

CONSUMER GOODS AND SERVICES OVERVIEW



The Consumer Goods and Services sector is a category of stocks and companies that relate to items and services purchased by individuals rather than by manufacturers and industries.

This sector includes companies involved with goods and services related to food, packaged goods, clothing, beverages, automobiles, travel and electronics to name a few.

The twenty largest companies in the Consumer Goods and Services sector are:

1. **Amazon.com, Inc.:** an American electronic commerce and cloud computing company headquartered in Seattle, Washington with a \$270,800,100,000 Market Cap.
2. **The Procter & Gamble Company:** an American multinational consumer goods company headquartered in downtown Cincinnati, Ohio with a \$225,804,200,000 Market Cap.
3. **Wal-Mart Stores Inc.:** an American multinational retail corporation that operates a chain of hypermarkets, discount department stores and grocery stores. The company is headquartered in Bentonville, Arkansas with a \$213,822,400,000 Market Cap.
4. **The Coca-Cola Company:** an American historical multinational beverage corporation and manufacturer, retailer, and marketer of nonalcoholic beverage concentrates and syrups, which is headquartered in Atlanta, Georgia with a \$190,974,100,000 Market Cap.
5. **The Walt Disney Company:** an American diversified multinational mass and entertainment conglomerate headquartered at the Walt Disney Studios in Burbank, California with a \$160,677,000,000 Market Cap.
6. **The Home Depot, Inc.:** an American retailer of home-improvement and construction products and services with a \$159,195,100,000 Market Cap.

7. **Philip Morris International, Inc.:** an American global cigarette and tobacco company, with products sold in over 200 countries and a \$146,397,800,000 Market Cap.
8. **Comcast Corporation:** an American multinational mass media company and the largest broadcasting and largest cable company in the world by revenue with a \$145,908,900,000 Market Cap.
9. **Pepsico, Inc.:** an American multinational food, snack and beverage corporation headquartered in Purchase, New York with a \$144,541,300,000 Market Cap.
10. **Altria Group Inc.:** one of the world's largest tobacco and cigarette corporations based in Henrico County, Virginia with a \$123,444,500,000 Market Cap.
11. **CVS Health Corporation:** an American retailer and health care company with a \$109,307,300,000 Market Cap.
12. **McDonald's Corp.:** the world's largest chain of hamburger fast food restaurants, serving around 68 million customers daily in 119 countries across more than 36,000 outlets with a \$105,650,400,000 Market Cap.
13. **NIKE, Inc.:** an American multinational corporation that is engaged in the design, development, manufacturing and worldwide marketing and sales of footwear, apparel, equipment, accessories and services with a \$104,335.1 Market Cap.
14. **The Kraft Heinz Company:** The Kraft Heinz Company is an American worldwide food company formed by the merger of Kraft Foods and Heinz with a \$93,776.5 Market Cap.
15. **Starbucks Corporation:** an American coffee company and coffeehouse chain founded in Seattle, Washington in 1971 with an \$86,764.5 Market Cap.
16. **Walgreens Boots Alliance, Inc.:** the largest drug retailing chain in the United States with an \$85,706.4 Market Cap.

17. **Reynolds American Inc.:** an American tobacco company and is the second-largest tobacco company in the United States with a \$73,807.8 Market Cap.
18. **Costco Wholesale Corporation:** an American membership-only warehouse club that provides a wide selection of merchandise with a \$66,283.7 Market Cap.
19. **Mondelez International, Inc.:** a multinational confectionery, food, and beverage conglomerate based in the United States which employs about 107,000 people around the world and a \$66,096.0 Market Cap.
20. **The Priceline Group Inc.:** is a provider of online travel & related services to consumers and local partners in over 200 countries through six primary brands and a \$64,388.0 Market Cap.

The Companies within the Consumer Goods and Services sector can be categorized into several subsectors, such as:

1. **Advertising:** Companies within this sub-sector are involved in the use of marketing communication to promote or sell products or service for various businesses and serve as the means of communication between the company and the consumer audience.
2. **Apparel, Accessories & Luxury Goods:** Companies within this sub-sector are involved in the sale of fiber and textile material worn on the body, various accessories worn on the body and other luxury goods.
3. **Automobile Parts & Manufacturing:** Companies within this sub-sector are involved in the design, repair, development, manufacturing, marketing, and selling of motor vehicles.
4. **Broadcasting & Cable TV:** Companies within this sub-sector are involved in the distribution of audio and/or video content to a dispersed audience via any electronic mass communications medium, but typically one using the electromagnetic spectrum (radio waves), in a one-to-many model. Additionally, they provide systems of delivering television programming to paying subscribers via radio frequency (RF) signals transmitted through coaxial cables or light pulses through fiber-optic cables.
5. **Casinos & Gaming:** a casino is a facility which houses and accommodates certain types of gambling activities. The industry that deals in casinos is called the gaming industry.
6. **Computer & Electronics Retail:** Companies within this sub-sector are involved in the sales of general purpose electronic devices such as: cell phones and computers along with any other device that is capable of transmitting, receiving, or recording messages, images, sounds, data, or other information by electronic means.
7. **Department Stores:** Companies within this sub-sector are retail establishments offering a wide range of consumer goods in different product categories known as "departments".

8. **General Merchandise Stores:** Companies within this sub-sector are rural or small town stores that carry general lines of merchandise, sometimes in a small space, where people from the town and surrounding rural areas purchase their general goods.
9. **Home Furnishings, Improvement & Building:** Companies within this sub-sector are involved in the constructing, renovating, making additions to one's home and adding furniture to homes.
10. **Hotels, Resorts & Cruise Lines:** Companies within this sub-sector are establishments that provide lodging paid on a short-term basis. Facilities provided may range from a basic bed and storage for clothing, to luxury features like en-suite bathrooms. Additionally, companies provide a self-contained commercial establishment which attempts to provide for most of a vacationer's wants while remaining on the premises, such as food. Lastly, companies are in the leisure entertainment business, some of which occurs at the destination but a great deal of which takes place aboard cruise ships.
11. **Household Products & Appliances:** Companies within this sub-sector are involved in the sale of tangible and movable personal property placed in the living rooms, dining rooms, kitchens, family rooms, great rooms, bedrooms, bathrooms, recreation rooms, hallways, attics, and basements and other rooms of a house.
12. **Internet Retail:** Companies within this sub-sector are involved in allowing consumers directly buy goods or services from a seller over the Internet using a web browser.
13. **Leisure Products:** Companies within this sub-sector are involved in the sale of recreation, entertainment, sports, and tourism (REST)-related products and services.
14. **Publishing:** Companies within this sub-sector are involved in the production and dissemination of literature, music, or information — the activity of making information available to the general public.
15. **Restaurants:** Companies within this sub-sector are involved in the preparation and serving of food and drinks to customers in exchange for money.

16. **Specialty Stores & Retail:** Companies within this sub-sector are stores that cater to one specific retail market (camera stores, pharmacies, stationers and bookstores. In other words, a shop that specializes in one breed of products).

17. **Agricultural Products:** Companies within this sub-sector are involved in the cultivation of animals, plants, fungi, and other life forms for food, fiber, biofuel, medicinal and other products used to sustain and enhance human life.

18. **Brewers, Distillers & Vintners:** Companies within this sub-sector are involved in the production of beer by steeping a starch source in water and fermenting the resulting sweet liquid with yeast. Additionally, companies separate the component substances from a liquid mixtures by selective evaporation and condensation. Lastly, these companies engage in winemaking.

19. **Drug Retail & Distributors:** Companies within this sub-sector are involved in the sale of chemical substance used to treat, cure, prevent, diagnose a disease or promote well- being.

20. **Hypermarkets & Super Centers:** Companies within this sub-sector are superstores combining a supermarket and a department store. Additionally, these stores are larger than standard supermarkets and sell a wider selection of merchandise while including pharmacies and department store merchandise.

21. **Packaged Foods & Meats:** Companies within this sub-sector are involved in the sale of commercially prepared (often through processing) food.

22. **Soft Drinks:** Companies within this sub-sector are involved in the production and sale of drinks that typically contains carbonated water, a sweetener, and a natural or artificial flavoring.

23. **Tobacco:** Companies within this sub-sector are involved in the preparation of Tobacco from the leaves of the tobacco plants by curing them to be used for smoking in cigarettes, cigars, as well as chewed as chewing Tobacco.

CONSUMER-RETAIL PORTER'S FIVE FORCES ANALYSIS

1. **Buyer Power:** Customers in the consumer retail industry are fragmented; therefore, companies in this industry are faced with individual customers who have very little bargaining power and little influence on price or product. However, if customers collectively demand high quality products at bargain price, it can keep companies honest. Also, on a larger scale, when considering buyers of consumer products to be retailers rather than individuals then the buyer power that companies in this industry face become more robust. For example, huge retailers like Target are able to negotiate for pricing with companies like Hanes because they purchase and sell a huge share of Hanes' products.

2. **Supplier Power:** Consumer retail companies face a decent amount of supplier power stemming from the costs they incur when switching suppliers. However, individual private suppliers have a relatively low bargaining power in front of large retail chains, with greater supplier power expressed over small retailers who have less buying power. For example, Sears set very high standards for quality and suppliers that didn't meet these standards were dropped from the Sears line. Wal-Mart places strict control on its suppliers. A contract with a large retailer such as Target can make or break a small supplier; therefore, in the retail industry, suppliers tend to have very little power.

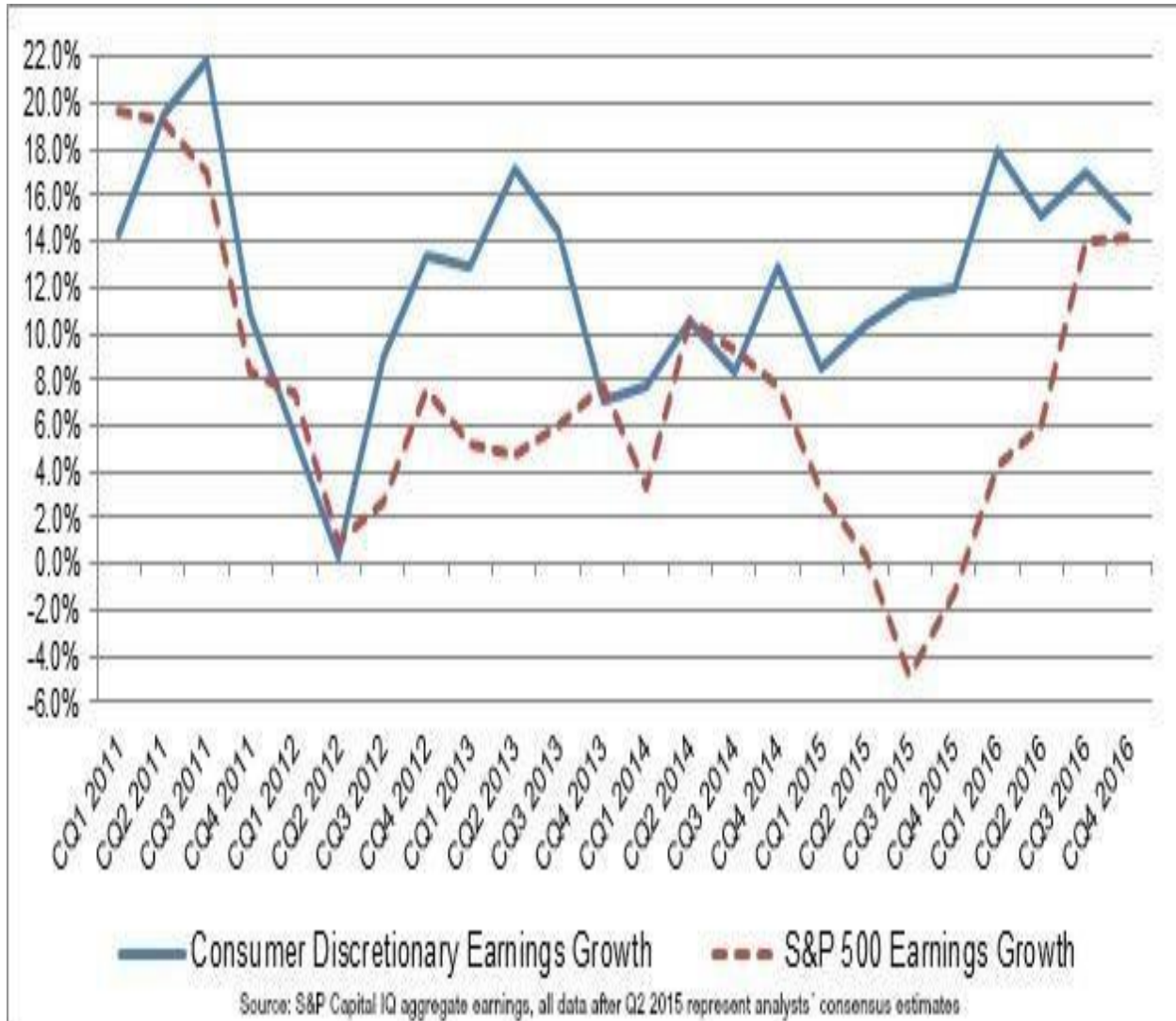
3. **Threat of New Entrants:** Considering the amount of capital investment required to enter certain segments in consumer retail, such as manufacturing deodorants, the threat of new entrants is fairly low in the industry. However, in some segments within the household consumer retail industry, this may not be the case since a small manufacturer could develop a superior and differentiated product, such as a detergent, and compete with Procter & Gamble and as stated this requires a large amount of capital investment. Also, the challenge is whether the small manufacturer can actually have its products sold by the same retailers as its much larger rivals. A trend that started over a decade ago has been a decreasing number of independent retailers. The majorities of stores in shopping malls are chain stores and while the barriers to start up a store are not

impossible to overcome, the ability to establish favorable supply contracts, leases and be competitive is becoming increasingly challenging. Vertical structure and centralized buying gives chain stores a competitive advantage over independent retailers.

4. Threat of Substitutes: The tendency in consumer retail is not to specialize in one good or service, but to deal in a wide range of products and services; meaning that what one store offers will likely found at another store. Retailers offering products that are unique have a distinct or absolute advantage over their competitors. Within the consumer retail industry, brands succeed by building a competitive advantage, but even the pricing power of brands can be eroded with substitutes such as store-branded private-label offerings. Growing market shares and increasing variety of store-branded private-label offerings is now a global phenomenon. In fact, some of these same store-brand private-label products are manufactured by the large consumer-products firms. As a result, the threat for substitutes is high the consumer retail industry.

5. Degree of Rivalry: Consumers in this category are faced with a multitude of choices for everything for just about every consumer product imaginable. While many consumers prefer certain brands, switching costs in this industry are quite low; therefore, preferences are not a sure bet. It does not cost anything for a consumer to buy one brand of underwear instead of another. As a result, consumer retail companies consistently face robust competition and are consistently vying for increased market share due to the stagnated market growth associated with the industry. A relatively new trend that has aimed to gain competitive advantage in ways outside of pricing has been the increasingly popular offerings of frequent flier points, memberships and other customer loyalty specialties that are usually accompanied by only customer relationship management.

EARNINGS TRENDS WITHIN SECTOR



CCL STOCK PRICE TRENDS

Blue= Consumer Services

Red= Consumer Goods

Dow Jones U.S. Consumer Services Index (INDEXDJX:DJUSCY)

Add to portfolio

715.35 -0.26 (-0.04%)

Mar 4 - Close

INDEXDJX real-time data - Disclaimer

Range 712.35 - 718.29
52 week 635.42 - 763.73
Open 715.74
Vol. 150.87M

G+1 < 0

Compare: INDEXDJX:DJUSNC

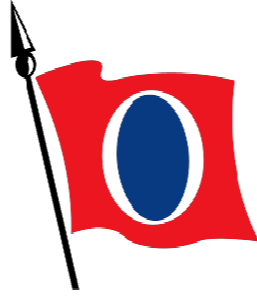
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Mar 11, 2011 - Mar 02, 2016

● DJUSCY +100.57% ● INDEXDJX:DJUSNC +88.12%





CARNIVAL CORPORATION & PLC

CARNIVAL CORPORATION & PLC (NYSE: CCL)

CURRENT PRICE (03/29/2016): \$49.66

52 WEEK RANGE: \$40.52-\$55.77

5 YEAR RANGE: \$29.52 - \$55.77

GICS SECTOR: CONSUMER DISCRETIONARY

GICS SUB INDUSTRY: HOTEL, RESORTS & CRUISE LINES

CARNIVAL CORPORATION & PLC (NYSE: CCL)

Carnival Corporation & plc ("Carnival") is an American-British cruise company and the world's largest cruise ship operator. A dual listed company, Carnival is composed of two companies, Carnival Corporation and Carnival plc, which are combined and function as one entity, effectively being a general partnership between its two component public corporations, listed on the New York Stock Exchange and London respectively. As such, Carnival is the only company in the world to be listed on both the S&P 500 and FTSE 100 indices.. Founded in 1974, and headquartered in Miami, FL, Carnival Corporation (CCL) operates as a cruise and vacation company and offers various itineraries to passengers worldwide under leading cruise brands through three primary segments — North America cruise brands, Europe, Australia & Asia (EAA) cruise brands and Cruise Support. In North America, the company serves the contemporary cruise demographic through its Carnival Cruise Lines brand, the premium cruise demographic through its Holland America and Princess brands and the luxury cruise demographic through its Seaborne brand. Carnival has a combined fleet of over 100 vessels across 10 cruise line brands, with the Fathom brand announced for launch in 2016.

PRODUCTS AND SERVICES

1. **Carnival Cruise Line**: the most popular cruise brand in North America and operates 24 ships designed to foster exceptionally fun and memorable vacation experiences at an outstanding value. Carnival Cruise Line is the leading provider of year-round Caribbean cruises and also operates seasonal cruises in Europe, Alaska, New England, Canada, Bermuda, Hawaii, Mexican Riviera and the Panama Canal.
2. **Princess Cruises**: One of the best-known names in cruising, Princess Cruises is a global cruise and tour company operating a fleet of 18 modern ships renowned for their innovative design and wide array of choices in dining, entertainment and amenities, all provided in an environment of exceptional customer service. A recognized leader in worldwide cruising, Princess carries 1.7 million guests each year to destinations around the globe ranging in length from three to 114 days.
3. **Holland America Line**: fleet of 15 mid-sized ships offering more than 500 cruises to ports in 98 countries, territories or dependencies, such as Antarctica, South America, Australia/New Zealand, Asia, Caribbean, Alaska, Mexico, Canada/New England, Europe and Panama Canal. Renowned for its gracious service, Holland America Line's spacious, elegant mid-sized ships feature sophisticated five-star dining, extensive entertainment and activities, innovative culinary enrichment programs and compelling worldwide itineraries. Holland America Line currently has two new 2,650-guest Pinnacle-class ships on order. **MS Koningsdam will deliver in February 2016 and the second as-yet- unnamed ship will deliver in November 2018.**
4. **Seabourn**: provides ultra-luxury cruising vacations in a unique, small-ship style that focuses on genuine, intuitive service, all-suite accommodations, superb cuisine and unique experiences in destinations worldwide. Between 2009 and 2011, Seabourn added

three new ships that are hailed as "game-changers for the luxury segment," offering more categories of luxury suites, more dining alternatives and the largest spa facility on any ultra-luxury vessel. Seabourn's ships cruise to destinations throughout the world, including Europe, Asia, the South Pacific Islands, Australia and South America and Antarctica.

5. **Cunard**: has been synonymous with the quest for new discoveries, legendary voyages and the epitome of British refinement. Cunard voyages bring together like-minded travelers who relish the line's hallmarks of impeccable White Star Service, fine dining, sophisticated adventure, the legacy of historic voyages and transatlantic travel. Cunard ships primarily sail a variety of seasonal itineraries in Northern Europe, the Mediterranean and the Caribbean/Panama Canal as well as traditional transatlantic voyages.

6. **AIDA Cruises**: the leader and most recognized cruise brand in the German cruise business. A total of ten AIDA ships are currently in service. These vessels currently operate in the Mediterranean, Northern Europe, the Caribbean, the Arabian Gulf and around the Canary Islands. AIDA ships are dedicated to the German-speaking market and renowned for their youthful style and casual service.

7. **Costa Cruises**: Europe's largest cruise line based on guests carried and passenger capacity. For over 63 years, its ships have plied the seas of the world, offering the best in Italian style, hospitality and cuisine. Its fleet, the largest in Europe, has a total of 15 ships. Costa's fleet spans the globe offering each year the chance to visit some 250 separate destinations with about 150 different itineraries in the Mediterranean, Northern Europe, the Baltic Sea, the Caribbean, Central America, South America, the United Arab Emirates, the Far East, the Red Sea, around-the-world cruises and Grand Cruises.
8. **P&O Cruises**: a fleet of seven ships offering holidays tailored to British tastes combining genuine service, a sense of occasion and attention to detail, ensuring passengers have the holiday of a lifetime, every time.
9. **P&O Cruises (Australia)**: is the leading Australia cruise line. P&O Cruises (Australia) provides a quintessential holiday experience for Australians and New Zealanders, taking them to some of the world's most idyllic and hard-to-reach places. P&O Cruises (Australia)'s three ships - Pacific Dawn, Pacific Jewel and Pacific Pearl - offer a wide range of destinations in the South Pacific, New Zealand, Asia and domestic ports.
10. **Fathom (Upcoming 16')**: a different kind of cruise that combines one's love of travel with the desire to make a difference in the world. It is a new category of travel. The brand will cater to a growing market of consumers who want to have a positive impact on people's lives, and aren't always sure where to begin. Fathom will give travelers a unique opportunity to work alongside local people as part of a larger scale effort that will demonstrably improve lives.

EXECUTIVE SUITE

1. **Micky Arison**: grew up in the cruise business and spent the better part of two decades learning it from the ground up before being appointed chairman in 1990. Mr. Arison began in the sales department at Carnival Cruise Lines and worked his way up becoming reservations manager in 1974. He became vice president of passenger traffic in 1976, and just three years later, Mr. Arison was named president. In 1987, Carnival went public, raising \$400 million for future expansion, and by early 1989, Mr. Arison engineered the acquisition of the venerable Holland America Line. The purchase also included Windstar Cruises and Westours (now Holland America Princess Tours), a leading Alaska tour operator, giving Carnival entrée to the premium segment of the cruise industry. Over the next several years, Carnival Corporation acquired brands in various other markets including ultra-luxury Cunard Line and Seabourn Cruise Line, as well as contemporary European operator Costa Cruises, the region's number one cruise line.
2. **Arnold W. Donald**: a director of Carnival Corporation since 2001 and a director of Carnival plc since 2003. Mr. Donald has been President and Chief Executive Officer of Carnival Corporation & plc since July 2013. He was President and Chief Executive Officer of The Executive Leadership Council, a professional network of African-American executives of major U.S. companies, from 2010 to June 2012. He previously served as President and Chief Executive Officer of Juvenile Diabetes Research Foundation International from 2006 to 2008. From 2000 to 2005, Mr. Donald was the Chairman of the Board of Merisant Company, a manufacturer and marketer of tabletop sweetener products, including the Equal and Canderel brands.

3. **Alan Buckelew**: Chief Operations Officer of Carnival Corporation & plc since December 2013. In this capacity, Buckelew is responsible for oversight of all maritime and port operations around the world and group collaborative functions, including information technology; group strategy and global operations; ship retrofits; newbuilds; research and development; risk advisory; and quality assurance. Previously, he served as chief executive officer of Princess Cruises from 2007 to November 2013, and as the line's president from 2004 to November 2013. Prior to that he was executive vice president of corporate services from 2000 to 2007. Buckelew also served as chief operating officer of Cunard from 2004 to 2007. Before being appointed president of Princess Cruises, Buckelew was the company's executive vice president of corporate services, a position he was appointed to in 2000.
4. **William Burke**: retired Vice Admiral, joined Carnival Corporation & plc in December of 2013, as the Chief Maritime Officer, where he heads the Maritime Policy Department, which is responsible for driving the company's commitment to safety. Burke served on five submarines including command of USS Toledo (SSN 769). He commanded Submarine Squadron Two from July 2001 to July 2003. His Washington D.C. assignments include tours in the Attack Submarine Division, Navy Office of Legislative Affairs, and Joint Chiefs of Staff directorate for Combating Terrorism, Navy War fighting Assessments Branch, and as the Executive Assistant to the Vice Chief of Naval Operations.

MARKET PRICE UNDERVALUATION

Oil Prices: Some of the biggest beneficiaries from lower oil prices are cruise line stocks like Carnival (NYSE:[CCL](#)). Consumers, thanks to lower gasoline prices, have more cash to spend on leisure and travel, so traffic is up. While Carnival is directly seeing higher margins due to lower fuel costs, both of these factors have led to outsized earnings growth for Carnival, a trend which is likely to continue in 2016.

Comparables: With Carnival's share price hovering ~\$50, the stock appears to be slightly undervalued. If we were to assume the 2016 guidance of \$3.25 per share of earnings, this gives Carnival a 15.4x forward PE ratio. If assuming a scenario where oil and thus fuel prices surge higher, \$3.03 per share of earnings gives us a 16.5x PE ratio. For a stock growing at a 12-20% rate, these are not bad multiples. Carnival is also cheap on a cash flow basis. The company generated over \$4.5B in operating cash flow in 2015, up 33% from \$3.4 billion in 2014. Backing out CAPEX (\$2.3 billion in 2015 and \$2.6 billion in 2014), Carnival generated free cash flow of \$2.25 billion, more than double from \$850 million in 2014. These metrics suggest a price to free cash flow multiple of ~17x and a price to operating cash flow multiple of ~8.6x.

Accidents: Carnival Corporation has incurred an increasing number of accidents since 2013 where the Triumph, Dream, Legend and the Elation cruise vessels consistently suffered mechanical problems. In February 2013, passengers were trapped for five days as one of its ships remained stranded in the Gulf of Mexico as a result of combustion that lead to a major power failure. A month later, a second ship suffered a power failure while a third developed some mechanical glitches and the Costa Concordia capsized and sank after hitting an underwater rock obtrusion off the coast of Tuscany; killing 32 people. Incidents of the aforementioned nature have the tendency to stifle bookings and revenue despite decreased prices. Although the possibility of hazardous incidents present an inherent risk to Carnival Corporation's booking volume and ultimately revenues, they are completely unpredictable; therefore, the company must be valued with a going concern (similar to bankruptcy) that no such event will occur in the future which the market has

not done. Also, to further bolster the aforementioned argument, the company has invested heavily into long-term brand sustainability and profitability by spending \$600 million to \$700 million to improve fire protection systems and backup power generators across its entire fleet.

DEMAND LONG-TERM CATALYSTS

To reach their primary financial goals, CCL continues to implement initiatives to create additional demand for its brands, ultimately leading to higher revenue yields. Measured capacity growth further drives higher revenue yields. Carnival continues to identify opportunities to enhance cruise products and services and optimize cost structure while preserving the unique identities of individual brands. Additionally, Carnival continues to make significant investments to gain insight into guests' decision making. With 99 ships and more than 10.8 million guests in 2015, Carnival has the scale to optimize structure by utilizing combined purchasing volumes and common technologies as well as implementing cross-brand initiatives aimed at cost containment. Carnival has established a global leadership positions for communications, guest experience, maritime, procurement, revenue management and strategy to increase collaboration and communication across brands and help coordinate global efforts and initiatives. In addition, Carnival is integrating certain back office functions to achieve the full benefits of its scale.

a. Value Proposition: CCL represents an exceptional value in comparison to alternative land-based vacations. Cruising provides many relatively unique benefits, such as transportation to various destinations while also providing accommodations, a generous diversity of food choices and a selection of daily entertainment options for one all-inclusive, competitive price. To make cruising even more cost effective and more easily accessible to vacationers, CCL typically offers a number of drive-to home ports, which enables many cruise guests to reduce their overall vacation costs by eliminating or reducing air and other transportation costs.

b. Relatively Low Penetration Levels:

- Based on industry data, the 2015 annual penetration rates when computed based on the number of annual cruise guests as a percentage of the total population are as follows:

1. 4.0% for Australia and New Zealand

2. 4.0% for North America

3. 7% for the United Kingdom

4. 9% for Continental Europe

- Cruising in China is in the early stages of development. Over the past decade China has been, by far, the world's fastest growing tourism source area. With a growing middle class, almost 135M Chinese tourists are expected to have traveled abroad in 2015 and it is expected to grow to 200 million by 2020. About 90% of Chinese outbound travel happens in Asia, with most destinations reachable by sea. The cruise segment of the Chinese vacation region has significant long-term growth potential given its early stage of development with healthy demand from a large and growing middle-class population, the easing of travel restrictions and increasing support from the Chinese government. There are significant opportunities to continue to grow presence in China due to its large and growing middle-class population and expansion of their international tourism. It is estimated that Chinese cruise demand will increase to over 4 million annual cruisers by 2020. The Chinese government has expressed a strong desire to transform China into a leading global cruise region and is making substantial investments in cruise-related infrastructure. To aid the execution of strategy to accelerate growth in China, CCL has at its disposal the benefit of nine years of local experience to help guide expansion and enhance cruise products and services to make them even more attractive to Chinese guests.

- Carnival (NYSE:CCL) has won Cuban government approval to begin sailing to the Caribbean island nation, allowing its Fathom division to become the first U.S. cruise line to dock there in more than 50 years. The agreement, which will grant Carnival access to three Cuban ports - Havana, Santiago de Cuba and Cienfuegos - beginning in May, coincides with President Obama's visit to the island, the first by a U.S. president in 88 years.

c. **Wide Appeal**: CCL appeals to a broad range of ages and income levels. Cruising provides something for every generation, from kids' clubs to an array of onboard entertainment designed to appeal to teens and adults. Cruising also offers transportation to a variety of destinations and a diverse range of ship types and sizes, as well as price points, to attract guests with varying tastes and from most income levels.

- The average age of populations in established cruise regions is increasing. The average age of a cruise guest ranges from approximately 40 years to 60 years in established cruise regions. Between 2015 and 2025, the number of people in the cruise business' primary age group of 45 years and older is expected to grow by 18 million, or 12%, in the U.S. and Canada, 13 million, or 9%, in the major Western European countries and 1.5 million, or 17%, in Australia.
- The baby boomer generation, or those born between 1946 and 1964, is the most active older population group in history. The youngest in this group, who are in their fifties, are typically experiencing their peak earning years. Some of the oldest in this group, who are in their late sixties, are defying traditional stereotypes by continuing to work, having more active lifestyles and enjoying multi-generational cruising.
- The fastest growing segment of the vacation industry is the millennial generation, or those born between 1980 and 2000. The millennial generation has surpassed the size of the baby boomers generation and now represents the largest generation size in history. The millennial generation has a strong desire for travel and shared experiences and should offer growth to the vacation industry, especially as they evolve into more frequent travelers.

f. High Guest Satisfaction Rates: Cruise guests tend to rate their overall satisfaction with a cruise vacation higher than comparable land-based hotel and resort vacations. According to industry surveys, the cruise experience consistently exceeds expectations of repeat and first-time cruisers on a wide range of important vacation attributes, such as value and service levels. Cruising continues to receive high guest satisfaction rates because of the unique vacation experiences it offers, including visiting multiple destinations without having to pack and unpack, all-inclusive product offerings and state-of-the-art cruise ships with entertainment, relaxation and fun, all at an outstanding value.

g. Favorable Supply Versus Demand Balance: The cruise industry continues to maintain a disciplined, measured rate of growth in established source areas, such as North America and Western Europe, and is investing in emerging source areas, such as China, where it believes it has greater growth opportunities. In addition, less efficient cruise ships will continue to be retired from service as they reach the end of their economic lives, no longer provide guests with the vacation experiences that they desire or do not provide sufficient cash flows. This favorable supply versus demand balance will continue to have a positive impact on the cruise industry's ability to grow profitably.

- h. **Strong Brand/Diverse Customer Base:** Carnival is the largest and most profitable cruise operator in the world. The company's cruise brands are well diversified across geographic regions and strategically positioned at various price points within the larger North American cruise market; which enables the company to cater to passengers in various geographic regions as well as within the lower middle class, middle class and upper class wealth brackets. With the strength and diversity of its brands and itineraries, the company boasts a broader passenger base among potential and repeat cruise vacationers. Carnival's market leading position offers a cost advantage, allowing it to generate higher return on investment than competitors. Further, its leadership position provides the scope to expand capacity — by upgrading current ships and increasing the fleet — due to higher cash from operations and decreasing debt burden.
- i. **Marketing/Entertainment Initiatives:** Carnival expects revenue to continue to improve in 2015 driven by marketing initiatives and ongoing strategic upgrades. Upgrades include introduction of dining and bar concepts, hybrid model Wi-Fi at Sea, entertainment programs including the IMAX Theatre at Sea, an onboard brewery and SkyRide – a pedal powered aerial attraction on its ship, to be launched in 2016. Booking volumes in the past few quarters of 2015 were substantially higher than last year's cumulative advance booking levels. These factors are expected to boost revenue yields by 4% in 2015 compared with the prior year. The company is continuously increasing its advertising budget to improve brand perception, and has launched a creative national advertising campaign which has begun to yield results.

SWOT ANALYSIS

Strengths

1. 47% market share in the UK, 68% in Italy, 51% in Germany and 45% in France.
2. A strong brand name that influences customer loyalty.
3. Significant cost advantages over most of their competitors.
4. Strong income statement.

Weaknesses

1. Poor passenger safety.
2. Capital intensive to build ships.
3. Disproportionately high fixed costs relative to variable costs.

Opportunities

1. Target growing population of elderly with more discretionary income.
2. Expand luxury liners.
3. Offer more destinations.
4. Increase strategic marketing.

Threats

1. Fluctuations in economic environment (extremely discretionary service).
2. Hurricanes and other dangerous weather.
3. Increasing competition (e.g. Royal Caribbean Cruise Line, Star Cruise Line).
4. Negative currency translation (stronger

FIXED ASSETS

Carnival competes directly with alternative land-based options (Marriott International Inc., Wyndham Worldwide Corp., and Starwood Hotel & Resorts Worldwide, Inc.) for vacation dollars; therefore, it is help to compare the amount of fixed assets that the company must hold on its balance sheet relative to its land-based competitors.

Carnival Corporation's business is substantially more capital intensive relative to its land-based counterparts. For the past five years CCL has spent an average of \$2.41B per. year on CAPEX. On the other hand the above-mentioned hotels have all spent on average (in the order listed above): \$462.8M, \$228.4M, and 339.8M.

Carnival Corporation has maintain on average for the past five years PP&E of \$32B of which an average of \$1.58B per year have been depreciated – showing that Carnival has aggressively invested \$1B per year (net of depreciation) into PP&E which supports prior investing activity analysis. In the order listed above the land-based counter-parts have depreciated assets at the rate of: \$140M, \$170M, \$240M – these companies have invested: \$322M, \$58M, and \$99M per year respectively (net of depreciation) into PP&E.

MUHKERJI DCF MODEL

CARNIVAL CORP (NYSE:CCL)	FUNDAMENTAL STOCK VALUATION (IN MILLIONS)					COMMENT INSERTED
WEIGHTED AVERAGE COST OF CAPITAL						
Google Finance Beta	0.76		Market Value of Equity			\$37,463.50
Yahoo Beta	0.67		Long Term Debt			\$7,410.00
Average Beta	0.72		Long Term Interest			\$228.00
Adjusted Beta	0.81		Cost of Debt			3.08%
Treasury Bill Return	1.76%		Income Tax Rate (2018-20)			0.023
Expected Market Return	9.25%		Proportion of Equity			83.49%
Market Risk Premium	7.49%		Proportion of Debt			16.51%
Cost of Equity	7.83%		Weighted Average Cost of Capital			7.03%
Shares Outstanding	775		Average Annual P/E Ratio (2018-20)			16.00
Stock Price	\$48.34					
	(Millions of Dollars)					
Current and Projected Amounts	11/30/15	11/30/16	11/30/17	11/30/18	11/30/19	11/30/20
Working Capital	(\$4,505.00)	(\$4,700.00)	(\$4,300.00)	(\$3,900.00)	(\$3,500.00)	(\$3,100.00)
Capital Spending per Share		\$2.50	\$2.50	\$2.50	\$2.50	\$2.50
Common Shares Outstanding		770	767.50	765.00	762.50	760
Long-Term Debt	\$7,410.00	\$6,800.00	\$6,650.00	\$6,500.00	\$6,350.00	\$6,200.00
Interest Payment	\$228.00	\$209.23	\$204.62	\$200.00	\$195.38	\$190.77
FINANCIAL PROJECTIONS		11/30/16	11/30/17	11/30/18	11/30/19	11/30/20
Net Profit		2,540	\$2,636.25	\$2,732.50	\$2,828.75	2,925
+ Depreciation		1,600	\$1,635.00	\$1,670.00	\$1,705.00	1,740
- Increase In Working Capital		(400)	(400)	(400)	(400)	(400)
- Capital Spending		(1,925)	(1,919)	(1,913)	(1,906)	(1,900)
+ New Borrowing		(610)	(150)	(150)	(150)	(150)
+ After-tax Interest Payment		204	200	195	191	186
	Date					
DISCOUNTED FCFTE VALUATION	02/27/16	11/30/16	11/30/17	11/30/18	11/30/19	11/30/20
Fractional Years from Current Date		0.76	1.76	2.76	3.76	4.76
Free Cash Flows to Equity (FCFTE)		1,409	2,002	2,135	2,268	2,401
Terminal Value of FCFTE						46,800
Total FCFTE		1,409	2,002	2,135	2,268	49,201
Present Values of FCFTE		1,331	1,754	1,735	1,709	34,376
Market Value of Equity (FCFTE Method)	42,475					
Stock Value (FCFTE Method)	\$54.81					

DCF MUHKERJI MODEL II

	Date					
DISCOUNTED FCFTF VALUATION	02/27/16	11/30/16	11/30/17	11/30/18	11/30/19	11/30/20
Free Cash Flows to Firm (FCFTF)		2,224	2,352	2,481	2,609	2,738
Terminal Value of FCFTF						53,000
Total FCFTF		2,224	2,352	2,481	2,609	55,738
Present Values of Total FCFTF		2,112	2,087	2,057	2,021	40,340
Enterprise Value	50,298					
Total Cash	1,400					
Market Value of Firm	51,698					
Total Debt	7,860					
Market Value of Equity (FCFTF Method)	43,838					
Stock Value (FCFTF Method)	\$56.56					
COMPARABLES VALUATION	COMPETITORS		INDUSTRY		MEDIAN	
Market Value Ratios	RCL	NCLH				
PEG Ratio	0.67	0.40		0.79	0.67	
Company's Earnings and Growth						
Earnings per Share (TTM)	\$ 2.26					
Next 5 Years' Annual Growth Estimate (%)	18.00					
Stock Value (Comparables Method)	\$28.77					
			Brokers' Price Target & Recommendation Summary			
Estimated Stock Value	\$54.81		High			\$80.00
			Mean			\$60.06
12-Month Target Price	\$59.10		Median			\$59.00
Projected 1-Year Gain	8%		Low			\$50.00
Forward Annual Dividend Yield	2.49%		No. of Brokers			18
Projected 1-Year Return	10.32%		Mean Recommendation			2.2
Treynor Index	11%					
Excess Return	2.49%					
Investment Recommendation	HOLD					

SIMPLE DCF MODEL

Inputs		Growth Calculations		Cost of Capital Calculations	
2016 Net Income	\$ 1,993,653,034	2012 to 2013 Growth	-16.92%	Cost of Equity/CAPM	7.69%
US GDP Growth Rate	1.50%	2013 to 2014 Growth	14.81%	Cost of Debt	2.73%
Risk Free Rate	1.76%	2014 to 2015 Growth	41.94%	Weight of Equity	80.67%
Expected Market Return	10.00%	Average Growth	13.28%	Weight of Debt	19.33%
Income before Tax	\$ 1,800,000,000	Terminal Growth	1.50%	Tax Rate	2.33%
Beta (Find 2 sources and average them)	0.72			WACC	6.72%
Long Term Debt	\$ 7,410,000,000				
Interest Expense	\$ 240,000,000				
Short Term/Current Long Term Debt	\$ 1,370,000,000				
Market Cap	36,630,000,000				
Tax Expense	\$ 42,000,000				
2015 Net Income	\$ 1,760,000,000				
2014 Net Income	\$ 1,240,000,000				
2013 Net Income	\$ 1,080,000,000				
2012 Net Income	\$ 1,300,000,000				
Cash	\$ 1,400,000,000				
Actual Stock Price	\$ 46				
Shares Outstanding	578,000,000				
Undervalued or Overvalued?	Undervalued				

Discounted Cash Flows				
2016	1	\$	1,993,653,034	\$ 1,868,087,883
2017	2	\$	2,258,325,239	\$ 1,982,813,828
2018	3	\$	2,558,134,640	\$ 2,104,585,504
2019	4	\$	2,897,745,958	\$ 2,233,835,612
2020	5	\$	3,282,443,195	\$ 2,371,023,431
Sum				\$ 10,560,346,258
Terminal				\$ 46,089,221,529
Total Equity				\$ 56,649,567,787
EV				\$ 49,269,567,787
Stock Price Based on Intrinsic Value				\$ 85

TRADING COMPS

<u>Company Name</u>	<u>Current PE</u>	<u>15' Leverage</u>	<u>14' Leverage</u>	<u>13' Leverage</u>	<u>15' Rev.</u>	<u>14' Rev.</u>	<u>13' Rev.</u>	<u>15' Profit Margins</u>
NYSE:CCL	21.23x	37%	38%	39%	\$ 15,714	\$ 15,884	\$ 15,456	11%
NYSE:RCL	24.51x	108%	103%	92%	\$ 8,299	\$ 8,074	\$ 7,960	8%
NasdaqGS:NCLH	26.60x	120%	173%	120%	\$ 4,345	\$ 3,126	\$ 2,570	10%
Average	24.11x	88%	104%	84%	\$ 9,453	\$ 9,028	\$ 8,662	10%
Median	24.51x	108%	103%	92%	\$ 8,299	\$ 8,074	\$ 7,960	10%
Minimum	21.23x	37%	38%	39%	\$ 4,345	\$ 3,126	\$ 2,570	8%
Maximum	26.60x	120%	173%	120%	\$ 15,714	\$ 15,884	\$ 15,456	11%

<u>15' Profit Margins</u>	<u>14' Profit Margin</u>	<u>13' Profit Margin</u>	<u>15' Market Cap.</u>	<u>14' Market Cap.</u>	<u>13' Market Cap.</u>	<u>15' Oper. CF</u>	<u>14' Oper. CF</u>	<u>13' Oper. CF</u>
11%	8%	7%	\$ 36,853	\$ 34,874	\$ 30,672	\$ 30,006	\$ 3,430	\$ 2,834
8%	9%	6%	\$ 16,090	\$ 16,869	\$ 11,364	\$ 7,379	\$ 1,744	\$ 1,412
10%	11%	4%	\$ 11,266	\$ 11,231	\$ 7,031	\$ 6,283	\$ 636	\$ 475
10%	9%	6%	\$ 21,403	\$ 20,991	\$ 16,356	\$ 14,556	\$ 1,936	\$ 1,574
10%	9%	6%	\$ 16,090	\$ 16,869	\$ 11,364	\$ 7,379	\$ 1,744	\$ 1,412
8%	8%	4%	\$ 11,266	\$ 11,231	\$ 7,031	\$ 6,283	\$ 636	\$ 475
11%	11%	7%	\$ 36,853	\$ 34,874	\$ 30,672	\$ 30,006	\$ 3,430	\$ 2,834