

Norwegian Cruise Line Holdings: Should Four Ships Move from MOA to Contract?

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The decision

Norwegian Cruise Line Holdings (NCLH) was working to reduce leverage while pursuing fleet growth. At the cutoff, four proposed Norwegian Cruise Line ships for delivery in 2030, 2032, 2034, and 2036 remained memoranda of agreement (MOAs), subject to Board approval, with financing under negotiation. NCLH's Q3 results release, published at 7:00 a.m. that morning, referred generally to 13 additional ships through 2036. It did not update the status of these four MOAs.

Assume you advise NCLH's Board. Should it authorize moving the four MOAs toward effective contracts? If so, what approval sequence and financial, demand, and financing gates should apply? You may recommend advancing, delaying pending information, or stopping. This is a classroom decision; no private company proposal or Board deliberation is represented here.

A growth opportunity with a long runway

NCLH operated three brands: Norwegian Cruise Line, Oceania Cruises, and Regent Seven Seas Cruises. Large ships could extend Norwegian's capacity and support the company's long-term growth strategy. Long lead times create time to develop itineraries and sell future voyages, while new ships may offer operating efficiencies or distinctive guest experiences. Those benefits depend on demand, deployment, costs, and returns that public sources do not quantify for the proposed vessels.

The four Norwegian MOAs were not four effective ship contracts. NCLH's June 2024 Form 10-Q said they were subject to Board approval and financing negotiations. They were expected to replace two effective but unfinanced Oceania orders for 2030 and 2031. The proposed Norwegian ships were each about 225,000 gross tons with roughly 5,100 berths; the Oceania ships were each about 86,000 gross tons with roughly 1,450 berths. NCLH expected the Oceania ships to be cancelled. Their replacement could trigger up to €51 million in contract-price adjustments on other applicable ships. The public filing did not disclose the MOAs' price, deposits, termination rights, or final contract clauses. [1]

The replacement relationship makes the choice a fleet-mix decision as well as a growth decision. Four larger Norwegian ships would alter brand and berth mix relative to two smaller Oceania ships. Public disclosures do not estimate whether Norwegian demand would be incremental, whether guests would substitute among NCLH brands, or how the ships would affect capacity by itinerary and delivery year.

Capital discipline and the delivery pipeline

NCLH reported total debt of \$13.4 billion and trailing net leverage of 5.58x at September 30, 2024. Management expected year-end leverage near 5.4x and reiterated its 2026 goals of mid-four-turn net leverage and 12% Adjusted ROIC. These are management targets, not debt covenants. Adjusted ROIC is a company-defined non-GAAP measure. The Q3 release also reported \$2.4 billion of liquidity, including cash and borrowing capacity; the full amount was not unrestricted cash. [2]

Existing ship commitments already occupied a substantial part of the capital plan. At June 30, NCLH disclosed a minimum ship-construction payment schedule totaling \$11.166 billion for effective contracts. The schedule included two Oceania ships then expected to be cancelled or replaced, and excluded the four Norwegian MOAs. NCLH expected export-credit financing to cover about 80% of qualifying effective ship contract costs, subject to conditions. That financing reduces expected cash outlay while adding debt; the disclosure does not establish financing for the four MOAs. [1]

The October 31 release forecast net newbuild cash capital expenditures, after expected export-credit financing, of approximately \$0.3 billion in 2024, \$0.8 billion in 2025, and \$0.9 billion in 2026. It forecast about \$575 million in 2024 non-newbuild capital expenditures. These company estimates cover the near-term plan, not the full contract price or cash needs of the proposed Norwegian ships. [2]

Recent operating performance supported the growth argument. NCLH reported Q3 revenue of \$2.8 billion, up about 11% with 4% capacity growth, Adjusted EBITDA of \$931 million, and 8.7% reported net yield growth (9.0% in constant currency). Management cited demand and pricing, especially in Alaska and Canada-New England, as well as onboard spending. It said most bookings for 2025 and beyond were at the upper range of its optimal booked position. These company-wide results and booking indicators do not establish a demand curve or return for any ship in the 2030s. [2]

What the evidence can support

Two academic studies offer lenses, not a forecast. Drakos and Tsouknidis studied 2,592 monthly observations across nine dry-bulk and tanker vessel classes from 1996 through 2019. Their models associated greater uncertainty with lower investment triggering and smaller investment size; resale-market reversibility dampened some effects. Their results can prompt questions about waiting, irreversibility, and residual value. They are not cruise-ship or NCLH estimates, and their coefficients cannot be transferred to these MOAs. Cruise ships may have different demand, brand, onboard revenue, itinerary, and resale economics. [3]

Syriopoulos, Tsatsaronis, and Gorila compared three listed cruise groups using 2016-2019 financial and market data. Their historical analysis estimated NCLH's 2019 ROIC at 9.8% and WACC at 8.07%, among other ratios. It provides a framework for considering return and leverage together, but predates the pandemic and does not estimate returns on new ships. It cannot show whether the MOAs meet NCLH's current Adjusted ROIC target. [4]

The Board's choice

An early move toward contract could preserve access to long-dated capacity or shipyard timing, if those benefits and the MOA terms support it. Waiting could preserve flexibility while NCLH learns more about demand, financing, and its existing delivery pipeline. Stopping could protect capital for debt reduction or other uses. The value and cost of each path depend on terms the public record does not disclose.

The Board must distinguish an MOA from a firm order; the four ships from the broader 13-ship statement; a replacement of two Oceania orders from four purely incremental ships; expected export-credit support from financing commitments; and strong current bookings from ship-specific demand in 2030-2036. It must also decide how much confidence to place in management's leverage and return targets while the company is still carrying substantial debt and existing construction obligations.

What should the Board authorize now? Specify the conditions for any next step, the evidence that would change your recommendation, and the downside protections needed to preserve leverage and return objectives.

Exhibit 1. Selected facts at the cutoff

Item	Publicly reported information	Boundary for the decision
Four Norwegian ships	MOAs for 2030, 2032, 2034, 2036; about 225,000 GT and 5,100 berths each	Subject to Board approval; financing under negotiation at June 30; Q3 release did not update ship-specific status
Oceania orders	Two effective but unfinanced ships for 2030/31, about 86,000 GT and 1,450 berths each	Expected to be cancelled in replacement plan; up to €51m contract-price adjustments on other applicable ships may result
Effective ship commitments	\$11.166bn minimum construction payments at June 30	Includes Oceania contracts expected to be cancelled/replaced; excludes Norwegian MOAs
Financing	Export credit expected to fund about 80% of qualifying effective-ship contract costs	Subject to conditions; does not prove financing for the Norwegian MOAs
Debt and leverage	\$13.4bn total debt; 5.58x trailing net leverage at Sept. 30	Company-defined leverage measure; not a covenant
Management targets	Year-end 2024 net leverage near 5.4x; 2026 mid-four-turn leverage and 12% Adjusted ROIC	Forward-looking management goals; Adjusted ROIC is non-GAAP
Q3 trading	\$2.8bn revenue; \$931m Adjusted EBITDA; net yield +8.7% reported	Aggregate quarterly performance; not ship-level demand or project return
Near-term capex outlook	Newbuild capex net of expected export credit: \$0.3bn / \$0.8bn / \$0.9bn for 2024 / 2025 / 2026; non-newbuild 2024 capex ~\$575m	Company forecast; not full ship price or long-term cash requirement

Sources: NCLH Q2 2024 Form 10-Q, pp. 20-21, 35-36; NCLH Q3 2024 results release, “Third Quarter 2024 Highlights,” “Liquidity and Financial Position,” “2024 Outlook,” and “Capital Expenditures”; May 20, 2024 “Charting the Course” release. See source list below for links.

Exhibit 2. Questions for a contract gate

Before authorizing an effective contract, what would the Board need to know about:

- MOA price, deposit, deadlines, cancellation and replacement clauses, escalation, and the value or cost of keeping the slot;
- ship-specific financing coverage, rate, currency, conditions, covenants, and cash exposure;
- project-level incremental returns and downside performance relative to an explicit hurdle;
- whether capacity is replacement, net addition, or a mix by brand, delivery year, and itinerary;
- demand, pricing, utilization, onboard contribution, and cannibalization across Norwegian, Oceania, and Regent;
- liquidity and leverage after existing effective contracts, non-newbuild capital needs, and stress cases; and
- stage gates that would allow NCLH to defer, resize, or terminate without unacceptable cost?

These are questions for analysis, not terms or forecasts disclosed by NCLH.

Discussion questions

1. What exactly is the Board deciding, and which public facts establish the status of each ship group?
2. How does the expected replacement of two Oceania ships change the strategic and financial comparison?
3. Which arguments favor advancing toward contracts, waiting, or stopping? What assumptions drive each?
4. How should NCLH evaluate shipyard-slot value, long lead times, reversibility, and fleet substitution given the limits of the academic evidence?
5. What contract, financing, return, demand, and leverage gates should apply? Which should be hard constraints and which should trigger further review?
6. What information would most change your recommendation, and how could NCLH obtain it before final approval?

Sources

1. Norwegian Cruise Line Holdings Ltd., [2024 Q2 Form 10-Q](#), filed August 8, 2024, pp. 20-21, 35-36.
2. Norwegian Cruise Line Holdings Ltd., [Q3 2024 results release](#), October 31, 2024, published 7:00 a.m. ET; [“Charting the Course” strategy release](#), May 20, 2024. The Q3 release and its 8-K were public before the 8:30 a.m. cutoff.
3. Konstantinos Drakos and Dimitris Tsouknidis, “Investment under uncertainty and irreversibility: Evidence from the shipping markets,” *International Journal of Finance & Economics* 29(2) (2024): 2139-2154, <https://doi.org/10.1002/ijfe.2779>.
4. Theodore Syriopoulos, Michael Tsatsaronis, and Martha Gorila, “The global cruise industry: Financial performance evaluation,” *Research in Transportation Business & Management* 45 (2022): 100558, [full text](#).

Cutoff note: The Q3 results call was scheduled for 9:00 a.m. ET and is excluded. The Q3 Form 10-Q filed November 7, 2024, is excluded. Neither the call/transcript nor the later filing informs this case.