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# CONTRARIAN RESEARCH REPORT

*The Contrarian Series*

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December 20, 2022

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## Royal Caribbean Cruises Ltd.

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*(Buy)*

<b>Price (close):</b>	\$51.47	<b>Ticker:</b>	RCL
<b>52-Week Range:</b>	\$31.09 - \$90.55	<b>Dividend:</b>	n/a
<b>Shares Outstanding:</b>	255.2 million	<b>Yield:</b>	n/a
<b>Market Capitalization:</b>	\$13.13 billion		

*Data as of December 19, 2022*



*Exclusive Marketers of  
The Contrarian Report*

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## Investment Thesis

Royal Caribbean is a global cruise company that operates multiple lines, including Royal Caribbean, Celebrity Cruises, and Silversea Cruises. As of September 30<sup>th</sup>, the company owned and operated 60 ships that offer itineraries to more than 1,000 destinations on all seven continents.

For approximately 15 months, beginning in March 2020, Royal Caribbean had suspended operations due to the COVID-19 pandemic. This inflicted considerable damage, as the company was unable to generate any meaningful sales. As a result, it reported an 80% decline in revenues and a net loss of \$5.7 billion in the year 2020. This occurred despite the company's efforts to reduce expenses by docking ships, furloughing staff and delaying new ship deliveries.

To address its ongoing cash flow requirements, Royal Caribbean fortified its liquidity in part by selling stock, but mostly through the issuance of debt. Between the end of 2019 (pre-pandemic) and September 30, 2022, its total debt balance more than doubled, to \$23.3 billion.

However, as the pandemic receded, the mandatory lockdowns ceased and normal life has returned. Royal Caribbean itself has taken steps to recovery, most notably with its first sailing (the Freedom of the Seas out of Ft. Lauderdale, Florida) in the post-pandemic era occurring in June of last year. Although the initial sailings were conducted under tight restrictions/Covid protocols and low occupancy rates, its operations have progressively improved, and the company is now operating at full capacity. As a result, the just-completed third quarter of 2022 marked the first quarter in which it generated positive operating and net income.

It would appear that the pandemic merely interrupted Royal Caribbean's long-standing growth trajectory, given that the company recently announced that it achieved record bookings for the five weeks leading up to Black Friday. Consequently, the earnings forecasts are rather optimistic. For 2023, the company is expected to produce revenues of \$12.7 billion and earnings of \$3.46 per share. This is a marked improvement over the 2022 forecast, which is \$8.8 billion and a loss of \$7.48 per share, respectively. In the following year (2024), revenues are expected to increase to \$14.5 billion, with earnings approaching \$6.35 per share, or almost twice that of the 2023 fiscal year. In 2025, Royal Caribbean is forecasted to generate revenues of \$15.5 billion, culminating in earnings of \$9.10 per share (or 43% higher).

Thus, at the current share price, Royal Caribbean trades at just 8.1x its 2024 estimated earnings. Historically, the company's price/earnings multiple has averaged roughly 15x. If this multiple is accepted as a fair valuation, then one could expect the Royal Caribbean share price to increase by over 48%. If it were to take two years to achieve, the annualized return

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would be almost 22%. Notably, even higher returns could be envisaged if one accepts a longer-term holding period.

A different return vector exists simply from some degree of deleveraging. Run-rate interest expense is \$1.409 billion, or \$5.59 per share. If, taking the second-year, 2024 consensus earnings estimate of \$6.41 per share as a realistic base level of earnings, that corresponds to \$1.64 billion of annual income. The company has \$21.76 billion of net debt. As a static base-case scenario, if all that were to occur in the coming years were the allocation of net income to the repayment of debt, then 50% of the debt could be defeased within about 6½ years. That would, simplistically, raise pre-tax income by \$704 million, or by 5.6% per year before secondary benefits. This is, again, a highly simplified exercise, because there are capital commitments for future new ship deliveries, among other claims on earnings or financing plans.

Nevertheless, staying with the debt-paydown exercise, potential benefits are greater than suggested above. Interest expense now amounts to an average 7.27% on the company's long-term debt. However, the company pays 10.88% to 11.50% on \$2.364 billion of secured senior notes due between 2023 and 2025, and between 3.70% and 11.63% on \$7.199 billion of unsecured senior notes due 2023 to 2028. Those total to not quite 50% of total debt. If the average rate on this debt were 10%, then the full repayment of the highest-cost debt would reduce interest expense by \$956 million, increasing pre-tax income by 58%, or 7.3% per year. This static scenario ignores presumed income growth from normally expected business expansion.

Although the recovery in Royal Caribbean's operations is ongoing, it does not appear to be discounted in the current share price. This provides the opportunity for an alluring rate of return. As a consequence, the Royal Caribbean shares are judged to be attractive, such that purchase is recommended.

## **Company Description**

Royal Caribbean was founded in 1968 by Arne Wilhelmsen, a Norwegian businessman who was involved with several shipping companies at the time. His vision to create the first commercial vacation cruise ship predated the efforts of Ted Arison, widely considered the industry's pioneer through his formation of Carnival Corp. in 1972. Mr. Wilhelmsen guided the construction of Royal Caribbean's first ship, Song of Norway, which commenced its maiden voyage in 1970. Family ownership of the company remains substantial, as A. Alexander Wilhelmsen, who is on the Board of Directors, controls approximately 23 million shares, totaling 9% of the company's total outstanding, through the family's investment vehicle, AWilhelmsen AS.

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Royal Caribbean operates four primary cruise brands. The flagship brand, Royal Caribbean International, operates 26 ships (with an aggregate capacity of 92,584 berths, or beds) with destinations worldwide. This is the base cruise product offering that the company markets as a premium vacation experience.

The Celebrity Cruise brand provides a similar premium offering, with a current capacity of 15 ships having an aggregate capacity of 32,280 berths. Both of these lines provide passengers, typically with cruise lengths ranging from two to 19 nights, with vacation destinations to a variety of areas such as Bermuda, Hawaii, the Caribbean, Alaska, Australia, Europe, New Zealand, Panama Canal, and South America.

The company also owns Silversea Cruise, which offers an ultra-premium cruise experience. Silversea operates ten ships, smaller than those of the flagship brands, but which travel to more exotic locations such as the Galapagos Islands, Antarctica, and the Arctic. Cruise lengths can reach up to 25 nights, and feature services such as luxury accommodations, fine dining, personalized service, and exotic itineraries.

Lastly, Royal Caribbean owns a 50% interest in TUI Cruises (a German cruise company), which specializes in the German cruise market through the operation of seven ships, having a total capacity of 17,644.

Even with a healthy international presence, Royal Caribbean generates the majority of its revenues from North America. In 2019 (i.e., pre-Covid), 61% of overall sales were derived from this region, followed by the European market, which contributed 19% of revenues.

## **Exhibit 1: Royal Caribbean Geographic Revenues (2019)**

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	<u>2019 Revenues</u>	<u>% of Total</u>
North America	\$ 6,392	61.3%
Europe	1,942	18.6%
Asia/Pacific	1,530	14.7%
Other regions	568	5.4%
	<u>\$ 10,432</u>	<u>100.0%</u>

(\$ in millions)

Source: Company reports

The cruise ship industry has a very low penetration rate in terms of the portion of the population that engages in this form of vacation/entertainment. For example, Royal Caribbean estimates that in 2019, only 3.89% of the U.S. population purchased cruise tickets (total annual cruise passengers/total population). In Europe, the rate was even lower, at

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1.41% (and 0.2% in Asia). While cruise ships remain a more niche form of vacation, passenger growth rates have increased at a modest rate. As compared to the above figures, the U.S. penetration rate was 3.36% in 2015, displaying a 16% cumulative growth rate over the subsequent five years. While European passenger expansion has been similar as in the U.S., the Asian market increased by 150%. However, at present, the company has curtailed the Asian operations as China continues to adopt a “Zero Covid” policy.

Since less than 5% of the U.S. population (based on the above figures) purchases a cruise ticket every year, it is worthwhile noting the convenience/leisure benefits that lead to a fairly loyal customer base. To begin with, passengers receive the benefit of visiting multiple onshore destinations while having to pack/unpack only once during the vacation. On most cruises, the experience is all-inclusive, which means unlimited access to food, beverages, entertainment options, gym facilities, swimming pools, and childcare. There are, of course, additional services that can be purchased if desired, such as laundry service, casino gaming, spas, and onshore excursions. Thus, the convenience of the all-inclusive experience, not to mention the competitive cost factor relative to other forms of vacation, has built a recurring base of passengers, albeit representing only a small percentage of the population.

In any case, another way to measure industry growth is on an absolute basis. In North America, 14.2 million passengers traveled on cruise ships in 2019, which represented an annualized growth rate of 4.4% since 2015. While the North American and European markets are fairly mature, expanding at an annual rate of 3% to 5%, much of the global growth has been attributed to Asia, a market in which passenger numbers increased by over 20% per year.

## Exhibit 2: Global Cruise Ship Passengers (2015-2019)

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	<u>Global</u>	<u>N. America</u>	<u>Europe</u>	<u>Asia/Pacific</u>
2015	23,000	12,004	6,587	3,129
2016	24,000	12,274	6,512	4,466
2017	26,700	12,865	6,779	5,415
2018	28,500	14,062	7,343	5,685
2019	<u>30,000</u>	<u>14,246</u>	<u>7,554</u>	<u>7,317</u>
CAGR:	6.9%	4.4%	3.5%	23.7%

Source: Company reports

It is not surprising that Royal Caribbean has produced very similar passenger growth rates. Based on the most recent “normal” year, it has a 22% share of the global market and its largest competitor, Carnival Cruises, controls 43% of the market. Thus, these two companies alone represent 65% of global cruise activity, providing a barometer of the industry. As

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presented below, Royal Caribbean has managed to increase passenger levels by 5% per year from 2015 to 2019.

## Exhibit 3: Royal Caribbean Passengers Carried (2015-2019)

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	Passengers <u>Carried</u>
2015	5,401,899
2016	5,754,747
2017	5,768,496
2018	6,084,201
2019	<u>6,553,865</u>
<i>CAGR:</i>	<i>5.0%</i>

Source: Company reports

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## Financial Review

Although Royal Caribbean provides a discretionary service to consumers, the company's revenues were very stable over the several years prior to the pandemic-stricken year of 2020. Since 2007, sales had increased in all but one year—2009—which coincided with the Great Credit Crisis. Interestingly, in that year, revenues contracted by only 9.8%, which is fairly remarkable considering the consumer financial climate during that period. Between 2015 and 2019, the annualized revenue growth rate was 7.2%. This exceeds the 5% annual increase in passengers, suggesting an ability to successfully raise ticket prices and onboard activity fees. In general, this data indicates that while it is a mature industry, there is an element of long-term durability in the annual demand for cruise destinations.

### **Exhibit 4: Royal Caribbean Annual Revenue Growth (2007-2019)**

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#### **Exhibit 4: Royal Caribbean Annual Revenue Growth (2007-2019)**

	<u>Revenues</u>
2007	\$ 6,149
2008	6,533
2009	5,890
2010	6,753
2011	7,537
2012	7,688
2013	7,960
2014	8,074
2015	8,299
2016	8,496
2017	8,778
2018	9,494
2019	<u>10,951</u>
<i>CAGR 2007-2019:</i>	<i>4.9%</i>
<i>CAGR 2015-2019:</i>	<i>7.2%</i>

(\$ in millions)

Source: Company reports

At the operating level, the company's performance has been far more variable. If viewed over a long-term horizon, operating income has risen at an annualized rate of 7.2%.

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## Exhibit 5: Royal Caribbean Annual Operating Income Growth (2007-2019)

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	Operating <u>Income</u>	Operating <u>Margin</u>
2007	\$ 901	14.7%
2008	832	12.7%
2009	489	8.3%
2010	803	11.9%
2011	932	12.4%
2012	788	10.2%
2013	855	10.7%
2014	942	11.7%
2015	1,286	15.5%
2016	1,477	17.4%
2017	1,744	19.9%
2018	1,895	20.0%
2019	<u>2,083</u>	19.0%
<i>CAGR 2007-2019:</i>	<i>7.2%</i>	
<i>CAGR 2015-2019:</i>	<i>12.8%</i>	

(\$ in millions)

Source: Company reports

However, annual margin variability is quite evident, primarily due to fluctuating fuel costs, which can account for up to 12% of revenues in any given year. During periods of high oil and fuel prices, Royal Caribbean does not have the ability to raise ticket prices to a degree that sufficiently compensates for the expense increase.

For example, during the 2010 to 2014 period of high oil prices, operating income rose by only 17% cumulatively, as the operating margin remained in the 10% to 12% range. Then, as oil prices collapsed, causing a sharp reduction in fuel costs, the company's profitability in the following year of 2015 improved substantially. Over the long run, this is an element of the business that likely will remain. To compensate, the company generally engages in a fuel hedging program to mitigate the volatility. At the moment, 64% of fuel costs are hedged in 2022 and 45% in 2023.

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## Exhibit 6: Royal Caribbean Fuel Costs (2007-2019)

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	<u>Revenues</u>	<u>Fuel Cost</u>	<u>% of Revenues</u>
2007	\$ 6,149	\$ 546	8.9%
2008	6,533	733	11.2%
2009	5,890	600	10.2%
2010	6,753	647	9.6%
2011	7,537	765	10.1%
2012	7,688	910	11.8%
2013	7,960	924	11.6%
2014	8,074	947	11.7%
2015	8,299	796	9.6%
2016	8,496	714	8.4%
2017	8,778	681	7.8%
2018	9,494	711	7.5%
2019	10,951	698	6.4%

(\$ in millions)

Source: Company reports

### **Royal Caribbean Operations Through the Coronavirus Pandemic**

Notwithstanding the progress experienced prior to 2020, Royal Caribbean was required to undertake a total shutdown in its operations when the COVID-19 pandemic/lockdown began. This was by no means limited to Royal Caribbean, as the cruise industry, as well as the leisure industry more generally, were forced to abruptly cease operations.

As a consequence, the 2020 to 2022 fiscal years were some of the worst for the company. It suspended operations on March 13, 2020 and began to offer its services again starting in mid-2021 in a phased manner. As a consequence, Royal Caribbean reported an 80% drop in revenues during 2020, from \$10.9 billion to \$2.2 billion, with net income slipping from \$1.8 billion in 2019 to a loss of \$5.7 billion in 2020.

During 2021, revenue dropped further, to \$1.5 billion and the company produced a net loss of \$5.2 billion that year.

Naturally, the disruption was so severe that a bankruptcy was considered a plausible outcome. However, the company acted swiftly to maintain, and even improve, its liquidity,

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thereby remaining a going concern. For example, shortly after suspending operations, it significantly reduced expenses by cutting its workforce, ending 2020 with approximately 87% fewer employees onboard its ships than a year earlier. The company also sharply reduced capital expenditures by delaying or deferring new ship deliveries and modernization efforts on existing ships. Towards this end, its capital outlay declined from \$3.0 billion in 2019 to \$1.9 billion in 2020 and \$2.2 billion in 2021. It also disposed of a few older or smaller vessels.

Notably, since no sailings were taking place, there was no need for Royal Caribbean to provide outlays for operational expenses, such as food, fuel and commissions that can consume more than half of revenues in a normal year. Yet, despite these efforts, the company still produced a loss of over \$5.7 billion (which included an impairment charge of \$1.5 billion) in 2020, slightly decreasing to \$(5.2) billion in 2021. Such large losses were inevitable given the revenue freefall.

## Exhibit 7: Royal Caribbean Summary Income Statement (2019-2021)

	2019	2020	2021	2019-2020 % Change	2020-2021 % Change
Revenues	\$ 10,950.7	\$ 2,208.8	\$ 1,532.1	-79.8%	-30.6%
Commissions, transport. & other	1,656.3	344.6	207.6	-79.2%	-39.8%
Onboard & other	639.8	157.2	116.9	-75.4%	-25.6%
Payroll	1,079.1	788.3	838.1	-27.0%	6.3%
Food	583.9	161.8	164.4	-72.3%	1.6%
Fuel	698.0	371.0	385.3	-46.8%	3.9%
Other operating exp.	1,405.7	942.2	945.2	-33.0%	0.3%
Total cruise operating expense	6,062.8	2,765.1	2,657.5	-54.4%	-3.9%
Marketing, selling & admin.	1,559.3	1,199.6	1,370.1	-23.1%	14.2%
Depreciation & amortization	1,245.9	1,279.3	1,292.9	2.7%	1.1%
Impairment & credit losses	-	1,566.4	82.0	n/a	-94.8%
Operating income/(loss)	2,082.7	(4,601.6)	(3,870.3)	-320.9%	-15.9%
Interest income/(expense)	(381.6)	(823.2)	(1,275.0)	115.7%	54.9%
Equity investment income/(loss)	231.0	(213.3)	(135.5)	-192.3%	-36.5%
Other income/(expense)	(24.5)	(137.1)	20.3	459.2%	-114.8%
Net income/(loss)	1,907.6	(5,775.1)	(5,260.5)	-402.7%	-8.9%
Depreciaton & amortization	1,245.9	1,279.3	1,292.9		
Increase/(decrease) customer deposits	280.1	(1,643.6)	1,426.6		
Net cash from operating activities	3,716.4	(3,731.7)	(1,877.8)		
Purchases of property & equipment	3,024.7	1,965.1	2,229.7		

(\$ in thousands)

Source: Company reports

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Given the large depreciation expense that Royal Caribbean recognizes, its operating cash flow<sup>1</sup> is usually higher than the stated net income. While this remained true in 2020, it should be noted that the cash flow was also negatively affected by a large decrease in customer deposits due to pandemic-related cancellations. While a normal year might have \$250 million to \$350 million in deposits, in 2020, the decline exceeded \$1.6 billion. However, as the company restarted (limited) operations in 2021, the deposit balance quickly reversed, increasing by \$1.4 billion.

In addition to curtailing expenses, the company quickly raised funds to ensure that it would not experience liquidity issues. This was achieved primarily through debt capital. Throughout the year, Royal Caribbean borrowed funds via the public debt market (i.e., new debt issuance), the commercial paper market, as well as from increases in its revolving credit facilities. It also raised approximately \$1.6 billion through the sale of common stock. In all, its total debt burden more than doubled from \$11.03 billion in 2019 to \$23.3 billion in the third quarter of 2022.

## Exhibit 8: Royal Caribbean Components of Indebtedness (2019-3Q2022)

	2019	2020	2021	3Q2022
Current portion of long-term debt	\$ 1,186.6	\$ 961.8	\$ 2,243.1	\$ 3,945.1
Commercial paper	1,434.2	409.3	-	-
Long-term debt	<u>8,414.1</u>	<u>17,958.0</u>	<u>18,847.2</u>	<u>19,384.2</u>
	\$ 11,034.9	\$ 19,329.0	\$ 21,090.3	\$ 23,329.4
Cash & cash equivalents	23.7	3,684.5	2,701.8	1,566.2
Total assets	\$ 30,320.3	\$ 32,465.2	\$ 32,258.4	\$ 33,464.2
<i>Net debt-to-assets</i>	<i>36.3%</i>	<i>48.2%</i>	<i>57.0%</i>	<i>65.0%</i>
Total shareholders' equity	\$ 12,163.8	\$ 8,760.7	\$ 5,085.6	\$ 3,205.4
<i>Net debt-to-equity</i>	<i>90.5%</i>	<i>178.6%</i>	<i>361.6%</i>	<i>678.9%</i>

(\$ in thousands)

Source: Company reports

Although the maneuver resulted in a corporate structure with a high degree of leverage, it did forestall any liquidity issues and provided the company with a still-considerable cash

<sup>1</sup> That is, before the regular payments for new ship deliveries (which are categorized as an "Investment Activity" in the Statement of Cash Flows.

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balance of \$1.5 billion at the end of the most recent quarter. It should be noted that this level of cash is unusual for Royal Caribbean. In the five years preceding the pandemic, its balance sheet cash never exceeded \$250 million.

Although it came at great expense, incurring the debt proved to be worthwhile. It allowed the company to ride out the pandemic to the point that, during the third quarter conference call, company management disclosed that it has successfully returned the business to full operations. However, this was not without regulatory obstacles.

Roughly 15 months after suspending its cruises in the U.S., Royal Caribbean marked its return in late-June 2021 by completing, albeit on a limited capacity (36%, or 1,100 passengers), a cruise on its ship, Freedom of the Seas, that departed from Fort Lauderdale. This was a milestone in that the company was allowed to sail again by adhering to a variety of requirements regarding the coronavirus, resulting in the following company policy.

For cruises departing from all U.S. ports, except those in Florida, it required all guests 12 years of age and older to be fully vaccinated. Younger travelers who were not eligible for the vaccine were able to sail with a negative test result.

On cruises departing from Florida, all guests were strongly recommended to be fully vaccinated. This separate requirement for Florida was due to the state's passage of a law banning businesses from requiring customers to show proof of vaccinations. This was important insofar as sailings from Florida ports represent the largest geographic location for the cruise industry. There had been concern over the cruise industry's legal challenges to Florida's law blocking the enforcement of "vaccine passports" in order to board cruise ships. From the cruise operators' perspective, the motivation is understandable. It wanted to reassure potential travelers that they are doing everything possible to minimize the risk of an infection while on board.

At the onset of the pandemic, the cruise industry was restricted by the U.S. Centers for Disease Control and Prevention under a "No-Sail" order. This was changed to a "Conditional Sail" order (or CSO) in October 2020, which outlined numerous health and safety protocols that cruise lines had to follow to operate safely during the ongoing pandemic.

Notably, with the rise of the omicron variant (which was a milder version of Covid-19) and the widespread availability of the coronavirus vaccines, the CSO was converted to a fully voluntary program, meaning that any restrictions by the U.S. government ceased. As a consequence, as previously mentioned, the company states that its business has returned to normal.

This is observable through the progression of its revenues and earnings over each quarter since the beginning of the pandemic. For example, in the third quarter of 2019 (the seasonally strongest prior to the pandemic), Royal Caribbean produced \$3.1 billion of revenue and \$890.8 million of operating income. These declined to \$2.5 billion and \$299.4 million,

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respectively, as the fourth quarter (and the first quarter of the following fiscal year) are usually the slowest for the industry.

## Exhibit 9: Royal Caribbean Quarterly Revenues (3Q2019-3Q2022)

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	<u>Revenues</u>	<u>Operating Income</u>	<u>Net Income</u>
3Q2019	\$ 3,186.9	\$ 890.8	\$ 883.2
4Q2019	2,517.4	299.4	273.1
1Q2020	2,032.8	(1,306.4)	(1,444.5)
2Q2020	175.6	(1,282.5)	(1,639.3)
3Q2020	(33.7)	(996.1)	(1,346.8)
4Q2020	34.1	(1,016.5)	(1,366.9)
1Q2021	42.0	(809.2)	(1,131.7)
2Q2021	50.9	(1,023.5)	(1,347.3)
3Q2021	457.0	(1,005.8)	(1,424.6)
4Q2021	982.2	(1,031.7)	(1,357.0)
1Q2022	1,059.2	(859.2)	(1,167.1)
2Q2022	2,184.2	(218.6)	(521.6)
3Q2022	2,933.1	298.4	33.0

(\$ in millions)

Source: Company reports

As the lockdowns commenced, revenues plummeted from \$2.0 billion in the first quarter of 2020 to just \$175 million in the second quarter. It remained depressed until the third quarter of 2021, which was when Royal Caribbean restarted limited operations. During that period, revenues reached \$457 million, accompanied by an operating loss of slightly more than \$1 billion. Subsequently, as it continued to add new sailings, revenues doubled during the last quarter of 2021. This trend of higher earnings has continued to the most recent quarter, in which total sales has almost completely recovered and the company reached the important milestone of positive operating income and positive earnings.

As further indication of Royal Caribbean's recovery, during the most recent earnings call, the company stated disclosed that its entire global fleet is now operating and achieved a 96% load factor overall. Moreover, during Black Friday, the company recorded the single largest booking day in its history, contributing to a new bookings record for the five weeks leading up to the end of November.

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Going forward, the Royal Caribbean plans to implement a three-year financial performance program called Trifecta. The program focuses on achieving three metrics by 2025: growing EBITDA profitability per APCD (average passenger cruise day); delivering double-digit earnings; and achieving a return on invested capital in the teens. These goals can be achieved through moderate capacity growth, moderate yield growth and strong cost discipline, according to the company. Moreover, it intends to achieve an investment grade rating by improving the balance sheet (i.e., reducing debt).

## Valuation

Although Royal Caribbean's financial results appear to be recovering, its shares are still valued towards the lower end of the pandemic-era range. At the current level, the shares trade at roughly one-half the pre-pandemic price. This could be reflective of the lower net profits achievable due to the greater interest expense incurred over the past two years.

For example, let us assume that the company's recovery is sufficient to achieve earnings on par with the 2019 results. During that year, it produced revenues of \$10.95 billion and operating income of \$2.08 billion. Assuming no change in borrowings, the company would have annual interest expense of \$1.36 billion. Taking into consideration equity investment income of, say, \$240 million (which is roughly equivalent to the 2019 figure) and no income tax expense (since it is incorporated in the Republic of Liberia), net income might equal \$961 million, or \$3.77 per share. Valued at its historical average p/e multiple of 15x, fair value for Royal Caribbean would be roughly \$56.50 per share, which is almost identical to the current price.

### **Exhibit 10: Royal Caribbean Valuation (Based on 2019 Results)**

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2019 Revenues	\$ 10,950.7
2019 Operating income	2,082.7
Net interest expense (annualized)	(1,360.9)
Equity investment income	<u>240.0</u>
Net income	961.8
EPS	\$ 3.77
Price @ 15x p/e	\$ 56.53

(\$ in millions, except per share data)

Source: Company reports, Horizon Research estimates

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# THE CONTRARIAN RESEARCH REPORT

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However, this does not take into consideration future growth that is anticipated for the company. For example, according to Bloomberg, the analyst community forecasts Royal Caribbean to produce \$12.7 billion of revenues and earnings per share of \$3.46 next year. In 2024, the company is expected to have revenues of \$14.54 billion (+14.3%) and earnings of \$6.35 per share. This is followed by revenues of \$15.57 billion (+7.0%) and profits of \$9.10 per share. Thus, over this three-year period, Royal Caribbean would demonstrate robust earnings growth, having net profits almost doubling in 2024, with a further 43% increase the following year.

Therefore, were the company to be valued on the basis of its longer-term earnings profile, one could expect a much higher share price. For example, if it were merely valued at a price/earnings multiple of 12x, applied to its expected 2024 earnings, the shares would be fairly valued at the \$76 level. This would imply a total return of approximately 48.1%, or 21.7% per annum if this were achieved over two years. If, however, a multiple of 15x (equivalent to its historical average) were applied, the shares would be valued at over \$95, corresponding to an anticipated return of 85.1%, or 22.8% per annum.

A similar exercise utilizing the 2025 estimates would result in anticipated annualized returns of 45% and 38%, respectively.

## Exhibit 11: Royal Caribbean Valuation Based on Analyst Estimates

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	<u>2024E</u>	<u>2025E</u>
EPS	\$ 6.35	\$ 9.10
Price @ 12x p/e	\$ 76.21	\$ 109.20
<i>Total return</i>	<i>48.1%</i>	<i>112.2%</i>
<i>Annualized (2 years)</i>	<i>21.7%</i>	<i>45.7%</i>
Price @ 15x p/e	\$ 95.27	\$ 136.50
<i>Total return</i>	<i>85.1%</i>	<i>165.2%</i>
<i>Annualized (3 years)</i>	<i>22.8%</i>	<i>38.4%</i>

*Source: Bloomberg, Horizon Research estimates*

On this basis, Royal Caribbean appears to be considerably undervalued.

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## Balance Sheet Approach to Value Enhancement

Although the assumption of substantially more debt enabled Royal Caribbean to avoid an adverse liquidity event during the shutdown, the higher leverage now serves as a source of risk for the company. Notably, the company's interest coverage has increased over time, from 2.7x in 2008 to 5.5x in 2019. As the interest expense has quadrupled from \$381 million to \$1.3 billion, even on a normalized basis, its interest coverage will revert to less than 2x.

## **Exhibit 12: Royal Caribbean Historical Interest Coverage**

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	<u>Operating</u> <u>Income</u>	<u>Interest</u> <u>Expense</u>	<u>Interest</u> <u>Coverage</u>
2007	\$ 91.3	\$ 313.8	0.3x
2008	832.0	313.2	2.7x
2009	488.5	302.9	1.6x
2010	802.6	362.0	2.2x
2011	931.6	357.1	2.6x
2012	788.6	334.5	2.4x
2013	855.1	318.5	2.7x
2014	941.9	248.0	3.8x
2015	1,286.2	265.7	4.8x
2016	1,477.2	286.5	5.2x
2017	1,744.1	269.9	6.5x
2018	1,594.8	300.9	5.3x
2019	2,082.7	381.6	5.5x
2022E	2,082.7	1,360.9	1.5x

(\$ in millions)

Source: Company reports

Now that the company is on the way to a full recovery, it can focus on repaying a large portion of the debt. Indeed, management has stated that one of its goals is to return to an investment grade rating.

In that case, the mere act of repaying debt should provide for an increase in the company's equity market value, even if there is no improvement in the valuation multiples it is accorded.

The operative principle for this assertion is the Modigliani-Miller Theorem of Capital Structure, which states that the market value of a company is independent of its capital structure. Simply, this means that the enterprise value of a firm is unaffected by how that

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# THE CONTRARIAN RESEARCH REPORT

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firm is financed (debt vs. equity). Thus, at a specified enterprise value, if a company reduces its debt, the equity component should increase by a like amount.

At the current share price, Royal Caribbean's enterprise value is \$34.8 billion, consisting of \$13.1 billion of equity value and \$21.7 billion of net debt.

If the analyst estimates are correct, Royal Caribbean could be expected to produce \$14.5 billion of revenues and \$4.3 billion of EBITDA. Subtracting \$1.4 billion of interest expense would result in operating cash flow of approximately \$3.0 billion.

Were the company to apply this amount to debt repayment, it should increase the equity value by the same amount. Based on a current total market capitalization of \$13.1 billion, the implied appreciation would be 22.9%. However, debt repayment by such an amount is unlikely in practice, given that the company has 10 new ships on order for expected delivery between 2023 and 2026, with an aggregate cost of approximately \$9.1 billion. This averages to roughly \$2.27 billion of capital expenditures per year over four years. Thus, deducting this amount from the \$3.0 billion of operating cash flow would, in theory, result in approximately \$800 million available for debt repayment. This would imply a return of about 6.0%. As Royal Caribbean continues to recover, one could expect the funds available for debt repayments to rise accordingly.

Additionally, the process of deleveraging would provide for a measurable improvement in net income. Simplistically, if the 2024 consensus earnings estimate of \$1.64 billion of annual income was achieved, and if all that were allocated to the repayment of debt, then roughly one-half of the debt could be repaid within 6½ years. In turn, pre-tax income would rise by approximately \$704 million, or 5.6% per year before secondary benefits (assuming run-rate interest expense of \$1.40 billion) or any income growth from business expansion. Again, this is highly simplified and ignores future capital commitments (such as new ship deliveries) or other financing plans.

In any case, the salient point is that there are multiple vectors for which positive returns could be achieved in the Royal Caribbean shares. The base case envisages robust rates of returns, while the debt repayment scenario could be additive to the base case.

## **Summary and Recommendation**

The onset of the coronavirus placed a heavy burden on Royal Caribbean and the entire cruise industry with the complete cessation of sailings for over a year. During this period, the company undertook severe actions to survive, including furloughing staff, docking ships and issuing large amounts of debt.

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# THE CONTRARIAN RESEARCH REPORT

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Now that the pandemic has receded, the cruise industry has nearly recovered. Indeed, Royal Caribbean restarted its sailings in late-June 2021, and now has all of its ships operational. Moreover, the demand for its offerings appears to be undiminished, culminating in booking records. However, the current share price suggests that an eventual recovery is not being discounted, such that it appears to be severely undervalued if the company simply matches the current earnings expectations; the base case suggests that returns of over 21% per annum could be achieved. Accordingly, purchase of Royal Caribbean Cruises is recommended.

# THE CONTRARIAN RESEARCH REPORT

**ROYAL CARIBBEAN CRUISES LTD.  
CONSOLIDATED BALANCE SHEETS**  
(in thousands, except share data)

	As of	
	September 30, 2022 (unaudited)	December 31, 2021
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 1,566,213	\$ 2,701,770
Trade and other receivables, net of allowances of \$10,542 and \$13,411 at September 30, 2022 and December 31, 2021, respectively	534,414	408,067
Inventories	237,186	150,224
Prepaid expenses and other assets	435,709	286,026
Derivative financial instruments	63,524	54,184
Total current assets	2,837,046	3,600,271
Property and equipment, net	27,693,240	25,907,949
Operating lease right-of-use assets	554,424	542,128
Goodwill	809,201	809,383
Other assets, net of allowances of \$72,160 and \$86,781 at September 30, 2022 and December 31, 2021, respectively	1,570,279	1,398,624
<b>Total assets</b>	<b>\$ 33,464,190</b>	<b>\$ 32,258,355</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Current portion of long-term debt	\$ 3,945,145	\$ 2,243,131
Current portion of operating lease liabilities	75,179	68,922
Accounts payable	623,565	545,978
Accrued interest	274,022	251,974
Accrued expenses and other liabilities	858,936	887,575
Derivative financial instruments	242,648	127,236
Customer deposits	3,774,499	3,160,867
Total current liabilities	9,793,994	7,285,683
Long-term debt	19,384,226	18,847,209
Long-term operating lease liabilities	542,576	534,726
Other long-term liabilities	537,970	505,181
<b>Total liabilities</b>	<b>30,258,766</b>	<b>27,172,799</b>
<b>Shareholders' equity</b>		
Preferred stock (\$0.01 par value; 20,000,000 shares authorized; none outstanding)	—	—
Common stock (\$0.01 par value; 500,000,000 shares authorized; 283,198,625 and 282,703,246 shares issued, September 30, 2022 and December 31, 2021, respectively)	2,832	2,827
Paid-in capital	7,270,521	7,557,297
(Accumulated deficit) retained earnings	(1,207,223)	302,276
Accumulated other comprehensive loss	(792,477)	(710,885)
Treasury stock (28,018,385 and 27,882,987 common shares at cost, September 30, 2022 and December 31, 2021, respectively)	(2,068,229)	(2,065,959)
<b>Total shareholders' equity</b>	<b>3,205,424</b>	<b>5,085,556</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 33,464,190</b>	<b>\$ 32,258,355</b>

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# THE CONTRARIAN RESEARCH REPORT

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# THE CONTRARIAN RESEARCH REPORT

**ROYAL CARIBBEAN CRUISES LTD.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**  
(unaudited; in thousands, except per share data)

	Quarter Ended September 30,	
	2022	2021
Passenger ticket revenues	\$ 2,020,974	\$ 280,153
Onboard and other revenues	972,101	176,805
<b>Total revenues</b>	<b>2,993,075</b>	<b>456,958</b>
Cruise operating expenses:		
Commissions, transportation and other	484,054	64,780
Onboard and other	220,216	42,703
Payroll and related	304,369	265,974
Food	194,966	48,950
Fuel	316,214	118,127
Other operating	436,444	273,157
<b>Total cruise operating expenses</b>	<b>1,956,263</b>	<b>813,691</b>
Marketing, selling and administrative expenses	373,116	323,422
Depreciation and amortization expenses	355,085	325,907
Impairment and credit losses (recoveries)	10,186	(238)
<b>Operating Income (Loss)</b>	<b>298,425</b>	<b>(1,005,824)</b>
Other income (expense):		
Interest income	11,953	3,786
Interest expense, net of interest capitalized	(352,187)	(430,661)
Equity investment income (loss)	73,997	(29,085)
Other income	780	37,230
	(265,457)	(418,730)
<b>Net Income (Loss)</b>	<b>\$ 32,968</b>	<b>\$ (1,424,554)</b>
<b>Earnings (Loss) per Share:</b>		
Basic	\$ 0.13	\$ (5.59)
Diluted	\$ 0.13	\$ (5.59)
<b>Weighted-Average Shares Outstanding:</b>		
Basic	255,071	254,713
Diluted	255,378	254,713
<b>Comprehensive Loss</b>		
<b>Net Income (Loss)</b>	<b>\$ 32,968</b>	<b>\$ (1,424,554)</b>
Other comprehensive loss:		
Foreign currency translation adjustments	11,498	5,022
Change in defined benefit plans	7,226	(3,627)
Loss on cash flow derivative hedges	(259,949)	(13,264)
<b>Total other comprehensive loss</b>	<b>(241,225)</b>	<b>(11,869)</b>
<b>Comprehensive Loss</b>	<b>\$ (208,257)</b>	<b>\$ (1,436,423)</b>

# THE CONTRARIAN RESEARCH REPORT

**ROYAL CARIBBEAN CRUISES LTD.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**  
(unaudited; in thousands, except per share data)

	Nine Months Ended September 30,	
	2022	2021
Passenger ticket revenues	\$ 4,091,035	\$ 323,782
Onboard and other revenues	2,145,513	226,104
<b>Total revenues</b>	<b>6,236,548</b>	<b>549,886</b>
Cruise operating expenses:		
Commissions, transportation and other	964,256	72,917
Onboard and other	450,225	55,782
Payroll and related	981,128	530,250
Food	450,376	74,618
Fuel	779,873	219,058
Other operating	1,206,036	569,383
<b>Total cruise operating expenses</b>	<b>4,831,894</b>	<b>1,522,008</b>
Marketing, selling and administrative expenses	1,138,571	867,021
Depreciation and amortization expenses	1,046,094	959,512
Impairment and credit losses (recoveries)	(584)	39,934
<b>Operating Loss</b>	<b>(779,427)</b>	<b>(2,838,589)</b>
Other income (expense):		
Interest income	21,765	13,317
Interest expense, net of interest capitalized	(932,552)	(1,007,986)
Equity investment income (loss)	29,759	(137,044)
Other income	4,699	66,771
	(876,329)	(1,064,942)
<b>Net Loss</b>	<b>\$ (1,655,756)</b>	<b>\$ (3,903,531)</b>
<b>Loss per Share:</b>		
Basic	\$ (6.49)	\$ (15.56)
Diluted	\$ (6.49)	\$ (15.56)
<b>Weighted-Average Shares Outstanding:</b>		
Basic	254,953	250,808
Diluted	254,953	250,808
<b>Comprehensive Loss</b>		
<b>Net Loss</b>	<b>\$ (1,655,756)</b>	<b>\$ (3,903,531)</b>
Other comprehensive (loss) income:		
Foreign currency translation adjustments	31,958	11,255
Change in defined benefit plans	34,991	3,748
(Loss) Gain on cash flow derivative hedges	(148,541)	48,514
<b>Total other comprehensive (loss) income</b>	<b>(81,592)</b>	<b>63,517</b>
<b>Comprehensive Loss</b>	<b>\$ (1,737,348)</b>	<b>\$ (3,840,014)</b>

# THE CONTRARIAN RESEARCH REPORT

**ROYAL CARIBBEAN CRUISES LTD.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(unaudited, in thousands)

	Nine Months Ended September 30,	
	2022	2021
<b>Operating Activities</b>		
Net Loss	\$ (1,655,756)	\$ (3,903,531)
Adjustments:		
Depreciation and amortization	1,046,094	959,512
Impairment and credit losses (recoveries)	(584)	39,934
Net deferred income tax benefit	(14,345)	(31,395)
Loss (gain) on derivative instruments not designated as hedges	175,686	(11,560)
Share-based compensation expense	24,285	55,435
Equity investment (income) loss	(29,759)	137,044
Amortization of debt issuance costs	118,307	94,511
Amortization of debt discounts and premiums	11,650	93,517
Loss on extinguishment of debt	16,449	138,759
Changes in operating assets and liabilities:		
Increase in trade and other receivables, net	(173,555)	(225,535)
Increase in inventories	(86,962)	(26,711)
Increase in prepaid expenses and other assets	(108,429)	(123,935)
Increase in accounts payable	79,249	107,215
Increase (decrease) in accrued interest	22,053	(3,685)
Decrease in accrued expenses and other liabilities	(18,973)	(5,911)
Increase in customer deposits	613,632	1,031,930
Other, net	(113,783)	1,637
Net cash used in operating activities	(94,741)	(1,672,769)
<b>Investing Activities</b>		
Purchases of property and equipment	(2,543,266)	(1,654,271)
Cash received on settlement of derivative financial instruments	42,958	27,497
Cash paid on settlement of derivative financial instruments	(389,387)	(54,916)
Investments in and loans to unconsolidated affiliates	(614)	(70,084)
Cash received on loans to unconsolidated affiliates	14,030	25,647
Proceeds from the sale of property and equipment and other assets	66	175,439
Other, net	5,262	(9,546)
Net cash used in investing activities	(2,870,951)	(1,560,234)

# THE CONTRARIAN RESEARCH REPORT

**ROYAL CARIBBEAN CRUISES LTD.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(unaudited, in thousands)

	Nine Months Ended September 30,	
	2022	2021
<b>Financing Activities</b>		
Debt proceeds	7,207,566	4,144,077
Debt issuance costs	(222,787)	(159,147)
Repayments of debt	(5,135,323)	(2,212,510)
Premium on repayment of debt	—	(135,372)
Repayments of commercial paper notes	—	(414,570)
Proceeds from common stock issuances	—	1,621,860
Other, net	(16,556)	(5,779)
Net cash provided by financing activities	1,832,900	2,838,559
Effect of exchange rate changes on cash and cash equivalents	(2,765)	(704)
Net decrease in cash and cash equivalents	(1,135,557)	(395,148)
Cash and cash equivalents at beginning of period	2,701,770	3,684,474
Cash and cash equivalents at end of period	\$ 1,566,213	\$ 3,289,326
<b>Supplemental Disclosure</b>		
Cash paid during the period for:		
Interest, net of amount capitalized	\$ 752,623	\$ 630,740
<b>Non-cash Investing Activities</b>		
Notes receivable issued upon sale of property and equipment and other assets	\$ —	\$ 16,000
Purchase of property and equipment included in accounts payable and accrued expenses and other liabilities	\$ 26,026	\$ 22,925
Acquisition of property and equipment from assumed debt	\$ 275,000	\$ —
<b>Non-cash Financing Activity</b>		
Debt related to acquisition of property and equipment	\$ 275,000	\$ —

# THE CONTRARIAN RESEARCH REPORT

## ROYAL CARIBBEAN CRUISES LTD. CONSOLIDATED BALANCE SHEETS

	As of December 31,	
	2021	2020
	(in thousands, except share data)	
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 2,701,770	\$ 3,684,474
Trade and other receivables, net of allowances of \$13,411 and \$3,867 at December 31, 2021 and December 31, 2020, respectively	408,067	284,149
Inventories	150,224	118,703
Prepaid expenses and other assets	286,026	154,339
Derivative financial instruments	54,184	70,082
Total current assets	3,600,271	4,311,747
Property and equipment, net	25,907,949	25,246,595
Operating lease right-of-use assets	542,128	599,985
Goodwill	809,383	809,480
Other assets, net of allowances of \$86,781 and \$81,580 at December 31, 2021 and December 31, 2020, respectively	1,398,624	1,497,380
<b>Total assets</b>	<b>\$ 32,258,355</b>	<b>\$ 32,465,187</b>
<b>Liabilities and shareholders' equity</b>		
Current liabilities		
Current portion of long-term debt	\$ 2,243,131	\$ 961,768
Commercial paper	—	409,319
Current portion of operating lease liabilities	68,922	102,677
Accounts payable	545,978	353,422
Accrued interest	251,974	252,668
Accrued expenses and other liabilities	887,575	615,750
Derivative financial instruments	127,236	56,685
Customer deposits	3,160,867	1,784,832
Total current liabilities	7,285,683	4,537,121
Long-term debt	18,847,209	17,957,956
Long-term operating lease liabilities	534,726	563,876
Other long-term liabilities	505,181	645,565
<b>Total liabilities</b>	<b>27,172,799</b>	<b>23,704,518</b>
Commitments and Contingencies (Note 17)		
Shareholders' equity		
Preferred stock (\$0.01 par value; 20,000,000 shares authorized; none outstanding)	—	—
Common stock (\$0.01 par value; 500,000,000 shares authorized; 282,703,246 and 265,198,371 shares issued, December 31, 2021 and December 31, 2020, respectively)	2,827	2,652
Paid-in capital	7,557,297	5,998,574
Retained earnings	302,276	5,562,775
Accumulated other comprehensive loss	(710,885)	(739,341)
Treasury stock (27,882,987 and 27,799,775 common shares at cost, December 31, 2021 and December 31, 2020, respectively)	(2,065,959)	(2,063,991)
<b>Total shareholders' equity</b>	<b>5,085,556</b>	<b>8,760,669</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 32,258,355</b>	<b>\$ 32,465,187</b>

# THE CONTRARIAN RESEARCH REPORT

**ROYAL CARIBBEAN CRUISES LTD.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME**  
(in thousands, except per share data)

	Year Ended December 31,		
	2021	2020	2019
Passenger ticket revenues	\$ 941,175	\$ 1,504,569	\$ 7,857,057
Onboard and other revenues	590,958	704,236	3,093,604
<b>Total revenues</b>	<b>1,532,133</b>	<b>2,208,805</b>	<b>10,950,661</b>
Cruise operating expenses:			
Commissions, transportation and other	207,562	344,625	1,656,297
Onboard and other	116,946	157,213	639,782
Payroll and related	838,088	788,273	1,079,121
Food	164,389	161,750	583,905
Fuel	385,322	371,015	697,962
Other operating	945,205	942,232	1,405,698
<b>Total cruise operating expenses</b>	<b>2,657,512</b>	<b>2,765,108</b>	<b>6,062,765</b>
Marketing, selling and administrative expenses	1,370,076	1,199,620	1,559,253
Depreciation and amortization expenses	1,292,878	1,279,254	1,245,942
Impairment and credit losses	82,001	1,566,380	—
<b>Operating (Loss) Income</b>	<b>(3,870,334)</b>	<b>(4,601,557)</b>	<b>2,082,701</b>
Other income (expense):			
Interest income	16,773	21,036	26,945
Interest expense, net of interest capitalized	(1,291,753)	(844,238)	(408,513)
Equity investment (loss) income	(135,469)	(213,286)	230,980
Other income (expense) <sup>(1)</sup>	20,284	(137,085)	(24,513)
	(1,390,165)	(1,173,573)	(175,101)
<b>Net (Loss) Income</b>	<b>(5,260,499)</b>	<b>(5,775,130)</b>	<b>1,907,600</b>
Less: Net Income attributable to noncontrolling interest	—	22,332	28,713
<b>Net (Loss) Income attributable to Royal Caribbean Cruises Ltd.</b>	<b>\$ (5,260,499)</b>	<b>\$ (5,797,462)</b>	<b>\$ 1,878,887</b>
<b>(Loss) Earnings per Share:</b>			
Basic	\$ (20.89)	\$ (27.05)	\$ 8.97
Diluted	\$ (20.89)	\$ (27.05)	\$ 8.95
<b>Comprehensive (Loss) Income</b>			
<b>Net (Loss) Income</b>	<b>\$ (5,260,499)</b>	<b>\$ (5,775,130)</b>	<b>\$ 1,907,600</b>
Other comprehensive income (loss):			
Foreign currency translation adjustments	15,703	40,346	869
Change in defined benefit plans	8,707	(19,984)	(19,535)
Gain (loss) on cash flow derivative hedges	4,046	38,010	(151,313)
<b>Total other comprehensive income (loss)</b>	<b>28,456</b>	<b>58,372</b>	<b>(169,979)</b>
<b>Comprehensive (Loss) Income</b>	<b>\$ (5,232,043)</b>	<b>\$ (5,716,758)</b>	<b>\$ 1,737,621</b>
Less: Comprehensive Income attributable to noncontrolling interest	—	22,332	28,713
<b>Comprehensive (Loss) Income attributable to Royal Caribbean Cruises Ltd.</b>	<b>\$ (5,232,043)</b>	<b>\$ (5,739,090)</b>	<b>\$ 1,708,908</b>

# THE CONTRARIAN RESEARCH REPORT

## ROYAL CARIBBEAN CRUISES LTD. CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2021	2020	2019
	(in thousands)		
<b>Operating Activities</b>			
Net (Loss) Income	\$ (5,260,499)	\$ (5,775,130)	\$ 1,907,600
Adjustments:			
Depreciation and amortization	1,292,878	1,279,254	1,245,942
Impairment and credit losses	82,001	1,566,380	—
Net deferred income tax (benefit) expense	(42,979)	(8,791)	7,745
(Gain) loss on derivative instruments not designated as hedges	(1,492)	49,316	(1,431)
Share-based compensation expense	63,638	39,779	75,930
Equity investment loss (income)	135,469	213,286	(230,980)
Amortization of debt issuance costs	125,116	89,442	31,991
Amortization of debt discounts and premiums	123,439	66,776	31,616
Loss on extinguishment of debt	138,759	41,109	6,326
Currency translation adjustment losses	—	69,044	—
Change in fair value of contingent consideration	—	(45,126)	18,400
Changes in operating assets and liabilities:			
(Increase) decrease in trade and other receivables, net	(181,707)	121,055	(9,898)
(Increase) decrease in inventories	(34,527)	27,077	(8,533)
(Increase) decrease in prepaid expenses and other assets	(152,071)	295,876	15,669
Increase (decrease) in accounts payable	188,518	(133,815)	75,281
(Decrease) increase in accrued interest	(694)	182,578	(4,460)
Increase (decrease) in accrued expenses and other liabilities	235,446	(180,479)	96,490
Increase (decrease) in customer deposits	1,426,647	(1,643,560)	280,139
Dividends received from unconsolidated affiliates	—	2,215	150,177
Other, net	(15,757)	12,061	28,362
Net cash (used in) provided by operating activities	(1,877,815)	(3,731,653)	3,716,366
<b>Investing Activities</b>			
Purchases of property and equipment	(2,229,704)	(1,965,131)	(3,024,663)
Cash received on settlement of derivative financial instruments	44,492	15,874	7,621
Cash paid on settlement of derivative financial instruments	(74,249)	(161,335)	(68,836)
Investments in and loans to unconsolidated affiliates	(70,228)	(100,609)	(25,569)
Cash received on loans to unconsolidated affiliates	31,334	21,086	32,870
Proceeds from the sale of property and equipment and other assets	176,039	27,796	—
Other, net	(22,423)	(16,247)	(12,829)
Net cash used in investing activities	(2,144,739)	(2,178,566)	(3,091,406)

# THE CONTRARIAN RESEARCH REPORT

## ROYAL CARIBBEAN CRUISES LTD. CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2021	2020	2019
	(in thousands)		
<b>Financing Activities</b>			
Debt proceeds	4,467,789	13,547,189	3,525,564
Debt issuance costs	(201,698)	(374,715)	(50,348)
Repayments of debt	(2,296,990)	(3,845,133)	(4,060,244)
Premium on repayment of debt	(135,372)	—	—
Proceeds from issuance of commercial paper notes	—	6,765,816	26,240,540
Repayments of commercial paper notes	(414,570)	(7,837,635)	(25,613,111)
Purchase of treasury stock	—	—	(99,582)
Dividends paid	—	(326,421)	(602,674)
Proceeds from common stock issuances	1,621,860	1,431,375	—
Other, net	(442)	(10,688)	(10,516)
Net cash provided by (used in) financing activities	3,040,577	9,349,788	(670,371)
Effect of exchange rate changes on cash	(727)	1,167	1,297
Net (decrease) increase in cash and cash equivalents	(982,704)	3,440,736	(44,114)
Cash and cash equivalents at beginning of year	3,684,474	243,738	287,852
Cash and cash equivalents at end of year	\$2,701,770	\$3,684,474	\$ 243,738
<b>Supplemental Disclosures</b>			
Cash paid during the year for:			
Interest, net of amount capitalized	\$ 834,245	\$ 418,164	\$ 246,312
<b>Non-Cash Investing Activities</b>			
Notes receivable issued upon sale of property and equipment and other assets	\$ 16,000	\$ 53,419	\$ —
Purchases of property and equipment included in accounts payable and accrued expenses and other liabilities	\$ 14,097	\$ 16,189	\$ 86,155
<b>Non-Cash Financing Activities</b>			
Purchase of Silversea Cruises non-controlling interest	\$ —	\$ 592,313	\$ —
Termination of Silversea Cruises contingent consideration obligation	\$ —	\$ 16,564	\$ —
Common stock issuances pending cash settlement and included in trade receivables	\$ —	\$ 121,352	\$ —

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# THE CONTRARIAN RESEARCH REPORT

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This report was produced by Horizon Kinetics (“HK”). The following persons employed by HK contributed to this report: Murray Stahl, Chairman, Steven Bregman, President, and Peter Doyle, Managing Director. HK is located at 470 Park Avenue South, New York, NY 10016. At the time of this report, there are no planned updates to the recommendations. To the extent HK has provided previous recommendations concerning the same issuer(s) during the preceding 12-month period, such recommendations do not differ from the recommendations contained here.

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