The ingenious business behind cruise lines

Travel

Excitement

Luxury

Relaxation

**Cruise lines**

Cruise lines are the ultimate vacation portal. Don’t believe me?

* (After taxes and fees) A room on a Carnival cruise for a 13 day trip is $1835.04 (Figure 1)
* (After taxes and fees) A room at the Downtown Grand (a cheaper vegas resort) for 13 nights is $1801.22 (Figure 2)

And the cruise line provides ALL MEALS at ANY TIME of day and onboard entertainment. FOR FREE. That’s right, if you eat and want seconds third fourths and fifths, at 3 in the morning, go right ahead.

It’s a literal luxury resort on the damn water and, after the included food, it’s CHEAPER than a resort hotel on land. And if you’re anything like me, highly regarded, you’re probably thinking that there is not a chance in hell that these guys make money. So, let’s dive in.

\*wave, show title, wave crash\*

# The business model

The growth of the cruise line industry has been an absolute tear up to 2019. They have grown TODO billion in sales revenue in the 5 years from 2014 to 2019. That is some incredible growth, so what makes them tick?

Cruise lines are targeting the vacation, travel, and leisure market; the same market as hotels and resorts: like the Hyatt or Marriott hotels. And these hotels get most of their profits from the room bookings.

\*Show hotel room, cash sound, dollar amount\*

So starting there, if we use the 2019 numbers from Carnival Cruises in our calculations

\*show process of 10K, income statement, excel sheet, click sounds, fire sound when loss % shows up\*,

the room bookings, or rather, the passenger tickets are sold at a 24.4% LOSS. That is a WSB style degenerate loss. And this is from supposedly ‘wealthy’ customers. What the hell are they thinking!? And why is the title of the video “the ingenious business behind cruise lines?”

Well it’s simple, cruise liners make money the same way as ‘free’ phone apps like Candy Crush and Raid Shadow Legends do. All they have to do is get you on the ship; and once you’re there, all the premium unlocks are waiting around for you: from fancier cuisine, alcohol, broadway shows, operas, orchestras, go-karting, sky diving, spas, massages, lounges, gift shops, the casino, and a million other premium activities. There is literally some premium activity for everybody. And lets be real, if you’re on vacation you’re not gonna be thinking that much on spending an extra 20-30 bucks for the stuff you want to do. You’re just gonna do it.

But something still doesn’t add up, places like Disney World do that too. Surely, they are cheaper: they do this on land and not in the middle of damn the ocean.

Well friend, let me tell you about a little something called \*spongbob rainbow effect\* third world labor. Not to be confused with slave labor. Definitely not slave labor. Compared to Disney World, the cruise line corporations pay most of their crew pennies.

\*Disney wage, slide whistle, number roll down, plop sound, Argentinian covered in mud\*

But compared to their country’s normal jobs, the crew that works on the ships are paid HANDSOMELY. They are often given room and board for free while on the ship and they collect tips (which when your talking about the vacation crowd, can be a lot of money), and even the back of house (yknow the room cleaners, the chefs, the information clerks) get tipped out of an automatic daily gratuity or a “discretionary service charge”. And this works great for the cruise line, they don’t have to pay their employees that much because they get most of their pay in tips, they don’t have to follow the strict labor regulations of first world countries (pension, workmans comp, labor laws), and the workers are happy because they make more than they would normally. It’s the trifecta for payroll reduction that most corporations dream of.

On top of the cheap labor, they also have a lot of other cost saving measures:

* By flying the flags of certain countries on their ships they can pay lower taxes \*flags of convenience\*
  + For example: RCL made a net income before taxes of $1,908 million in 2019, they paid all of $8 million, in taxes, that is a tax rate of 0.4%! And that is on the higher end
* The economy of scale.
  + Cruise ships have gone up to insane sizes. The Wonder of the Seas, owned by RCL, can host nearly 7000 passengers. With this size just about everything is either fixed cost, or fixed quantity. Everything from food, to fuel, to payroll, to commissioned entertainment is a fixed cost or a fixed quantity at this scale.
  + And you probably noticed that a lot of these are affect by inflation and the worst part of inflation too, the flexible component \*add flex man bg. And that is definitely a big concern.
* And they save money by just, not needing land. Cruise ships are a depreciating asset giving it an accounting tax benefit over hotels, where the land is either leased or non-depreciable.

After all these savings, how much do they actually make, what are their profit margins. Well if we combine the top three corporations, together they made TODO in sales in 2019. With an EBITDA of TODO. That is an EBITDA profit margin of TODO. \*Play celebration music\* And that means nothing to anybody, so lets compare them to hotels and resorts \*click sound, pop up instantly\* Now you can see that they retain more earnings than the hotel industry.

And compound that earning potential with the growth of cruise ship industry being on an absolute tear, and a pent-up demand for travel, covid 19 restrictions being lifted everywhere

\*graph of growth rate, woah woah woah sound for money coming in, then screams and fire once covid 2019 hits\*

and you get a recipe for an incredibly attractive industry, which at current prices might do pretty well.

\*show google finance charts\*

And after all the travel, hospitality, and services industry is already in a deep hole, how much lower can it dig

\*show chart moving and then rocket through the desk, someone looking over their shoulder at it

\*screenshot camera sound, opens up reddit, clicks post on WSB

\*Black screen for 1 second

Well folks, thanks for watching, if you liked and enjoyed the video some it love by dropping a subscription or a like. And let me know your thoughts about it in the comments down below.

And let me tell ya, there’s so much more due diligence I’ve done around the cruise line industry and if I get enough support I’ll finish the rest of the 3 to 4 part series, maybe I’ll release my model or my personal price targets, or maybe I’ll just do it anyway, who knows.

And that’s it.

And remember: My name is Simon, and I’m always Wrong

- Maybe new video starts here? –

# The elephant in the room DEBT

Well I guess we’re at the part where we have to talk about the elephant in the room.

\*2D MSpaint Room with an elephant and credit cards

That right it’s this plastic little devil.

They have debt, a lot of debt, TODO amount of debt infact. They are collectively paying TODO in interest payments every year. Now that’s a lot of debt. But Apple/MSFT/GOOG has a lot of debt too, what we have to look at is a leverage ratio.

That’s a leverage ratio of TODO x (from Yahoo), that’s more than our friend BILL BIG BALL HWANG, and he’s in jail now! \*reverse sound\* wait a second that’s not right \*pivot to tapping sound over excel spread sheet to calculate leverage ratio\* \*question marks popping on the Yahoo number\* Now this friends is why you don’t trust no one. Ok so they have a leverage ratio of TODO, which is still very high. And here’s a bunch of other leverage ratios in case you want them

IF THEY COULD MONETIZE BREATHING THEY WOULD, oh wait they did gratuity DSC

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