

Carnival Corporation & plc - Pricing the Booked Position

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Industry: Hotels, Resorts & Cruise Lines

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Decision date and information cutoff: 1 March 2024; public information through 29 February 2024

Decision scope: FY2024 pricing/cabin-inventory management versus marketing and trade demand generation

Case convention: This is an author-created classroom decision exercise. The assignment is hypothetical; company disclosures are historical. It does not represent private deliberations or a disclosed fixed budget.

The decision

On 21 December 2023, Carnival Corporation & plc reported a record FY2023 revenue of \$21.6 billion and said it entered 2024 with its best booked position yet for both price and occupancy. Its chief executive made two distinct booking observations: nearly two-thirds of 2024 business was already on the books; separately, the cumulative advance-booked position was at considerably higher prices than 2023, with each 2024 quarter above the high end of Carnival's historical range. Those are bookings, not completed sailings or realized revenue. [P1], Item 7, "2023 Executive Overview," p.47; [P2], release pp.1-2.

Carnival's FY2024 plan assumed net yields would rise about 8.5% while available capacity grew 5.4%. Adjusted cruise costs excluding fuel per available lower berth day (ALBD) were expected to increase about 4.5%. Management also expected about \$5.6 billion of adjusted EBITDA. These are company forecasts, not results. [P2], release pp.2-4.

Assignment: For this classroom exercise, advise Carnival's commercial leadership on where to put greater emphasis in executing the FY2024 plan: pricing and cabin-inventory decisions, or marketing and trade demand generation. You may recommend a balance or different emphasis by brand, itinerary or booking stage. Explain what evidence should guide that choice, how to monitor it, and what would prompt a change. Do not assume a fixed budget or a known price elasticity.

The business behind the booking

Carnival Corporation & plc operated a portfolio of cruise brands and related tour activities. In FY2023 it carried 12.5 million passengers, had 91.3 million ALBDs and reported 100% occupancy. Under the company's convention, occupancy is passenger cruise days divided by ALBDs, with ALBD assuming two passengers per cabin. Some cabins hold more, so reported occupancy can exceed 100%. [P1], Item 7, "Statistical Information," p.52.

For FY2023, Carnival reported \$21.593 billion in revenue: \$14.067 billion from passenger tickets and \$7.526 billion from onboard and other revenue. Ticket sales made up 65% of total revenue;

onboard and other revenue accounted for 35%. Revenue grew from \$12.168 billion in FY2022, primarily because more ships returned to service and occupancy increased from 75% to 100%. The rebound therefore does not isolate the effect of pricing or marketing. [P1], Item 7, pp.54-55.

Carnival reported fourth-quarter 2023 net yield 7.8% above the fourth quarter of 2019 in constant currency, while gross-margin yield remained 4.6% below that comparison. Net yield is a company-defined measure of adjusted gross margin per ALBD, and constant currency adjusts for exchange-rate changes. The two measures capture different elements of revenue and cost; neither is a direct fare index. [P2], release pp.1, 10-13.

Management described its commercial work as spanning brand positioning, creative and digital marketing, trade relationships, deployment and itinerary planning, revenue-management execution, onboard revenue, guest experience and use of customer data. It said advertising and lead-generation efforts, trade partners and onboard experiences supported its booking momentum. These statements describe management's view and priorities; the public materials do not isolate each activity's incremental effect. [P2], release p.2; [P3], slides 8-10.

Exhibit 1. FY2023 operating and financial context

USD millions unless stated; fiscal year ended 30 November 2023.

Measure	FY2023	FY2022
Total revenue	\$21,593	\$12,168
Passenger-ticket revenue	14,067	7,022
Onboard and other revenue	7,526	5,147
Operating income (loss)	1,956	(4,379)
Interest expense, net of capitalized interest	2,066	1,609
Interest income	233	74
Income (loss) before income taxes	(62)	(6,080)
Cash from operations	4,273	(3,468)
Adjusted free cash flow	2,146	(3,468)

Source: [P1], Item 7, consolidated results and discussion, pp.54-56; [P2], release pp.1, 11-13. Adjusted free cash flow is a company-defined non-GAAP measure: operating cash flow less capital expenditures plus certain related export-credit proceeds. Carnival says it is not residual discretionary cash because it excludes mandatory debt repayments. Interest expense is net of capitalized interest; interest income is shown separately. Figures are rounded to the nearest million where displayed.

Exhibit 2. FY2024 plan and balance-sheet context

Measure	FY2024 outlook / 30 Nov. 2023 position
Net-yield growth, constant currency	approximately +8.5% vs FY2023
Adjusted cruise costs excluding fuel per ALBD, constant currency	approximately +4.5% vs FY2023
Adjusted EBITDA	approximately \$5.6 billion
Capacity growth	+5.4% vs FY2023
Capital expenditure forecast	\$4.2 billion: \$2.4 billion contracted newbuild; \$1.8 billion non-newbuild
Debt principal maturities	\$2.1 billion in 2024; \$2.2 billion in 2025; \$3.2 billion in 2026
Total debt at year-end	\$30.572 billion
Cash and cash equivalents	\$2.4 billion
Revolving-facility borrowings available	\$3.0 billion
Total liquidity	\$5.4 billion
Customer deposits	\$6.353 billion

Sources: [P1], Item 7, pp.56-57, Note 2, “Revenue and Expense Recognition” / “Customer Deposits,” p.72, and Note 5, pp.76-80; [P2], release pp.3-4, 10. Liquidity includes undrawn revolving credit and is not cash on hand. Carnival records cruise deposits and advance onboard purchases as customer deposits when received. It recognizes cruise revenue on completion for voyages of ten nights or less, and pro rata for longer voyages. Thus, not all deposit liabilities remain outstanding until the end of a voyage. The company reports adjusted free cash flow as one driver of debt paydown, but it does not disclose a discretionary cash pool for the choices in this exercise. [P2], release pp.12-13.

A competitive market

Royal Caribbean Group reported FY2023 net yields up 13.5% in constant currency compared with 2019; net cruise costs excluding fuel per available passenger cruise day were up 7.9% on that basis. It expected 2024 capacity growth of 8.5% and said bookings were at record rates and volumes. The comparator suggests strong demand and investment across the sector, but the companies use different yield/cost definitions, fiscal calendars, fleets and brand portfolios. It does not identify Carnival’s relative execution or customer price sensitivity. [P4], FY2023 earnings release, pp.1-3, 5-6.

Carnival also had announced Celebration Key, an exclusive destination under development on Grand Bahama, with first guest calls planned for July 2025. By December 2023 Carnival said hundreds of sailings involving 18 ships and nine homeports had been announced. The development and itineraries were already underway; public materials in this packet do not disclose project economics or realized guest spending. [P2], release p.2; [P3], slide 18; [P5],

dated announcement and itinerary release.

Two commercial emphases

Pricing and cabin-inventory emphasis. Give greater weight to the price and availability decisions that match each itinerary, departure date and cabin type to the booking curve. Carnival already described revenue-management execution as a commercial priority and said its strategy was to base-load bookings. A price-led approach could protect yield as new capacity enters the fleet. It also raises questions: How much price variation can customers accept? Could a fare change shift demand among the company's own dates, brands or cabin types? What booking or cancellation signals should constrain action?

Marketing and trade demand-generation emphasis. Sustain or selectively strengthen brand campaigns, digital lead generation and trade relationships to bring forward bookings and attract new-to-cruise or new-to-brand guests. Carnival said these efforts were supporting booking momentum. More demand can help absorb capacity and build a longer booking pipeline; it can also carry expense, and public data do not establish which campaigns produce incremental bookings or whether offers would dilute realized yield.

The alternatives are not mutually exclusive. A recommendation may differ across brands or booking stages, but should explain the choice rather than assume that stronger demand or higher prices automatically create better cash generation.

Questions for discussion

1. What does Carnival know about demand and booking quality at the cutoff? Which signals are bookings, forecasts or completed-voyage results?
2. Which commercial lever should receive greater emphasis: pricing/inventory management or marketing/trade demand generation? What is the best argument against your choice?
3. How could Carnival distinguish incremental demand from bookings that would have occurred anyway? What data would be needed?
4. Which operating indicators and guardrails should leadership monitor as capacity grows and costs rise?
5. How should high leverage, committed capital expenditures and customer deposits affect the commercial decision without turning adjusted free cash flow into a fictional budget?

Sources and conventions

P1. Carnival Corporation & plc, FY2023 Form 10-K, filed 26 January 2024, accession 0000815097-24-000011. [SEC filing index](#); [10-K HTML](#). Item 7, "2023 Executive Overview," p.47; Statistical Information, p.52; consolidated results and discussion, pp.54-57; Note 2, "Revenue and Expense Recognition" / "Customer Deposits," p.72; Note 5, debt, pp.76-80.

P2. Carnival Corporation & plc, Q4/FY2023 earnings release, furnished as Exhibit 99.1 to Form 8-K, 21 December 2023, accession 0000815097-23-000071. [SEC release](#). Relevant release pages 1-4 and 10-13.

P3. Carnival Corporation & plc, Q4 2023 earnings presentation, 21 December 2023. [Issuer PDF](#), slides 2-10, 18 and 23-27.

P4. Royal Caribbean Group, Q4/FY2023 earnings release, filed 1 February 2024, accession 0000884887-24-000003. [SEC release](#), pp.1-3, 5-6.

P5. Carnival Cruise Line, Celebration Key announcement, 28 August 2023, and itinerary release, 28 September 2023. [Announcement](#); [itinerary release](#).

All forecasts and management explanations are attributed. Net yield, adjusted EBITDA and adjusted free cash flow are non-GAAP measures; use their company definitions. No post-cutoff operating result is included.