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# **Norwegian Cruise Line Holdings - Navigating through Financial Distress**

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Norwegian Cruise Line Holdings (NCLH) faces financial distress, navigating turbulent waters in the wake of the COVID-19 pandemic. The cruise industry, a significant revenue source for NCLH, has been severely impacted by travel restrictions and consumer hesitancy. With mounting debt, declining revenues, and ongoing operational challenges, the company grapples with the specter of financial instability. NCLH's ability to weather these challenges hinges on strategic financial restructuring, cost containment measures, and revitalizing consumer confidence. Stakeholders closely monitor the company's financial health as it seeks innovative solutions to emerge from the storm and chart a course towards sustained viability in the post-pandemic era.

Keywords NCLH, Financial Distress, Finance, Bankruptcy

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## List of Acronyms

NCLH	Norwegian Cruise Line Holdings Ltd.
CCL	Carnival Cruise Line
RCL	Royal Caribbean Group
ROCE	Return On Capital Employed
ROIC	Return On Capital Invested
EPS	Earnings Per Share
SWOT	Strengths, Weaknesses, Opportunities, Threats
PESTEL	Political, Economic, Social, Technological, Environmental, Legal

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## Introduction

### The cruise industry

The Cruise Industry exists since the 1850's, and has been undergoing a remarkable evolution, transforming the way people travel to 'a wide range of activities for travelers in addition to its traditional function of providing transport and accommodation' (UNTWO, 2020).

The industry has become one of the fastest-growing sectors in Tourism, with constant geographic expansions, cruise lines are constantly exploring new routes and increasing the number of trips per year (CLIA, 2019). While the Caribbean and the Mediterranean remain popular areas, cruise companies are venturing into regions like Asia, South America, and even the Arctic, seeking to tap into new customer demographics and offer unique travel experiences (Wood, 2000).

Although the industry seems to be rapidly growing, it is a very volatile and capital heavy industry with various challenges. Economic vulnerability stands out as a significant concern, as the sector proves highly sensitive to economic downturns (Lester & Weeden, 2004). In times of recession, consumers tend to cut back on discretionary spending, impacting the demand for luxury travel options like cruises (Wood, 2004). This reduction in consumer confidence can lead to lower booking rates, affecting the revenue streams of cruise lines. Adding to the fact that building and maintaining a cruise fleet needs a substantial capital investment, creating an impasse for new upcomers (Kizieliewicz, 2017).

Historical events like terrorist attacks (Achille Lauro hijack and 9/11), wars (Kosovo and Iraq) and economic crises have allowed for financially stronger companies to acquire smaller, more fragile companies. Although acquired, these smaller companies continued their operations as "independent" brands, but with a parent company (Charlier, 2004).

The financially stronger companies, dominant players in the market, leverage economies of scale, influenced by the pricing control exercised by shipbuilders and technology developers. Moreover, the abundance of suppliers for equipment, food, and fuel grants cruise companies considerable pricing power. With the industry highly consolidated, the major players, namely CCL, NCLH and RCL, compete daily, closely monitoring potential commercial threats and innovations introduced by each other. (McCormick, 2021).

Continuous analysis of the customer base is a standard practice. Given the intense competition in the industry, marketing, innovation, and brand image play pivotal roles. It is imperative for companies to explore new revenue streams and formulate innovative strategies to capitalize on emerging opportunities (A. Dick, 2021). Broadly, revenue in the cruise sector is generated from various sources, including ticket sales for cruise ships, on-board amenities such as spas, casinos, and upscale restaurants, income from on-shore excursions, and revenue from on-land tourism (Yahoo Finance, 2022).

### Industry Value Drivers

The cruise industry depends on various factors, summing up to layers of complexity.

Regulatory challenges further contribute to the industry's complexity. Cruise lines must navigate a complex web of international and national regulations governing safety, environmental practices, and health standards. Compliance with these regulations often requires significant investments in technology, training, and infrastructure (Garin, 2005). Changes in regulatory requirements or failure to meet standards can result in fines and reputational damage.

Weather-related issues, including hurricanes and adverse weather events, can force cruise lines to alter itineraries or even cancel trips, leading to logistical challenges and potential financial losses.

The cruise industry is fiercely competitive, with numerous companies vying for market share. This competition can lead to price wars as companies strive to attract customers with lower fares and special promotions. While beneficial for consumers, this puts pressure on profit margins for cruise lines, especially if they engage in a race to the bottom in terms of pricing.

When it comes to common reasons for bankruptcy in the cruise industry, high fixed costs emerge as a critical factor (KPMG, 2022). Cruise lines face substantial fixed costs, including the acquisition and maintenance of vessels, fuel expenses, and labor costs. Managing these costs efficiently is essential, as an inability to do so can lead to financial distress, particularly if revenue generation falls short of covering these fixed expenses. The financing of new ships and fleet expansion often involves taking on significant amounts of debt.

External shocks, such as global pandemics, geopolitical crises, or other unforeseen events, pose a significant threat to the cruise industry. The COVID-19 pandemic highlighted the sector's vulnerability to sudden and widespread disruptions. The resulting cancellations, port closures, and health concerns created unprecedented challenges for cruise lines, leading to financial losses and, in some cases, bankruptcy.

Cruise companies operating in this dynamic and competitive industry must strive for strategic excellence (Amitabh, 2021). Some of the industry's value drivers are the following:

- Achieving economies of scale through expanded operations provides a substantial advantage over newer entrants and smaller competitors.
- Establishing strong brand recognition fosters customer attraction and retention, even during challenging periods.

- Product differentiation and innovation (technology and products) enable companies to stand out.
- With COVID-19, stringent health and safety protocols have become paramount, making them a non-negotiable factor in customer decision-making.
- The industry's shift towards sustainability necessitates companies' adaptation to market trends and regulatory changes, making the transition to environmentally friendly practices essential for long-term success.
- Market penetration assesses the ability for the company to successfully target and sell its products using different channels.

### Industry Trends

It is forecasted that the industry will grow in revenue and passengers in the upcoming years. As seen in tables 1, 2 and 3 (Statista, 2023). Although there was an interruption between 2020 and 2021, cruise lines are in the process of recovering. The industry had to adapt to market demands, here are a few trends that are increasing and forecasted to increase in the following years:

The adoption of digital technologies (Table 4) by cruise companies to enhance the passenger experience. This includes the implementation of contactless check-ins, the development of mobile apps for onboard services, and the improvement of communication systems (Statista, 2021).

Sustainability initiatives, cruise lines are investing in eco-friendly technologies, exploring alternative fuels, and implementing measures to reduce their environmental impact.

Another trend involved the rising interest in small ships and expedition cruises, catering to travelers seeking one-of-a-kind destinations.

The concept of "workcations" gained popularity, with some cruise lines offering remote working packages. This allowed passengers to work from the ship while enjoying a cruise experience, reflecting changing trends in work and travel.

## **Norwegian Cruise Line Holdings (NCLH)**

Norwegian Cruise Line Holdings (NCLH), previously known as Norwegian Caribbean Line, created in Norway by one of the oldest shipping companies. With the acquisition of M/S Sunward, the company positioned themselves in Europe, providing weekly voyages to the Caribbean. In 1966, NCL revolutionized the transportation industry, by taking 550 passengers on a single trip, making a ship a destination and not only a way of transportation.

As the cruise industry grew, NCL led the way in innovation, with new "white ships", expanding capacity and new itineraries.

In the beginning, known as Norwegian Caribbean Line, it gave people the opportunity to travel around the world in a 'luxurious island', an alternative to land-based resorts. In 1987, Norwegian Caribbean Line became Norwegian Cruise Line and with the new name came changes with bigger and newer vessels (NCLH). Their mission is to 'provide exceptional vacation, delivered by passionate team members committed to world-class hospitality and innovation' (NCLH).

Norwegian Cruise Line is the world's third-largest cruise company by berths, operating 30 ships across three brands (Norwegian, Oceania, and Regent Seven Seas), offering both freestyle and luxury cruising. The company had redeployed its entire fleet as of May 2022. NCLH is increasing capacity faster than its peers, expanding its brand globally, with 28 ships in fleet and nine more to come between 2022 and 2027, this massive Cruise company had around 2.7 million guests in 2019

and employed 34 000 people. Norwegian sails to around 700 global destinations, with the goal of being the top vacation choice around the world.

In Table 5 it is possible to view NCLH's main competitors, CCL and RCL, and each company's industry market share. All three companies account for 75% of the market share.

### NCLH Financial Performance vs Industry

The primary NCLH's revenue stream is cruise fair (Figure 1), which depends on various factors such as destination, time of year and number of days. But it is not the only source as seen in Figure 2, the cruise industry also receives revenue from in-cruise activities (NCLH, 2023). These activities are:

- Beverage and food
- Shore excursions
- Retail sales
- Casino Operations
- Spa and salon services
- Internet and communication services

The company also provides services to other cruise companies, like ship management and chartering.

While the company's main costs are ship operating costs, marketing and sales, administrative costs, fixed charges (like insurances and passenger costs) and variable costs (which differ depending on number of passengers) (NCLH, 2023).

The COVID-19 pandemic and subsequent travel restrictions triggered a severe revenue decline for the three major cruise companies, with 2021 being the most challenging year, witnessing a

staggering 90% drop in revenue (Figure 3). In 2022, Companies started recovering from the pandemic, demonstrating an increase in revenue figures and passenger numbers (Figure 4), NCLH increased its revenue 741% from 2021, hitting the \$4.8 billion mark, although with the lowest revenue figure out of the three (Figure 5). This can be explained by two main factors: CCL and RCL operate significantly larger fleets of ships than NCLH, which gives them more capacity to carry passengers and generate revenue. NCLH also has a more niche focus, with a stronger emphasis on luxury and premium experiences, while its competitors target a wider range of demographics, limiting NCLH's market size, reducing revenue.

The abrupt decline in revenue during 2020 and 2021 necessitated NCLH to find rapid ways to reduce expenses as drastic as revenue, but impossible as the company needed to maintain ships, pay wages and other costs, resulting in a negative operating income. As revenue rebounded in 2022, the company's ability to manage expenses improved, leading to an increase in operating income, but the figure is still negative, as seen in Figure 6.

The Net Income (Figure 7) reflects the company's overall profitability, NCLH's net income prior to the pandemic was the lowest compared to its main competitors, while during the company managed to stay above its competition, although all three companies still have negative net income.

The ability of NCLH to generate returns from invested capital, as measured by ROCE % (Figure 8), has consistently lagged its competitors, indicating a less efficient utilization of assets. This disparity is further highlighted by the lowest ROCE % figures out of the three, in 2020. However, NCLH's performance has improved in recent years, with ROCE % approaching positive levels in 2022. RCL has been the most successful out of the three.

In 2019, NCLH's return on invested capital (ROIC) (Figure 9) of 6.76% outperformed its competitors, establishing a competitive advantage. However, the COVID-19 pandemic disrupted this trajectory, leading to a decline in ROIC figures in 2022. Additionally, the company's high debt levels and associated interest payments pose a risk to profitability, suggesting that the recovery of ROIC may require more time.

The cruise industry relies heavily on its assets to generate revenue. However, due to seasonality and other factors, cruise companies tend to hold inventory for longer periods, resulting in a slower asset turnover and low industry asset turnover ratio. In 2022, NCLH's asset turnover ratio of 0.26 is slightly above industry average (Figure 10), a good sign but can deteriorate as the company is expecting more vessels in the upcoming years.

The current outlook for the cruise industry does not appear favorable for short-term investments. However, industry forecasts suggest a prospective upswing in the coming years. Notably, NCLH and RCL exhibited contrasting earnings per share (EPS) figures in 2019, with NCLH at 4 and RCL at 9. This discrepancy can be attributed to NCLH's strategic decision making compared to RCL's (Figure 11). Over the subsequent two years, NCLH demonstrated relative resilience within the industry, reporting losses of -16 in 2020 and -12 in 2021, with a subsequent improvement to -5 in 2022. NCLH's largest shareholders are Vanguard Group Inc, Capital International Investors, Capital Research Global Investors, BlackRock Inc.

The cruise ship industry has also experienced a rebound in 2021 and 2022. However, when valuing NCLH using the EV/EBITDA multiple, the company outperformed the industry in 2019 (NCLH 10.4x vs Industry Average 9.5x) and 2020 (NCLH -6x vs Industry Average -7.5x), while in 2018, 2021 and 2022, the industry outperformed NCLH, with 2022's NCLH multiple being -27.9x, while the industry's average is 18.1x.

## NCLH strategy

The company's main commitment is to reduce debt and improve its balance sheet (Figure 12). By the end of 2022, NCLH presented around 946 million dollars in cash and cash equivalents and a \$1B undrawn commitment with Apollo Global Management, Inc. Providing additional liquidity. The company's plans to reduce leverage, with the goal of reducing 4X by 2024 and 3X in 2025, back to 2019 levels.

A decrease in leverage from nearly 7X in 2014 to 3.2X prior to the pandemic was cited as precedent for the company's ability to effectively reduce debt.

NCLH emphasizes the strength of the demand environment for its cruises. The company has reported a meaningful increase in pricing, even with a capacity growth of 19% compared to 2019. This suggests a pricing strategy that aligns with the perceived value of its offerings.

The company is strategically shifting towards longer and more immersive itineraries. While this has resulted in slightly lower occupancy for a particular quarter, NCLH anticipates attracting higher-quality guests and increasing net yields in the long run.

To further understand NCLH's strategy, it is possible to view in appendix three strategy analysis, providing support for the points above mentioned. These are:

- **SWOT Analysis** (Table 6)– This analysis helps to assess NCLH's Strengths, Weaknesses, Opportunities and Threats
- **Porter's Five Forces** (Table 7) – Helps to identify NCLH's main sources of competition in the Cruise industry.
- **PESTLE Analysis** (Table 8) – Examines the external (macro) forces NCLH faces

## **Challenges affecting NCLH financial and operating performance**

The company has navigated through a challenging period in recent years, marked by the COVID-19 pandemic, rising debt levels, and declining liquidity. These factors have significantly impacted on the company's financial and operating performance, as the company ordered ships pre-COVID.

The pandemic severely disrupted NCLH's cash flow, necessitating significant expenses for ship maintenance and payment, employee furloughs, and the cancellation of booked cruises (Figure 13).

To weather the financial storm, NCLH turned to debt financing, raising new debt, drawing on existing credit facilities, and extending the maturities of existing debt obligations. This resulted in a substantial increase in debt levels, putting a strain on the company's profitability and financial flexibility. Consequently, NCLH's debt-to-equity ratio (DE ratio) soared from 1.04 in 2019 to 269.56 in 2022 (Figure 14). This can be explained by the increase in Total Debt taken by the company; however, the primary contributing factor is the substantial decline of 97% in Total Equity from 2021 to 2022, marked by Retained Earnings decreasing by more than 2 billion dollars, with pre-existing negative figures in 2021.

The rise in NCLH's debt burden further exacerbated the financial strain. The increased debt levels led to a higher interest expense burden, reaching \$178 million in 2021, a significant increase from \$63 million in 2019. This elevated interest expense chipped away at NCLH's profitability, further deteriorating its financial position (Table 9).

In 2020, following widespread trip cancellations amid the pandemic, the accounts payable for the company saw an increase, evident in Table 10, as numerous refunds were issued to affected customers. Concurrently, NCLH implemented various strategies to enhance liquidity, such as incentivizing customers who opted not to seek refunds with future discounts. Subsequently, the company successfully maintained its accounts payable at levels below accounts receivable. In

2021, NCLH pursued a strategy involving the pre-sale of tickets for the next year, anticipating a return to traveling. This initiative led to a substantial increase in accounts receivable (Table 11).

NCLH holds different debt obligations, seen also in Figure 15, these are:

- **Senior Secured Revolving Loan Facility** - credit arrangement that provides a company with the flexibility to borrow, repay, and re-borrow funds up to a predetermined limit, and secured by collateral. This type of debt facilitates NCLH's short-term financing needs.
- **Senior Secured Notes** - debt securities issued by a company that are backed by specific collateral or assets, providing a higher level of security for bondholders. In case of bankruptcy, these notes are among the first to be paid.
- **Senior Unsecured Notes** - debt securities issued by a company without specific collateral backing, in this case these noteholders have a claim on the company's general assets but are subordinate to secured debt holders.
- **Breakaway Loan** – Loan taken to facilitate a breakaway or separation from NCLH, this is a method used to improve credit rating.
- **Exchangeable Loan** - allowing debt holders to change for equity in the future.

In addition to debt levels and interest expense, NCLH's liquidity ratios have also been declining in recent years. The current ratio (Table 16), which measures the ability to meet short-term obligations, has fallen 58% from 0.89 in 2020 to 0.37 in 2022. This decline indicates that NCLH has less readily available liquid assets to meet its short-term liabilities. Similarly, the quick ratio, which measures the ability to meet short-term obligations without relying on inventory, has also declined 60%, from 0.85 in 2020 to 0.34 in 2022. This decreasing trend suggests that NCLH has less readily available liquid assets to meet its short-term obligations.

NCLH's cash and cash equivalents, Figure 17, in 2022 are substantially lower than its competitors. The company must increase its cash to meet short-term debt and increase its liquidity ratios.

Environmental regulations, with their potential to increase NCLH's costs and reduce profit margins, are becoming a reality. Additionally, strong competition from other cruise lines could further erode NCLH's market share and profitability.

### **NCLH Credit Rating Analysis**

NCLH's credit rating has deteriorated significantly since the onset of the COVID-19 pandemic in 2020. This decline in credit rating is primarily attributed to the company's substantial increase in debt levels, coupled with a decline in its profitability and liquidity.

Assessing NCLH's Z-score, Table 12, it is possible to conclude that it has been decreasing substantially in the past years. The prevailing circumstances can be ascribed to two principal factors. Firstly, a persistent decline in profitability, plummeting from 23% in 2019 to -38% in 2022, has significantly impacted the financial trajectory. Secondly, asset liquidity has maintained a constant value at -17% throughout the period. Despite its negativity, the valuation and sale of primary assets, cruises, pose considerable challenges. Asset productivity, though low, stands as the sole component to exhibit an increase in the aftermath of the pandemic.

The company's annual decline in its z-score, currently at 0.33, is a cause for alarm, signaling proximity to bankruptcy if this trajectory persists.

NCLH's credit rating has deteriorated from a CCC+ in 2019 and 2020 to a D in 2021 and 2022. This reflects the significant increase in the company's financial risk profile. This drop reflects the challenges that NCLH has faced, also impacting the company's future.

Firstly, the low rating casts a shadow of doubt over the company's financial stability, deterring investors from committing capital. This lack of confidence hinders NCLH's ability to raise funds for crucial investments, such as maintaining its extensive fleet of ships, venturing into new markets, or diversifying its revenue streams. These restraints become particularly challenging in the highly competitive cruise industry, where investors may gravitate towards more attractive options.

Furthermore, banks, the primary lenders for large corporations, consider credit ratings when scrutinizing loan applications and determining interest rates. NCLH's precarious financial standing compels banks to impose exorbitant interest rates on loans, further burdening the company's already strained finances. This vicious cycle of high interest rates and increasing debt levels impedes NCLH's ability to maneuver within the volatile cruise industry.

### **Likelihood of NCLH Financial insolvency/bankruptcy**

NCLH exhibits indicators of financial distress, marked by sustained losses in previous years. Continuous losses since 2020, and still existent in 2022, further exacerbate the company's financial challenges. The cessation of operations in 2020 and 2021 prompted layoffs, depleting skilled personnel. Presently, the company grapples with recruitment challenges, potentially impacting customer service quality.

The retirement of former CEO Frank Del Rio and the immediate resignation of board member Adam Aron signify significant leadership changes.

NCLH's stock price persists below pre-pandemic levels, showing no improvements, reflecting a potential lack of shareholder confidence that may hinder the company's investment ability.

In order to provide a comprehensive view of the likelihood of NCLH facing financial insolvency or bankruptcy, the Bharath and Shumway (2008) model, based on Merton's structural model of credit risk (1974). This model uses the company's accounting data to estimate its asset volatility and probability of default.

Examining Norwegian Cruise Line Holdings Ltd.'s (NCLH) financial performance over the past four years reveals a concerning trend. During 2019, the company exhibited reasonable levels of equity, asset, and debt volatility. However, this situation took a dramatic turn with the onset of the pandemic, as volatility surged across all these metrics. This volatility was particularly pronounced in the company's debt levels, which increased due to debt financing for fleet expansion.

Moreover, NCLH's Expected Return on Assets (ROA) has been on a steady decline, reaching negative values in 2021 and 2022. This indicates that the company is struggling to generate adequate returns on its assets, a critical indicator of its financial health.

The Bharath and Shumway model offers insights into the company's financial health by providing two key metrics: the distance to default and the probability of default. As depicted in Table 13, NCLH's distance to default plummeted from 12.78 years in 2019 to 0.01 years in 2022, accompanied by a staggering probability of default of 49.47% (Figure 18). This alarming scenario underscores the company's heightened risk of financial distress.

Despite the daunting challenges faced by NCLH, there are glimmers of hope. Industry forecasts anticipate an upswing in revenue and customer numbers, offering a potential path towards financial recovery. However, NCLH must swiftly address its debt burden and improve its operational efficiency to navigate the competitive landscape and restore investor confidence.

## Recommendations

NCLH faces a critical juncture in its existence, marked by an internal financial crisis that demands immediate action. The company's strong brand recognition and loyal customer base offer a foundation for recovery, but it must employ a comprehensive strategy to address its financial woes and secure its long-term future.

First and foremost, NCLH must prioritize debt reduction to alleviate its financial strain. This can be achieved through negotiations with creditors to extend debt maturities or negotiate lower interest rates. This will provide the company with more time to repay its debts and reduce its interest expenses, enhancing its overall financial stability.

Furthermore, NCLH should explore asset sales or divestitures to generate cash that can be channeled towards debt reduction or strategic investments. As the company's main assets are cruises, the ability for the company to sell them quickly depends on the industry's demand for cruises, other companies buying power. As these cruise values fluctuate immensely, especially because of depreciation, NCLH's probability of profiting from the re-sell is very low. Although, targeting other asset disposals can streamline operations and generate much-needed liquidity. Additionally, NCLH should consider raising additional equity capital through public offerings or private placements with institutional investors. This infusion of funds can further strengthen the company's financial position and enable it to pursue growth opportunities.

Operational efficiency must be a cornerstone of NCLH's recovery efforts. This entails rigorous cost reduction measures, streamlining operations, and negotiating better deals with suppliers. Such initiatives will trim expenses, enhance operational efficiency, and improve overall profitability. Additionally, NCLH can repurchase shares to boost shareholder value by reducing the number of outstanding shares and making the remaining shares more valuable.

Effective communication with shareholders is paramount in maintaining investor confidence and fostering a sense of transparency. NCLH should closely engage with its shareholder base, keeping them informed about the company's performance, strategic direction, and plans. This proactive approach will foster trust and support among shareholders.

To achieve sustainable growth, NCLH must focus on revenue generation. Expansion into new markets, the development of innovative products and services, and the enhancement of customer service are all crucial strategies to drive revenue growth. Additionally, NCLH should control costs by negotiating better deals with suppliers, reducing unnecessary expenses, and optimizing operational processes.

Risk management is essential for long-term stability. NCLH should diversify its business operations to mitigate the impact of external factors, hedge against potential losses, and develop contingency plans to address unexpected events. Additionally, improving cash flow management through faster receivables collection, slower payables payments, and efficient inventory management will enhance the company's liquidity and financial flexibility.

Finally, NCLH should consider reducing non-core assets to free up cash reserves that can be directed towards short-term obligations. Accessing capital markets through debt or equity issuances or by seeking credit from banks or other financial institutions can provide additional financial resources.

By implementing these comprehensive strategies, NCLH can navigate its financial crisis, restore investor confidence, and position itself for long-term success.

### How NCLH's capital structure affects its recovery

With the high level of debt, this process will take time, and must be done in an orderly and efficient manner as the company is very sensitive to economic changes. The fact that the company possesses a higher debt than competitors, influence the capital distribution, instead of continuously investing in the business, the company will have to pay its debt, which can be seen as a disadvantage in the race for market share. The company's capital structure also affects debt and shareholders' confidence in the company, as it is highly dependent on debt. Translating in investors choosing other companies to invest and higher interest rates for NCLH.

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## Appendix

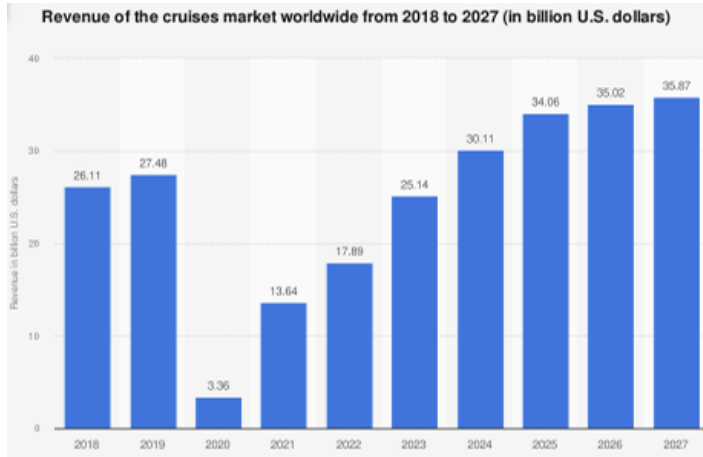


Table 1 – Revenue of the cruises market worldwide 2018 to 2027

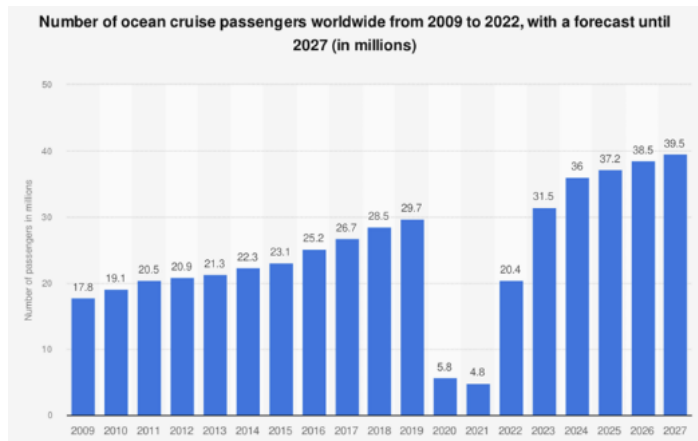


Table 2 – Number of ocean cruise passengers worldwide from 2009 to 2027

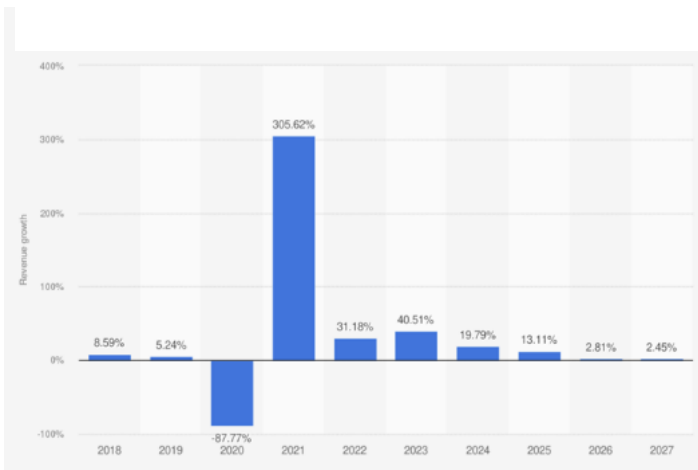


Table 3 – Revenue growth of the cruises market worldwide from 2018 to 2027

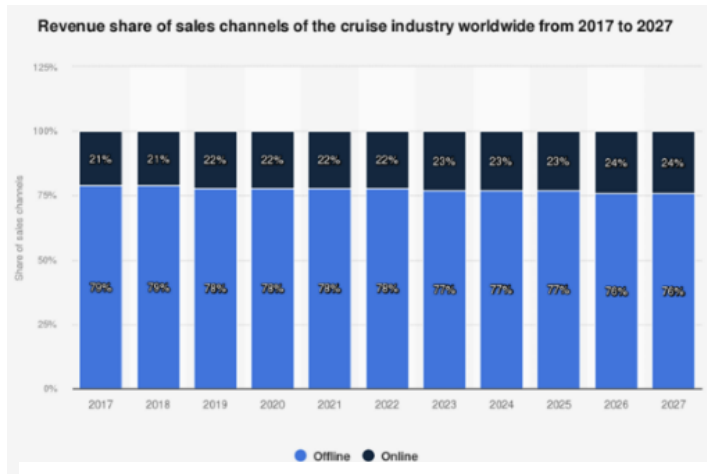


Table 4 – Revenue Share of sales channels of the cruise industry worldwide from 2017 to 2027

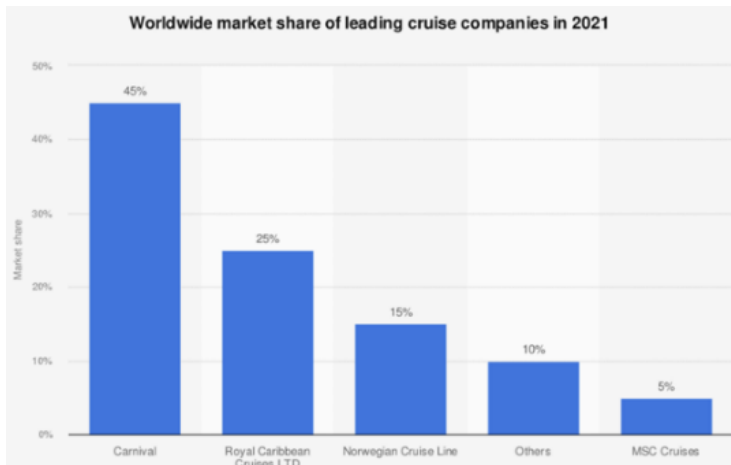


Table 5 – Worldwide market share of leading cruise companies in 2021

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## SWOT Analysis

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>• Strong performance in new markets (historical data)</li> <li>• Strong brand portfolio</li> <li>• High level of customer satisfaction</li> <li>• Reliable Suppliers</li> <li>• Strong brand awareness</li> </ul>	<ul style="list-style-type: none"> <li>• High days Inventory</li> <li>• R&amp;D Investment below industry average</li> <li>• Below average profitability ratios</li> <li>• Undefined Product positioning</li> <li>• Limited success outside core business</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>• New Markets</li> <li>• New consumer trends</li> <li>• Online channel growth</li> <li>• New environmental policies</li> </ul>	<ul style="list-style-type: none"> <li>• Rising pay levels</li> <li>• Competitor Technology</li> <li>• Seasonal demand</li> <li>• Legal challenges</li> <li>• Changing consumer behaviour</li> <li>• Environmental Regulations</li> <li>• Workforce shortage</li> </ul>

Table 6 - SWOT

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## Porter's 5 Forces

<b>Threats of New Entrants</b> The entry of new players in the Resorts & Casinos sector introduces innovation and alternative approaches, potentially pressuring NCLH, to safeguard its competitive advantage, the company can: <ul style="list-style-type: none"> <li>• Innovate Products and Services</li> <li>• Economies of Scale</li> <li>• R&amp;D</li> </ul>	<b>Bargaining Power of Suppliers</b> Suppliers with dominant positions can impact the profit margins of companies To manage supplier bargaining power, Norwegian Cruise Line Holdings Ltd. can: <ul style="list-style-type: none"> <li>• Efficient Supply chain</li> <li>• Product Design Experimentation</li> <li>• Dedicated Suppliers</li> </ul>
<b>Bargaining Power of Buyers</b> Buyers seeking maximum value for minimal cost can impact the long-term profitability. To address buyer bargaining power, the company can: <ul style="list-style-type: none"> <li>• Build a Large Customer Base</li> <li>• Innovate New Products</li> </ul>	<b>Threats of Substitute Products or Services</b> Substitute products meeting similar needs can affect industry profitability. The company can manage this threat by: <ul style="list-style-type: none"> <li>• Being Service Oriented</li> <li>• Understanding Core Customer Needs</li> <li>• Increasing Switching Costs</li> </ul>
<b>Rivalry among Existing Competitors</b> Intense rivalry among existing players in the industry can lead to price competition and reduced profitability. The company can address this by: <ul style="list-style-type: none"> <li>• Building Sustainable Differentiation</li> <li>• Scaling Operations</li> <li>• Collaboration with Competitors</li> </ul>	

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Table 7 – Porter's 5 Forces

**PESTEL**

**Political Factors**

- Risk of Military Invasion
- Corruption Levels and Regulatory Environment
- Bureaucracy and Government Interference
- Trade Regulations, Tariffs, and Favoured Trading Partners
- Anti-trust Laws and Pricing Regulations
- Taxation and Wage Legislation

**Economic Factors**

- Government Intervention and Exchange Rates
- Financial Market Efficiency
- Workforce Skill Levels
- Business Cycle Stage and Economic Indicators

**Social Factors**

- Demographics and Skill Levels
- Education Standards
- Cultural Influences
- Attitudes and Leisure Interests

**Technological Factors**

- Competitor Technological Developments
- Effect on Cost Structure and Value Chain
- Rate of Technological Diffusion

**Environmental Factors**

- Weather and Climate Change
- Environmental Laws and Pollution Regulations
- Waste Management
- Attitudes toward Green Products and Renewable Energy

**Legal Factors**

- Anti-trust and Discrimination Laws
- Intellectual Property Protection
- Consumer Protection and E-commerce Regulations
- Employment and Health/Safety Laws
- Data Protection

Table 8- PESTLE

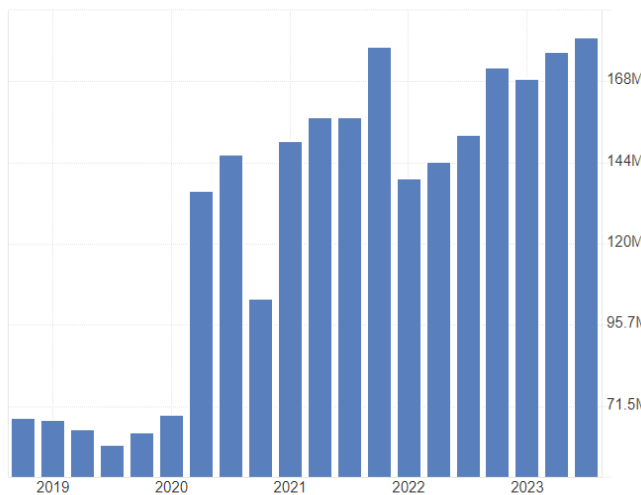


Table 9 – NCLH interest expenses from 2019 to 2022 (in millions \$)

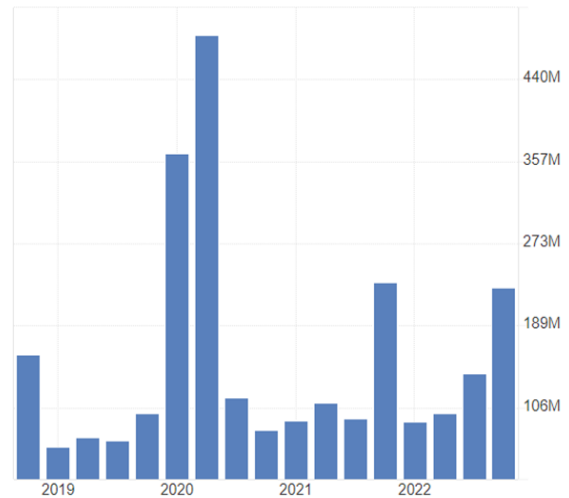


Table 10 – NCLH Accounts Payable from 2019 to 2022 (in millions \$)

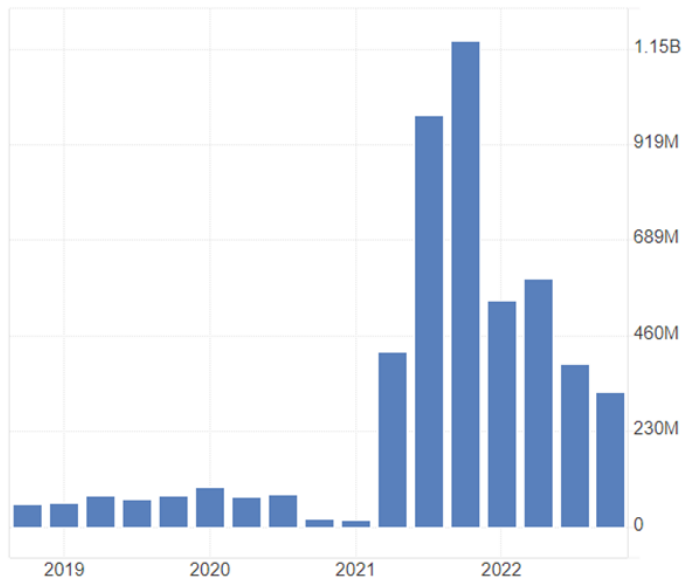


Table 11 – NCLH Accounts Receivable from 2019 to 2022 (in millions \$)

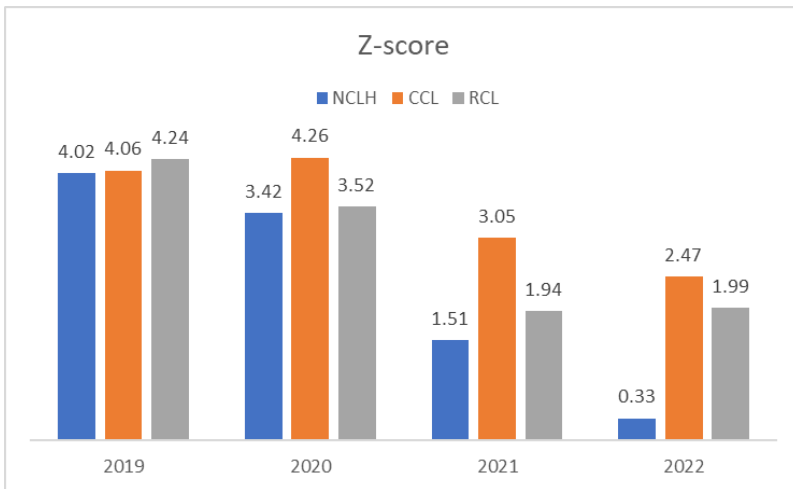


Table 12 – NCLH’s Z-score vs its main competitors, from 2019 to 2022

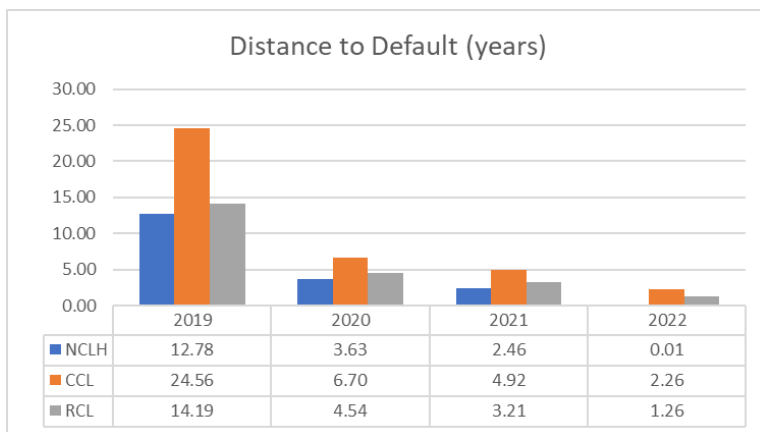


Table 13 – NCLH’s Distance to Default vs its main competitors, from 2019 to 2022

### How Norwegian Cruise Line Holdings Ltd (NCLH) Makes Its Money

Financials Breakdown as of 2022-12-28

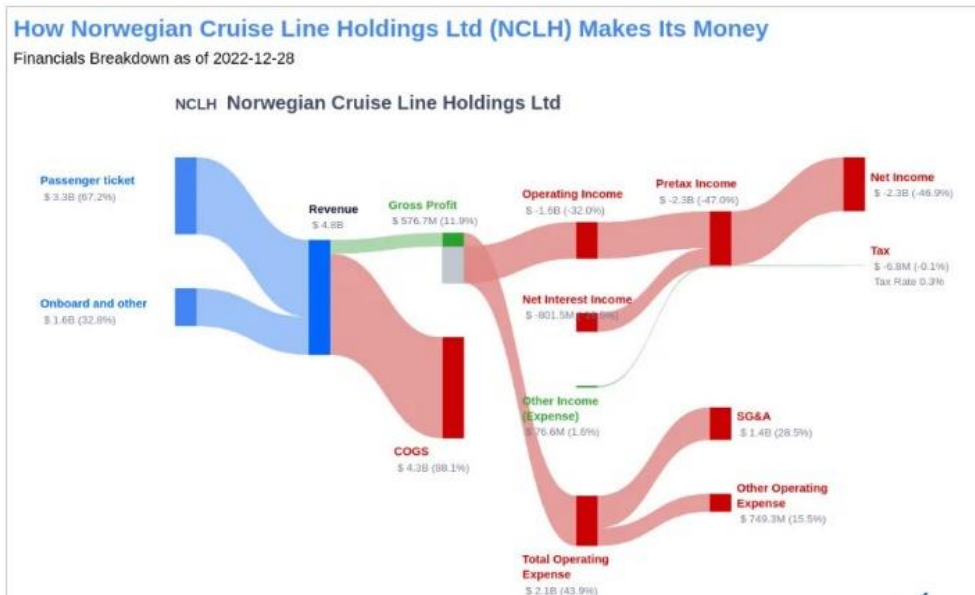


Figure 1 – NCLH Financials Flow

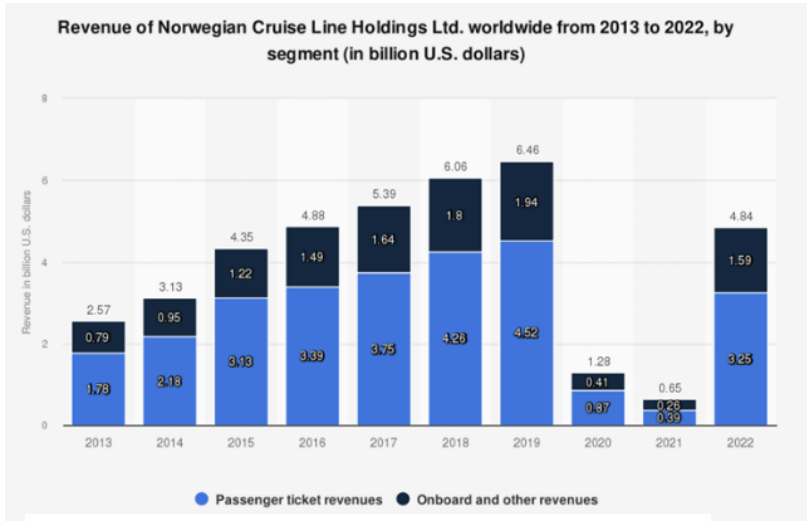


Figure 2 – NCLH Revenue by segment

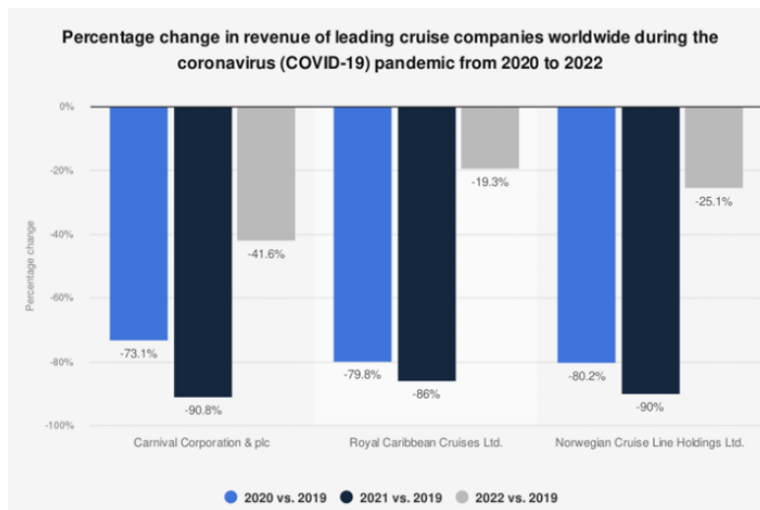


Figure 3 – Main cruise companies change in revenue due to Covid



Figure 4 – NCLH’s number of passengers

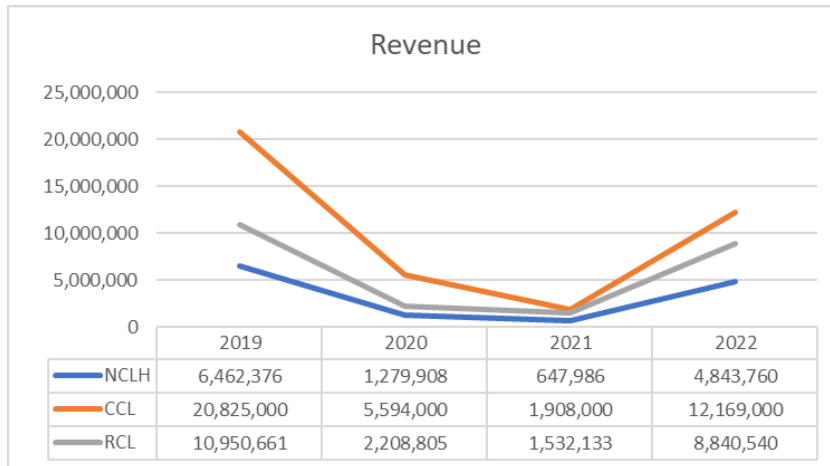


Figure 5 – NCLH’s Operating Income vs its main competitors, from 2019 to 2022

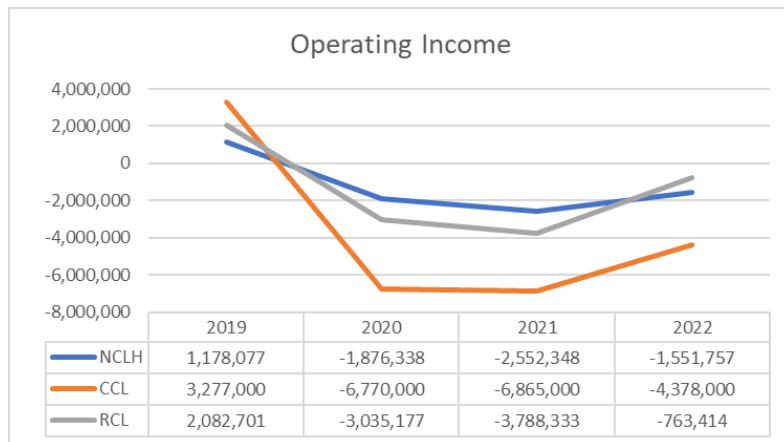


Figure 6 – NCLH’s Operating Income vs its main competitors, from 2019 to 2022

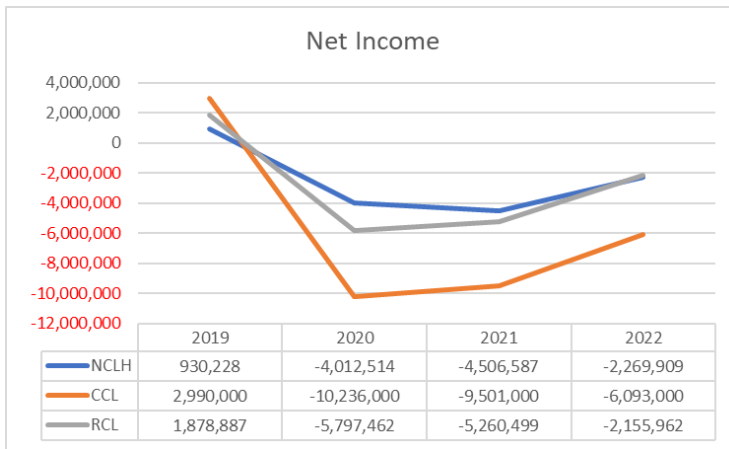


Figure 7 – NCLH’s Net Income vs its main competitors, from 2019 to 2022

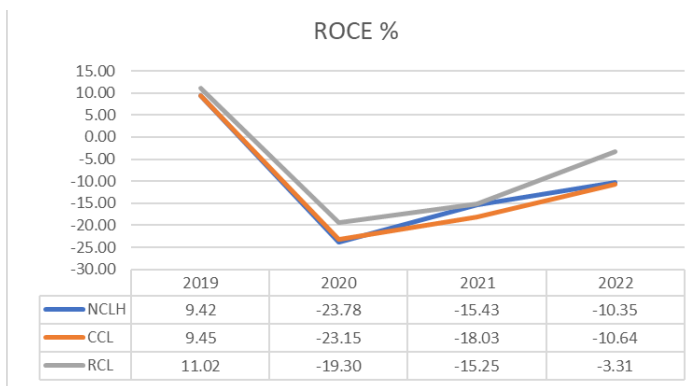


Figure 8 – NCLH’s ROCE vs its main competitors, from 2019 to 2022

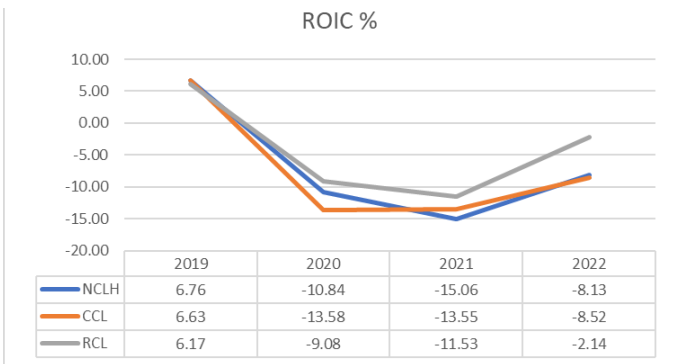


Figure 9 – NCLH’s ROIC vs its main competitors, from 2019 to 2022

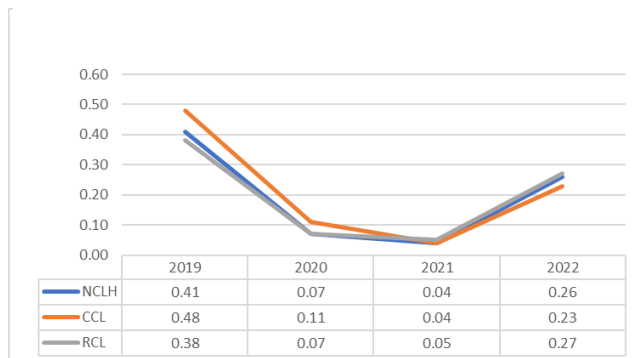


Figure 10 – NCLH’s Asset Turnover vs its main competitors, from 2019 to 2022

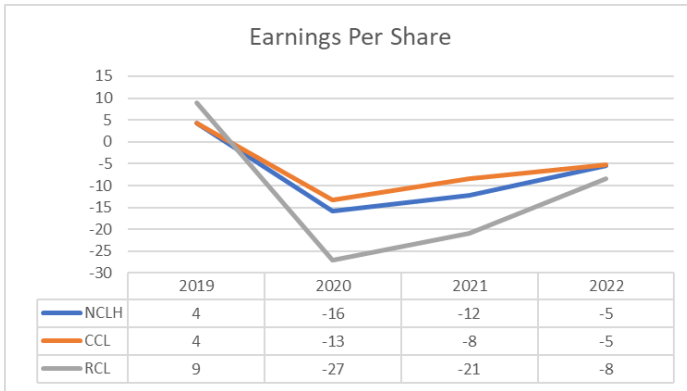


Figure 11 – NCLH’s EPS vs its main competitors, from 2019 to 2022times

Year	Amount
2023	\$ 991,128
2024	2,513,382
2025	2,436,004
2026	2,049,850
2027	3,102,553
Thereafter	2,762,506
<b>Total</b>	<b>\$ 13,855,423</b>

We had an accrued interest liability of \$151.8 million and \$112.9 million as of December 31, 2022 and 2021, respectively.

Figure 12 – NCLH’s Debt repayment by year

	2023	2024	2025	2026	2027	Thereafter	Total
Long-term debt (1)	\$ 1,649,354	\$ 3,060,269	\$ 2,818,257	\$ 2,338,101	\$ 3,284,454	\$ 2,990,190	\$ 16,140,625
Ship construction contracts (2)	2,198,897	275,232	1,617,782	1,827,114	842,581	—	6,761,606
<b>Total</b>	<b>\$ 3,848,251</b>	<b>\$ 3,335,501</b>	<b>\$ 4,436,039</b>	<b>\$ 4,165,215</b>	<b>\$ 4,127,035</b>	<b>\$ 2,990,190</b>	<b>\$ 22,902,231</b>

Figure 13 – NCLH’s Long-term Debt repayment & Ship construction contracts payments by year

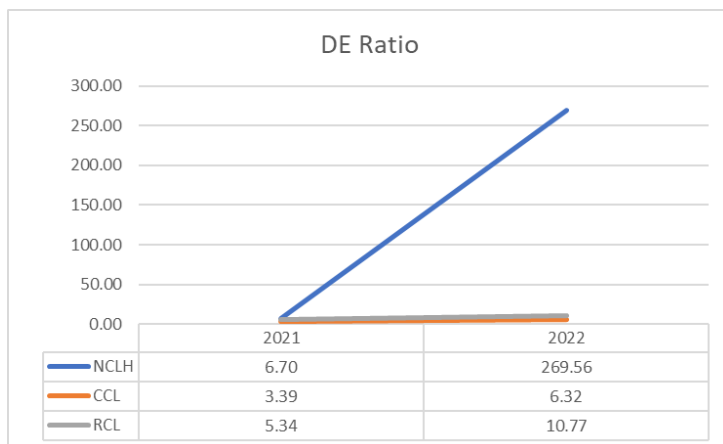


Figure 14 – NCLH’s DE ratio vs its main competitors, from 2021 and 2022

## 8. Long-Term Debt

Long-term debt consisted of the following:

	Interest Rate December 31,		Maturities Through	Balance December 31,	
	2022	2021		2022	2021
	(in thousands)				
\$875.0 million senior secured Revolving Loan Facility	6.45 %	2.10 %	2025	\$ 875,000	\$ 875,000
Term Loan A Facility	6.80 %	2.07 %	2025	1,447,851	1,508,025
\$862.5 million 6.000% exchangeable notes	6.00 %	6.00 %	2024	144,608	143,193
\$450.0 million 5.375% exchangeable notes	5.38 %	5.38 %	2025	443,688	441,475
\$1,150.0 million 1.125% exchangeable notes	1.13 %	1.13 %	2027	1,126,543	1,121,052
\$473.2 million 2.50% exchangeable notes	2.50 %	—	2027	462,991	—
\$1,000.0 million 5.875% senior secured notes	5.88 %	—	2027	987,522	—
\$600.0 million 7.75% senior unsecured notes	7.75 %	—	2029	592,266	—
\$675.0 million 12.25% senior secured notes (1)	—	12.25 %	2024	—	427,164
\$750.0 million 10.25% senior secured notes	—	10.25 %	2026	—	481,834
\$525.0 million 6.125% senior unsecured notes	6.13 %	6.13 %	2028	519,314	518,229
\$1,425.0 million 5.875% senior unsecured notes	5.88 %	5.88 %	2026	1,413,053	1,409,336
\$565.0 million 3.625% senior unsecured notes	3.63 %	3.63 %	2024	562,517	561,248
€529.8 million Breakaway one loan (2)	5.53 %	1.12 %	2026	224,808	308,585
€529.8 million Breakaway two loan (2)	4.25 %	3.47 %	2027	302,280	344,436
€590.5 million Breakaway three loan (2)	3.75 %	2.65 %	2027	393,341	483,109
€729.9 million Breakaway four loan (2)	3.62 %	2.71 %	2029	537,542	636,868
€710.8 million Seahawk 1 term loan (2)	4.25 %	3.44 %	2030	600,504	699,131
€748.7 million Seahawk 2 term loan (2)	4.24 %	3.50 %	2031	757,265	863,891
Leonardo newbuild one loan	2.68 %	2.68 %	2034	1,043,850	256,179
Leonardo newbuild two loan	2.77 %	2.77 %	2035	259,315	193,455
Leonardo newbuild three loan	1.22 %	1.22 %	2036	40,765	43,298
Leonardo newbuild four loan	1.31 %	1.31 %	2037	40,765	43,298
Splendor newbuild loan	3.36 %	2.88 %	2032	383,085	405,937
Explorer newbuild loan	4.44 %	3.40 %	2028	210,634	254,548
Marina newbuild loan	4.41 %	1.07 %	2027	101,194	134,737
Riviera newbuild loan	5.78 %	1.01 %	2026	135,290	202,888
Term loan - newbuild related	—	4.50 %	2022	—	68,220
Finance lease and license obligations	Various	Various	2028	15,539	21,454
Total debt				13,621,530	12,446,590
Less: current portion of long-term debt				(991,128)	(876,890)
Total long-term debt				\$ 12,630,402	\$ 11,569,700

(1) Includes an original issue discount of \$2.9 million as of December 31, 2021.

(2) Currently U.S. dollar-denominated.

Figure 15 – NCLH’s Long Term Debt Obligations

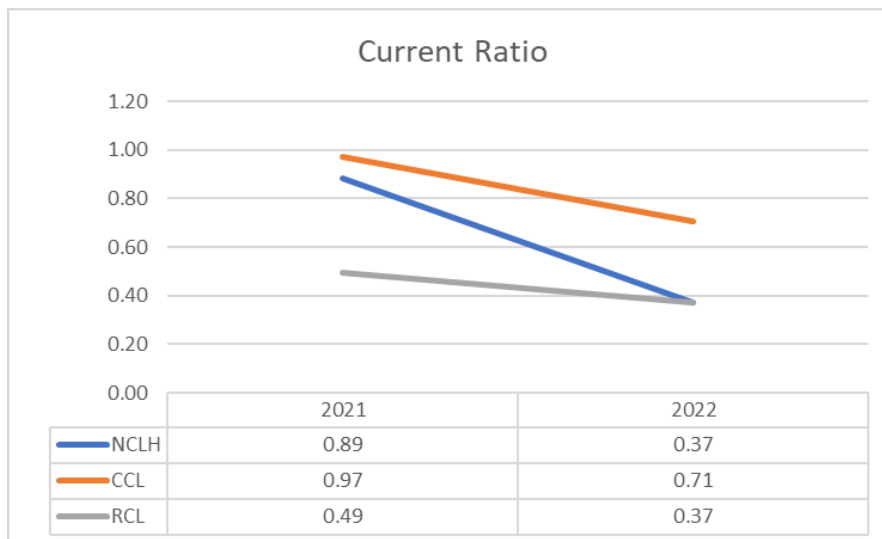


Figure 16 – NCLH’s Current ratio vs its main competitors, from 2021 and 2022

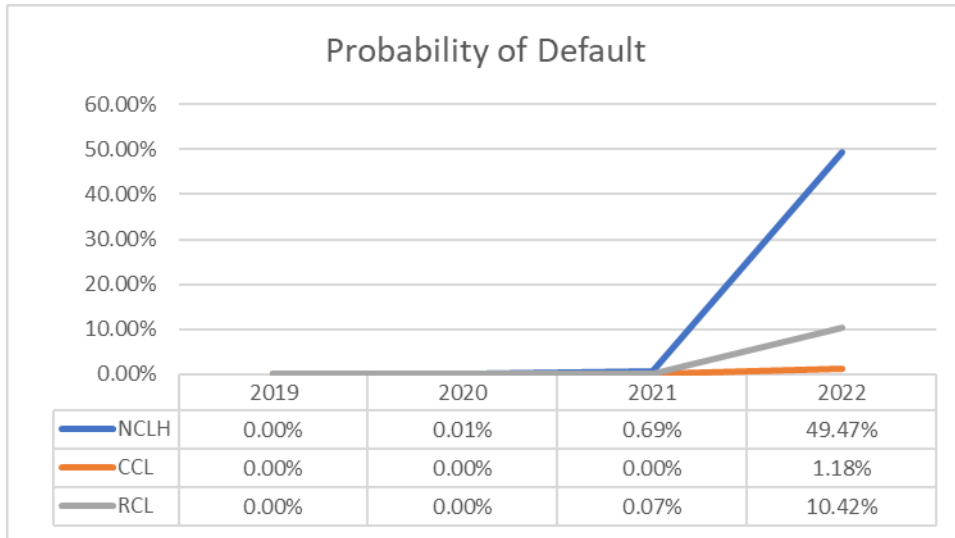


Figure 17 – NCLH’s Cash and Cash Equivalents vs its main competitors, from 2021 and 2022

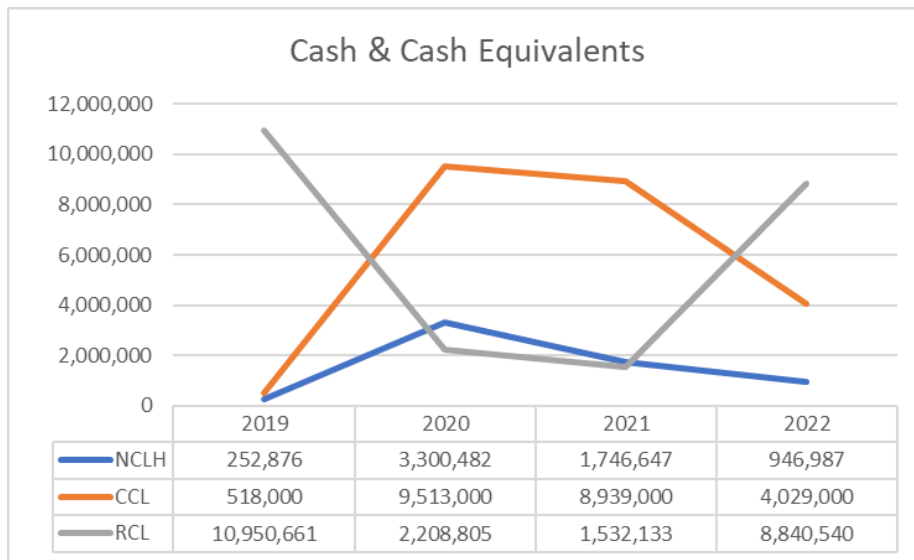


Figure 18 – NCLH’s Probability of Default vs its main competitors, from 2021 and 2022

## NCLH Financials

<b>Income Statement</b>	<b>FY2019</b>	<b>FY2020</b>	<b>FY2021</b>	<b>FY2022</b>
<b>Total Revenue</b>	<b>6,462,376</b>	<b>1,279,908</b>	<b>647,986</b>	<b>4,843,760</b>
Operating Revenue	6,462,376	1,279,908	647,986	4,843,760
Cost of Revenue	3,663,261	1,693,061	1,608,037	4,267,086
<b>Gross Profit</b>	<b>2,799,115</b>	<b>-413,153</b>	<b>-960,051</b>	<b>576,674</b>
Operating Expense	1,621,038	1,463,185	1,592,297	2,128,431
Selling General and Administrative	974,850	745,345	891,452	1,379,105
Selling & Marketing Expense	974,850	-	-	-
Depreciation Amortization Depletion	646,188	717,840	700,845	749,326
Depreciation & amortization	646,188	717,840	700,845	749,326
<b>Operating Income</b>	<b>1,178,077</b>	<b>-1,876,338</b>	<b>-2,552,348</b>	<b>-1,551,757</b>
Net Non Operating Interest Income Expense	-272,867	-482,313	-2,072,925	-801,512
Interest Expense Non Operating	272,867	482,313	2,072,925	801,512
Total Other Finance Cost	272,867	42,200	-	-
Other Income Expense	6,155	-1,641,396	123,953	76,566
Special Income Charges	-	-1,607,797	0	0
Impairment of Capital Assets	-	1,607,797	0	0
Other Special Charges	-	27,800	-	-
Other Non Operating Income Expenses	6,155	-33,599	123,953	76,566
Pretax Income	911,365	-4,000,047	-4,501,320	-2,276,703
Tax Provision	-18,863	12,467	5,267	-6,794
Net Income Common Stockholders	930,228	-4,012,514	-4,506,587	-2,269,909
Net Income	930,228	-4,012,514	-4,506,587	-2,269,909
Net Income Including Non-Controlling Interests	930,228	-4,012,514	-4,506,587	-2,269,909
Net Income Continuous Operations	930,228	-4,012,514	-4,506,587	-2,269,909
Diluted NI Available to Com Stockholders	930,228	-4,012,514	-4,506,587	-2,269,909
Basic EPS	4	-16	-12	-5
Diluted EPS	4	-16	-12	-5
Basic Average Shares	214,930	254,729	365,450	419,773
Diluted Average Shares	216,475	254,729	365,450	419,773
Total Operating Income as Reported	1,178,077	-3,484,135	-2,552,348	-1,551,757
Total Expenses	5,284,299	3,156,246	3,200,334	6,395,517
Net Income from Continuing & Discontinued Operation	930,228	-4,012,514	-4,506,587	-2,269,909
Normalized Income	930,228	-2,838,822	-4,506,587	-2,269,909
Interest Expense	272,867	482,313	2,072,925	801,512
Net Interest Income	-272,867	-482,313	-2,072,925	-801,512
EBIT	1,184,232	-3,517,734.00	-2,428,395.00	-1,475,191.00
EBITDA	1,831,334	-2,778,115	-1,669,791	-665,138
Reconciled Cost of Revenue	3,662,347	1,671,282	1,550,278	4,206,359
Reconciled Depreciation	647,102.00	739,619.00	758,604.00	810,053.00
<b>Net Income from Continuing Operation Net Minority Interest</b>	<b>930,228.00</b>	<b>-4,012,514.00</b>	<b>-4,506,587.00</b>	<b>-2,269,909.00</b>
Other comprehensive income				
Shipboard Retirement Plan	-1,930	345	393	8,889
CF hedges:				
Net unrealized loss	-123,015	-51,642	-110,379	-104,017
Amount realize and reclassified into earnings	-8,898	106,670	65,017	-96,865
Total othercomprehensive income (loss)	-133,843	55,373	-44,969	-191,993
<b>Total comprehensive income (loss)</b>	<b>796,385</b>	<b>-3,957,141</b>	<b>-4,551,556</b>	<b>-2,461,902</b>
Total Unusual Items Excluding Goodwill	-	-1,607,797.00	0.00	0.00
Total Unusual Items	-	-1,607,797.00	0.00	0.00
Normalized EBITDA	1,831,334	-1,170,318	-1,669,791	-665,138
Tax Rate for Calcs	0	0	0	0
Tax Effect of Unusual Items	0.00	-434,105.00	0.00	0.00

## Balance Sheet

	FY2019	FY2020	FY2021	FY2022
<b>Total Assets</b>	<b>16,684,599</b>	<b>18,399,317</b>	<b>18,729,837</b>	<b>18,557,694</b>
<b>Current Assets</b>	<b>730,145</b>	<b>3,557,544</b>	<b>3,301,568</b>	<b>1,872,869</b>
Cash, Cash Equivalents & Short Term Investments	252,876	3,300,482	1,746,647	946,987
Cash And Cash Equivalents	252,876	3,300,482	1,506,647	946,987
Other Short Term Investments	-	-	240,000	0
Receivables	75,109	20,578	1,167,473	326,272
Accounts receivable	75,109	20,578	1,167,473	326,272
Gross Accounts Receivable	-	-	1,167,502	340,272
Allowance For Doubtful Accounts Receivable	-	-	-29	-14,000
Inventory	95,427	82,381	118,205	148,717
Prepaid Assets	306,733	154,103	269,243	-
Other Current Assets	306,733	154,103	269,243	450,893
<b>Total non-current assets</b>	<b>15,954,454</b>	<b>14,841,773</b>	<b>15,428,269</b>	<b>16,684,825</b>
Net PPE	13,135,337	13,411,226	13,528,806	14,516,366
Gross PPE	17,118,949	18,046,356	18,593,611	20,280,917
Properties	0	0	0	0
Land And Improvements	38,375	58,370	58,370	58,370
Machinery Furniture Equipment	16,407,599	17,013,210	17,767,422	19,342,491
Other Properties	672,975	974,776	767,819	880,056
Accumulated Depreciation	-3,983,612	-4,426,093	-5,064,805	-5,764,551
Goodwill And Other Intangible Assets	2,206,456	598,659	598,659	598,659
Goodwill	1,388,931	98,134	98,134	98,134
Other Intangible Assets	817,525	500,525	500,525	500,525
Other Non Current Assets	612,661	831,888	1,300,804	1,569,800
<b>Total Liabilities Net Minority Interest</b>	<b>10,169,020</b>	<b>14,045,212</b>	<b>16,297,187</b>	<b>18,489,103</b>
<b>Current Liabilities</b>	<b>3,584,390</b>	<b>1,913,903</b>	<b>3,730,432</b>	<b>5,054,851</b>
Payables And Accrued Expenses	883,052	679,192	1,292,206	1,547,202
Payables	100,777	83,136	233,172	228,742
Accounts Payable	100,777	83,136	233,172	228,742
Current Accrued Expenses	782,275	596,056	1,059,034	1,318,460
Current Debt And Capital Lease Obligation	746,358	124,885	876,890	991,128
Current Debt	746,358	124,885	876,890	991,128
Current Deferred Liabilities	1,954,980	1,109,826	1,561,336	2,516,521
Current Deferred Revenue	1,954,980	1,109,826	1,561,336	2,516,521
<b>Total Non Current Liabilities Net Minority Interest</b>	<b>6,584,630</b>	<b>12,131,309</b>	<b>12,566,755</b>	<b>13,434,252</b>
Long Term Debt And Capital Lease Obligation	6,055,335	11,681,234	11,569,700	12,630,402
Long Term Debt	6,055,335	11,681,234	11,569,700	12,630,402
Other Non Current Liabilities	529,295	450,075	997,055	803,850
<b>Total Equity Gross Minority Interest</b>	<b>6,515,579</b>	<b>4,354,105</b>	<b>2,432,650</b>	<b>68,591</b>
Stockholders' Equity	6,515,579	4,354,105	2,432,650	68,591
Capital Stock	237	316	417	421
Common Stock	237	316	417	421
Additional Paid in Capital	4,235,690	4,889,355	7,513,725	7,611,564
Retained Earnings	3,829,068	-295,449	-4,796,406	-7,066,315
Treasury Stock	1,253,926	0	-	-
Gains Losses Not Affecting Retained Earnings	-295,490	-240,117	-285,086	-477,079
Other Equity Adjustments	-295,490	-240,117	-285,086	-477,079
Total Capitalization	12,570,914	16,035,339	14,002,350	12,698,993
Common Stock Equity	6,515,579	4,354,105	2,432,650	68,591
Net Tangible Assets	4,309,123	3,755,446	1,833,991	-530,068
Working Capital	-2,854,245	1,643,641	-428,864	-3,181,982
Invested Capital	13,317,272	16,160,224	14,879,240	13,690,121
Tangible Book Value	4,309,123	3,755,446	1,833,991	-530,068
Total Debt	6,801,693	11,806,119	12,446,590	13,621,530
Net Debt	6,548,817	8,505,637	10,939,943	12,674,543
Share Issued	<b>237,533</b>	<b>315,636</b>	<b>416,892</b>	<b>421,414</b>
Ordinary Shares Number	213082	315636	416892	421414
Treasury Shares Number	24,451	0	-	-

## Balance Sheet

	FY2019	FY2020	FY2021	FY2022	Δ '20-'21	Δ '21-'22	CAGR '19-'22
Total Assets	16,684,599	18,399,317	18,729,837	18,557,694	2%	-1%	3%
Total Liabilities	10,169,020	14,045,212	16,297,187	18,489,103	16%	13%	16%
Total Equity	6,515,579	4,354,105	2,432,650	68,591	-44%	-97%	-68%
Cash & Cash Equivalents	252,876	3,300,482	1,506,647	946,987	-54%	-37%	39%
Inventories	95,427	82,381	118,205	148,717	43%	26%	12%

## Income Statement

	FY2019	FY2020	FY2021	FY2022	Δ '20-'21	Δ '21-'22	CAGR '18-'22
Revenue	6,462,376	1,279,908	647,986	4,843,760	-49%	648%	-7%
Cost of Goods Sold	-3,663,261	-1,693,061	-1,608,037	-4,267,086	-5%	165%	4%
Operating Income/Expense	1,178,077	-1,876,338	-2,552,348	-1,551,757	36%	-39%	7%
Net Income	930,228	-4,012,514	-4,506,587	-2,269,909	12%	-50%	25%
Earnings per Share	4	-16	-12	-5	-22%	-56%	6%

### Profitability Analysis

€million	2021	2022	% Change
<b>Gross Margin</b>	<b>-148%</b>	<b>12%</b>	<b>-108%</b>
Gross Result	-960,051	576,674	-160%
Sales	647,986	4,843,760	648%
<b>Operating Margin</b>	<b>-393.89%</b>	<b>-32.04%</b>	<b>-92%</b>
Operating Result	-2,552,348	-1,551,757	-39%
Sales	647,986	4,843,760	648%
<b>Net Profit Margin</b>	<b>-695.48%</b>	<b>-46.86%</b>	<b>-93%</b>
Net Result	-4,506,587	-2,269,909	-50%
Sales	647,986	4,843,760	648%
<b>Return on Assets (ROA)</b>	<b>-24.06%</b>	<b>-12.23%</b>	<b>-49%</b>
Net Result	-4,506,587	-2,269,909	-50%
Average Total Assets	18,729,837	18,557,694	-1%
<b>Return on Equity (ROE)</b>	<b>-695.48%</b>	<b>-46.86%</b>	<b>-93%</b>
Net Result	-4,506,587	-2,269,909	-50%
Average Shareholder's Equity	2,432,650	68,591	-97%

### Liquidity Analysis

€million	2021	2022	% Change
<b>Current Ratio</b>	<b>0.89</b>	<b>0.37</b>	<b>-58%</b>
Current Assets	3,301,568	1,872,869	-43%
Current Liabilities	3,730,432	5,054,851	36%
<b>Quick Ratio</b>	<b>0.85</b>	<b>0.34</b>	<b>-60%</b>
Current Assets	3,301,568	1,872,869	-43%
Current Liabilities	3,730,432	5,054,851	36%
Inventory	118,205	148,717	26%
<b>Cash Ratio</b>	<b>0.40</b>	<b>0.19</b>	<b>-54%</b>
Cash & Cash Equivalents	1,506,647	946,987	-37%
Current Liabilities	3,730,432	5,054,851	36%

### Solvency Ratios

€million	2021	2022	% Change
<b>Debt-to-Equity Ratio</b>	<b>6.70</b>	<b>269.56</b>	<b>3924%</b>
Total Debt	16,297,187	18,489,103	13%
Total Equity	2,432,650	68,591	-97%
<b>Debt Ratio</b>	<b>0.87</b>	<b>0.996</b>	<b>15%</b>
Total Debt	16,297,187	18,489,103	13%
Total Assets	18,729,837	18,557,694	-1%
<b>Equity Ratio</b>	<b>0.13</b>	<b>0.004</b>	<b>-97%</b>
Total Equity	2,432,650	68,591	-97%
Total Assets	18,729,837	18,557,694	-1%

### Leverage Ratios

€million	2021	2022	% Change
<b>Financial Leverage Ratio</b>	<b>7.70</b>	<b>270.56</b>	<b>3414%</b>
Average Total Assets	18,729,837	18,557,694	-1%
Average Total Equity	2,432,650	68,591	-97%
<b>Equity Multiplier</b>	<b>7.70</b>	<b>270.56</b>	<b>3414%</b>
Total Assets	18,729,837	18,557,694	-1%
Total Equity	2,432,650	68,591	-97%
<b>Interest Coverage Ratio</b>	<b>-1.23</b>	<b>-1.94</b>	<b>57%</b>
Operating Profit	-2,552,348	-1,551,757	-39%
Interest Expense	2,072,925	801,512	-61%

## Z-score Analysis

Discriminat Variables	Coefficient				Constant
	2019	2020	2021	2022	
Asset Liquity	-17%	9%	-2%	-17%	6.56
Profitability	23%	-2%	-26%	-38%	3.26
Asset Productivity	7%	-10%	-14%	-8%	6.72
Book Value Equity / Total Liabilities	64%	31%	15%	0.4%	1.05

Z" - Score	4.02	3.42	1.51	0.33	Z" > 2,60	"Safe" Zone
US Equivalent Rating	CCC+	CCC+	D	D	1,1 < Z"	"Grey" zone
Probability of default in one year	26.82%	26.82%	26.82%	26.82%	Z" < 1,1	"Distress" Zone

	Rating	Z" - Score Threshold	Rating	Z" - Score Threshold	
Safe Area	AAA	>8.15	BB+	5.65	Grey area
	AA+	8.15	BB	5.25	
	AA	7.60	BB-	4.95	
	AA-	7.30	B+	4.75	
	A+	7.00	B	4.40	
	A	6.85	B-	4.15	Distress Area
	A-	6.65	CCC+	3.75	
	BBB+	6.40	CCC+	3.20	
	BBB+	6.25	CCC-	2.50	
	BBB-	5.85	D	<1.75	

Source: Altman and Hotchkiss (2006, page, 314)

## Global corporate average cumulative default rates by rating modifier (1981 - 2017)

Credit rating	Time horizon									
	1	2	3	4	5	6	7	8	9	10
AAA	0.00	0.03	0.13	0.24	0.35	0.46	0.51	0.60	0.65	0.71
AA+	0.00	0.05	0.05	0.10	0.16	0.21	0.27	0.33	0.39	0.45
AA	0.02	0.03	0.08	0.22	0.36	0.48	0.61	0.72	0.81	0.91
AA-	0.03	0.09	0.18	0.25	0.33	0.45	0.52	0.57	0.63	0.69
A+	0.05	0.09	0.20	0.34	0.45	0.55	0.66	0.79	0.93	1.08
A	0.06	0.15	0.24	0.36	0.49	0.68	0.86	1.03	1.23	1.47
A-	0.07	0.17	0.28	0.40	0.57	0.74	0.98	1.16	1.30	1.42
BBB+	0.11	0.31	0.53	0.77	1.03	1.32	1.54	1.78	2.04	2.30
BBB	0.17	0.43	0.68	1.05	1.42	1.80	2.15	2.49	2.85	3.23
BBB-	0.25	0.77	1.39	2.11	2.84	3.50	4.09	4.65	5.11	5.53
BB+	0.34	1.11	2.02	2.94	3.86	4.74	5.50	6.05	6.70	7.33
BB	0.56	1.71	3.38	4.94	6.52	7.77	8.89	9.85	10.75	11.53
BB-	1.00	3.13	5.37	7.66	9.66	11.62	13.24	14.80	16.04	17.12
B+	2.08	5.71	9.23	12.21	14.53	16.33	17.98	19.43	20.77	21.97
B	3.60	8.29	12.29	15.46	17.89	20.15	21.66	22.76	23.77	24.81
B-	7.15	14.28	19.62	23.37	26.18	28.31	29.99	31.13	31.84	32.40
CCC/C	26.82	36.03	41.03	43.97	46.22	47.13	48.33	49.23	50.08	50.71
Investment grade	0.10	0.26	0.45	0.68	0.92	1.17	1.40	1.61	1.82	2.03
Speculative grade	3.75	7.31	10.39	12.90	14.95	16.64	18.05	19.23	20.27	21.21
All rated	1.50	2.95	4.22	5.29	6.18	6.94	7.57	8.12	8.60	9.05

source: <https://www.livewiremarkets.com/wires/quantifying-the-risk-of-bonds-with-s-p-credit-ratings>

## Distance to Default Analysis

	2019	2020	2021	2022
<i>Equity</i>	6,515,579	4,354,105	2,432,650	68,591
<i>Naive Debt</i>	10,169,020	14,045,212	16,297,187	18,489,103
<i>Entreprise Value</i>	16,684,599	18,399,317	18,729,837	18,557,694
<i>Volatility of Equity (<math>\sigma_e</math>)</i>	1.53%	8.29%	3.53%	4.72%
<i>Volatility of Debt (<math>\sigma_d</math>)</i>	5.38%	7.07%	5.88%	6.18%
<i>Volatility of Assets (<math>\sigma_a</math>)</i>	3.88%	7.36%	5.58%	6.18%
<i>Volatility of Assets Squared</i>	0.15%	0.54%	0.31%	0.38%
<i>Expected Return on Assets</i>	0.14%	0.02%	-0.02%	-0.10%
<i><math>[\ln(V/F)]</math></i>	0.4951	0.2700	0.1391	0.0037
<i><math>[(rt-1 -0.5 \times \text{naive } \sigma_a^2)T]</math></i>	0.0006	-0.0025	-0.0017	-0.0029
<i><math>[(\text{naive } \sigma_A \sqrt{T})]</math></i>	0.0388	0.0736	0.0558	0.0618
<i>Distance to Default (in years)</i>	12.78	3.63	2.46	0.01
<i>Probability of Default</i>	0.00%	0.01%	0.69%	49.47%

## Comparables

Company	EBITDA	EV	EV/EBITDA
NCLH	-665,138	18,557,694	-27.9x
CCL	-2,196,000	51,703,000	-23.5x
RCL	614,889	33,776,361	54.9x

EV/EBITDA	
Min	-23.5x
Q1	-3.9x
Median	15.7x
Q3	35.3x
Max	54.9x

## EV/EBITDA

Company	2018	2019	2020	2021	2022
CCL	9.5	7.7	-5.7	-8.0	-20.2
RCL	9.9	11.2	-9.3	-14.4	56.4
NCLH	8.6	10.4	-6.0	-11.6	-26.8
Industry Average	9.7	9.5	-7.5	-11.2	18.1
Min	9.5	7.7	-9.3	-14.4	-20.2
Q1	9.6	8.6	-8.4	-12.8	-1.1
Median	9.7	9.5	-7.5	-11.2	18.1
Q3	9.8	10.3	-6.6	-9.6	37.2
Max	9.9	11.2	-5.7	-8.0	56.4

## OUTPUT

Min	-11.21
1st Quart	-7.51
Median	9.46
3rd Quart	9.68
Max	18.10

