MID-NOVEMBER 2014 CRUISE PRICING SURVEY
CCL THE LAGGARD

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CALL TO ACTION

CCL leads the industry again! Unfortunately, the mid-November data suggests Carnival appears to be the discount leader in the heavily promotional environment that is the Caribbean. The picture in Europe is mixed but CCL seems to be struggling there too. Due to substantially weaker close-in pricing, we are lowering our Q4 2014 and Q1 2015 yield estimates for CCL. We expect F4Q constant-currency yield growth to come in at 1.9%, close to the midpoint of company guidance and FQ1 2015 yield growth at 2.8%.

SUMMARY

With another shoulder month in the books, one thing is clear: the Caribbean will struggle into year-end. The close-in F4Q pricing for the fall/winter itineraries in the Caribbean has been incredibly weak for all of the operators. For pricing on a YoY basis, the *Carnival* brand Western/Southern Caribbean itineraries, the *Royal Caribbean* brand and *Celebrity* brand itineraries in the Caribbean were the weakest. Due to very easy comps, *Norwegian* brand pricing exhibited the strongest performance. *Quantum* and *Oceania/Regent* Caribbean pricing both slipped for F4Q.

The sell-side continues to give out mulligans on very weak Caribbean pricing while pushing the focus on 2015, where the sentiment is increasingly bullish. We continue to believe the sell-side is pricing in at least mid-single digit pricing improvement in the Caribbean for all the operators in 2015. For now, that seems like an aggressive target.

Outside of the Caribbean, we harbor concerns for CCL's brand in Europe, as Costa leads the declines there for the 3rd straight month. Meanwhile, the Royal Caribbean brand pricing improved sequentially in mid-November but YoY pricing remain in the red. Our main concern for 2015 is European pricing given difficult comps, higher investor expectations, more supply, and a fragile consumer from various European source markets.

As for the new ships, *Quantum* cut pricing for its close-in F4Q sailings but continues to generate impressive premiums over its competition in a challenging Caribbean environment. *P&O Britannia* was the big winner in mid-November, raising prices for its summer 2015 sailings, bringing premiums close to 20% over its peer group.

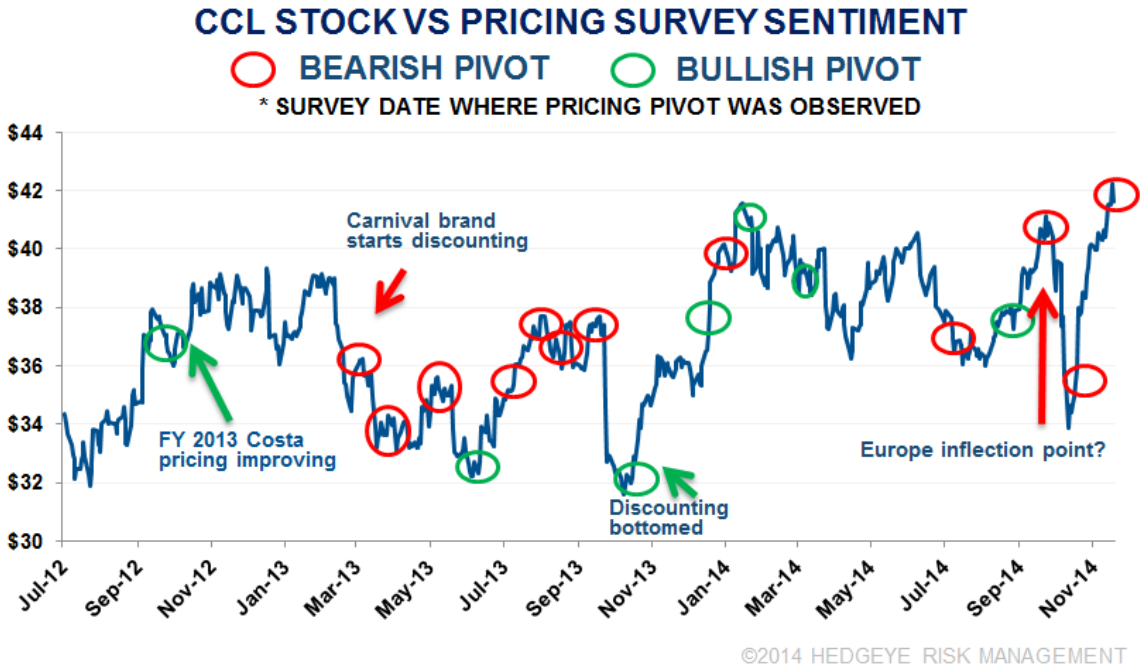
MID-NOVEMBER SURVEY PIVOTS

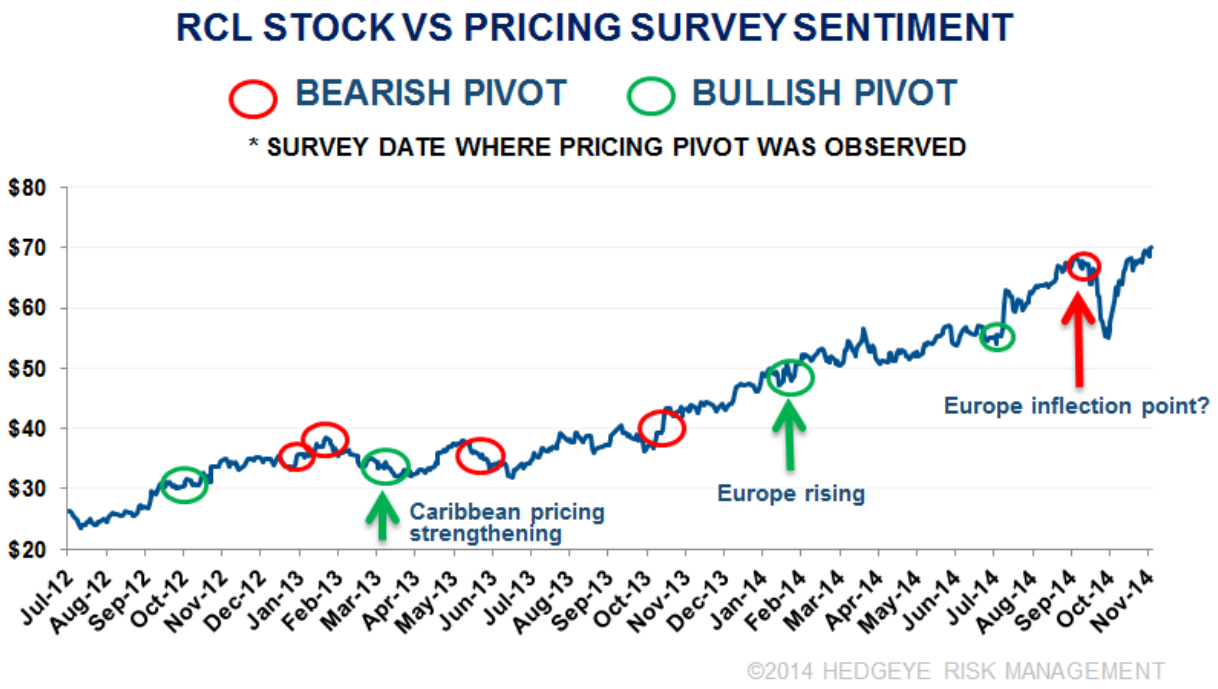
- **CCL: Negative**
- **RCL: Neutral**
- **NCLH: Neutral**

SURVEY METHODOLOGY

We track YoY and sequential pricing for 13,500 ship itineraries spanning across 8 geographic regions. We follow brand pricing for the following: Carnival, Royal, Celebrity, Pullmantur, Princess, Holland America, Costa, Cunard, Azamara, Norwegian, AIDA, P&O Cruises UK, Oceania, and Regent. We rely on sequential pricing trends (defined as how pricing has changed relative to pricing seen at the last time the company provided guidance) for price pivot signals.

PIVOT HISTORY




RCL STOCK VS PRICING SURVEY SENTIMENT
BEARISH PIVOT
BULLISH PIVOT
* SURVEY DATE WHERE PRICING PIVOT WAS OBSERVED
$80
$70
$60
$50
$40
$30
$20
Caribbean pricing strengthening
Europe rising
Europe inflection point?
Jul-12 Aug-12 Sep-12 Oct-12 Nov-12 Dec-12 Jan-13 Feb-13 Mar-13 Apr-13 May-13 Jun-13 Jul-13 Aug-13 Sep-13 Oct-13 Nov-13 Dec-13 Jan-14 Feb-14 Mar-14 Apr-14 May-14 Jun-14 Jul-14 Aug-14 Sep-14 Oct-14 Nov-14
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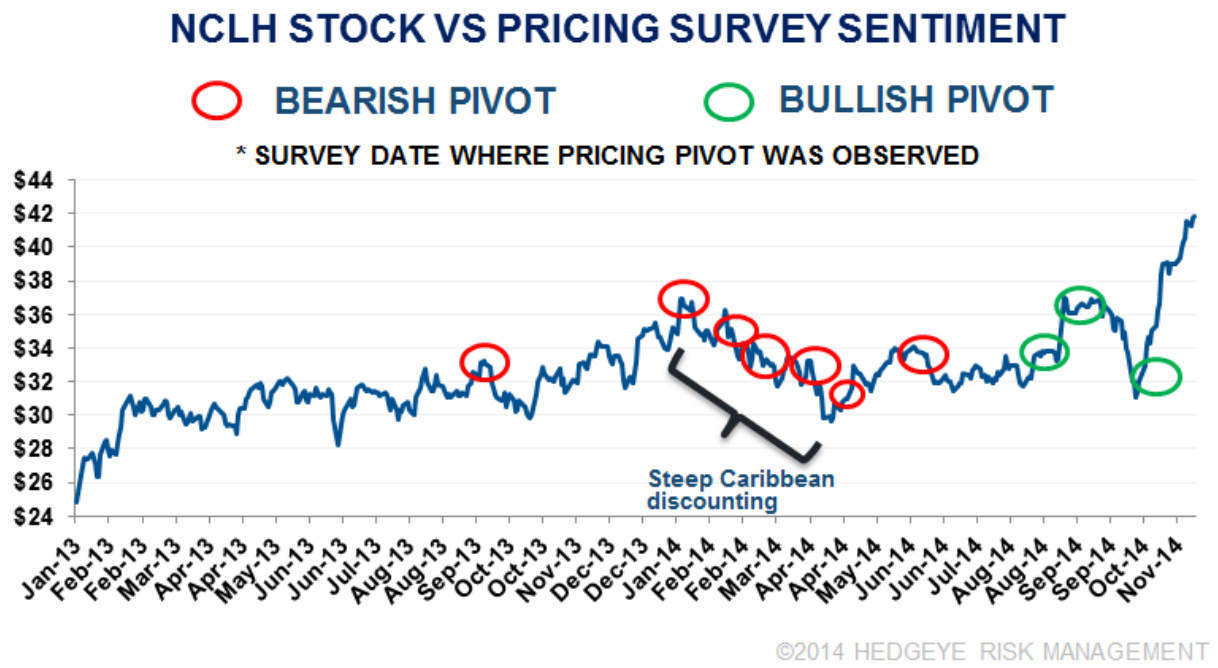
NCLH STOCK VS PRICING SURVEY SENTIMENT
BEARISH PIVOT
BULLISH PIVOT
* SURVEY DATE WHERE PRICING PIVOT WAS OBSERVED
$44
$42
$40
$38
$36
$34
$32
$30
$28
$26
$24
Steep Caribbean discounting
Jan-13 Feb-13 Feb-13 Mar-13 Apr-13 Apr-13 May-13 Jun-13 Jun-13 Jul-13 Aug-13 Aug-13 Sep-13 Oct-13 Oct-13 Nov-13 Dec-13 Dec-13 Jan-14 Feb-14 Feb-14 Mar-14 Apr-14 Apr-14 May-14 Jun-14 Jun-14 Jul-14 Aug-14 Aug-14 Sep-14 Sep-14 Oct-14 Nov-14
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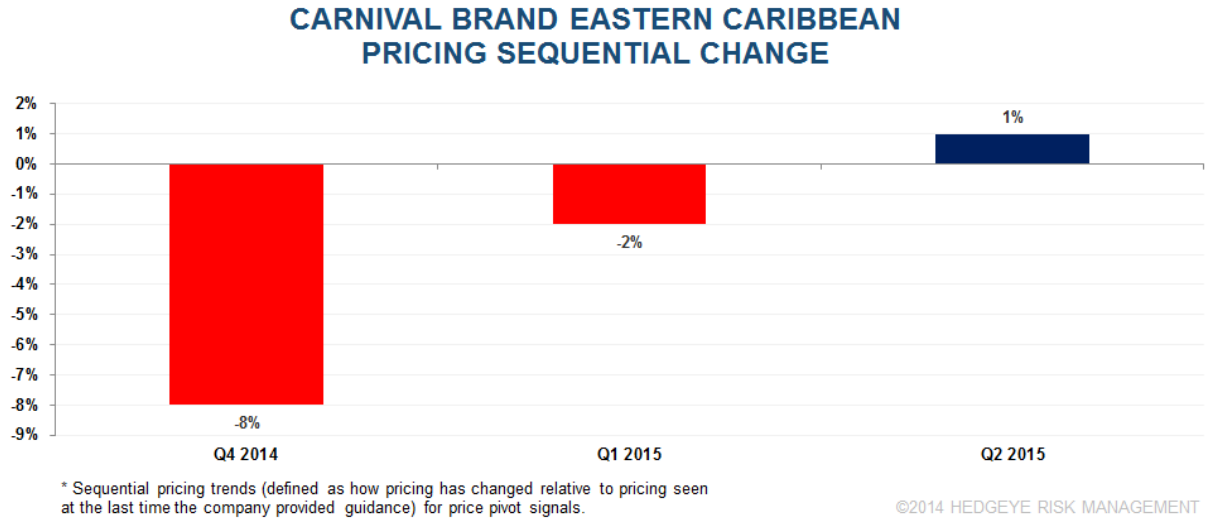
SURVEY DETAIL

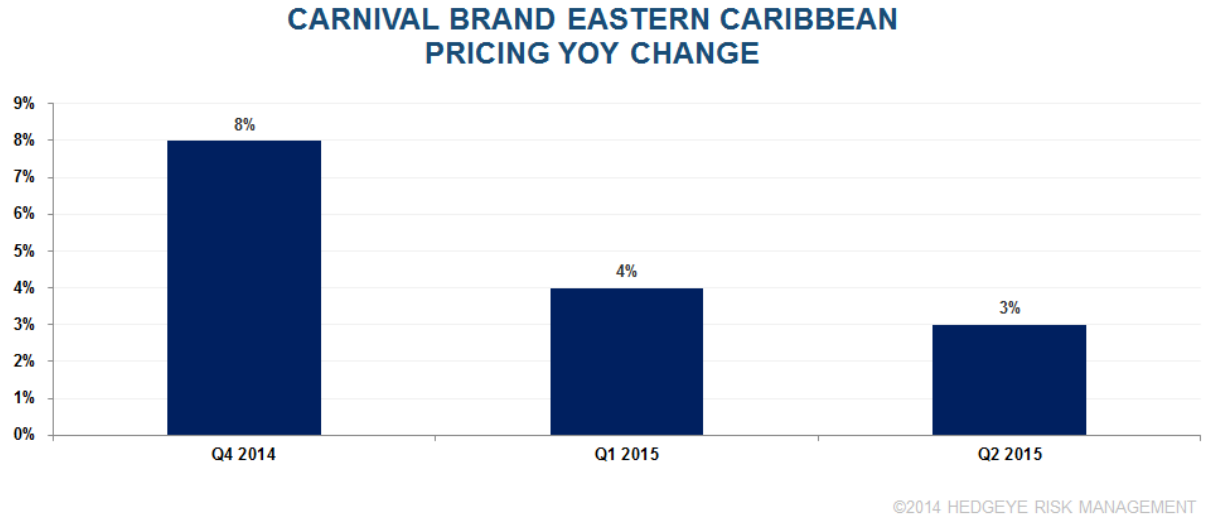
CCL

Carnival Corporation is having pricing issues for the winter itineraries. Yes, it is shoulder season right now ahead of Wave 2015 but it is still discouraging to see. The fall/winter discounting have been ongoing for the last three months and particularly picked up in mid-November. The weakness in pricing was prevalent across most regions.

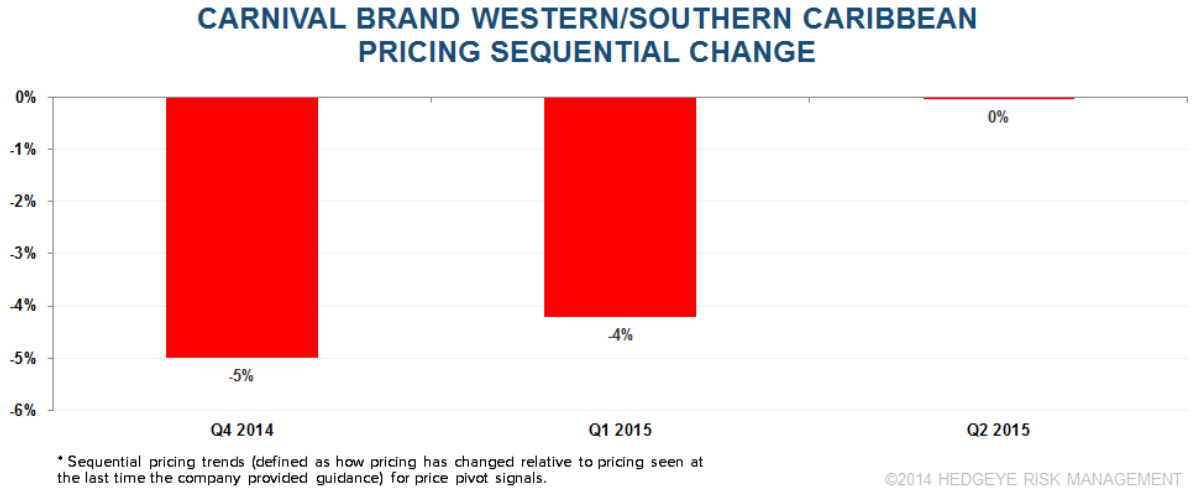
Caribbean

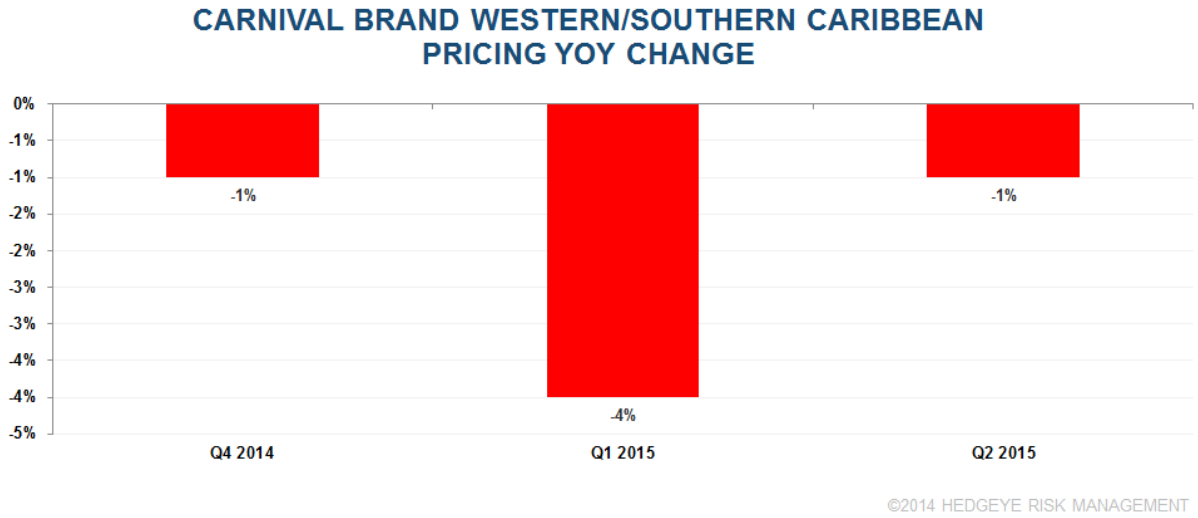
- *Carnival* brand
    - **Eastern Caribbean** - Sequential and YoY pricing continue to move lower in the past 3 months for FQ4 2014/FQ1 2015 itineraries. For Q4 2014 overall, this pushes YoY pricing growth into the high single digits rather than the mid-teens it was averaging through September. If the level of discounting continues through December, we may not see much growth post FQ1 2015





- **Western/Southern Caribbean** - Galveston/Los Angeles pricing continues to underperform. Overall pricing for the next 3 quarters are in the red.

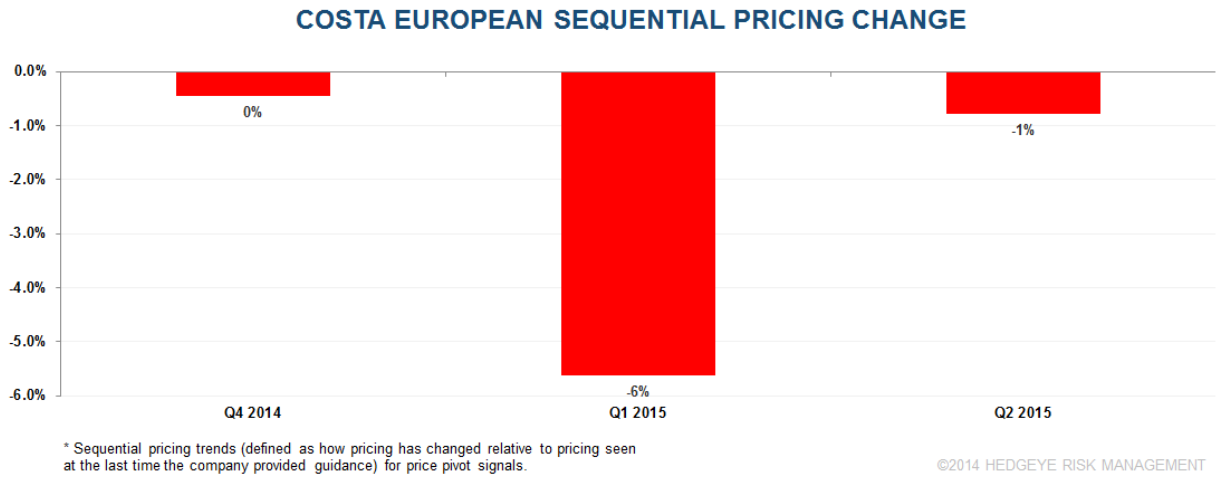


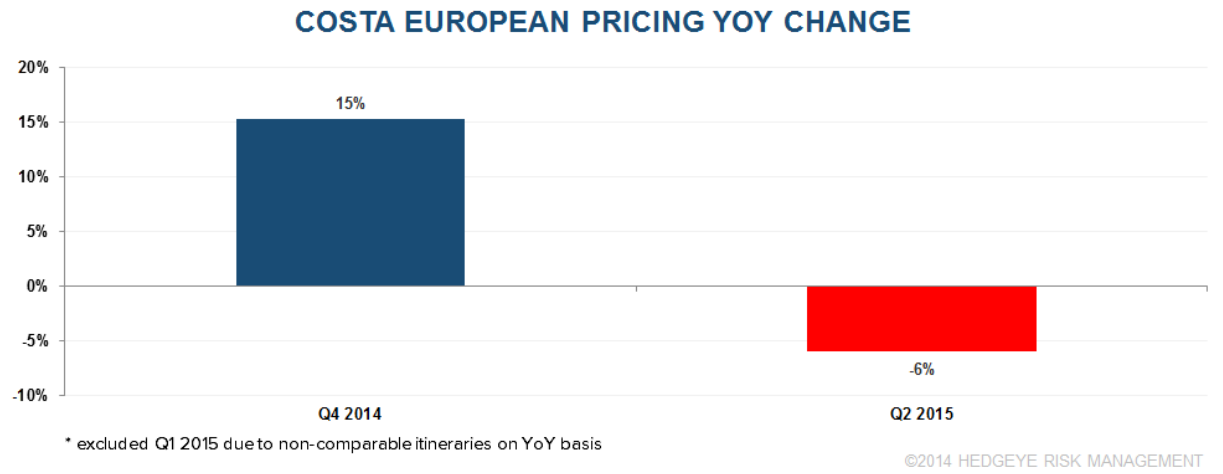


- *Princess/Holland America – Princess* went back to its discounting ways in mid-November. *Holland America*, was discounting at will for the next three quarters. It wasn't rare to see 7 day Holland America itineraries in the Caribbean priced at less than $200.

Europe

- After a steady mid-October, Costa pricing dipped again in mid-November. Sequential and YoY pricing worsened for 1H 2015.





- *P&O Cruises UK* pricing remain at depressed levels since mid-October, particularly for F4Q 2014/F1Q 2015. We remain skeptical that the UK growth experienced in 2014 is sustainable going into 2015.
- *AIDA* pricing improved in mid-November with F4Q pricing well into the double digits and F1Q pricing almost up double digits.
- All other European itineraries were relatively flat

Alaska

- Early summer 2015 pricing is lower for *Holland America* and stable for *Princess*.

Asia/Australia

- Weak Q1 2015 pricing for *Princess* and *Holland America* for Singapore and Japan itineraries.

South America

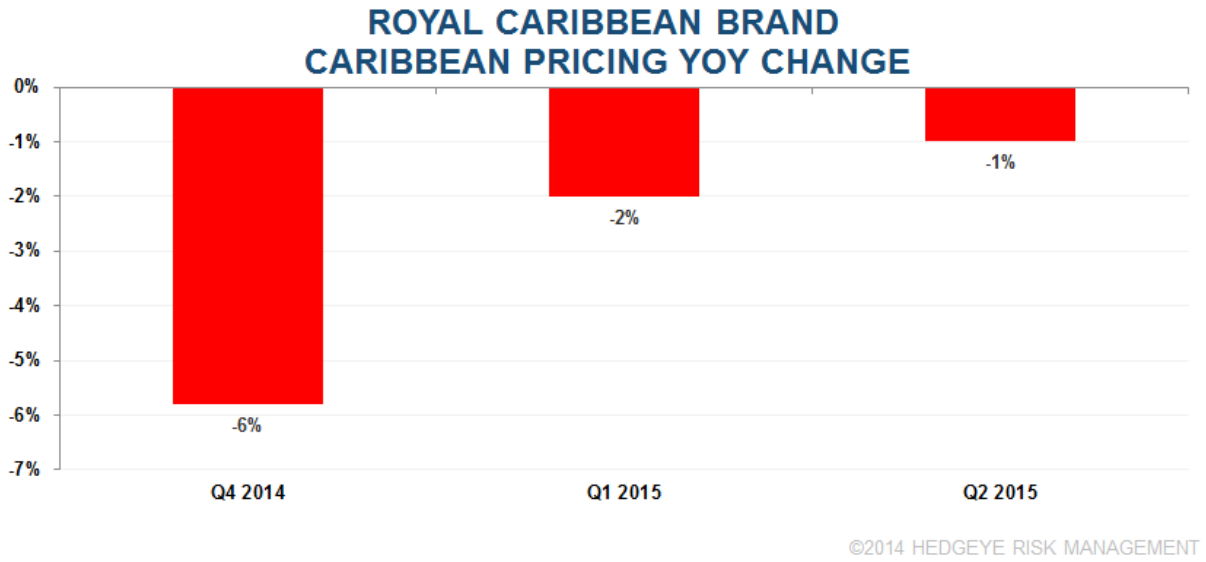
- *Costa* pricing improved in mid-November but *Holland America* pricing continues to go lower

RCL

The Caribbean is still the major headache for the *Royal Caribbean* brand, at least until Q2 2015. European pricing for the *Royal Caribbean* brand has not gotten worse. *Celebrity* brand Q2 2015 pricing is doing relatively well in Europe.

Caribbean

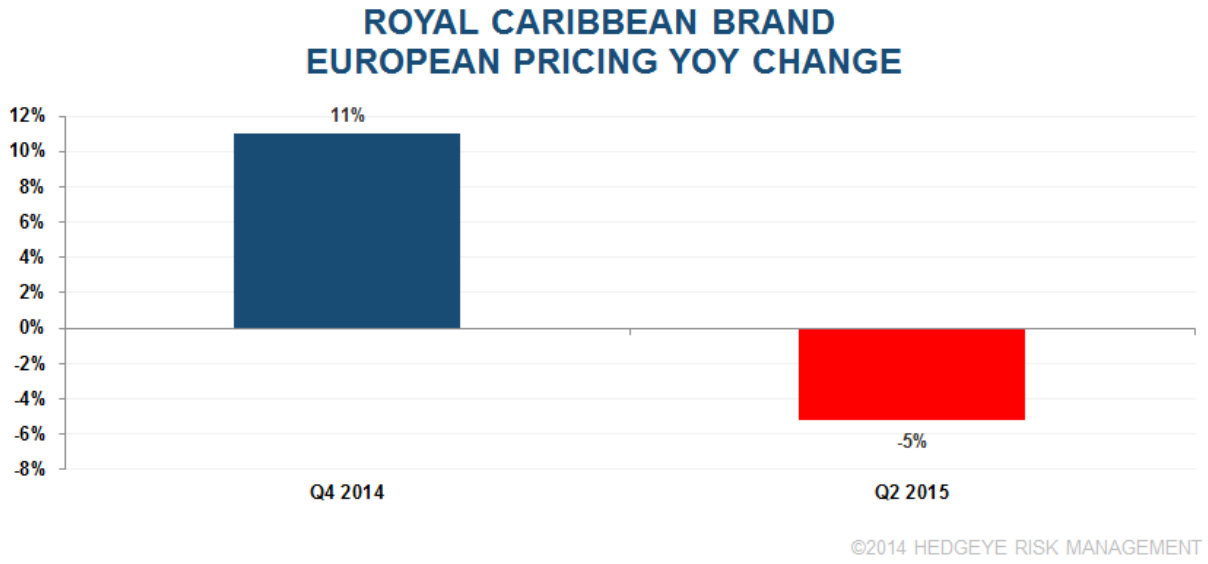
- *Royal Caribbean* brand
    - Q4 2014/Q1 2015 sequential pricing was flattish in mid-November but it's not enough to generate positive YoY pricing
    - On the brighter side, Q2 2015 pricing continues to improve and should turn positive at some point



- *Celebrity* brand
    - FQ4 2014 pricing tumbled double digits sequentially and YoY. Overall FQ4 pricing has now dropped more than 10% YoY. 1H 2015 pricing remain steady flattish, sequentially and YoY.

Europe

- *Royal Caribbean* brand
  - Sequential pricing improved significantly but the tough comps continue to keep YoY pricing in the red for F2Q 2015
  - *Anthem of the Seas* pricing slipped in mid-November



- *Celebrity* brand – F2Q 2015 pricing trend was steady. On a YoY basis, pricing is up double digits.

Alaska

- *Royal Caribbean* brand
  - While sequential pricing slipped in mid-November, YoY pricing is showing solid growth.
- *Celebrity* brand
  - *Celebrity's* sequential and YoY pricing was flattish

Asia/Australia

- Pricing picked up for the *Royal Caribbean* brand Singapore itineraries in mid-November while *Celebrity* brand's pricing growth was steady.

South America

- Mixed pricing trends for the fleet. Over the past 3 months, pricing in this region has been volatile.

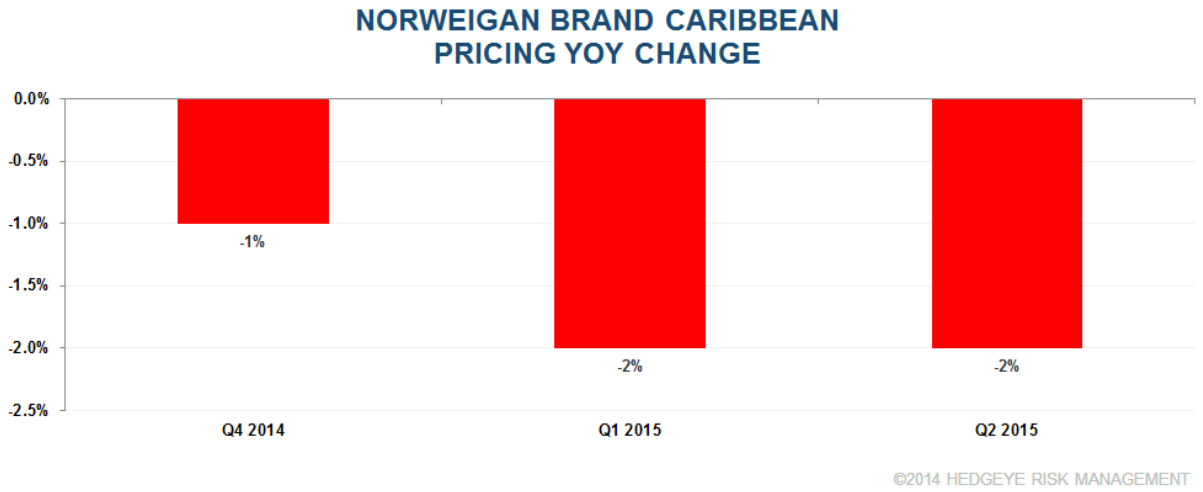
NCLH

The Norwegian brand continues to exhibit the best pricing performance among the 3 big operators. While the Norwegian brand drastically cut prices in the Caribbean for F4Q itineraries, comparisons are so easy that YoY pricing actually ***improved*** in mid-November. 1H 2015 pricing is slightly lower YoY.

Meanwhile, Prestige *(Regent/Oceania)* pricing growth took a break in mid-November. Sequential trends indicate slight discounting in the Caribbean and Alaska for 2015. All other regions show firm pricing. We believe this dip is temporary and that the luxury/premium brands are more price resilient than the contemporary brands.

Caribbean

- Norwegian brand
  - F4Q sequential pricing in the Caribbean fell substantially across the board but YoY pricing improved slightly
  - F1Q/F2Q 2015 remain slightly in the red with stable sequential pricing trends



- *Regent/Oceania* brands
  - Sequential pricing slipped somewhat for F4Q 2014 and F1Q 2015

Europe

- *Norwegian* brand
  - Sequential pricing slipped a little bit for FQ4 but YoY growth remain very robust

  - YoY pricing for 1H 2015 continues to improve despite challenging comps. On a sequential basis, pricing is steady ahead of Wave 2015.
- *Regent/Oceania* brands
  - Pricing grew slightly for 2015

Alaska

- Strength across *Norwegian* brand pricing while *Regent/Oceania* brand pricing was a little lower relative to mid-October.

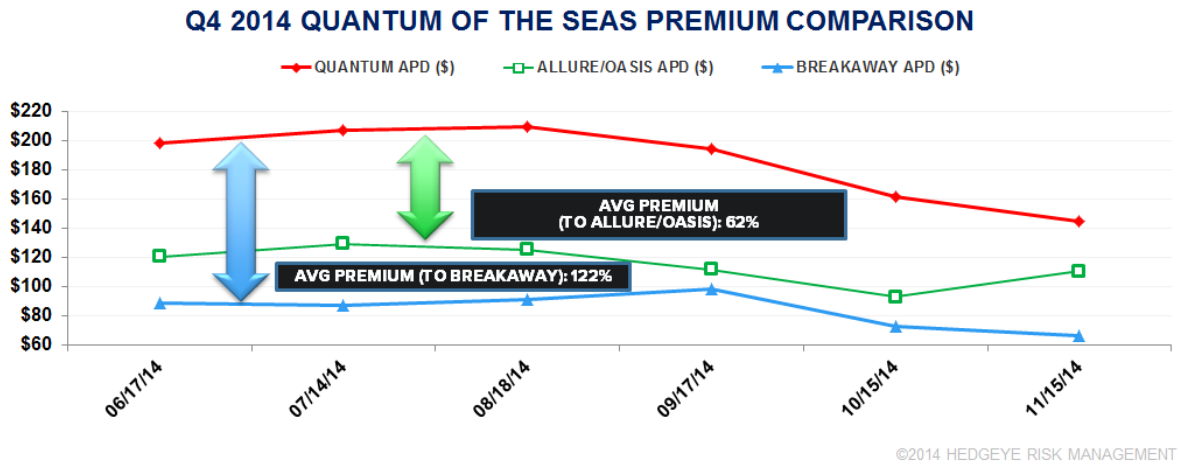
Hawaii

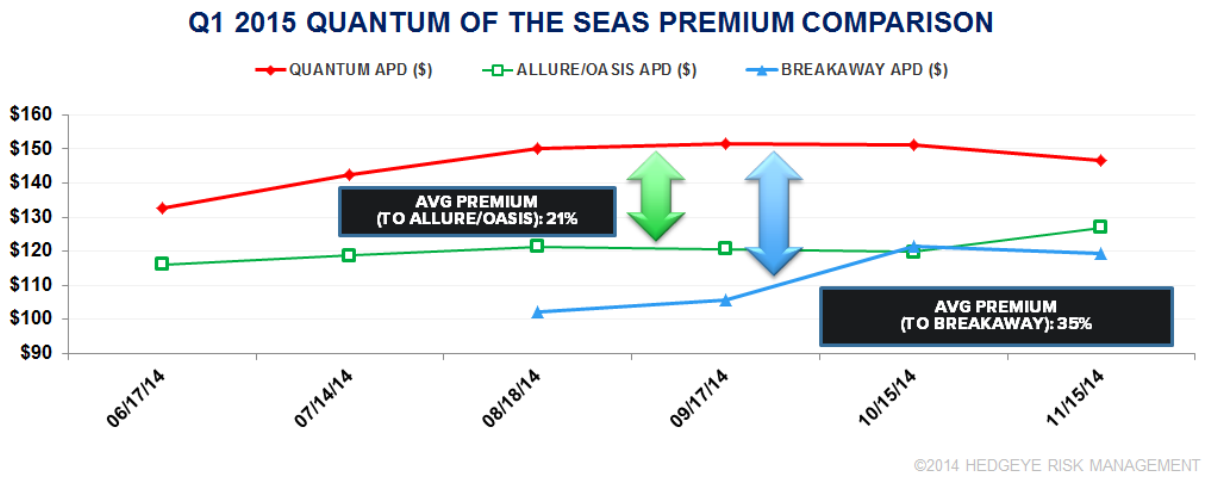
- Q4 2014 is slightly lower but summer 2015 is looking very bright (+20% YoY growth).

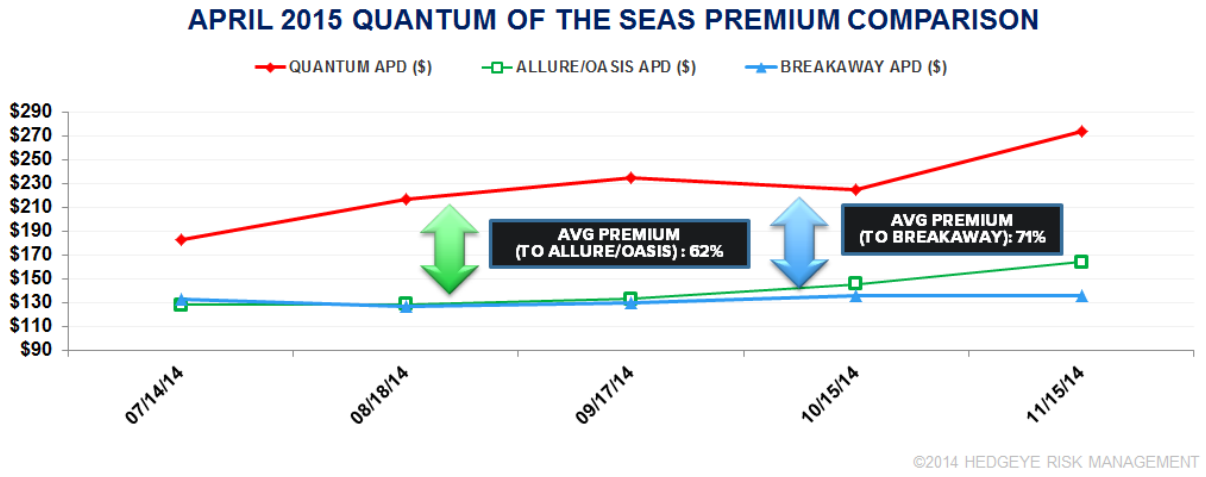
NEW SHIP PRICING POWER

Quantum of the Seas (RCL)

- Last minute *Quantum* pricing fell slightly but their premiums remain significantly higher than *Allure of the Seas/Oasis of the Seas* and *Norwegian Breakaway*.
- 1H 2015 pricing is holding steady for *Quantum* with premiums still trending well above industry average

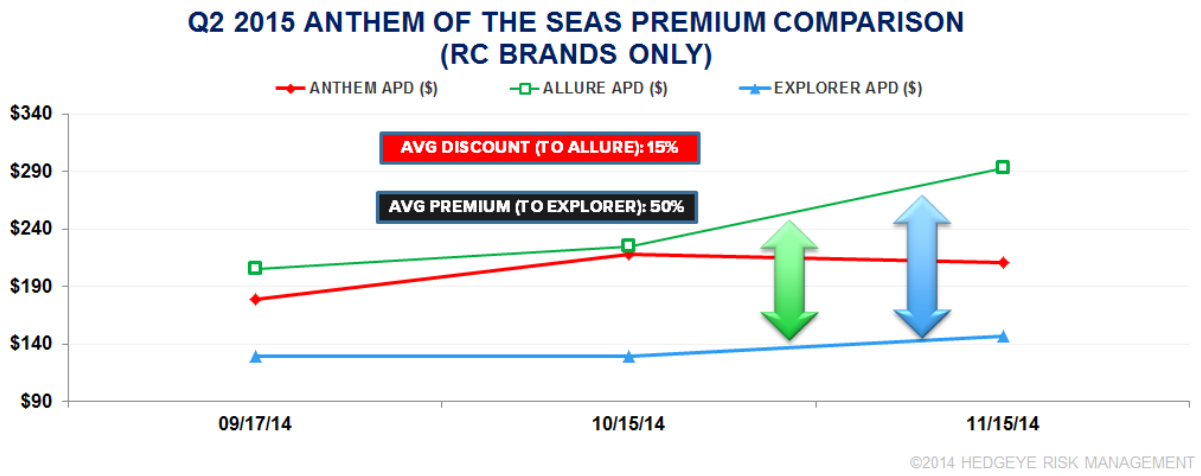


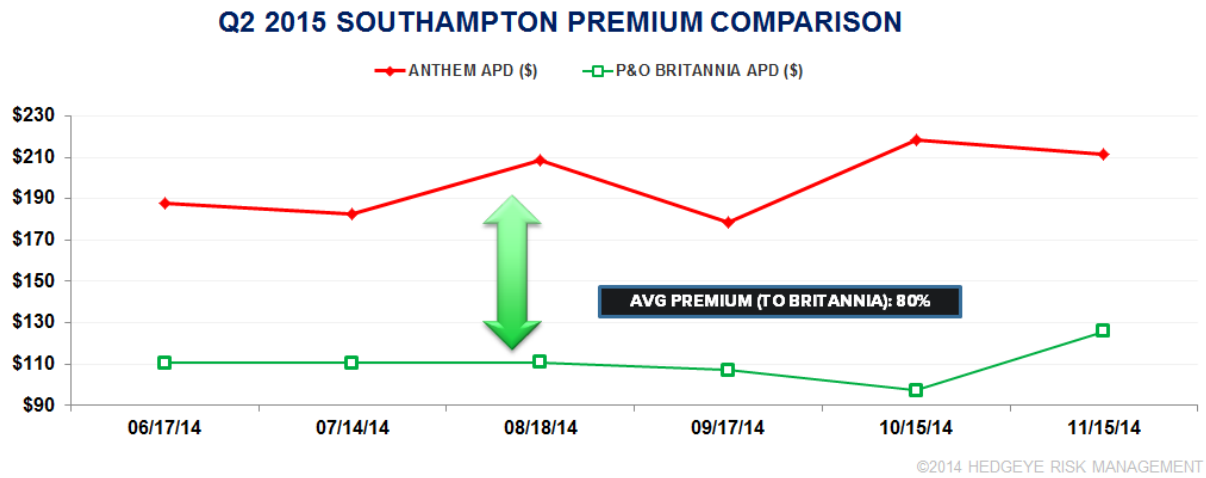




Anthem of the Seas (RCL)

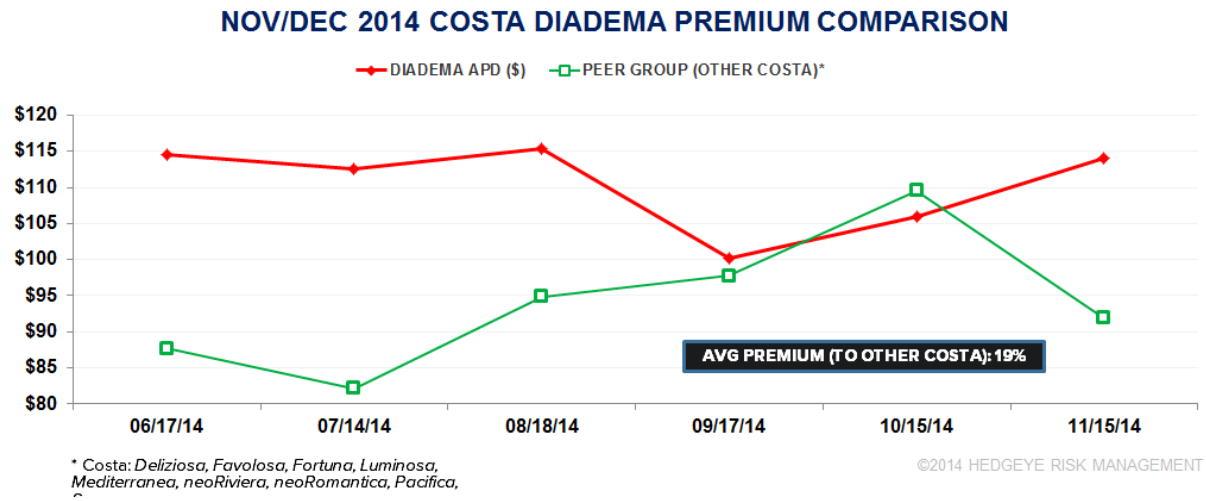
- *Anthem* continues to trade at a **discount** to *Allure* for the 3rd straight month. While this is a little surprising, we would like to point out that *Anthem* is primarily British-sourced (90%) while *Allure* is internationally sourced so the North American market isn't a big focus for *Anthem*. Compared with the other RC brand ship (*Explorer*) and the upcoming *P&O Britannia* (a Carnival brand) in the Southampton market, *Anthem* is generating quite healthy premiums.

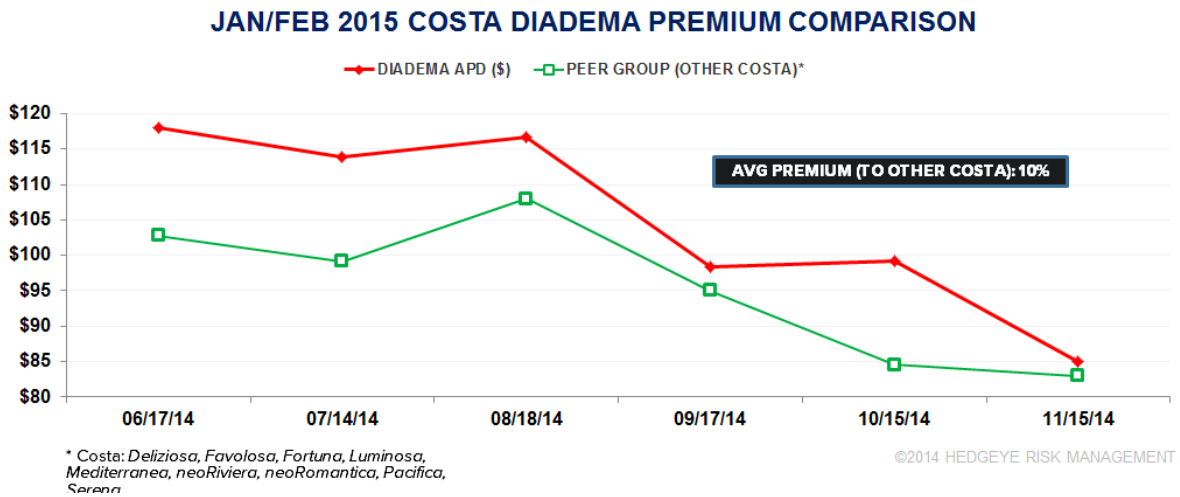


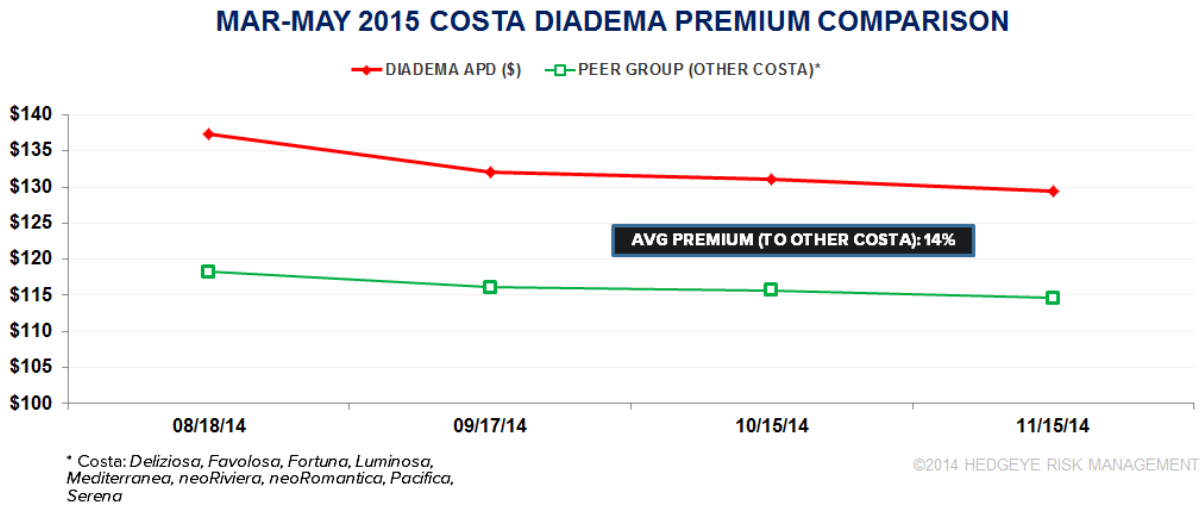


Costa Diadema (CCL)

- *Diadema* premiums relative to its *Costa* peer group has consistently been in the teens.

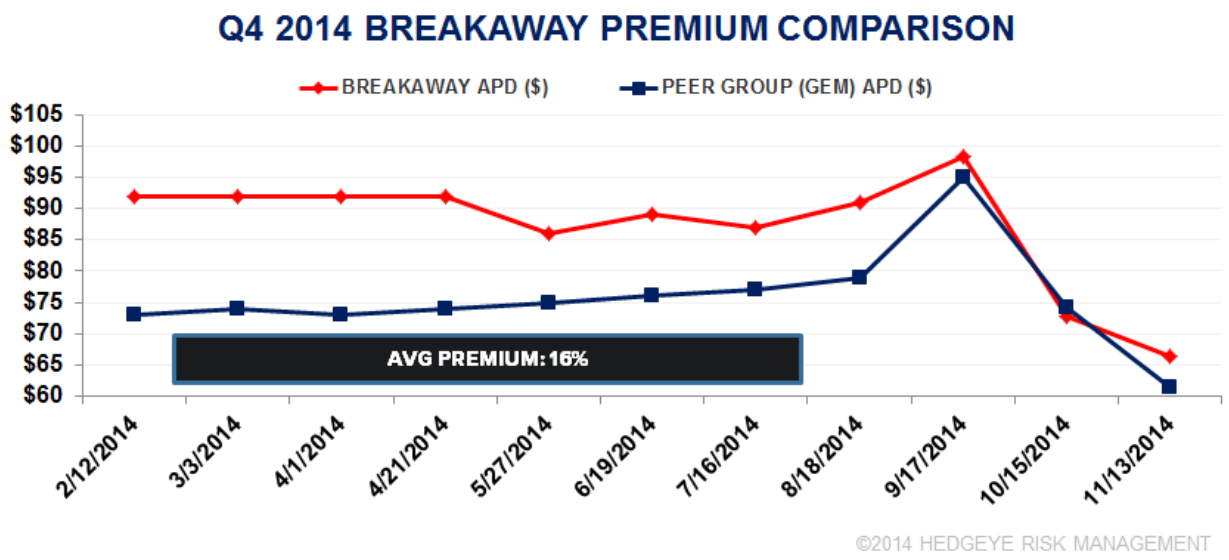


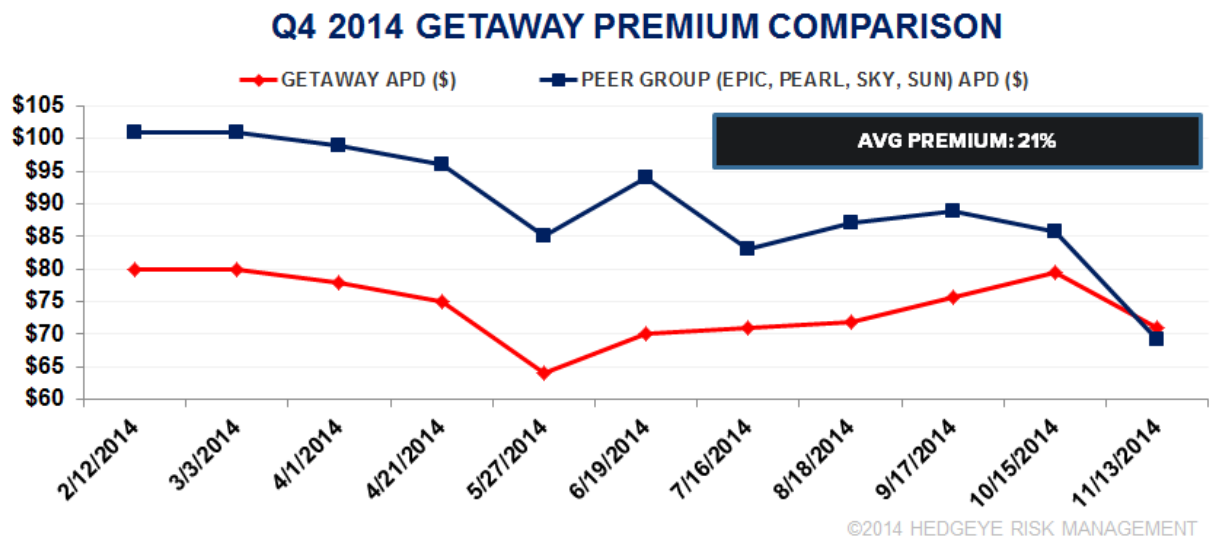




Breakaway/Getaway (NCLH)

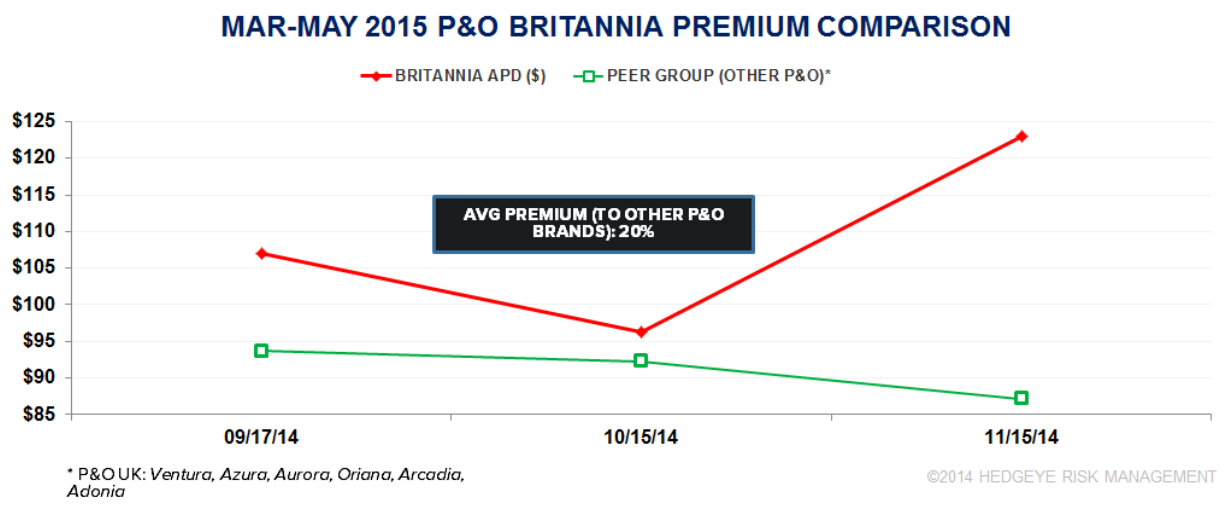
- Close-in Q4 pricing has broken down for the two relatively new ships. In mid-November, APD for *Breakaway* and *Getaway* were on par with its peer group.





P&O Britannia (CCL)

- *Britannia* pricing improved significantly in mid-November. Average premiums of 20% is probably slightly ahead of management expectations.



CONCLUSION

We're seeing no pricing power in the Caribbean. Yield growth beyond Q1 2015 looks like it will be driven by very easy comps owing to two years of ship disasters. Moderate growth expectations in the Caribbean seem to be already priced in the stocks. In Europe, we see risk of a worse than expected 2015 environment.

It's important to stress that 2015 is a normal year, which means no more excuses for the industry. The new ECA regulations are part of the fuel standards the operators must follow and should not be excluded from valuation calculations. RCL and CCL are trading 1.5x and 0.5x turns above their trailing 5-year average, respectively, yet earnings visibility isn't ideal.

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