Carnival Corporation CCL [XNYS] | ★★★

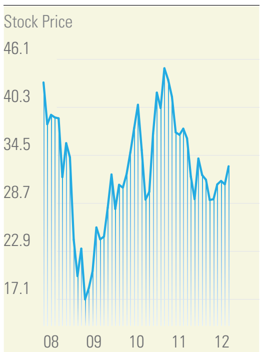
Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Stewardship	Morningstar Credit Rating	Industry
32.42 USD	35.00 USD	17.50 USD	61.25 USD	Very High	Narrow	NA	BBB	Leisure

Better Than Expected Yields and Costs Support Increased 2012 EPS forecast; Forward Pricing Uncertain

by Jaime M. Katz, CFA
Equity Analyst
Analyst covering this company do not own its stock.

Pricing data through Jul 25, 2012.
Rating Updated as of Jul 25, 2012.

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.



Analyst Note Jun. 22, 2012

As Carnival CCL CUK digs out from one of the most difficult wave seasons it has ever experienced, its revenue management team has adapted well to a fluid environment for demand of its offerings. Making the situation worse is the evolving consumer sentiment in Europe, which remains weak and prohibits pricing from experiencing the full growth potential we believe it can achieve year over year. All else equal, we do think cruise industry pricing will recover well in 2013, and will admittedly have easy comparables, likely helped by earlier bookings than we have experienced in 2012. We are maintaining our $35 fair value estimate for now, but think there could be upside to our analysis once we gain more clarity on 2013.

During the second quarter, Carnival delivered non-GAAP earnings per share of $0.20, which was $0.13 ahead of the midpoint of its most recent guidance, helped by better than expected close-in pricing and higher on-board spend. Total net revenue yields per ALBD declined 3.5%, with positive yields for North American brands offset by weaker yield performance in the Europe, Asia, and Australia category. Fleetwide booking volumes have continued to improve since March and are running ahead of last year, but at lower prices. Both occupancy and pricing levels at Costa continue to act as a drag on the total, which we expect will continue through the remainder of the year. Net cruise costs (including fuel) per ALBD declined 2.5% during the quarter thanks to continued efforts to reduce fuel consumption on a per ALBD basis, which Carnival was able to reduce by 3.2%. The company did disclose that there was an $0.18 unrealized loss on fuel derivatives that was included in its GAAP earnings, and it is anticipated that the realized effect of Carnival's hedging plan will affect earnings by $0.07 in the 2012 fiscal year.

While the second quarter outperformed relative to expectations, the forecast for the remainder of 2012 displayed the true impact of the Costa Concordia accident on pricing. During the critical third quarter, Carnival has forecast a net revenue yield decline of 9.5%-10.5% in current dollars with net cruise costs partially offsetting the price decrease by declining 4%-5%, excluding fuel. Similarly for the full year, net revenue yields are expected to fall 5%-6% with net cruise costs ex-fuel declining 2.5%-3.5%. We don't find the difficult pricing outlook particularly surprising when considering the poor timing of headline news the industry experienced earlier this year. Full-year guidance was raised from between $1.40 and $1.70 to between $1.80 and $1.90. This change includes a $0.40 benefit from lower fuel prices offset by $0.07 of realized fuel derivative losses and $0.03 in currency costs.

Despite sacrificing some pricing, we think the marketing programs Carnival has implemented to support demand is imperative to get the business back on track. Even during these tough times, Carnival is forecasting operating cash flow of $3.2 billion with capital expenditures of $1.9 billion in 2012, leaving the firm with more than $1 billion in free cash flow, or with more than a half-billion dollars after deducting the dividend payment. We think this remains a good company for income investors, with strong forward cash flow potential and a current dividend yield around 3%. We also believe the long-term potential remains significant as Carnival continues to grow and enter markets with low penetration such as South America, Japan, and China.

Thesis Jan. 17, 2012

Carnival is the largest company in the cruise industry, operating 11 global brands that include Cunard, Costa, AIDA, and Seabourn. It has more than 100 ships in service and passenger capacity of around 215,000, which allows Carnival to reach a broad and ethnically diverse group of consumers in a lightly penetrated vacation segment. Carnival has the largest fleet on the seas; this, aligned with cost-containment initiatives, provides the company with a narrow economic moat and allows it to maintain the lowest unit costs in the industry. We expect the company to lower costs through both administrative consolidations (this recently occurred with

Carnival Corporation CCL [XNYS] | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Stewardship	Morningstar Credit Rating	Industry
32.42 USD	35.00 USD	17.50 USD	61.25 USD	Very High	Narrow	NA	BBB	Leisure

Close Competitors	Currency (Mil)	Market Cap	TTM Sales	Oper Income	Net Income
Royal Caribbean Cruises, Ltd.	USD	5,294	7,700	917	576

the HAL and Seabourn back offices) and improved procurement costs. While Carnival is the most competitive participant in the cruise industry, we remain concerned that an uncertain economic environment and continued instability in the Mediterranean region could temper the stock's upside potential in the near term. Additionally, the Costa Concordia accident in January will increase earnings risk for at least fiscal 2012.

We believe Carnival's market remains underpenetrated. The core target audience for cruisers includes roughly 133 million people in the United States alone. To date, only about 20% of this population has cruised (according to the Cruise Lines International Association). With low domestic penetration rates and the more recent dedication to source cruisers from international markets (with an even lower penetration rate), upside potential remains significant. In addition, cruises have some of the highest satisfaction rates in the vacation market and percentage of repeat clients. Carnival has the broadest international presence to capitalize on this underserved market. We believe its global reach and tailored fleet will allow it to reach successfully into this underserved population base in the years ahead. More specifically, it seems that both the completion of the Ibero acquisition and the increase in ship builds for brands like AIDA and Costa will allow for faster penetration of the underpenetrated European markets. Domestically, the aging population is the linchpin in our opinion regarding the supply/demand imbalance in the cruise industry. This segment will drive demand and create a disconnect between the demand in the market and the supply of berths over the next five years (at a minimum). We expect the 55-to-64 demographic to grow 15% and the over-65 demographic to grow more than 20% for 2010-15 (based on census data), while overall cruise industry capacity grows only 2.9%; Carnival's North American brand capacity has only one ship entering service in 2012. The excess demand created in this limited supply growth environment should allow Carnival to implement more lucrative pricing strategies. The value proposition that cruising offers, relative to land-based vacations, will remain a compelling selling point to this audience.

We also believe it would be nearly impossible for any new competitor to enter the market en masse and take material share from either Royal Caribbean or Carnival, given the structural anomalies of the business. The caveat would be if one firm acquired a number of smaller players in the cruise market. For example, Apollo Management has a stake in Oceania, Regent Seven Seas, and Norwegian Cruise Line that, if combined, would make up around 10% of capacity. Outside of this situation, there are issues with the limited number of shipyards available for new builds, along with the lead time to take the ship from design to market, that would prevent any new ships from sailing on the seas for at least three years. New market entrants would find it difficult to scale up at a reasonable pace and, with a less than optimal cost structure, might then struggle to price vacations competitively. In addition, scaling up in an industry in which one new build runs north of $500 million requires very deep pockets or access to massive liquidity.

We think Carnival has the potential to produce strong cash flows and return cash to shareholders over the long term through share buybacks and dividends. In the interim, there are concerns that may affect our fair value estimate. The first is volatility in energy prices; we like that Carnival has implemented collar strategies for swings in fuel pricing. Second, the geopolitical environment remains unstable. Carnival is talented at redeploying or rerouting ships as needed, but unforeseen events can lead to cruise cancellations or reschedules, which may affect near-term pricing. Third, another global economic slowdown could damp demand and pricing in an unpredictable way. Finally, the Costa accident could weaken bookings materially in the important wave season for 2012.

Carnival Corporation CCL [XNYS] | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Stewardship	Morningstar Credit Rating	Industry
32.42 USD	35.00 USD	17.50 USD	61.25 USD	Very High	Narrow	NA	BBB	Leisure

Valuation, Growth and Profitability

We are lowering our fair value estimate for Carnival to $35 per share from $37, as the near-term outlook remains inconsistent for 2012 and we take into consideration the Costa incident. Although Carnival is set to experience increasing cash flow due to the slowdown in capacity growth, the near term will probably continue to be affected by commodity prices, weakness in Europe, and the Costa accident. Our fair value estimate implies a fiscal 2012 price/earnings ratio of 16.7 times, an enterprise value/EBITDA multiple of 9.9 times, and a free cash flow yield of 2.8%. This is versus a five-year median P/E of 13.8 times, enterprise value/EBITDA multiple of 9.9 times, and free cash flow yield of 0.7%.

We expect as the supply and demand characteristics shift over time, increases in pricing should help Carnival. We believe pricing can grow in the low single digits over the medium term (including 1.9% in 2013) as capacity growth remains under 5% annually until at least 2015, slower than the 8% cruise industry capacity compound annual growth rate and Carnival's 9% capacity growth rate average over the past five years. In addition to slower capacity growth, we expect occupancy rates of 105%, which we believe is reasonable based on historical rates. Over the longer term, we have pricing and costs stabilizing at a low-single-digit rate, as the cruise industry remains in a stable phase of its life cycle with rational competition.

We believe Carnival's operating margins and returns on invested capital are due for a boost, but we do not expect these metrics to grow until 2013. We forecast operating margins to expand at a measured pace, helped by an improving economic environment and increasing cost leverage as costs are spread across a larger and more fuel-efficient fleet. If the economic environment were to improve dramatically, operating margins could benefit and get close to rates achieved in good times (operating margins were 24% in 2002 and 2005). Carnival has historically generated three-year average ROICs above our weighted average cost of capital assumption of 11%, and we believe it will be able to do so again if the economy doesn't falter and the fallout from the Costa accident doesn't hang over the company for long. Given the capital-intensive nature of the business, we think midteen ROICs might take some time to achieve, and we don't foresee ROICs exceeding the weighted average cost of capital until 2017.

Risk

Carnival faces a number of inherent risks that may affect its enterprise value. The global geopolitical environment has kept headline risk at the forefront for cruise companies over recent months. As turmoil continues in the Mediterranean, we cannot predict the duration or magnitude of the impact this will have on ship deployments and pricing in the region. However, management is very diligent in redeploying capacity as needed. Also, the American consumer remains divided as to whether the global economy has recovered from the most recent slowdown; concern remains that the near-term economic environment will become less favorable (yet again). Additionally, the recent volatility in commodity prices, specifically energy, may affect profitability if fuel prices remain inflated for an extended period. A longer-term concern is that changes to the company's tax status under the U.S. Internal Revenue Code could have a material impact on profitability.

In addition to the aforementioned traditional cruise operator risks, Carnival has risk from the fallout of the Costa Concordia accident in January. Issues that hang over the incident include environmental risk for any possible fuel leak that may occur and financial risk for liabilities due to death or negligence. The company also faces the risk of lost revenue if the Concordia is damaged beyond repair or if consumers feel their safety is at risk and become reluctant to cruise in the near term.

Bulls Say

- Carnival has an estimated two to three ships in total for delivery from 2012 to 2015 across all of its brands versus the five per year average it had over the past decade. The slower rate of shipbuilding in the industry better matches supply with demand, which will help support cruise pricing over the next few years.
- As the baby boomers enter retirement, more leisure travel will probably be pursued. The cruise lines are well positioned to benefit as they seek to capture the leisure dollars spent in this demographic segment.
- If the employment and macroeconomic situations improve, pent-up demand for vacations that have been delayed over the past few years will rebound and pricing will improve, driving incremental cash flow.
- The value proposition that cruise vacations offer over a land-based vacation is likely to be compelling to more cautious spenders across all demographic bases.

Bears Say

- Fallout from the Costa Concordia accident in January could cause bookings and pricing to be significantly weaker for the current fiscal year.
- A persistent increase in commodity prices, particularly in energy and food, could affect profitability, even with the implementation of a fuel hedging policy.
- Although Carnival has benefited from sourcing cruisers globally, continued political turmoil may cause additional cruise cancellations as itineraries change. Additionally, American travelers are likely to substitute away from European traveling until calmer waters preside in locations like the Mediterranean.
- Continued weakness in the employment picture would probably damp demand and cause pricing to soften materially.

Financial Overview

Financial Health:Carnival's investment-grade rating, by both our internal standard and the external rating agencies, is supported by the cyclical (but consistent) operating cash flow the company produces. Over the past five fiscal years, the company has generated more than $2.1 billion in cumulative free cash flow. We expect Carnival to generate free cash flow of $750 million in 2012. The average capacity growth over 2012-16 is expected to be 3.7% versus 7.0% for 2007-11, which will help increase operating cash flow as less financing is raised for new ships and debt service remains flat on an increasing revenue base. We believe this extra cash produced will probably be returned to shareholders in the form of increasing dividends and share repurchases. By our internal standards, we assign Carnival a BBB issuer rating, which implies moderate default risk. The Solvency Score, which considers liquidity, profitability, capital structure, and interest coverage, is fair.

Company Overview

Profile: Carnival is the largest global cruise company in the world, with more than 100 ships. Its portfolio of brands includes Carnival Cruise Lines, Holland America, Princess Cruises, and Seabourn in North America; P&O Cruises and Cunard Line in the U.K.; AIDA in Germany; Costa Cruises in Southern Europe; Iberocruceros in Spain; and P&O Cruises in Australia. Carnival also owns a tour company, Holland America Princess Alaska Tours, in Alaska and the Canadian Yukon. Carnival's brands attract about 9 million guests annually.

Management: Micky Arison, chairman of the board, has been CEO of Carnival Corporation since 1979 and Carnival PLC since April 2003. Although we generally prefer the separation of the chairman and CEO roles to promote independence, we tend to agree with the company that the experiences and other insights Arison brings to the table provide the best leadership for the board as it considers strategy for the company. With more than 30 years of experience overseeing the growth of the business his father started, Arison possesses more knowledge of the company, industry, and challenges to be faced than any other leader might. In this particular case, we believe management goals are well aligned with shareholder interests, as Arison and certain other members of his family and trusts for their benefit beneficially own shares representing about 35.1% of the voting power of Carnival Corporation and approximately 27.0% of the combined voting power of Carnival Corporation & PLC. This material stake creates an enormous incentive to run the business as well as possible.

The board of directors comprises 14 members, 5 of which are current or former executives of Carnival. The other 9 members are confirmed to be independent in accordance with corporate-governance rules of the NYSE. We do like that all directors are to be re-elected annually and that the compensation elements for named executive officers consist of base salary, an annual cash bonus, equity-based compensation, retirement benefits, perquisites, and other benefits. Named executive officers are also expected to accumulate company stock, along with derivative forms of company equity having a fair market value equal to or greater than 3 times their base salaries. We believe this aligns management's risk and decisions with shareholder interests and long-term goals of the firm.

Carnival Corporation CCL [XNYS] | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Stewardship	Morningstar Credit Rating	Industry
32.42 USD	35.00 USD	17.50 USD	61.25 USD	Very High	Narrow	NA	BBB	Leisure

Analyst Notes

Better Than Expected Yields and Costs Support Increased 2012 EPS forecast; Forward Pricing Uncertain Jun. 22, 2012

As Carnival CCL CUK digs out from one of the most difficult wave seasons it has ever experienced, its revenue management team has adapted well to a fluid environment for demand of its offerings. Making the situation worse is the evolving consumer sentiment in Europe, which remains weak and prohibits pricing from experiencing the full growth potential we believe it can achieve year over year. All else equal, we do think cruise industry pricing will recover well in 2013, and will admittedly have easy comparables, likely helped by earlier bookings than we have experienced in 2012. We are maintaining our $35 fair value estimate for now, but think there could be upside to our analysis once we gain more clarity on 2013.

During the second quarter, Carnival delivered non-GAAP earnings per share of $0.20, which was $0.13 ahead of the midpoint of its most recent guidance, helped by better than expected close-in pricing and higher on-board spend. Total net revenue yields per ALBD declined 3.5%, with positive yields for North American brands offset by weaker yield performance in the Europe, Asia, and Australia category. Fleetwide booking volumes have continued to improve since March and are running ahead of last year, but at lower prices. Both occupancy and pricing levels at Costa continue to act as a drag on the total, which we expect will continue through the remainder of the year. Net cruise costs (including fuel) per ALBD declined 2.5% during the quarter thanks to continued efforts to reduce fuel consumption on a per ALBD basis, which Carnival was able to reduce by 3.2%. The company did disclose that there was an $0.18 unrealized loss on fuel derivatives that was included in its GAAP earnings, and it is anticipated that the realized effect of Carnival's hedging plan will affect earnings by $0.07 in the 2012 fiscal year.

While the second quarter outperformed relative to expectations, the forecast for the remainder of 2012 displayed the true impact of the Costa Concordia accident on pricing. During the critical third quarter, Carnival has forecast a net revenue yield decline of 9.5%-10.5% in current dollars with net cruise costs partially offsetting the price decrease by declining 4%-5%, excluding fuel. Similarly for the full year, net revenue yields are expected to fall 5%-6% with net cruise costs ex-fuel declining 2.5%-3.5%. We don't find the difficult pricing outlook particularly surprising when considering the poor timing of headline news the industry experienced earlier this year. Full-year guidance was raised from between $1.40 and $1.70 to between $1.80 and $1.90. This change includes a $0.40 benefit from lower fuel prices offset by $0.07 of realized fuel derivative losses and $0.03 in currency costs.

Despite sacrificing some pricing, we think the marketing programs Carnival has implemented to support demand is imperative to get the business back on track. Even during these tough times, Carnival is forecasting operating cash flow of $3.2 billion with capital expenditures of $1.9 billion in 2012, leaving the firm with more than $1 billion in free cash flow, or with more than a half-billion dollars after deducting the dividend payment. We think this remains a good company for income investors, with strong forward cash flow potential and a current dividend yield around 3%. We also believe the long-term potential remains significant as Carnival continues to grow and enter markets with low penetration such as South America, Japan, and China.

Carnival Lowers 2012 Estimates Again; Near-Term Volatility Keeps Us Cautious Mar. 09, 2012

The Costa Concordia incident and European austerity

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Stewardship	Morningstar Credit Rating	Industry
32.42 USD	35.00 USD	17.50 USD	61.25 USD	Very High	Narrow	NA	BBB	Leisure

Analyst Notes (continued)

continue to keep Carnival's CCL potential in check. Although first-quarter results were relatively strong, with net revenue yields increasing 2.3%, offset by next-cruise costs that were up 10.5% (5.8% excluding fuel), the majority of these bookings occurred in the second half of 2011, before the Concordia incident and earlier in the European debt spectacle. While our long-term thesis remains intact for the cruise industry, we think negative sentiment will persist (and create buying opportunities) over the next six months before pricing and occupancy start to stabilize. For now, we are maintaining our fair value estimate of $35, as we expect normalized demand in 2013 on the heels of a much weaker than originally anticipated 2012.

During the first quarter, management reiterated that pricing and booking were trending well before the Concordia incident, but dropped off significantly immediately after and have not yet fully recovered. While pricing was up 2.3%, costs handily outpaced pricing, up 10.5%, affected by a 30% increase in fuel pricing, which was even higher than December's guidance, costing the company an additional $46 million in the quarter. In addition, Carnival took a $173 million noncash charge related to its Spanish Ibero brand, writing down all of its goodwill and 60% of its trademarks as a result of changing assumptions due to the current weakness in the Spanish economy.

For the second quarter and full year, management provided a thorough analysis of pricing and occupancy that was mixed. The remainder of 2012 has pricing up while occupancy is down, with Europe faring worse than North America. Second-quarter earnings per share are forecast between $0.05 and $0.09 versus $0.26 in the second quarter of 2011, affected by net revenue yields that are expected to decline 4%-5% while costs (excluding fuel) only fall 2%-3%. For the full year, management reduced EPS guidance to $1.40-$1.70 from an implied $2.05-$2.34 after the release of the 10-K in January (it wasn't explicitly stated) and an original 2012 estimate of $2.55-$2.85 in December. The majority of the $1.15 reduction in initial EPS expectations was from the Costa brand ($0.65) and changes in fuel prices ($0.40).

We like that Carnival is holding firm on pricing at the expense of occupancy and still expect that all ships will continue to sail full (although not at the same level of occupancy as last year). We believe the revenue management team is sophisticated enough to use the right incentives to ensure ships are filling at the appropriate rate. We also believe that when push comes to shove, discounting will occur if occupancy begins to lag significantly, although we think this scenario is unlikely. It certainly seems like the worst has passed, as demand appears to be recovering from very depressed levels after the Concordia. However, we think the stock will lag until all of the bad news has been flushed out. We'd encourage investors with a multiyear time horizon to wait for a pullback to the upper $20.

Bad News Continues for Carnival; Lowering Our 2012 Estimates and Fair Value Jan. 31, 2012

Carnival CCL CUK released its 10-K filing, which was laden with additional information regarding costs due to the Costa Concordia tragedy earlier this month. While the company had originally conveyed that the loss of the ship would probably affect earnings by $0.11-$0.12 per share in 2012, we now have more color on insurance and other costs. The company expects to incur an additional $0.10 per share when including insurance and other incident-related costs (rebooking at lower prices would probably be included here). The company also revised its forecast for fuel expense for the year. On Dec. 20, Carnival expected the price of fuel per metric ton consumed for the first quarter and full year 2012 to be $652 and $650, respectively. Its new projection is $705 for the first

Analyst Notes (continued)

quarter and $717 for the full year. Although Carnival has implemented a fuel hedging strategy, it is only for extreme swings in energy prices, which we do not believe includes the recent uptick the company is describing.

Carnival did not provide updated guidance in its annual report, but we have done a back-of-the-envelope estimate of what a reasonable earnings per share forecast might be. The company did say it would provide revised 2012 earnings guidance in March, when it had a better handle on the financial impacts to its business of the Costa Concordia accident. Original guidance in December for 2012 indicated that Carnival expected EPS of $2.55-$2.85, which we believe implied a revised $2.43-$2.73 after the initial release regarding the $0.12 impact from the Costa Concordia accident. With an additional full-year impact of $0.10 per share due to Costa, along with a $0.30 impact due to higher fuel prices, we now would infer that earnings should be between $2.05-$2.34 for 2012. We have revised our estimate to $2.10, inside the bounds of this rough estimate. These changes have reduced our fair value estimate to $35 per share from a recently lowered $37. We remain heavyhearted that a bad event like the Concordia has happened to a good company like Carnival, and shares are bound to suffer in the near term as a result. The shares are trading at a healthy discount to our new fair value estimate, but we are concerned that the fallout from the Costa tragedy has not yet been completely quantified.

Carnival Corporation CCL

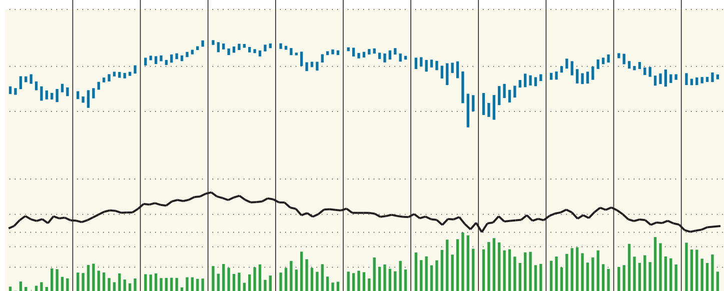
Sales USD Mil	Mkt Cap USD Mil	Industry	Sector
15,874	26,703	Leisure	Consumer Cyclical

Carnival is the largest global cruise company in the world, with more than 100 ships. Its portfolio of brands includes Carnival Cruise Lines, Holland America, Princess Cruises, and Seabourn in North America; P&O Cruises and Cunard Line in the U.K.; AIDA in Germany; Costa Cruises in Southern Europe; Iberocruceros in Spain; and P&O Cruises in Australia. Carnival also owns a tour company, Holland America Princess Alaska Tours, in Alaska and the Canadian Yukon. Carnival's brands attract about 9 million guests annually.

3655 North West 87th Avenue
Miami, FL 33178-2428
Phone: 1 305 599-2600Website: http://www.carnivalcorp.com

Morningstar Rating	Last Price	Fair Value	Uncertainty	Economic Moat™	Stewardship
★★★	32.42 USD	35.00 USD	Very High	Narrow	NA

34.64	39.84	58.75	58.98	56.14	52.73	45.22	34.95	47.22	48.14	35.61	Annual Price High
22.30	20.34	39.75	45.78	36.40	41.70	14.85	16.80	29.68	28.52	29.15	Low
											Recent Splits



Price Volatility
- Monthly High/Low
- Rel Strength to S&P 500

52 week High/Low
37.31 - 28.52

10 Year High/Low
58.98 - 14.85

Bear-Market Rank
7 (10=worst)

Trading Volume Million

Growth Rates Compound Annual

Grade: C	1 Yr	3 Yr	5 Yr	10 Yr
Revenue %	9.2	2.5	5.9	13.3
Operating Income %	-3.9	-6.2	-2.9	9.7
Earnings/Share %	-2.0	-5.8	-2.7	4.4
Dividends %	150.0	-14.5	-0.5	9.1
Book Value/Share %	5.2	8.0	7.1	—
Stock Total Return %	-4.3	7.9	-4.5	4.3
+/- Industry	-10.9	-13.9	-6.2	-2.0
+/- Market	-7.1	-4.8	-2.2	2.2

Profitability Analysis

Grade: D	Current	5 Yr Avg	Ind	Mkt
Return on Equity %	6.1	10.0	9.8	22.8
Return on Assets %	3.6	6.0	5.0	9.3
Fixed Asset Turns	0.5	0.5	0.8	7.7
Inventory Turns	28.4	27.4	10.9	17.0
Revenue/Employee USD K	173.9	163.4*	—	1055.7
Gross Margin %	33.5	38.0	42.6	39.7
Operating Margin %	12.0	17.3	13.8	16.6
Net Margin %	9.0	14.8	9.3	11.1
Free Cash Flow/Rev %	2.2	—	8.1	0.1
R&D/Rev %	—	—	—	9.5

Financial Position

Grade: C	11-11 USD Mil	05-12 USD Mil
Cash	450	900
Inventories	374	377
Receivables	263	689
Current Assets	1312	2169
Fixed Assets	32054	32133
Intangibles	4652	4437
Total Assets	38637	39462
Payables	576	532
Short-Term Debt	1300	1608
Current Liabilities	6105	7262
Long-Term Debt	8053	8392
Total Liabilities	14805	16436
Total Equity	23832	23026

Valuation Analysis

	Current	5 Yr Avg	Ind	Mkt
Price/Earnings	18.0	13.9	20.0	—
Forward P/E	12.6	—	—	13.2
Price/Cash Flow	7.5	7.8	9.6	—
Price/Free Cash Flow	73.0	—	26.3	—
Dividend Yield %	3.0	—	1.9	2.0
Price/Book	1.2	1.3	1.9	—
Price/Sales	1.6	2.1	1.8	—
PEG Ratio	1.4	—	—	0.3

Stock Performance

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	YTD	Stock Performance
-9.7	61.0	46.4	-5.8	-6.3	-6.5	-41.7	30.3	46.8	-27.0	2.4	Total Return %
13.7	34.6	37.4	-8.8	-19.9	-10.0	-3.2	6.9	34.0	-27.0	-5.9	+/- Market
-13.2	27.2	5.6	2.4	-5.7	-0.6	4.8	-24.4	5.7	-12.7	-14.6	+/- Industry
1.7	1.1	0.9	1.5	2.1	3.1	6.6	1.3	0.9	3.1	3.0	Dividend Yield %
29280	33368	48716	45421	40975	37239	19091	24940	36427	25361	26703	Market Cap USD Mil

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	TTM	Financials
4368	6718	9727	11087	11839	13033	14646	13157	14469	15793	15874	Revenue USD Mil
47.1	43.2	43.9	43.9	42.6	41.5	38.3	38.4	37.2	34.8	33.5	Gross Margin %
1042	1383	2173	2639	2613	2725	2729	2154	2347	2255	1912	Oper Income USD Mil
23.9	20.6	22.3	23.8	22.1	20.9	18.6	16.4	16.2	14.3	12.0	Operating Margin %
1016	1194	1854	2257	2279	2408	2330	1790	1978	1912	1429	Net Income USD Mil
1.73	1.66	2.24	2.70	2.77	2.95	2.90	2.24	2.47	2.42	1.83	Earnings Per Share USD
0.42	0.44	0.53	0.80	1.03	1.38	1.60	0.00	0.40	1.00	1.00	Dividends USD
587	719	828	836	823	816	816	804	805	789	782	Shares Mil
—	16.42	18.64	19.98	21.80	23.85	24.33	28.00	29.15	30.67	28.38	Book Value Per Share USD
1469	1933	3216	3410	3633	4069	3391	3342	3818	3766	3423	Oper Cash Flow USD Mil
-1986	-2516	-3586	-1977	-2480	-3312	-3353	-3380	-3579	-2696	-3071	Cap Spending USD Mil
-517	-583	-370	1433	1153	757	38	-38	239	1070	352	Free Cash Flow USD Mil

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	TTM	Profitability
8.5	6.5	7.1	8.1	7.7	7.4	6.9	5.1	5.3	5.0	3.6	Return on Assets %
14.5	11.3	12.6	13.8	13.0	12.6	11.9	8.7	8.8	8.2	6.1	Return on Equity %
23.3	17.8	19.1	20.4	19.2	18.5	15.9	13.6	13.7	12.1	9.0	Net Margin %
0.37	0.36	0.37	0.40	0.40	0.40	0.43	0.37	0.39	0.41	0.40	Asset Turnover
1.7	1.8	1.8	1.7	1.7	1.7	1.8	1.7	1.6	1.6	1.7	Financial Leverage

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	05-12	Financial Health
-488	-1183	-3306	-2977	-3420	-5284	-4131	-3449	-4511	-4793	-5093	Working Capital USD Mil
3012	6918	6291	5727	6355	6313	7735	9097	8011	8053	8392	Long-Term Debt USD Mil
7418	13793	15760	16972	18210	19963	19098	22035	23031	23832	23026	Total Equity USD Mil
0.41	0.50	0.40	0.34	0.35	0.32	0.41	0.41	0.35	0.34	0.36	Debt/Equity

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	TTM	Valuation
14.4	23.9	25.7	19.8	17.7	15.1	8.4	14.1	18.7	13.5	18.0	Price/Earnings
—	—	—	—	—	—	—	—	—	0.8	—	P/E vs. Market
3.4	4.3	4.9	4.0	3.4	2.8	1.4	1.9	2.6	1.6	1.6	Price/Sales
—	2.4	3.1	2.7	2.3	1.9	1.0	1.1	1.6	1.1	1.2	Price/Book
10.0	14.8	14.8	13.1	11.1	8.9	5.8	7.6	9.7	6.8	7.5	Price/Cash Flow

Quarterly Results

Revenue USD Mil	Aug 11	Nov 11	Feb 12	May 12
Most Recent Period	5058.0	3697.0	3582.0	3538.0
Prior Year Period	4426.0	3753.0	3419.0	3620.0

Rev Growth %	Aug 11	Nov 11	Feb 12	May 12
Most Recent Period	14.3	-1.5	4.8	-2.3
Prior Year Period	6.9	17.1	10.5	13.3

Earnings Per Share USD	Aug 11	Nov 11	Feb 12	May 12
Most Recent Period	1.69	0.28	-0.18	0.02
Prior Year Period	1.62	0.31	0.19	0.26

Industry Peers by Market Cap

	Mkt Cap USD Mil	Rev USD Mil	P/E	ROE%
Carnival Corporation	26703	15874	18.0	6.1
Royal Caribbean Crui	5316	7700	9.3	6.8

Major Fund Holders

	% of shares
	—
	—
	—

*3Yr Avg data is displayed in place of 5Yr Avg

TTM data based on rolling quarterly data if available; otherwise most recent annual data shown.

MORNINGSTAR®

Morningstar's Approach to Rating Stocks

Our Key Investing Concepts

- Economic Moat™ Rating
- Discounted Cash Flow
- Discount Rate
- Fair Value
- Uncertainty
- Margin of Safety
- Consider Buying/Consider Selling
- Stewardship Grades

At Morningstar, we evaluate stocks as pieces of a business, not as pieces of paper. We think that purchasing shares of superior businesses at discounts to their intrinsic value and allowing them to compound their value over long periods of time is the surest way to create wealth in the stock market.

We rate stocks 1 through 5 stars, with 5 the best and 1 the worst. Our star rating is based on our analyst's estimate of how much a company's business is worth per share. Our analysts arrive at this "fair value estimate" by forecasting how much excess cash--or "free cash flow"--the firm will generate in the future, and then adjusting the total for timing and risk. Cash generated next year is worth more than cash generated several years down the road, and cash from a stable and consistently profitable business is worth more than cash from a cyclical or unsteady business.

Stocks trading at meaningful discounts to our fair value estimates will receive high star ratings. For high-quality businesses, we require a smaller discount than for mediocre ones, for a simple reason: We have more confidence in our cash-flow forecasts for strong companies, and thus in our value estimates. If a stock's market price is significantly above our fair value estimate, it will receive a low star rating, no matter how wonderful we think the business is. Even the best company is a bad deal if an investor overpays for its shares.

Our fair value estimates don't change very often, but market prices do. So, a stock may gain or lose stars based just on movement in the share price. If we think a stock's fair value is $50, and the shares decline to $40 without much change in the value of the business, the star rating will go up. Our estimate of what the business is worth hasn't changed, but the shares are more attractive as an investment at $40 than they were at $50.

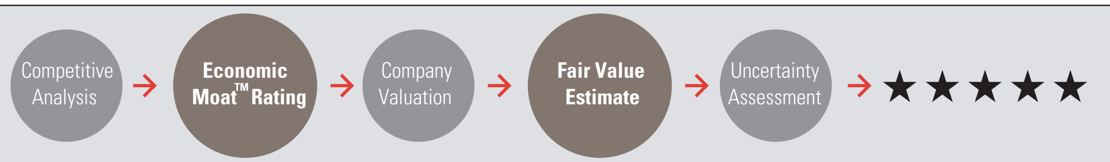
Because we focus on the long-term value of businesses, rather than short-term movements in stock prices, at times we may appear out of step with the overall stock market. When stocks are high, relatively few will receive our highest rating of 5 stars. But when the market tumbles, many more will likely garner 5 stars. Although you might expect to see more 5-star stocks as the market rises, we find assets more attractive when they're cheap.

We calculate our star ratings nightly after the markets close, and issue them the following business day, which is why the rating date on our reports will always be the previous business day. We update the text of our reports as new information becomes available, usually about once or twice per quarter. That is why you'll see two dates on every Morningstar stock report. Of course, we monitor market events and all of our stocks every business day, so our ratings always reflect our analyst's current opinion.

Economic Moat™ Rating

The Economic Moat™ Rating is our assessment of a firm's ability to earn returns consistently above its cost of capital in the future, usually by virtue of some competitive advantage. Competition tends to drive down such

Morningstar Research Methodology for Valuing Companies



Analyst conducts company and industry research:

- Management interviews
- Conference calls
- Trade-show visits
- Competitor, supplier, distributor, and customer interviews

The depth of the firm's competitive advantage is rated:

- None
- Narrow
- Wide

Analyst considers company financial statements and competitive position to forecast future cash flows.

Assumptions are input into a discounted cash-flow model.

DCF model leads to the firm's Fair Value Estimate, which anchors the rating framework.

An uncertainty assessment establishes the margin of safety required for the stock rating.

★
★★
★★★
★★★★
★★★★★

The current stock price relative to fair value, adjusted for uncertainty, determines the rating.

economic profits, but companies that can earn them for an extended time by creating a competitive advantage possess an Economic Moat. We see these companies as superior investments.

Discounted Cash Flow
This is a method for valuing companies that involves projecting the amount of cash a business will generate in the future, subtracting the amount of cash that the company will need to reinvest in its business, and using the result to calculate the worth of the firm. We use this technique to value nearly all of the companies we cover.

Discount Rate
We use this number to adjust the value of our forecasted cash flows for the risk that they may not materialize. For a profitable company in a steady line of business, we'll use a lower discount rate, also known as "cost of capital," than for a firm in a cyclical business with fierce competition, since there's less risk clouding the firm's future.

Fair Value
This is the output of our discounted cash-flow valuation models, and is our per-share estimate of a company's intrinsic worth. We adjust our fair values for off-balance sheet liabilities or assets that a firm might have--for example, we deduct from a company's fair value if it has issued a lot of stock options or has an under-funded pension plan. Our fair value estimate differs from a "target price" in two ways. First, it's an estimate of what the business is worth, whereas a price target typically reflects what other investors may pay for the stock. Second, it's a long-term estimate, whereas price targets generally focus on the next two to 12 months.

Uncertainty
To generate the Morningstar Uncertainty Rating, analysts consider factors such as sales predictability, operating leverage, and financial leverage. Analysts then classify their ability to bound the fair value estimate for the stock into one of several uncertainty levels: Low, Medium, High, Very High, or Extreme. The greater the level of uncertainty, the greater the discount to fair value required before a stock can earn 5 stars, and the greater the premium to fair value before a stock earns a 1-star rating.

Margin of Safety
This is the discount to fair value we would require before recommending a stock. We think it's always prudent to buy stocks for less than they're worth.The margin of safety is like an insurance policy that protects investors from bad news or overly optimistic fair value estimates. We require larger margins of safety for less predictable stocks, and smaller margins of safety for more predictable stocks.

Consider Buying/Consider Selling
The consider buying price is the price at which a stock would be rated 5 stars, and thus the point at which we would consider the stock an extremely attractive purchase. Conversely, consider selling is the price at which a stock would have a 1 star rating, at which point we'd consider the stock overvalued, with low expected returns relative to its risk.

Stewardship Grades
Our corporate Stewardship Rating represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.