

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

Equity Valuation of Royal Caribbean
Group: The Comeback of the Cruise Industry

Joao Cardoso Esaguy
52124

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

António Freitas Miguel

17 December 2025

Abstract

This thesis provides an **Equity Research analysis of Royal Caribbean Group**, a global cruise operator active across the contemporary, premium, and luxury cruise segments. The report examines the global cruise industry and its competitive environment, alongside a detailed company overview and assessment of Royal Caribbean's strategic positioning. It further analyzes the company's historical financial performance, capital structure evolution, and relevant ESG considerations. In addition, the report develops the key valuation assumptions, including discount rate and growth parameters, and applies intrinsic valuation methodologies such as Discounted Cash Flow, Adjusted Present Value, and scenario and sensitivity analyses. The combined insights from industry, financial, and valuation analyses lead to a final **BUY recommendation**, reflecting Royal Caribbean's capacity to generate sustainable cash flows and create shareholder value as balance sheet normalization progresses.

Keywords (up to four):

Cruise Industry, RCL, Royal Caribbean, Discounted Cash Flow

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

This report is part of the ... report (annexed), developed by ... and ... and should be read
has an integral part of it.

Table of Contents

INTRODUCTION.....	6
INDUSTRY AND MACROECONOMIC OVERVIEW.....	7
HISTORICAL FINANCIAL ANALYSIS.....	9
VALUATION & SENSITIVITY	11
ESG ANALYSIS.....	16
RISKS	18

Introduction

This thesis is structured as a joint equity research report on Royal Caribbean Group (NYSE: RCL), one of the largest global cruise operators in a highly consolidated and capital-intensive industry. The objective of the joint report is to assess Royal Caribbean's competitive positioning, operating outlook, and intrinsic value in order to determine whether the company's fundamentals justify prevailing market expectations. Given the sector's long asset lives, high fixed-cost base, and exposure to discretionary demand and financing conditions, the analysis combines company-level fundamentals with valuation discipline to produce a forward-looking investment assessment.

The overall conclusion of the joint analysis is a **BUY** recommendation, supported by an end-2026 equity value target of approximately \$314 per share, implying roughly fourteen percent upside relative to \$274.84 as of 11 December 2025. While the DCF anchor suggests limited immediate upside at the prevailing price level, the investment case is driven by expected roll-forward value creation as free cash flow is allocated primarily to deleveraging under a stable share count assumption. The key upside debate is therefore centered on sustained revenue intensity rather than further occupancy expansion, which is already near practical utilization ceilings.

This individual report focuses on the industry-level context, historical performance, and valuation execution underpinning the investment thesis. It begins with a structured overview of the global cruise industry, highlighting competitive structure, demand drivers, and cyclical characteristics shaping Royal Caribbean's operating environment. The report then develops a historical financial analysis of the company, examining revenue growth, margins, leverage, and cash flow trends to contextualize its current positioning following the post-pandemic recovery.

The complementary individual report authored by Dinis Leal focuses on company-specific operating foundations, including competitive positioning, forecast construction, and core modeling assumptions. Together, both reports form an integrated equity research framework supporting the final **BUY** recommendation for Royal Caribbean Group.

Industry and Macroeconomic overview

The global cruise industry is entering a phase of sustained expansion supported by record passenger volumes, normalized travel behavior, and resilient leisure demand. The sector carried approximately 36 million guests in 2024, up from 32 million in 2023¹ (Figure 1), reflecting a full recovery from pandemic disruptions and continued share gains within global leisure travel. Industry revenues increased by roughly 80% versus 2022, based on the cumulative revenue growth of NCLH, CCL, and RCL, driven by both volume recovery and materially higher pricing. Despite this rebound, market penetration remains structurally low, defined as the share of the population that cruises annually.

Penetration stands at 6.01% in North America, 1.72% in Europe, and 0.09% in Asia (Figure 2.1; 2.2), highlighting significant long-term growth potential. Even marginal increases in penetration rates imply substantial incremental passenger volumes given the size of addressable populations. Capacity growth remains disciplined and increasingly skewed toward higher-quality supply. The global fleet reached 432 ships in 2024, representing approximately 706,000 weighted-average berths, and around 50 additional ships with 116,500 berths are scheduled for delivery through 2028, excluding retirements. Net capacity growth, therefore, remains mid-single-digit annually, below historical peaks. Importantly, new deliveries are concentrated in larger, more fuel-efficient vessels with higher onboard revenue potential, driving a projected increase in EBITDA per Passenger Cruise Day from approximately USD 104 in 2024 to USD 126 by 2030². Capacity growth, combined with improved pricing discipline and stronger onboard monetization, has supported sector-wide margin expansion (Figure 3).

Demand indicators remain robust across core itineraries and booking windows. Industry bookings for 2025 and 2026 are at record levels, with load factors and advance purchase days (APDs)³ above historical averages, improving revenue visibility and reducing reliance on late-stage discounting. The Caribbean continues to be the most profitable region, accounting for approximately 57% of 2025 deployed capacity, supported by favorable deployment economics and private-destination strategies. Third-quarter earnings call of 2025 project a 37% increase in the region above 2019 levels. Europe and Asia-Pacific also show solid booked positions, which helps mitigate regional concentration risk and



Figure 1: Passenger Volumes (th) and Revenue (\$ M's) Recovery Trajectory

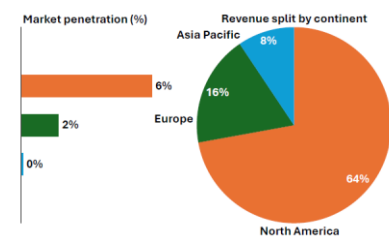


Figure 2: Regional Revenue Exposure and Market Penetration (%)



Figure 3: EBITDA (\$ M's) per Passenger Cruise Day and Growth Recovery

¹ <https://www.pnnewswire.com/news-releases/new-2025-state-of-the-cruise-industry-report-shows-cruising-is-a-vibrant-tourism-sector-growing-steadily-to-meet-rising-consumer-demand-and-delivering-significant-global-economic-impact-302463265.html>

² <https://www.royalcaribbeangrouppresscenter.com/news/2024-q4-earnings-release-8-k>

³ <https://www.reuters.com/business/retail-consumer/royal-caribbean-lifts-annual-profit-forecast-steady-cruise-demand-2025-07-29>

smooth seasonal earnings volatility.

The macroeconomic backdrop is mixed but broadly supportive for earnings and valuation. Travel spending continues to outperform broader discretionary consumption, and management-referenced consumer surveys indicate sustained intent to vacation over the next 12 months. Fuel price volatility remains a structural risk but is increasingly mitigated by efficiency gains, fleet renewal, and active hedging programs. Royal Caribbean has hedged approximately 68% of its expected 2025 fuel consumption (*Figure 4*) at prices below current market levels, stabilizing a cost category that typically represents around 9% of operating expenses. While inflation continues to pressure labor and input costs, these effects have largely been offset by scale efficiencies, higher yields, and operating leverage (*Figure 5*). Interest rates remain a key sensitivity due to elevated sector leverage following the pandemic. Higher rates constrain free cash flow through increased interest expense; however, a gradual decline in rates over the forecast period would directly support earnings, cash generation, and valuation through both lower financing costs and more favorable discounted cash flow assumptions.

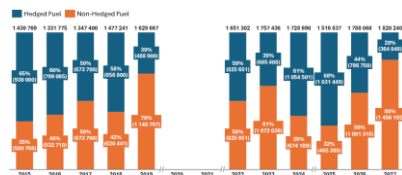


Figure 4: Fuel Consumption (Metric Tons) Mix – Hedged versus Non-Hedged

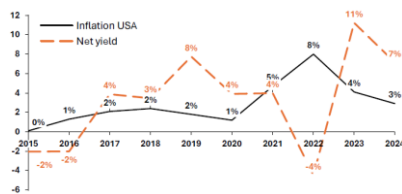


Figure 5: Net Yield and U.S. Inflation

Regulatory developments, particularly around decarbonization, are increasingly shaping capital allocation and competitive dynamics. Operators are accelerating the retirement of older, less efficient ships while investing in newbuilds that comply with tighter environmental standards⁴. Although these requirements raise upfront capital intensity, they improve long-term cost efficiency and increase barriers to entry, particularly for smaller or undercapitalized operators. Companies with younger fleets and visible newbuild pipelines are structurally better positioned to absorb regulatory costs and benefit from lower fuel consumption and compliance risk, strengthening their competitive positioning over time.

Government frameworks also continue to influence sector economics. Environmental incentives, including port fee reductions and shore power access for cleaner vessels, remain in place across several regions and support returns on sustainability investments. In the United States, Royal Caribbean continues to benefit from the Section 883 exemption⁵, which eliminates U.S. federal income tax on qualifying foreign-incorporated shipping income. By registering vessels in jurisdictions such as Liberia that meet reciprocity and public-trading requirements, operators avoid taxes on international sailing income (*Figure 6*).

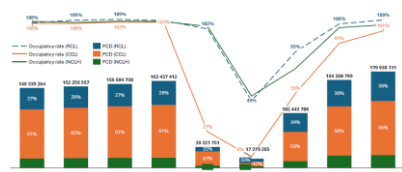


Figure 6: Passenger Cruise Days and Occupancy Rates by Operator

⁴ <https://www.imo.org/en/mediacentre/pressbriefings/pages/imo-approves-netzero-regulations.aspx>

⁵ <https://www.jdsupra.com/legalnews/section-883-tax-exemption-for-cargo-1245928>

While periodically subject to political scrutiny, this framework has remained stable and represents a meaningful support to sector-level cash flow generation.

Overall, the cruise industry enters the next cycle with strong demand visibility, disciplined capacity growth, improving fleet efficiency, and a macro environment that could become more supportive if interest rates decline. At the same time, elevated leverage remains a structural vulnerability in adverse or highly volatile conditions. Nevertheless, current fundamentals support sustained revenue growth, expanding EBITDA margins, and rising free cash flow, underpinning a constructive valuation outlook for operators with modern fleets, effective pricing strategies, and balance-sheet discipline. While periodically subject to political scrutiny, this framework has remained stable and represents a meaningful support to sector-level cash flow generation.



Figure 17: Revenue Growth (\$ M's) and Implied Long-Term CAGR

Historical Financial Analysis

Royal Caribbean Group's financial performance between 2015 and 2024 can be divided into three distinct phases: a period of steady pre-pandemic expansion, an unprecedented but temporary collapse during the global shutdown of cruising, and a rapid post-pandemic recovery that has repositioned the company at a higher level of scale, pricing power, and operating leverage than before.

During the pre-pandemic expansion phase, RCL delivered consistent top-line and margin growth driven by disciplined capacity additions and yield expansion. Revenue increased from approximately USD 8.3 billion in 2015 to USD 11.0 billion in 2019, implying roughly 7% CAGR (*Figure 7*). This growth was supported by both an expanding fleet and higher revenue per passenger cruise day, reflecting effective pricing and onboard monetisation strategies. Operating income more than doubled from approximately USD 0.9 billion to USD 2.1 billion, with operating margins expanding from around 10% to 19%. Net income rose from roughly USD 0.7 billion to USD 1.9 billion, lifting net margins from ~8% to ~17% (*Figure 8*). These trends indicate that scale effects and yield management translated efficiently into profitability rather than being absorbed by cost inflation.

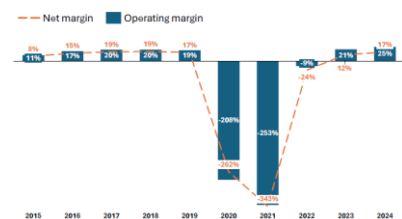


Figure 8: Net Margin and Operating Margin Evolution



Figure 9: Total Asset Growth versus Total Debt Growth (%)

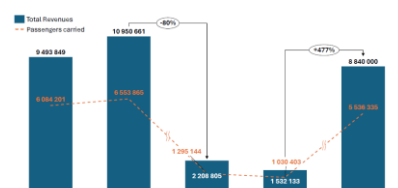


Figure 10: Revenue (\$ th) and Passenger Demand Dislocation During COVID

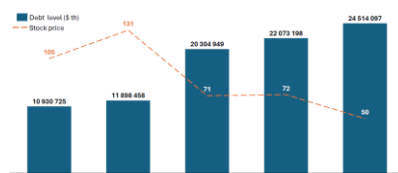


Figure 11: Debt Accumulation (\$ th) and Equity Volatility During COVID

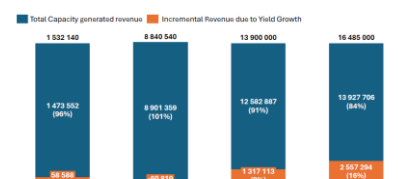


Figure 12: Revenue Growth (\$ M's) Decomposition by Yield, Capacity and Mix

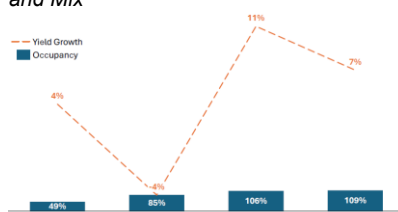


Figure 13: Yield Growth versus Occupancy Rate Relationship

Total assets increased from approximately USD 20.8 billion to USD 30.3 billion, while debt rose from USD 8.5 billion to USD 11.0 billion over the same period (Figure 9). Importantly, leverage remained broadly stable, with a Debt to Equity ratio close to 1.1, suggesting that balance sheet expansion was aligned with earnings capacity and return generation rather than financial engineering.

The pandemic period (2020–2021) caused an abrupt and externally driven collapse in operating activity. Revenue declined from USD 11.0 billion in 2019 to USD 2.2 billion in 2020 and USD 1.5 billion in 2021, as global cruising was effectively suspended. Over the two-year period, RCL generated cumulative net losses of approximately USD 11 billion, reflecting high fixed costs and limited operating flexibility under near-zero deployment. Passenger volumes fell from 6.5 million in 2019 to ~1.3 million in 2020 and ~1.0 million in 2021, while occupancy declined to approximately 49% in 2021 (Figure 10).

To preserve liquidity and ensure survival, RCL raised approximately USD 11 billion in secured and unsecured financing, pushing total debt from USD 12 billion in 2019 to a peak of around USD 22.6 billion in 2022 (Figure 11). This materially increased leverage and equity risk, but the balance sheet deterioration primarily reflected emergency liquidity measures rather than structural erosion of demand or competitive position. The company's ability to access capital markets during a period of extreme stress provides evidence of creditor confidence in the long-term viability of the business model, albeit at the cost of higher future interest expense.

The reopening and recovery phase (2022–2024) produced a rapid and uneven rebound. Revenue recovered from USD 1.5 billion in 2021 to USD 8.8 billion in 2022, USD 13.9 billion in 2023, and USD 16.5 billion in 2024, reaching approximately 50% above pre-pandemic levels⁶. This expansion was driven by both restored capacity and materially higher revenue intensity. Available passenger cruise days (APCD) increased from 11.8 million in 2021 to 50.6 million in 2024 as the fleet returned to full deployment (Figure 12). Occupancy rose from ~49% to 107.5%, while passengers carried increased from ~1.0 million to 8.6 million (Figure 13).

Profitability not only recovered but surpassed prior peaks. Operating income reached USD 2.9 billion in 2023 and USD 4.1 billion in 2024, with operating margins expanding to 21% and 25%, respectively, above the 19% achieved in 2019 despite a structurally higher interest and cost base. Net income improved from a USD 2.2 billion loss in 2022 to USD 1.7 billion in 2023 and USD 2.9 billion in 2024, supported by strong ticket pricing, record onboard spending, and

⁶ <https://www.ft.com/content/ef5ec1ac-b656-424b-b293-e544a104b232>



Figure 14: Operating Income (\$ th) versus Revenue per Passenger Cruise Day (\$ th)



Figure 15: Leverage versus Operating Margin Dynamics

disciplined cost control. Revenue per passenger cruise day increased from USD 254 in 2020 to USD 301 in 2024, indicating that pricing power and monetisation gains were not solely a function of capacity normalisation (Figure 14).

While leverage remains elevated relative to pre-pandemic levels, balance sheet metrics are moving toward gradual normalisation. As of year-end 2024, RCL reported total assets of USD 37.1 billion, shareholders' equity of USD 7.7 billion, and total liabilities of approximately USD 29.3 billion. Gross debt remains well above 2019 levels but has begun to decline as free cash flow generation improves. The company now operates with a larger asset base, structurally higher margins, and a more complex capital structure that remains sensitive to interest rates but increasingly supported by operating cash flow.

Overall, the 2015–2024 period illustrates RCL's transformation from a mid-cycle secular grower into a scaled platform with higher revenue density, stronger pricing power, and enhanced onboard monetisation. While part of the post-pandemic recovery reflects cyclical normalization, margin expansion beyond pre-2020 levels suggests a degree of structural improvement driven by fleet mix, destination strategy, and commercial discipline⁷. The pandemic validated RCL's access to capital under extreme stress, while the recovery supports the deleveraging trajectory embedded in the forecast and reinforces confidence in management's post-COVID execution (Figure 15).

Valuation & Sensitivity

This valuation and sensitivity analysis translates the operating forecasts presented in the Forecasting and Model Assumptions section into an intrinsic equity value and examines how that value changes under plausible parameter shifts. The objective is not to re describe the revenue, cost, working capital, or PP&E build, but to evaluate the valuation outputs, the internal coherence across methods, and the main sources of valuation dispersion, consistent with the report's requirement to focus on value drivers, risks, and sensitivity to key inputs rather than descriptive repetition.

The anchor valuation is a Discounted Cash Flow using Free Cash Flow to the Firm discounted at the weighted average cost of capital (Figure 41). The explicit forecast horizon runs from 2025 to 2030, followed by a single stage terminal value computed using the Gordon Growth framework. Under the base case, the DCF implies an enterprise value of USD 97.132.967.000 and an equity value of USD 76.995.967.000 corresponding to an implied value per share of approximately USD 276 using 279 million basic shares outstanding, compared to

⁷ <https://www.mckinsey.com/featured-insights/mckinsey-explainers/what-is-the-future-of-travel>

USD 232.75 as of 31st December 2024 and USD 274.84 as of 11th December 2025 implying an immediate upside of 0.41%. The Equity Value target of this company by the end of the year 2026 is USD 87,694,177.321, resulting in a share price of USD 314.3 and an upside of 14.36%. The report presents this implied value per share as the core intrinsic valuation reference point, with other approaches used as checks and context rather than as competing anchors.

The Adjusted Present Value approach produces the same equity value as the DCF. APV is implemented to validate that the DCF result is not an artefact of discount rate construction but is driven by operating cash flows and reinvestment requirements. In principle, APV separates unlevered operating value from financing side effects, most importantly the value of interest tax shields. In Royal Caribbean's case, the effective tax rate is very low (effectively zero), with the model assuming 0%, consistent with the firm's tax-exempt structure under Section 883⁸ and its international income profile. With a zero cash tax rate, the incremental value of interest tax shields is null, and the difference between a WACC based DCF and an APV framework does not exist. The identity between DCF and APV therefore, strengthens internal consistency and supports the choice to anchor the investment case on the FCFF DCF output rather than on equity flow measures that are more exposed to financing path assumptions.

The discount rate inputs are designed to be transparent and conservative. Cost of equity is estimated through the Capital Asset Pricing Model using a 4%⁹ risk-free rate, a 5.96%¹⁰ equity risk premium yielding a weighted average cost of capital of approximately 7.82%. The use of a constant WACC over the forecast horizon is a modelling simplification that is reasonable given the intent of the analysis, namely to value the firm's operating cash flows under a coherent long run structure, while capturing uncertainty via sensitivity analysis rather than by attempting to forecast time varying risk premia.

Terminal value is calculated using Gordon Growth, with a base case terminal growth rate of 2.0%. This choice is intended to reflect a mature long run nominal growth rate aligned with inflation anchored expectations rather than an aggressive extrapolation of near term post cycle recovery. In steady state, maintenance capital expenditure is assumed to converge to depreciation, ensuring that the terminal free cash flow is consistent with sustaining the operating asset base rather than implying unacknowledged expansion or contraction.

⁸ <https://www.law.cornell.edu/cfr/text/26/1.883-1>

⁹ <https://www.cnbc.com/quotes/US10Y>

¹⁰ https://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/histimpl.html

Alternative intrinsic methods are included to illustrate how valuation changes when the cash flow definition or payout policy becomes the primary lens. The Flow to Equity valuation yields an equity value of USD 94 billion materially above the DCF and APV anchor (Figure 16). This divergence is informative rather than contradictory. In levered, capital intensive companies, equity cash flow timing is highly sensitive to assumptions about deleveraging, refinancing, and how residual free cash flow is allocated between debt reduction and shareholder distributions. Even when enterprise value is stable, equity value derived from FCFE can rise if the modelling implicitly accelerates deleveraging or allocates more cash to equity in earlier years. The FTE result should therefore be interpreted as highlighting financing path sensitivity rather than as evidence that the firm is intrinsically worth materially more than the DCF indicates.

The Dividend Discount Model yields an equity value of USD 26 billion far below the anchor. This result is also economically intuitive given the context. Dividends have only recently been reinstated and are not yet a stable policy variable, it was assumed to take 3 years to normalization. A DDM is most informative when dividend policy is mature, predictable, and closely linked to sustainable free cash flow generation. In Royal Caribbean's case, management priorities include debt reduction¹¹ and funding fleet related investment, and therefore dividend trajectories are likely to remain discretionary and sensitive to the cycle. The DDM is reported as a reference point, but it is not treated as decision relevant for fair value because of the reasons mentioned above and by the difficulty of forecasting a long run payout ratio in a sector that remains exposed to demand shocks and regulatory cost risk.

Trading multiples are used to contextualise the intrinsic valuation rather than to determine it. The cruise sector's valuation is shaped by cyclicity, operational leverage, capital intensity, and policy exposure, and multiples often move sharply with investor risk appetite and macro narratives. The report uses EV/EBITDA, EV/EBIT, EV/SALES and EV/BERTHS of Carnival, Norwegian, Linlabad and Viking Cruises to understand how the market is currently pricing these sector features¹², which yield valuations of USD 73 billion, USD 91 billion, USD 47 billion and USD 62 billion, respectively (Figure 17). If taken the arithmetic mean, it gives us a valuation of RCL of roughly USD 68 billion. This was done to avoid implying precision where relative valuation is often driven by sentiment and by differences in leverage and fleet age that can distort simple comparability.

Sensitivity analysis is the primary tool used to quantify valuation exposure,

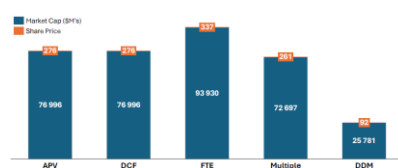


Figure 16: Valuation Comparison (\$ M's) – DCF, APV and Multiples

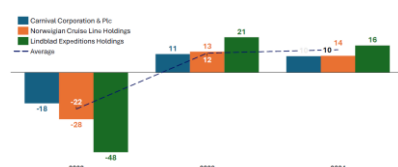


Figure 17: Peer Valuation Comparison – Trading Multiples

¹¹ <https://www.nasdaq.com/articles/nclhs-debt-refinancing-momentum-builds-balance-sheet-risk-easing>

¹² <https://multiples.vc/cruises-valuation-multiples>

consistent with the decision to focus on one coherent base case and then stress the key drivers. The results show that the valuation is most sensitive to discount rate and revenue intensity, which is consistent with both financial theory and the economics of the cruise model. The two dimensional sensitivity between WACC and terminal growth demonstrates how long duration value is amplified by terminal assumptions. Holding other inputs constant, the implied share value moves materially as WACC varies across the tested range. At the lower end of the WACC range around 6.77% with the current growth rate, the implied value per share is approximately USD 359, while at the high end around 8.87% it falls to roughly USD 218 (*Figure 18*). This range is large, but it is not surprising for a business where terminal value is a meaningful share of enterprise value and where risk premia can shift quickly with macro conditions and investor style rotations.

WACC	Terminal growth							
	2%	1.25%	1.50%	1.75%	2.00%	2.25%	2.50%	2.75%
	6.77%	359	359	359	359	359	359	359
	7.12%	328	328	328	328	328	328	328
	7.47%	300	300	300	300	300	300	300
	7.82%	276	276	276	276	276	276	276
	8.17%	250	250	250	250	250	250	250
	8.52%	230	230	230	230	230	230	230
	8.87%	218	218	218	218	218	218	218

are generally second order relative to yield and discount rate, which aligns with the economics of the business and with the ability to partly manage fuel exposure via hedging, itinerary optimisation, and efficiency gains. In the fuel growth sensitivity, moving from 0.44 to 0.62 shifts implied share value from roughly USD 260 to USD 284 (*Figure 22*). The direction and magnitude indicate meaningful exposure but not dominant valuation control. Commission related sensitivity is more visible than some other costs because it directly scales with ticket revenue, with the tested commission growth range producing implied share values from roughly USD 250 down to USD 302 (with differences between 18% of ticket revenue and 24%). Payroll per ship also exhibits material sensitivity, with implied values ranging from roughly USD 261 to USD 290 (with differences between USD 21.628.120 and USD 15.628.000) across the tested levels. These cost sensitivities are useful because they identify which expense lines deserve the most scrutiny if inflation regimes change, if labour market conditions tighten, or if distribution mix evolves less favourably than assumed.

Working capital sensitivities provide an important robustness check. Customer deposits are structurally valuable because they represent interest free financing, but the valuation does not depend on extreme deposit assumptions. Across deposit ratios from 34% to 64%, implied share value moves from roughly USD 262 to USD 290 (*Figure 23*). Receivables, inventories, prepaid expenses, payables and accrued liabilities show varying impacts, but the overall picture is consistent, working capital is a meaningful support to cash generation, yet it is not the primary driver of the fair value conclusion. This is a desirable property of the valuation because it reduces the risk that the model is inadvertently relying on aggressive balance sheet timing to manufacture free cash flow.

Scenario analysis complements the point sensitivities by combining coherent changes that reflect plausible economic regimes rather than isolated variable shocks. A downside scenario is framed around a softer macro environment that pressures net yields and onboard spend, combined with some occupancy decrease and adverse cost pressures, particularly fuel and other voyage related expenses¹⁴. This scenario would likely also justify a higher discount rate, both because cyclicals typically experience risk premium expansion in downturns and because investor preference often rotates away from high beta and levered names. The upside scenario is constructed as a continuation of pricing resilience and onboard monetisation strength, supported by stable high occupancy and incremental efficiency gains, with the potential for some discount rate relief if leverage normalisation progresses and risk appetite improves. The goal of these

Fuel price growth	Fuel Consumption (mln)	Commission %	Payroll per ship	AV	Equity Value	Share Price
0.44	81,102,000	24.00%	21,718,000	81,102,000	79,909,907	274
0.50	81,800,000	24.00%	21,718,000	81,800,000	79,909,907	274
0.56	82,498,000	24.00%	21,718,000	82,498,000	79,909,907	274
0.62	83,196,000	24.00%	21,718,000	83,196,000	79,909,907	274
0.68	83,894,000	24.00%	21,718,000	83,894,000	79,909,907	274
0.74	84,592,000	24.00%	21,718,000	84,592,000	79,909,907	274
0.80	85,290,000	24.00%	21,718,000	85,290,000	79,909,907	274
0.86	85,988,000	24.00%	21,718,000	85,988,000	79,909,907	274
0.92	86,686,000	24.00%	21,718,000	86,686,000	79,909,907	274

Figure 22: Fuel Price (\$) Sensitivity

Customer Deposits (Industry max)	Operational Expenses	Total Commission %	Working Capital	AV	Equity Value	Share Price
34%	81,102,000	24.00%	21,718,000	81,102,000	79,909,907	274
40%	81,102,000	24.00%	21,718,000	81,102,000	79,909,907	274
46%	81,102,000	24.00%	21,718,000	81,102,000	79,909,907	274
52%	81,102,000	24.00%	21,718,000	81,102,000	79,909,907	274
58%	81,102,000	24.00%	21,718,000	81,102,000	79,909,907	274
64%	81,102,000	24.00%	21,718,000	81,102,000	79,909,907	274

Figure 23: Customer Deposit (% of industry max) Assumption Sensitivity

¹⁴ https://reports.weforum.org/docs/WEF_Four_Scenarios_for_the_Future_of_Travel_and_Tourism_2025.pdf

scenarios is not to provide alternative forecasts, but to translate the sensitivity findings into investable narratives and to clarify which combinations of variables represent the dominant tail risks.

The valuation conclusion is therefore deliberately anchored on the DCF and APV equity value of approximately USD 77 billion, corresponding to about USD 276 per share, because this result is most directly tied to operating cash generation and because it is validated by an APV framework in which the tax shield effect is small. The FTE result is interpreted as an informative upper bound conditioned on financing path assumptions rather than as a competing fair value anchor, while the DDM result is treated as non-informative for fair value due to the reinstated dividend and the lack of a stable payout policy provision for the future. Multiples provide context on how the market is pricing the sector and can be used to evaluate whether the market is implicitly assuming more optimistic yield and margin dynamics than the base case or alternatively demanding a higher risk premium than the DCF implies.

Overall, the sensitivity evidence indicates that the fair value conclusion is most exposed to discount rate shifts and to revenue intensity, with occupancy normalisation as a meaningful downside channel and fuel and labour costs as important but typically secondary drivers. This ranking is consistent with the cruise industry's economics, where high fixed costs and high monetisation sensitivity amplify the value impact of known yield changes, and where market risk premia can dominate near term pricing even if operating performance remains strong. The analysis therefore supports a valuation view that is rigorous yet appropriately conditional: the base case intrinsic value is credible under the stated assumptions, but the equity remains structurally sensitive to macro regime shifts and to any sustained change in pricing power or onboard spend dynamics, and those are the variables that should drive monitoring and risk management.

ESG Analysis

Royal Caribbean Group's ESG profile is an increasingly material driver of long-term risk, capital intensity and regulatory exposure, given the cruise industry's dependence on carbon-intensive fuels, coastal ecosystems and a multinational workforce. The company's "SEA the Future" and Destination Net Zero strategies target net-zero emissions by 2050 and the launch of a net-zero ship by 2035¹⁵.

¹⁵ <https://www.royalcaribbeangroup.com/corporateresponsibility>

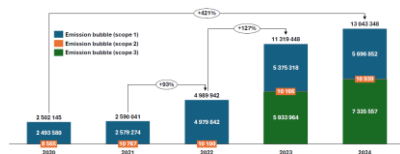


Figure 24: Scope 1, 2 and 3 Emissions (Metric Tons CO₂)

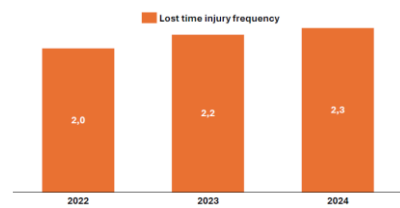


Figure 25: Lost Time Injury Frequency Trend

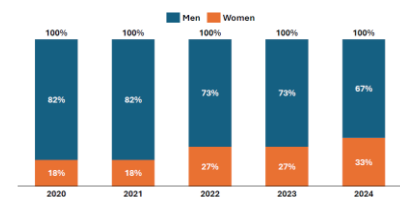


Figure 26: Board Gender Diversity (%)

Cruising remains carbon-intensive and subject to tightening regulation. In 2024 RCL reported 5.7 million tCO₂e of Scope 1 emissions and a carbon intensity of ~104 kg CO₂e per passenger cruise day, with limited improvement (~0.5%) since 2018 despite fleet growth (Figure 24). Decarbonisation relies on newer Icon-class and LNG-capable ships, 55% fleet shore-power capability and advanced wastewater systems covering ~98% of capacity. While operational performance has improved, transition risk remains significant as IMO measures, EU ETS expansion and potential carbon-pricing schemes could materially increase fuel and compliance costs and accelerate obsolescence of older vessels. An EPA notice in 2024 resulting in an immaterial penalty highlights ongoing regulatory scrutiny.

RCL employs ~106,000 people from 145 nationalities, with a high shipboard concentration requiring robust labour oversight. The company aligns practices with UN and ILO standards and enforces supplier conduct codes. Safety metrics show improvement: lost-time injury frequency reduced to 2.26 in 2024 (-11% vs. 2018) (Figure 25), supported by expanded training programmes. Public-health exposure remains a structural risk, illustrated by a 2025 virus-related incident onboard Serenade of the Seas, though the company maintains strong compliance under the CDC Vessel Sanitation Program.

Governance structures are in line with U.S. large-cap standards. RCL's 14-member Board is 93% independent and 29% women (Figure 26), with split Chair/CEO roles and a dedicated Safety, Environment, Sustainability & Health (SESH) Committee. ESG and TCFD reporting is published annually, and 20% of executive bonuses are linked to safety, environmental and guest-experience targets.

External ESG Assessments and Valuation Impact. RCL is rated BBB by MSCI and Medium Risk by Sustainalytics, modestly ahead of cruise peers. Strong governance and credible decarbonisation initiatives support the long-term profile, but the sector's carbon intensity, regulatory tightening and workforce complexity pose persistent structural risks. These factors inform our long-term assumptions through higher transition-related capex, potential upward pressure on fuel and compliance costs and a modest ESG-related risk premium within the cost of capital.

Risks

Royal Caribbean Group is exposed to a wide range of operational, macroeconomic, regulatory and market risks that shape earnings volatility, free cash flow generation and valuation outcomes. Cruise operators face more simultaneous risk factors than most discretionary sectors, resulting in structurally higher share-price volatility and greater portfolio-monitoring requirements. While RCL's premium mix, brand architecture and modern fleet help mitigate several pressures, the stock remains sensitive to cyclical demand, energy prices, policy shifts and changes in capital-market positioning.

Cruise demand is highly discretionary and responds quickly to changes in employment conditions, household income and consumer confidence¹⁶. A weakening in U.S. sentiment pressures ticket pricing, increases promotional activity and reduces onboard spending, the most profitable part of the revenue mix. Foreign-exchange fluctuations can also affect international sourcing and onboard revenue composition. Although bookings for 2025–2026 remain strong, RCL is highly exposed to short-term demand shocks. When travel demand softens, pricing in the contemporary segment, where elasticity is highest, can deteriorate quickly (*Figure 27*).

Efficiency gains from new Icon-class and LNG-capable ships, combined with hedging, soften near-term risk, but long-term exposure is shaped by the industry's energy transition. The cruise sector's carbon intensity leaves operators disproportionately sensitive to transition-driven cost inflation (*Figure 28*).

Regulatory and political risk remain persistent features of the industry. Compliance requirements tied to shore-power mandates, wastewater treatment, sulphur limits and energy-efficiency ratings (EEXI/CII) may require periodic upgrades in capex or limit itinerary flexibility. Political attention has also resurfaced around Section 883¹⁷, the long-established tax exemption for qualifying foreign-incorporated shipping companies. Statements made by the U.S. Secretary of Commerce in February regarding cruise operators' low tax liabilities generated short-term volatility despite the absence of concrete legislative proposals. Historically, Section 883 has faced periodic scrutiny without meaningful change; analysts generally treat it as politically noisy but not a credible long-term threat. The industry has a strong track record of defending its tax position, although for a stock like RCL, even transient policy headlines can trigger outsized price moves when valuations are elevated (*Figure 29*).



Figure 27: Demand Sensitivity to Pricing (\$) and Macroeconomic Conditions

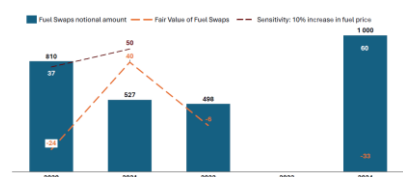


Figure 28: Fuel Price Changes (%) versus Operating Income Impact (\$ M's)



Figure 29: Event-Driven Stock Price Volatility (%)

¹⁶ <https://journals.openedition.org/etudescaribeennes/5134>

¹⁷ <https://www.ft.com/content/813befad-b8df-413e-b775-1ac644e5811c>

Operational and health-related risks are inherent to cruise operations. The 2025 illness incident on *Serenade of the Seas* demonstrated how quickly sentiment can shift despite strong CDC compliance and sanitation standards. Mechanical failures, weather-driven itinerary changes and hurricane disruptions in core markets such as the Caribbean can result in voyage cancellations, reduced onboard spending and lower yields.

Balance-sheet risk remains material. With roughly \$20B of gross debt, every 1bp increase in interest rates raises annual interest expense by approximately \$2M, amplifying the company's sensitivity to rate volatility. While free cash flow is expected to support deleveraging, a sharp decline in yields or higher fuel costs could slow balance-sheet normalization and increase sensitivity to credit conditions. RCL's high leverage makes the stock more sensitive to shifts in investor preference, so equity-market style rotations can move the share price more sharply than fundamentals alone would suggest. Cruise stocks react not only to broader market moves, but also to shifts away from leveraged companies, cyclically exposed names, reopening plays, or high-beta segments. This multi-factor sensitivity can drive significant share-price volatility even when company fundamentals remain unchanged, increasing the monitoring burden for portfolio managers (*Figure 30*).

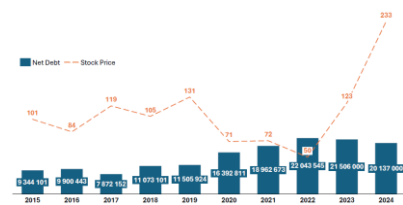


Figure 30: Debt Issuance Activity (\$ M's) versus Equity Market Reaction

Geopolitical and itinerary risks further contribute to earnings unpredictability. Regional instability in the Middle East, Red Sea or Eastern Mediterranean may require rerouting¹⁸, reducing onboard spending and increasing fuel consumption. Weather disruptions similarly affect deployment flexibility and profitability.

Overall, RCL's long-term outlook is supported by strong brands and a modern fleet, but valuation remains sensitive to macro shocks, regulatory developments, political noise around taxation and periodic market rotations. These risks are reflected in our assumptions for yields, capex, fuel costs, and in the WACC applied in the valuation.

¹⁸ <https://www.seatrade-cruise.com/ports-destinations/blog-navigating-choppy-waters-how-geo-political-risks-can-impact-cruise-ports>