Cruise Industry & Destination Issues

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Royal Caribbean Cruises, Ltd.

IAPA Los Angeles 2013

Overview

- Quick Industry Overview
- Annual RCCL update
- RCL's Deployment Trends
- Considerations for Global Expansion
- Is every destination losing ships?
- Is there anywhere new left to explore?
- Operating Theater Issues
- Industry issues

Cruise Industry Overview

(Note: all of these comments are personal & casual observations of John Tercek and have no relation to RCL corporate policies, estimates or forecasts)

Thanks to GP Wild (UK) for global statistics!

Industry Snapshot

21 million worldwide guests in 2012

7% average annual passenger growth rate since 1990[2]

310 ships with approximately 440k berths in 2012

18 new vessel deliveries expected 2013-2016

Steadily Increasing capacity pushes cruise lines to expand beyond their traditional markets.

[1]Source: Seatrade Cruise Review June 2010. [2]Source: CLIA 2010 Cruise Market Overview [3]Source: Royal Caribbean Cruises, Ltd. 2009 Annual Report

Industry Trends

- New ships continue to get bigger, increasing weekly carrying capacity and efficiencies; but, placing requirements on port infrastructure to adequately support larger ship calls
- Big ships: 12 out of 18 ships scheduled for delivery through 2016 will exceed 120,000 gross tons
- Itinerary Diversification - deployment of more ships beyond the Caribbean & Mediterranean
- Targeting non-US source markets for customers; increasingly taking the ships to the source markets.

Cruise Industry
World Deployment 2012

Operating Theater	%	Ann Berth Capacity in Region
Caribbean	29%	729,000
Mediterranean	24%	610,000
Baltic & UK	9%	232,000
Asia/Australia/India	7%	202,000
Mexico Pacific/Hawaii/Canal	9%	227,000
Alaska	3 %	92,000
South America	4%	113,000
Bermuda/New England	6%	152,000
Round World & Atlantic Isles	8%	216,000

Drivers of Growth into new Destinations & Itinerary Routes

- Industry Building 4 to 6 big ships annually, pretty much forever
- Each new ship does Homeport & 4 ports per week; winter route and summer route: 10 ports impacted
- Each new ship makes 260 port calls annually
- 6 new ships/year make 1,500 incremental port calls annually
- 18 ships on order: by 2016= 5,000 additional annual port calls

Who is cruising?
Today's Top Source Markets 2011

Country	Population (000,000's)	2006 cruisers	2011 cruisers	% of pop	5 yr % growth
Entire World	7 billion	15,940,000	21,000,000	0.31%	29%
USA	314mm	9,776,000	10,370,000	3.3%	10%
Canada	34mm	675,000	763,000	2.3%	13%
UK	63mm	1,337,000	1,700,000	2.7%	24%
Germany	82mm	762,000	1,388,000	1.7%	82%
Spain	47mm	538,000	703,000	1.5%	30%
Italy	61mm	640,000	923,000	1.5	44%
France	65mm	280,000	441,000	0.7%	57%
Australia	23mm	350,000	588,000	2.6%	60%
Brazil	199mm	300,000	793,000	0.4%	170%

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Who is Cruising?
Emerging Source Markets 2011

Country	Population (000,000's)		2011 cruisers	% of pop
Scandanavia	25mm		271,000	1.1%
Holland	16mm		126,000	0,8%
South Africa	51mm		90,000	0.2%
Mexico	115mm		126,000	0.1%
Argentina	42mm		117,000	0.3%
Puerto Rico	4mm		78,000	2.0%
China	1,340mm		300,000	0.02%
Japan	127mm		190,000	0.16%
India	1,220mm		226,000	0.02%
Turkey	79mm		55,000	0.07%

Populations of Potential Source Markets

Country	Total Population	0.5% potential
Russia	140.7 millions	700,000
China	1.3 billion	5.6 million
India	1.1 billion	5.5 million
Brazil	196.3 million	950,000
Japan	127.3	650,000
Mexico	110	550,000
Turkey	71.9	350,000
Indonesia	238	1.2 million
Malaysia	25.3	126,000
Totals	3.3 billions	16.5 million

Royal Caribbean Cruises Ltd.

- 2nd largest cruise company.
- 24% of worldwide cruise volume.
- Gross revs 2012: $7mm
- 41 ships, 6 brands.
- 425 destinations.
- 90,000 berth capacity.
- 5.5 million total passengers in 2012.
- 60,000 employees.
- Raising the Bar – Oasis of the Seas.
- Coming soon: Quantum of the Seas

Royal Caribbean Cruises Ltd. Brands

- Royal Caribbean International
- Celebrity Cruises
- Azamara Cruises
- Pullmantur, S.A.
- CDF Croisieres de France
- TUI Cruises

RCL's Deployment Trends

Drivers of Growth into new Destinations & Itinerary Routes

- Repeat Customers Seeking New Experiences

- Looking for Fuel-Efficient Routes:

  17 knots x 14 hours= 220 nautical miles is ideal

- Sourcing New Customers from New Source Countries (Australia, Germany, France, Mexico, Brazil, China, Columbia, Hong Kong,)

- RCCL New Ship Displacement Factor…

RCI: New Ship Displacement Evolution:2010

- ***Oasis*** 6,000 pax capacity to Miami
- ***Independence*** 4,000 pax to UK
- ***Voyager*** 3,300 pax to Civitavecchia, IT
- ***Brilliance*** 2,200 pax to Dubai
- ***Legend*** 1,800 pax to Shanghai
- ***Sovereign*** to Pullmantur brand

RCI: New Ship Displacement Evolution:2013

- ***Liberty*** 4,000 pax Miami to Barcelona
- ***Independence*** 4,000 pax Southampton to Fort Lauderdale
- ***Voyager*** 3,300 pax Civita to Tiajin, China
- ***Brilliance*** 2,200 pax Dubai to Tampa
- ***Legend*** 1,800 pax Shanghai to Venice

RCL Summer Deployment

	2004	2010	2013
Europe	9 ships	19 ships	23 ships
Caribbean	10 ships	9 ships	7 ships
Alaska	6 ships	5 ships	5 ships
Bermuda/New England	2 ships	3 ships	3 ships
Asia/Australia		1 ship	2 ship
Mexico (Pacific)	1 ship	1 ship	1 ship
Total	**27 ships**	**39 ships**	**41 ships**

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What's Going on in the World? (that affects cruising?)

- Americans have been paying off their home mortgages
- West Europeans are all in recession
- East Europeans haven't discovered cruising
- Arab Winter followed Arab Spring
- Are energy prices stabilizing?   LNG fuel in the future?
- Raul Castro announced he will step down: in 5 years!
- Australia's resource driven economy continuing to grow?
- Do Asians have time to cruise?

Where Can We Grow?

- Customer Interest: “We take our Customers *where they think they want to go…”*
- Customer Sourcing / Airlift / Homeports
- Weather & Seasonality: Northern / Southern Hemispheres
- Time / Speed / Distance Formula: 220 miles per night
- Supportive Host Government Policies

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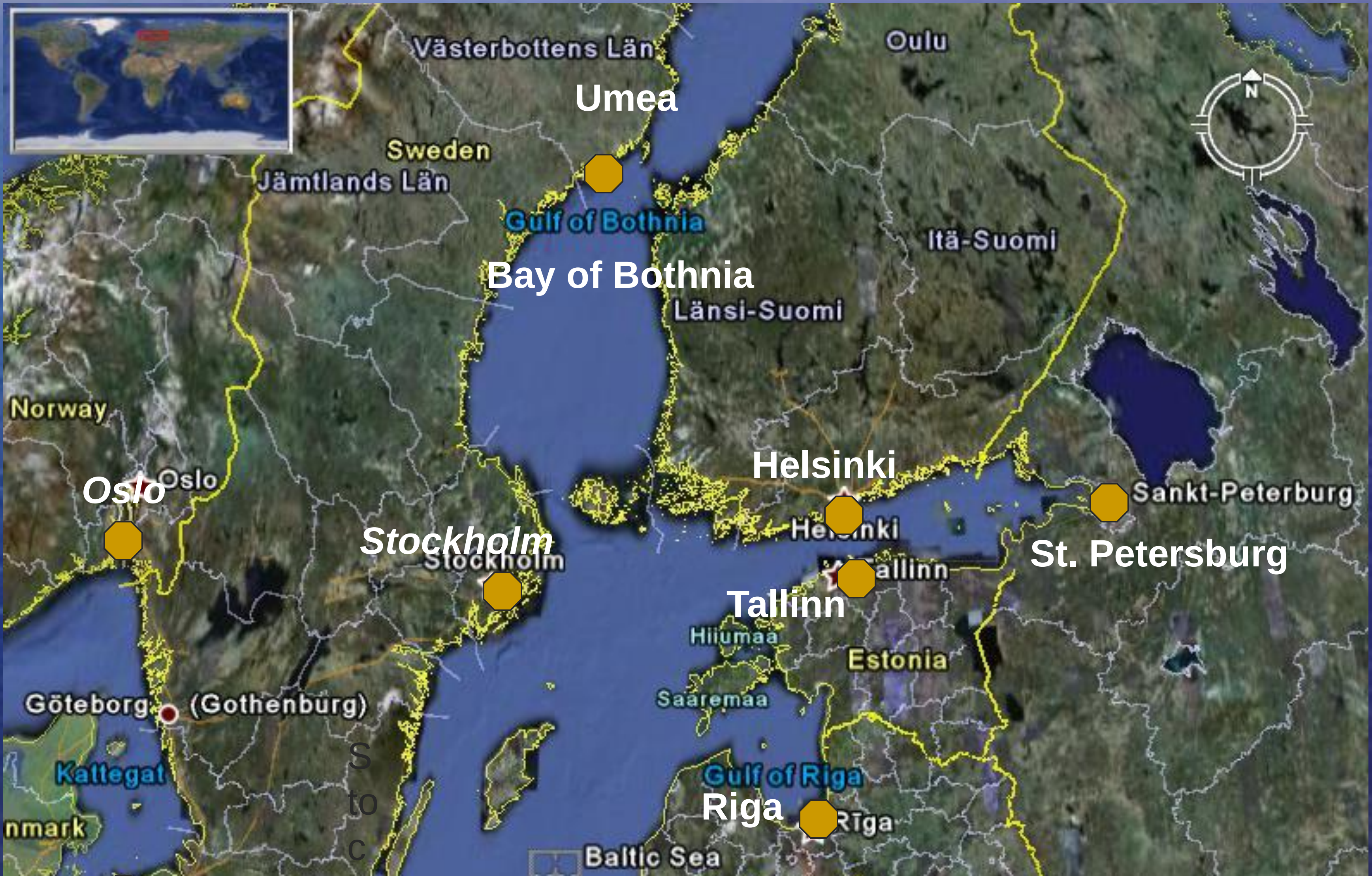
- Supportive Host Government Policies
- Shifting Source Markets: Who can afford to cruise? (and pay the highest fares?)

Baltic: short season; mature market!
(but ferries booming in winter…)



Scandinavia & Great Britain…recent big growth has slowed. ECA coming!!!

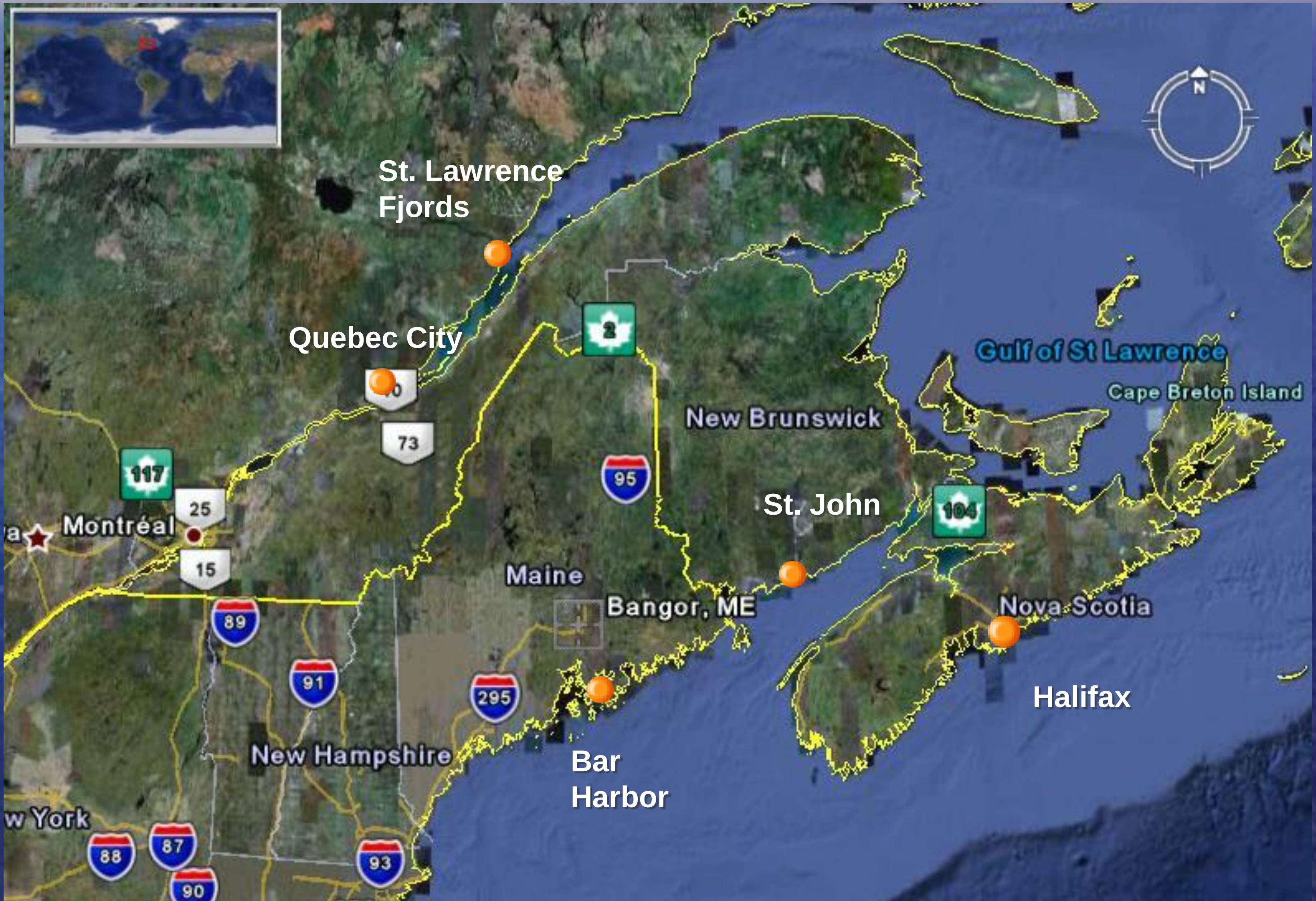
Atlantic & West Mediterranean: Peaked in 2012

Mediterranean: Down 5% in 2013

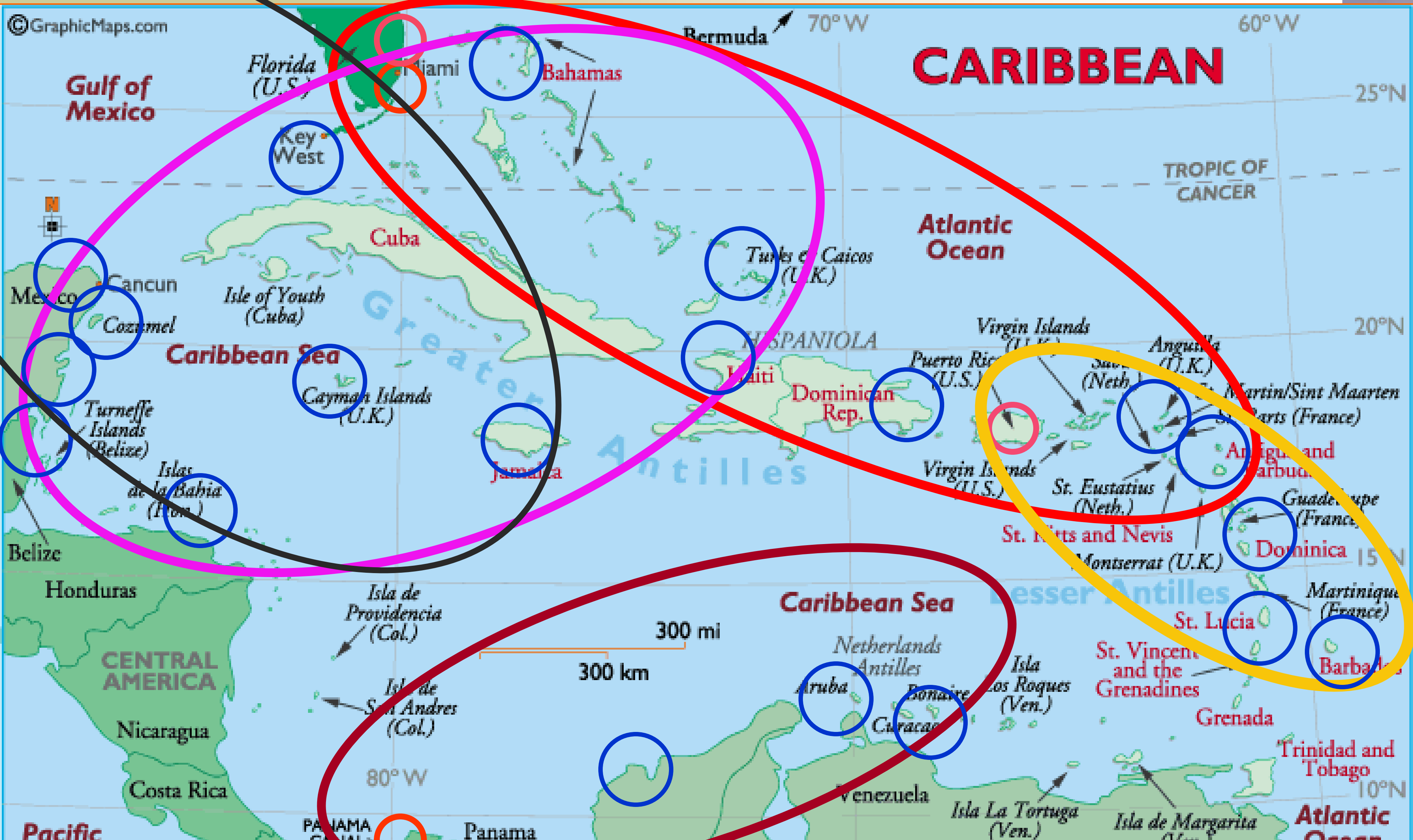
Mediterranean: Maghreb caution Zone

Black Sea Ports: unknown, undeveloped: less than 1% of world capacity

East Canada-New England: ECA coming…Alaska redux?



Main Caribbean Itineraries East, West & South from Galv, N.O., Fl, SanJuan & Colon



CARIBBEAN

Booming in Winter…

Struggling in Summer

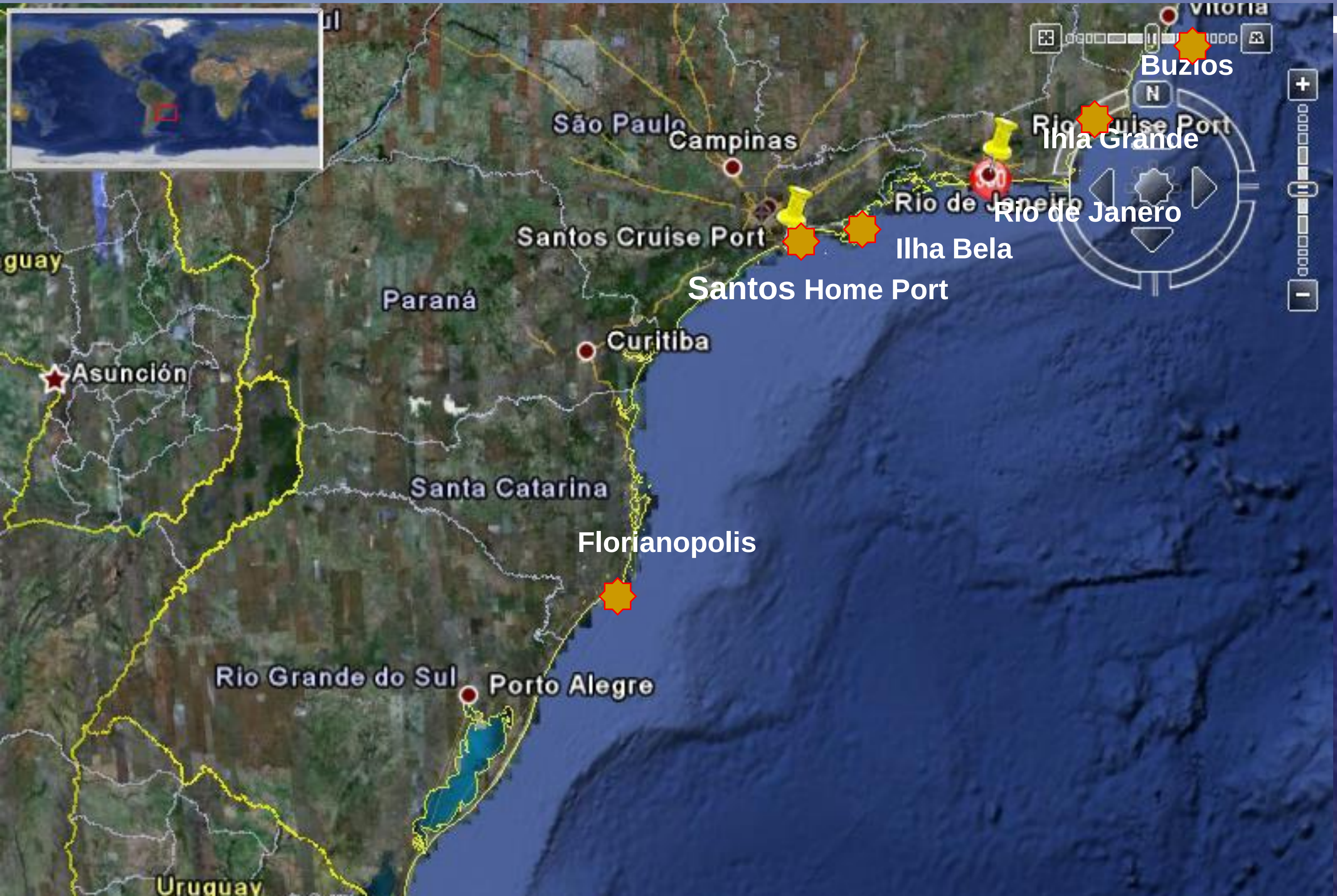
South Caribbean: Interesting, beautiful, but far away from USA source mkt

Pacific Central America: fading away. Maybe 6 ships…. $400,000 fee to transit Canal one way!

Canal & Pacific South America: Undiscovered, undeveloped frontier mkt

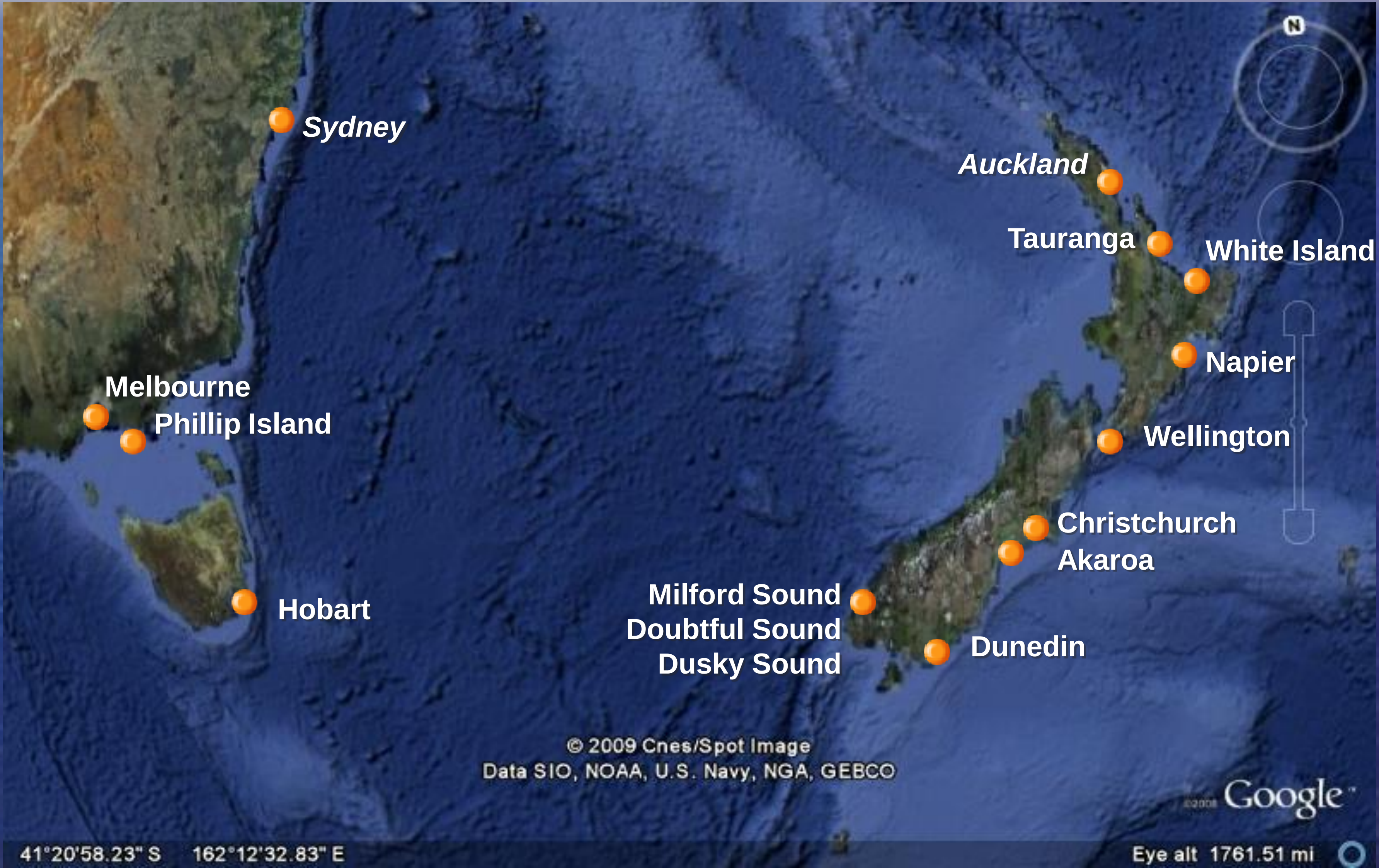
South America- Southern Cone: Too far, too exotic, too expensive

Southeast Brazil: 1 million customers ; now falling 8% annually



Northeast Brazil: in the year, 2525

Australia & New Zealand: Sydney Market Saturated; Infrastructure inadequate

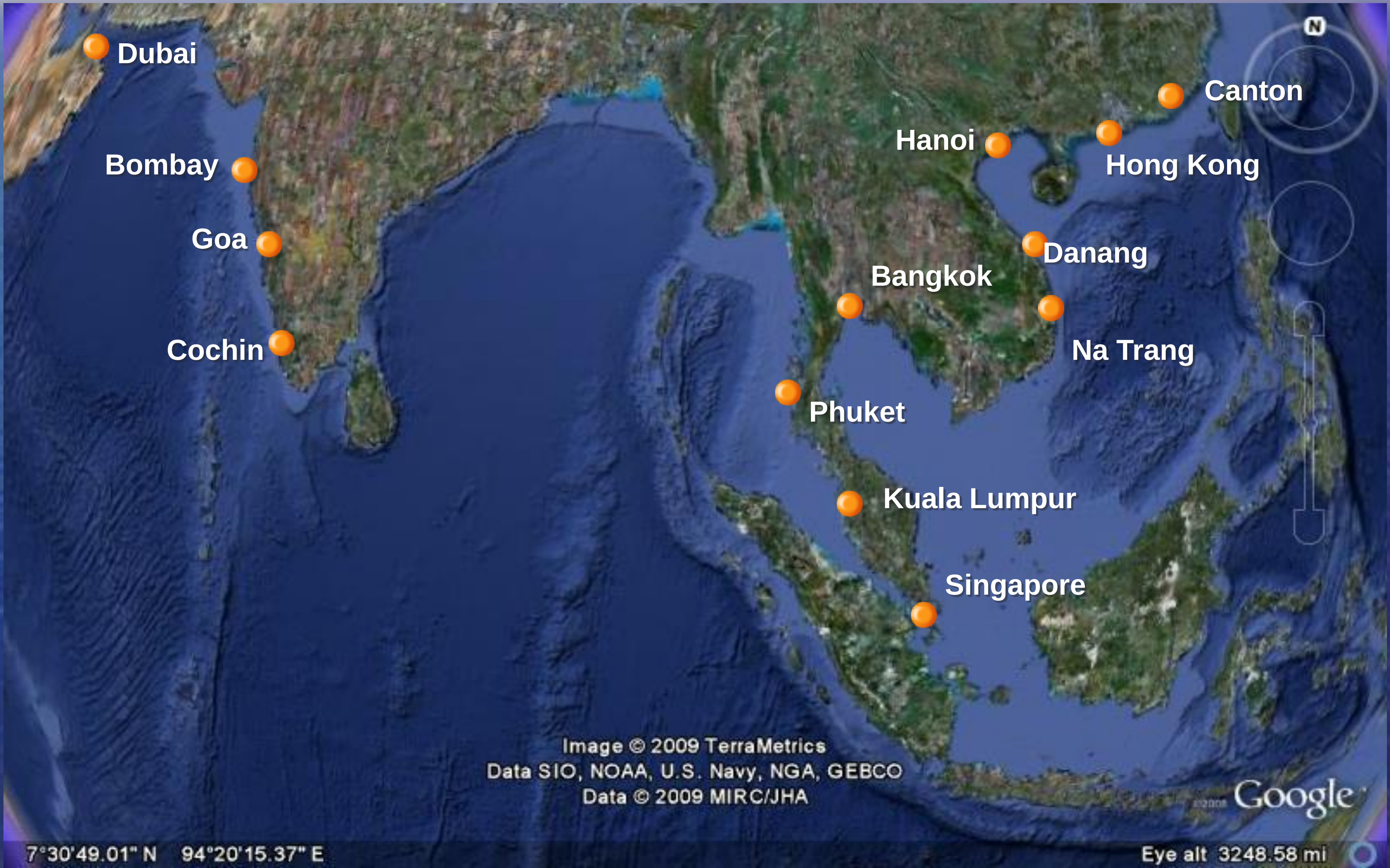


Dubai & Middle East: Somalis & Iran

Somalian Tender Boats!

South Africa: exotic but distant

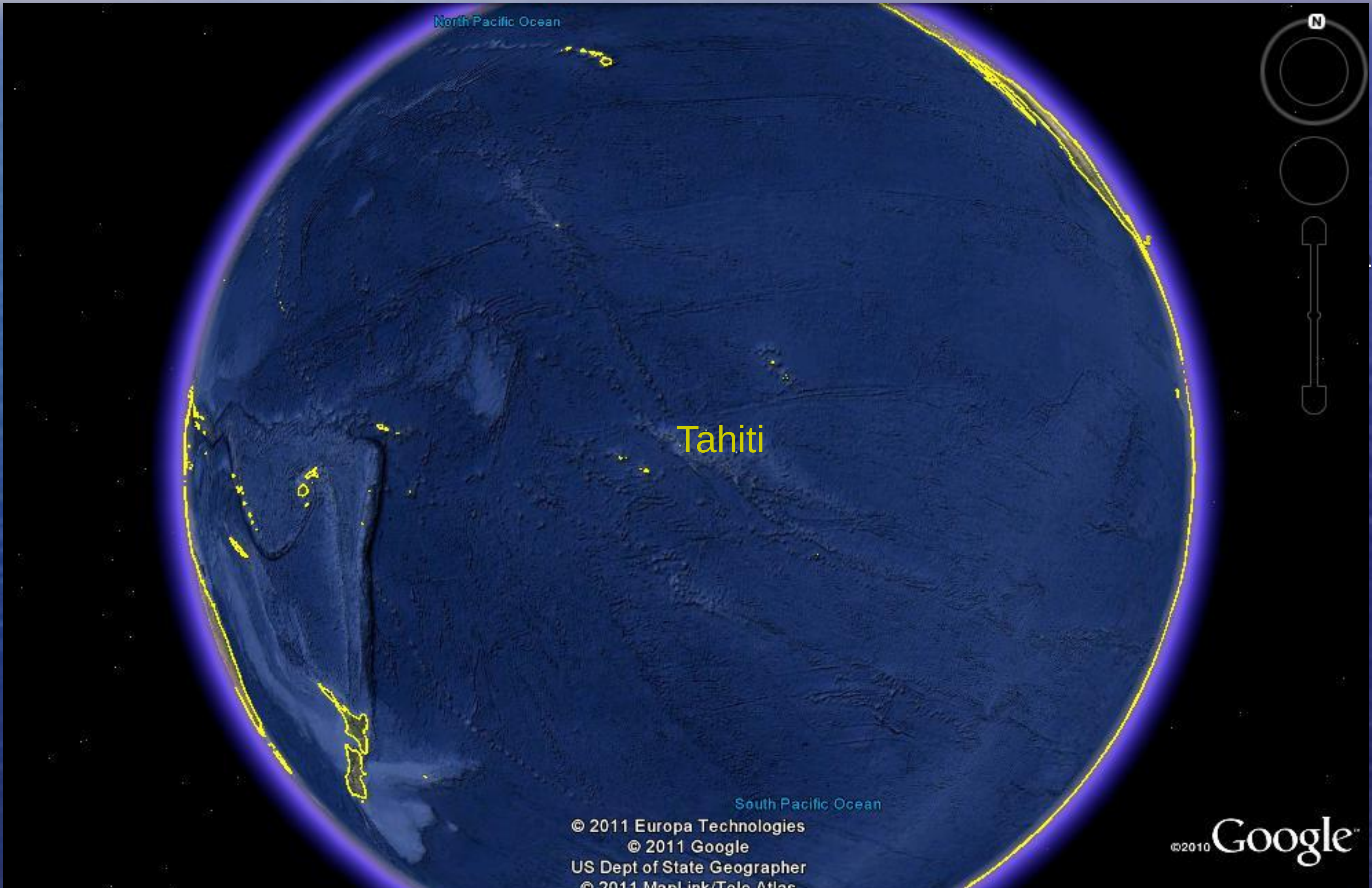
India, Singapore & Southeast Asia: still dominated by Star Cruises 1-nite product



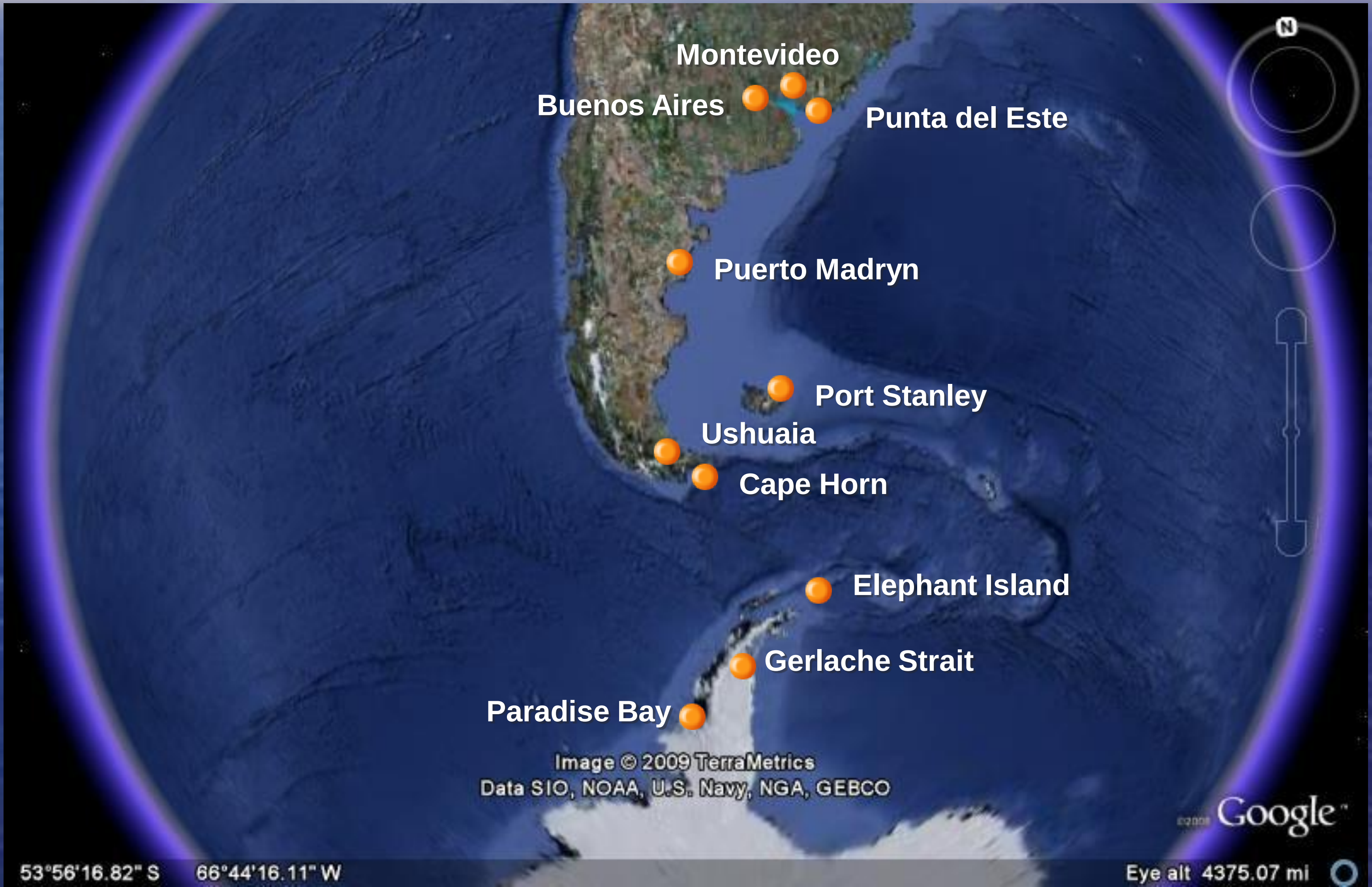
Northeast Asia: China, South Korea, Japan: let's cross our fingers!

Are There any more
“Expansion Markets?

Tahiti & South Pacific
Incredible but inaccessible

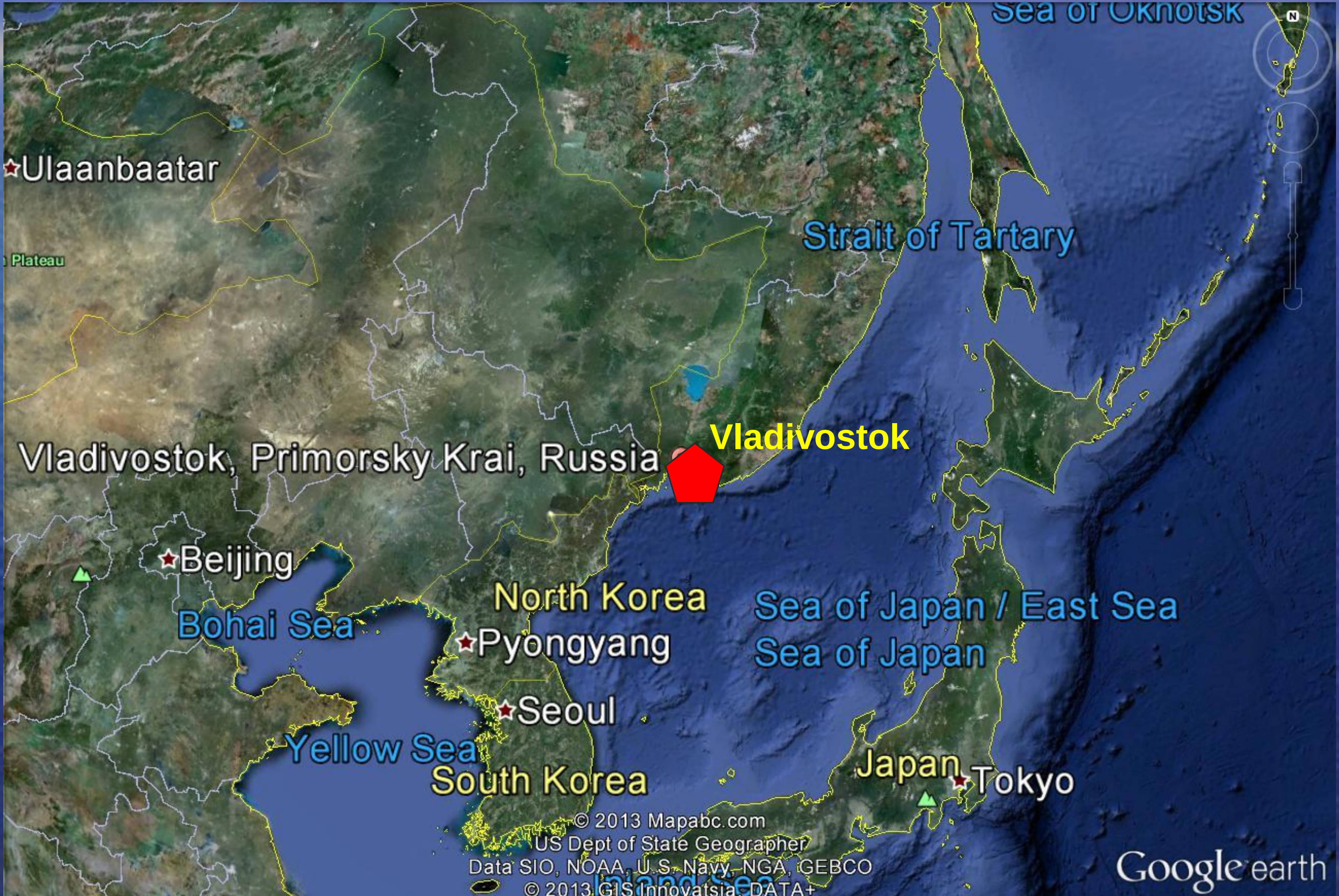


Antarctica: like, 3,632 customers..



Any New Frontiers? West Africa?

Any New Frontiers? Vladivostok?



Any More New Frontiers? *No!*

We've tried everywhere!
From now on, it is one massive "backfill" strategy in the existing primary markets:

- Upgrading today's destinations for more ships and bigger ships.
- Revitalized local products and deliverables in each destination.
- New ways of packaging and promoting.
- Appealing to an ever more diverse clientele

Industry Trends

Industry Trends- Europe

- *Europe hit a wall in 2012*
- *Concordia, Euro Recession have impacted demand*
- *Spain, Italy demand impacted by recession*
- *Only German demand holding up, but we are all building a lot of ships in hopes of sustained German demand growth*
- *Potential growth prospects in future eastern Europe and Turkish demand…Russia?*
-

Industry Trends- North America

- *Caribbean seeing pick up in 2013 as ships move back from Mediterranean*
- *Resurgence in Gulf ports as ships reposition from Europe*
- *New ships – Royal, Disney, Norwegian, driving NA source market excitement*
- *New England-Canada threatened by new ECA policies*
- *Will Bermuda accommodate larger ships?*
- *Alaska enjoying current growth as $50 head tax was reduced, but now facing ECA impact….*
- *Mexico Pacific, LA & San Diego at nadir as interest in Mexican cruising receded*

Industry Trends- South America

- *Mexico, Panama, Columbia experiencing strong source growth*
- *Brazil killing its potential: bureaucracy, taxes, regulation, high costs, local corruption, lack of infrastructure*
- *Argentina-Chile product costs too high: port costs, taxes, fuel consumption*
- *Central America has future potential*

Industry Trends- Australia

- *How much growth capacity is left?*
- *Aussie penetration approaching NA +/- 3% of pop. (USA 3.3%....)*
- *Lack of infrastructure in Sydney and Brisbane limits near term growth*
- *Government invested in new facilities west of the bridge- limited to pre-2000 classes of ships; no infrastructure for new ships less than 14 years old*
- *Aussie Govt ambivalent about value of cruise tourism to Aussie economy*

Industry Trends- Asia

- *Hopefully just starting!*
- *Star Cruises Malaysian & HK product mature*
- *Chinese speakers source markets offer potential*
- *Shanghai/Beijing to Korea & Japan popular but now impacted by aggressive government policies..*
- *Great Govt –financed Homeport facilities in China, HK, Singapore*
- *Lack of destination port infrastructure for big ships*
- *Long Distances in Asia combined with short holidays not a good combination*
- *What type of holiday do Chinese want to take?*
- *New business models: sales channels, marketing and distribution., port activities, onboard spending and choices*

Industry Trends- Pressures

- *Fewer new builds compared to 2006-2012*
- *Ship yards feeling pressure to reduce costs & stay open*
- *Lines must reduce G&A costs as annual new berth additions slow: how to increase earnings?*
- *NA ECA will impact potential general fuel costs decreases*
- *More $$ must be spent on maintaining & upgrading older ships*
- *Steady increase in US & Euro regulations*
- *"Non-recurring incidents" appear to be annual impacts on earnings and negative media sensation: SARS, Arab Spring, Costa Concordia, CCL Triumph…what next?*

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