 1,281	\$ 1,741
Adjustments to reconcile income before income taxes to net cash provided by (used in) operating activities				
Depreciation and amortisation	721	710	211	237
Share-based compensation	11	12	3	4
Interest expense, net	23	17	13	11
Other, net	11	(18)	—	(20)
	2,007	1,914	1,508	1,975
Changes in operating assets and liabilities				
Receivables	(80)	(51)	(6)	8
Inventories	51	(28)	9	(4)
Prepaid expenses and other	(115)	(31)	(73)	(27)
Accounts payable	40	(33)	7	(38)
Accrued and other liabilities	11	32	(7)	34
Customer deposits	129	209	44	70
Cash provided by (used in) operations before interest and income taxes	2,043	2,013	1,483	2,018
Interest received	8	4	5	2
Interest paid	(28)	(39)	(16)	(29)
Income taxes paid, net	(30)	(39)	—	(3)
Net cash provided by (used in) operating activities	1,992	1,939	1,471	1,988
<b>INVESTING ACTIVITIES</b>				
Purchases of property and equipment	(2,451)	(897)	(288)	(304)
Proceeds from sales of ships	26	307	17	294
Other, net	60	(149)	56	(152)
Net cash provided by (used in) investing activities	(2,365)	(739)	(216)	(162)
<b>FINANCING ACTIVITIES</b>				
Changes in loans with the Carnival Corporation group and Group companies	328	(1,134)	(1,166)	(1,053)
Proceeds from (repayments of) short-term borrowings, net	(605)	837	(377)	593
Principal repayments of long-term debt	(190)	(367)	(149)	(321)
Proceeds from issuance of long-term debt	1,695	980	1,247	469
Dividends paid	(385)	(394)	(382)	(393)
Purchases of treasury shares	(577)	(990)	(577)	(990)
Other, net	(34)	(26)	(33)	(26)
Net cash provided by (used in) financing activities	232	(1,094)	(1,437)	(1,720)
Effect of exchange rate changes on cash and cash equivalents	(8)	(3)	(3)	6
Net increase (decrease) in cash and cash equivalents	(149)	104	(185)	112
Cash and cash equivalents at beginning of year	368	265	267	155
Cash and cash equivalents at end of year	\$ 219	\$ 368	\$ 82	\$ 267

The accompanying notes are an integral part of these financial statements. These financial statements only present the Carnival plc consolidated IFRS Financial Statements and, accordingly, do not include the consolidated IFRS results of Carnival Corporation.

Within the DLC arrangement the most appropriate presentation of Carnival plc's results and financial position is considered to be by reference to the DLC Financial Statements.

Summary Financial Results								
	Historical				Projected			
	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	\$17,510.0	\$18,881.0	\$20,825.0	\$10,204.3	\$19,286.0	\$21,262.9	\$23,219.0	\$24,872.2
<i>Growth</i>		7.8%	10.3%	(51.0%)	89.0%	10.3%	9.2%	7.1%
EBITDA	4,744.0	5,342.0	5,436.0	(204.1)	3,008.6	3,317.0	3,622.2	3,880.1
<i>Margin</i>	27.1%	28.3%	26.1%	(2.0%)	15.6%	15.6%	15.6%	15.6%
<i>Growth</i>		12.6%	1.8%	(103.8%)	1574.2%	10.3%	9.2%	7.1%
EPS				(\$1.23)	\$2.10	\$3.00	\$3.65	\$4.14
Net Debt			9,127.0	15,613.8	12,264.2	10,418.0	9,120.0	5,581.5
Total Debt			9,127.0	15,613.8	12,264.2	10,418.0	9,120.0	5,581.5

Valuation	
DCF Enterprise Value	\$38,502.2
Implied EV/EBITDA	7.1x
DCF Equity Value	\$29,375.2
Forward Implied P/E	NM

DCF Equity Sensitivity Analysis			
Growth	WACC		
	10.0%	12.0%	14.0%
3.0%	\$51.2	41.52	34.05
5.0%	75.43	58.58	46.58
8.0%	202.74	126.79	88.89

### OPERATING ASSUMPTIONS

	Historical				Projected			
	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	\$17,510.0	\$18,881.0	\$20,825.0	\$10,204.3	\$19,286.0	\$21,262.9	\$23,219.0	\$24,872.2
<i>Growth</i>		7.8%	10.3%	(51.0%)	89.0%	10.3%	9.2%	7.1%
<i>Cost of Goods Sold:</i>								
COGS (Excl. Depn.)	10,501.0	11,089.0	12,909.0	9,183.8	13,963.1	15,394.3	16,810.6	18,007.5
<i>% Sales</i>	60.0%	58.7%	62.0%	90.0%	72.4%	72.4%	72.4%	72.4%
Depreciation/Amortization	1,846.0	2,017.0	2,160.0	1.5	1.5	1.5	1.5	1.5
<i>% Sales</i>	10.5%	10.7%	10.4%	0.0%	0.0%	0.0%	0.0%	0.0%
Total COGS	12,347.0	13,106.0	15,069.0	9,185.3	13,964.6	15,395.8	16,812.1	18,009.0
<i>% Sales</i>	70.5%	69.4%	72.4%	90.0%	72.4%	72.4%	72.4%	72.4%
<i>SG&amp;A Expense:</i>								
SG&A Expense (Excl. Amt.)	2,265.0	2,450.0	2,480.0	1,224.5	2,314.3	2,551.5	2,786.3	2,984.7
<i>% Sales</i>	12.9%	13.0%	11.9%	12.0%	12.0%	12.0%	12.0%	12.0%
Total SG&A Expense	2,265.0	2,450.0	2,480.0	1,225.5	2,315.3	2,552.5	2,787.3	2,985.7
<i>% Sales</i>	12.9%	13.0%	11.9%	12.0%	12.0%	12.0%	12.0%	12.0%
EBITDA	4,744.0	5,342.0	5,436.0	(204.1)	3,008.6	3,317.0	3,622.2	3,880.1
<i>Margin</i>	27.1%	28.3%	26.1%	(2.0%)	15.6%	15.6%	15.6%	15.6%
<i>Growth</i>		12.6%	1.8%	(103.8%)	(1574.2%)	10.3%	9.2%	7.1%
Operating Profit (EBIT)	2,898.0	3,325.0	3,276.0	(206.6)	3,006.1	3,314.5	3,619.7	3,877.6
<i>Margin</i>	16.6%	17.6%	15.7%	(2.0%)	15.6%	15.6%	15.6%	15.6%
Total Capital Expenditures	2,944.0	3,749.0	5,429.0	2,700.0	500.0	1,000.0	2,000.0	0.0
<i>% of Sales</i>	16.8%	19.9%	26.1%	26.5%	2.6%	4.7%	8.6%	0.0%

## WORKING CAPITAL ASSUMPTIONS

	Pro Forma		Projected			
	2019	2020	2021	2022	2023	2024
Sales	\$20,825.0	\$10,204.3	\$19,286.0	\$21,262.9	\$23,219.0	\$24,872.2
Total COGS	15069.0	9185.3	13964.6	15395.8	16812.1	18009.0
<b>Current Assets</b>						
Required Cash	518.0	315.7	480.0	529.2	577.9	619.1
Accounts Receivable	444.0	217.6	411.2	453.3	495.0	530.3
Inventory	427.0	260.3	395.7	436.3	476.4	510.3
Prepaid Expenses	671.0	409.0	621.8	685.6	748.6	801.9
<b>Current Assets</b>	<b>2060.0</b>	<b>1202.6</b>	<b>1908.8</b>	<b>2104.4</b>	<b>2298.0</b>	<b>2461.6</b>
<b>Current Liabilities</b>						
Accounts Payable	756.0	460.8	700.6	772.4	843.4	903.5
Accrued Expenses	8919.0	5436.6	8265.3	9112.4	9950.7	10659.1
<b>Current Liabilities</b>	<b>9675.0</b>	<b>5897.4</b>	<b>8965.9</b>	<b>9884.8</b>	<b>10794.1</b>	<b>11562.6</b>
<b>Net Cash Impact</b>						
Net Working Capital	-7615.0	-4694.8	-7057.2	-7780.4	-8496.2	-9101.0
Cash (Used by) / Generated from Work. Cap.		-2920.2	2362.4	723.3	715.7	604.9
<b>Ratios</b>						
Required Cash % of COGS	3.4%	3.4%	3.4%	3.4%	3.4%	3.4%
A/R % of Sales	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%
Days Receivable	7.8 d	7.8 d				
Inventory % of COGS	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%
Inventory Turns	35.3x	35.3x	35.3x	35.3x	35.3x	35.3x
Prepaid % of COGS	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Accts Payable % of COGS	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Accrued % of COGS	59.2%	59.2%	59.2%	59.2%	59.2%	59.2%

**INCOME STATEMENTS**

	Historical		Projected			
	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
Revenue	20,825.0	10,204.3	19,286.0	21,262.9	23,219.0	24,872.2
Less: Total COGS	(15,069.0)	(9,185.3)	(13,964.6)	(15,395.8)	(16,812.1)	(18,009.0)
Gross Profit	5,756.0	1,018.9	5,321.4	5,867.0	6,407.0	6,863.2
Less: Total SG&A	(2,480.0)	(1,225.5)	(2,315.3)	(2,552.5)	(2,787.3)	(2,985.7)
EBIT	3,276.0	(206.6)	3,006.1	3,314.5	3,619.7	3,877.6
<i>Interest &amp; Other Expense / (Income):</i>						
	<i>Rate</i>					
Revolver	11.50%	0.0	895.9	660.7	598.3	599.0
Term Loan	7.71%	703.7	603.2	502.6	402.1	301.6
Sr. Sub. Notes	11.00%	0.0	0.0	0.0	0.0	0.0
Total Interest Expense		703.7	1,499.1	1,163.3	1,000.4	900.6
Less: Interest Income	4.0%	(20.7)	(12.6)	(19.2)	(21.2)	(23.1)
Financing Costs Amortization	7.0 y	0.0	0.0	0.0	0.0	0.0
Pretax Income		(889.6)	1,519.7	2,170.4	2,640.4	3,000.1
Less: Income Taxes	2.30%	20.5	(35.0)	(49.9)	(60.7)	(69.0)
Net Income		(869.1)	1,484.7	2,120.5	2,579.7	2,931.1
Shares Outstanding		707.470	707.470	707.470	707.470	707.470
Earnings per Share (EPS)		(\$1.2)	\$2.1	\$3.0	\$3.6	\$4.1
<i>EBITDA Reconciliation:</i>						
EBIT		(206.6)	3,006.1	3,314.5	3,619.7	3,877.6
Plus: Depreciation		1.5	1.5	1.5	1.5	1.5
Plus: Amortization		1.0	1.0	1.0	1.0	1.0
EBITDA		(204.1)	3,008.6	3,317.0	3,622.2	3,880.1

**BALANCE SHEETS**

	Historical	Projected				
	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23	Dec-24
<b><u>ASSETS:</u></b>						
Required Cash	\$518.0	315.7	480.0	529.2	577.9	619.1
Excess Cash	0	0.0	0.0	0.0	0.0	0.0
Total Cash	\$518.0	315.7	480.0	529.2	577.9	619.1
Accounts Receivable	444.0	217.6	411.2	453.3	495.0	530.3
Inventory	427.0	260.3	395.7	436.3	476.4	510.3
Prepaid Expenses	671.0	409.0	621.8	685.6	748.6	801.9
Current Assets	2,060.0	1,202.6	1,908.8	2,104.4	2,298.0	2,461.6
PP&E - Gross	35,931.0	38,631.0	39,131.0	40,131.0	42,131.0	42,131.0
Less: Accum. Depn.	2,200.0	2,198.5	2,197.0	2,195.5	2,194.0	2,192.5
Net PP&E	38,131.0	40,829.5	41,328.0	42,326.5	44,325.0	44,323.5
Intangibles	4,867.0	4,866.0	4,865.0	4,864.0	4,863.0	4,862.0
Cap. Financing Costs	0.0	0.0	0.0	0.0	0.0	0.0
Total Assets	\$45,058.0	\$46,898.1	\$48,101.8	\$49,294.9	\$51,486.0	\$51,647.1
<b><u>LIABILITIES &amp; EQUITY:</u></b>						
Accounts Payable	756.0	460.8	700.6	772.4	843.4	903.5
Accrued Expenses	8,919.0	5,436.6	8,265.3	9,112.4	9,950.7	10,659.1
Current Liabilities	9,675.0	5,897.4	8,965.9	9,884.8	10,794.1	11,562.6
Revolver	0.0	7,790.6	5,744.9	5,202.5	5,208.5	2,973.8
Term Loan	9,127.0	7,823.1	6,519.3	5,215.4	3,911.6	2,607.7
Sr. Sub. Notes	0.0	0.0	0.0	0.0	0.0	0.0
Total Debt	9,127.0	15,613.8	12,264.2	10,418.0	9,120.0	5,581.5
Other Liabilities	891.0	891.0	891.0	891.0	891.0	891.0
Total Liabilities	19,693.0	22,402.2	22,121.1	21,193.8	20,805.2	18,035.1
Common Equity	25,365.0	24,495.9	25,980.6	28,101.1	30,680.8	33,611.9
Liabilities & Equity	\$45,058.0	\$46,898.1	\$48,101.7	\$49,294.9	\$51,485.9	\$51,647.0

## CASH FLOW STATEMENTS

	<b>Projected</b>				
	<u>Dec-20</u>	<u>Dec-21</u>	<u>Dec-22</u>	<u>Dec-23</u>	<u>Dec-24</u>
<b><u>Operating Activities:</u></b>					
Net Income	(\$869.1)	\$1,484.7	\$2,120.5	\$2,579.7	\$2,931.1
Depreciation	1.5	1.5	1.5	1.5	1.5
Amortization	1.0	1.0	1.0	1.0	1.0
Financing Costs Amortization	0.0	0.0	0.0	0.0	0.0
Subtotal	(866.6)	1,487.2	2,123.0	2,582.2	2,933.6
Changes in Working Capital	(2,920.2)	2,362.4	723.3	715.7	604.9
Cash Flow from Operations	(3,786.8)	3,849.6	2,846.3	3,297.9	3,538.5
<b><u>Investing Activities:</u></b>					
Less: Capital Expenditures	(2,700.0)	(500.0)	(1,000.0)	(2,000.0)	0.0
Plus: Investment Gains/(Losses)	0.0	0.0	0.0	0.0	0.0
Cash Flow from / (Used by) Investing	(2,700.0)	(500.0)	(1,000.0)	(2,000.0)	0.0
Cash Available for Debt Repayment	(6,486.8)	3,349.6	1,846.3	1,297.9	3,538.5
<b><u>Financing Activities Capital Inflow / (Outflow):</u></b>					
Revolver	7,790.6	(2,045.7)	(542.4)	5.9	(2,234.6)
Term Loan	(1,303.9)	(1,303.9)	(1,303.9)	(1,303.9)	(1,303.9)
Sr. Sub. Notes	0.0	0.0	0.0	0.0	0.0
Cash Flow from / (Used by) Financing	6,486.8	(3,349.6)	(1,846.3)	(1,297.9)	(3,538.5)
Net Increase / (Decrease) in Cash	0.0	0.0	0.0	0.0	0.0

**DEBT SCHEDULE**

		<b>Projected</b>				
		<b><u>2020</u></b>	<b><u>2021</u></b>	<b><u>2022</u></b>	<b><u>2023</u></b>	<b><u>2024</u></b>
<b><u>Scheduled Debt Retirement</u></b>						
Revolver		0.0	0.0	0.0	0.0	0.0
Term Loan	<i>Years to Amortize</i> 7 y	1,303.9	1,303.9	1,303.9	1,303.9	1,303.9
Sr. Sub. Notes		0.0	0.0	0.0	0.0	0.0
<b><u>USES OF FUNDS</u></b>						
<b><u>Required Debt Retirement</u></b>						
Revolver		3,000.0	0.0	0.0	0.0	0.0
Term Loan		1,303.9	1,303.9	1,303.9	1,303.9	1,303.9
Sr. Sub. Notes		0.0	0.0	0.0	0.0	0.0
Required Debt Retirement		4,303.9	1,303.9	1,303.9	1,303.9	1,303.9
<b><u>Optional Debt Retirement</u></b>						
	<b>Prepay?</b>					
Revolver	yes	0.0	2,045.7	542.4	0.0	2,234.6
Term Loan	yes	0.0	0.0	0.0	0.0	0.0
Sr. Sub. Notes	no	0.0	0.0	0.0	0.0	0.0
Optional Debt Retirement		0.0	2,045.7	542.4	0.0	2,234.6
Uses of Funds Subtotal		4,303.9	3,349.6	1,846.3	1,303.9	3,538.5
Excess Cash Added to Balance Sheet		0.0	0.0	0.0	0.0	0.0
<b>Total Uses of Funds</b>		<b>4,303.9</b>	<b>3,349.6</b>	<b>1,846.3</b>	<b>1,303.9</b>	<b>3,538.5</b>
<b><u>SOURCES OF FUNDS</u></b>						
Existing Excess Cash		\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Cash Available for Debt Repayment		(6,486.8)	3,349.6	1,846.3	1,297.9	3,538.5
Subtotal		(6,486.8)	3,349.6	1,846.3	1,297.9	3,538.5
Incremental Revolver Borrowings		10,790.6	0.0	0.0	5.9	0.0
<b>Total Sources of Funds</b>		<b>4,303.9</b>	<b>3,349.6</b>	<b>1,846.3</b>	<b>1,303.9</b>	<b>3,538.5</b>

<b>VALUATION ANALYSIS</b>						
	<u>2019</u>	<u>Projected</u>				
		<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
	<u>0</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>
<b>Free Cash Flow Calculation</b>						
EBIT		(\$206.6)	\$3,006.1	\$3,314.5	\$3,619.7	\$3,877.6
Plus: Depreciation		1.5	1.5	1.5	1.5	1.5
Plus: Amortization		1.0	1.0	1.0	1.0	1.0
<b>EBITDA</b>		<b>(204.1)</b>	<b>3,008.6</b>	<b>3,317.0</b>	<b>3,622.2</b>	<b>3,880.1</b>
Less: Capex		(2,700.0)	(500.0)	(1,000.0)	(2,000.0)	0.0
<b>EBITDA Less Capex</b>		<b>(2,904.1)</b>	<b>2,508.6</b>	<b>2,317.0</b>	<b>1,622.2</b>	<b>3,880.1</b>
Less: Taxes on EBIT	2.3%	4.8	(69.1)	(76.2)	(83.3)	(89.2)
Less: Changes in Working Capital		(2,920.2)	2,362.4	723.3	715.7	604.9
<b>Unlevered Free Cash Flow</b>		<b>(5,819.5)</b>	<b>4,801.8</b>	<b>2,964.0</b>	<b>2,254.6</b>	<b>4,395.8</b>
<b>DCF Enterprise Value Calculation</b>						
<i>Terminal Value Calculation</i>						
Terminal Value Growth Rate						3.0%
Projected Free Cash Flow						4,527.6
Discount Rate (WACC)						11.0%
Terminal Enterprise Value						56,595.3
Implied Term. Value EBITDA Multiple						16.0x
<i>Discounted Cash Flows at WACC</i>						
Unlevered Free Cash Flow		(5,242.8)	3,897.3	2,167.3	1,485.2	2,608.7
Terminal Value						33,586.6
<b>Total Discounted Cash Flows</b>		<b>38,502.2</b>	<b>(5,242.8)</b>	<b>3,897.3</b>	<b>1,485.2</b>	<b>36,195.2</b>

<b>Summary DCF Valuation (PreDeal)</b>			
DCF Enterprise Value	\$38,502.2	7.1x	
Less: Net Debt (PreDeal)	(9,127.0)		
Equity Value	\$29,375.2		
Shares (PreDeal)	707.470		
DCF Value per Share	\$41.52	NM	Forward

<b>DCF Equity Sensitivity Analysis</b>			
<b>Growth</b>	<b>WACC</b>		
	10.0%	11.0%	12.0%
3.0%	51.18	41.52	34.05
5.0%	75.43	58.58	46.58
8.0%	202.74	126.79	88.89

<b>Operating Assumptions</b>						
<b>REVENUE BUILD UP</b>						
<b>Revenue Growth</b>		<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
<b>Active Case</b>	<b>Management Case</b>	(51.0%)	89.0%	10.3%	9.2%	7.1%
<b>COGS %</b>		<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
	1 Management Case	90.0%	72.4%	72.4%	72.4%	72.4%
	2 Base Case	90.0%	73.0%	73.5%	73.5%	73.5%
	3 Downside Case	100.0%	73.0%	74.0%	74.0%	74.0%
<b>Active Case</b>	<b>Management Case</b>	90.0%	72.4%	72.4%	72.4%	72.4%
<b>SG&amp;A %</b>		<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
	1 Management Case	12.0%	12.0%	12.0%	12.0%	12.0%
	2 Base Case	11.0%	11.0%	11.0%	11.0%	11.0%
	3 Downside Case	8.0%	8.5%	9.0%	9.0%	9.0%
<b>Active Case</b>	<b>Management Case</b>	12.0%	12.0%	12.0%	12.0%	12.0%
<b>Capex</b>		<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
	1 Management Case	2,700.0	500.0	1,000.0	2,000.0	0.0
	2 Base Case	2,500.0	500.0	1,000.0	2,000.0	0.0
	3 Downside Case	3,000.0	500.0	1,000.0	2,000.0	0.0
<b>Active Case</b>	<b>Management Case</b>	2,700.0	500.0	1,000.0	2,000.0	0.0

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