

Geometrica Fund

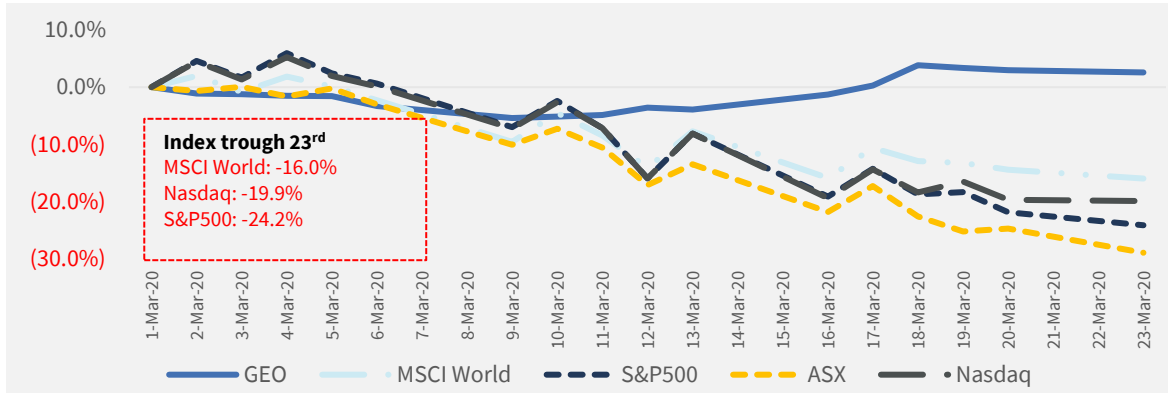
Absolute return

July 2024



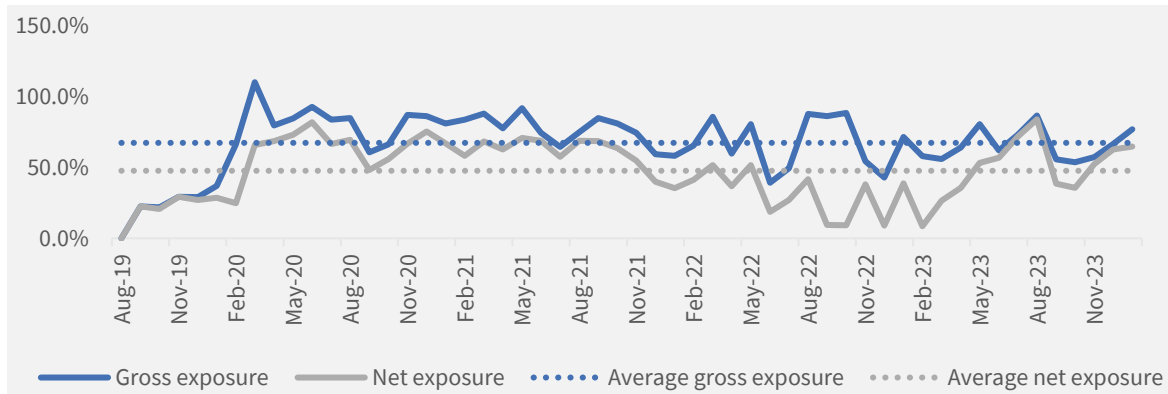
Carnival Corporation (CCL.US)

History of protecting capital in difficult market conditions...



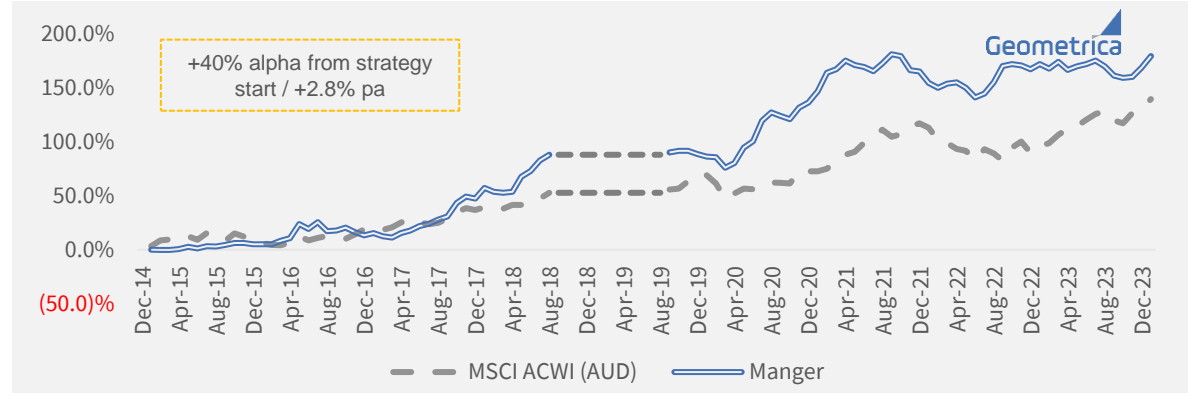
S&P500 is S&P500 Total Return Index, ASX is S&P/ASX200 Total Return Index

With typically low leverage...



Source: Geometrica

...allowing compounding returns



Source: Mainstream, ASX announcements, Geometrica and Bloomberg. Performance is after all fees. Performance period is from January 2015 (excluding the period of September 2018 – August 2019; Manager left CVF in August 2018 and began Geometrica in September 2019). MSCI = MSCI ACWI (AUD).

...driven by data based stock picking

What we DON'T do

- Invest based on consensus views, i.e. doing the same thing as everyone else...
- ...as this tends to lead to mediocre returns

Geometrica's Approach

- Find situations where a perceived **contrarian** outcome is in reality the probable outcome
- Data-driven / evidence-based** investment process
- Invest for the period of time where non-consensus change occurs, driving earnings surprise and multiple expansion.

Carnival Cruises – Thesis Summary

Why will the shares go up?

Why is CCL cheap?

1. **Funding required to survive covid** has negatively impacted the Balance Sheet & diluted equity holders
2. Scepticism of forward demand in **current macro-economic environment**

Ticket price growth

- To drive earnings much higher than currently anticipated by the market;

Fleet management

- Has structurally improved CCL's earnings power which will become visible over the next 12-24 months.

Free cashflow inflection

- To accelerate debt paydown
 - Decades low order book drives a “Capex cliff”
 - Working capital tailwinds (customer deposits) and limited tax (Panama incorporated)

Enterprise Value

- Increases >50% upon:
 - Earnings growth driven by pricing and structurally higher margins and;
 - Multiple reversion to peers and history due to debt paydown & margin inflection

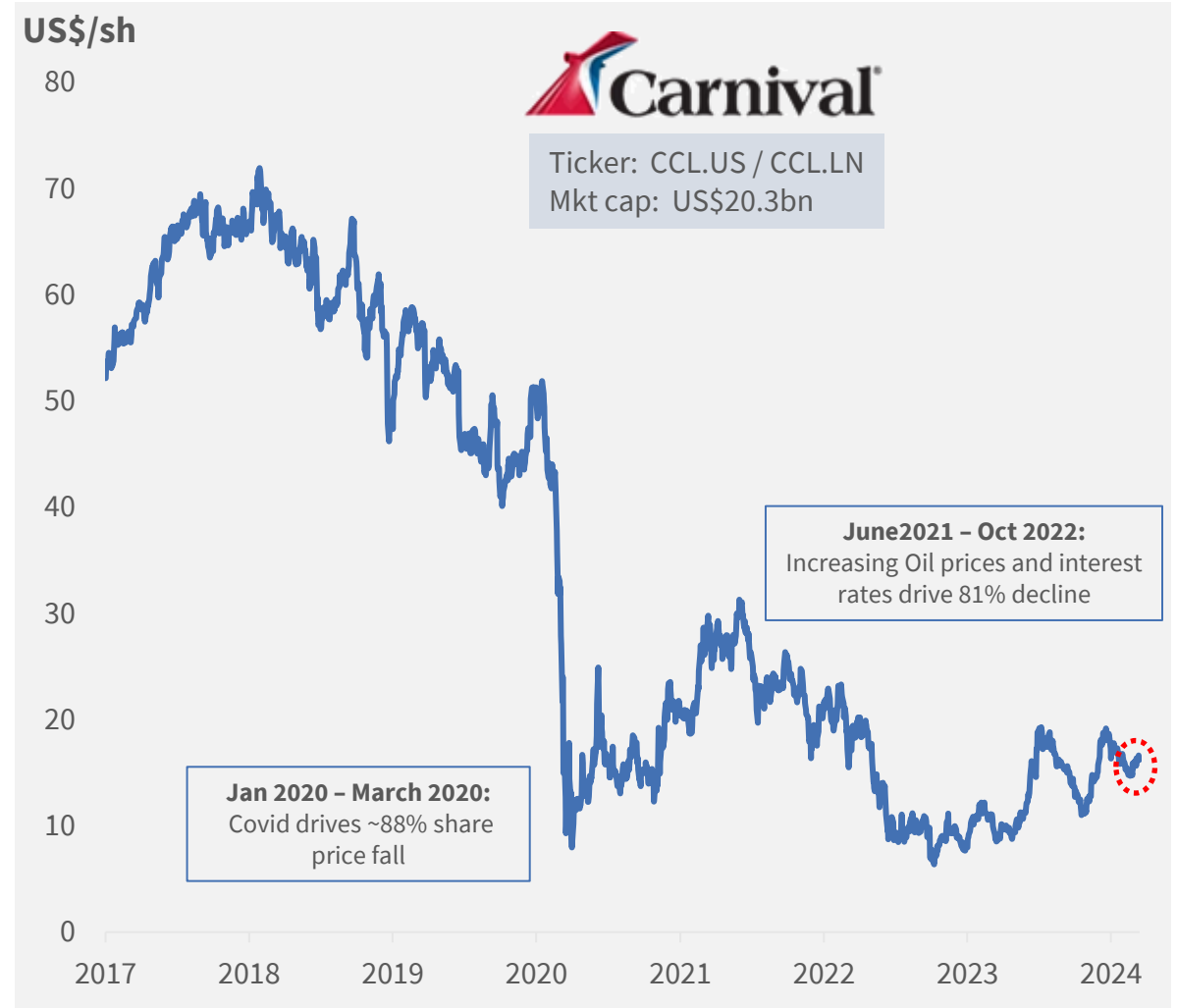
Upside ~3x (\$14.06 buy price)

- Vs current levels over 24 months:
 - Enterprise Value growth of >50% as above (which doubles the equity)
 - Deleveraging drives further 50% equity accretion

Introduction

Carnival Cruises

- **Largest cruise ship operator in the world**, 37% of global industry capacity
 - 12.5m passengers in 2023 across a fleet of 92 ships and 10 different brands;
 - Industry historically generated mid teens RoE
- **Oligopoly industry structure.** Top 4 operators account for ~80% of global capacity;
 - High barriers to entry: financing, shipbuilding, scale, port access.
- **Secular growth:** Passengers & Capacity growing ~5-6%, 30yr CAGR. Volume growth has come with pricing growth of 1-2% p.a.
- **High fixed cost business**, pricing is managed to fill ships
 - Serve Western customers with staff from low labour cost countries
- **High Free Cash flow:** Minimal tax (Panama incorporated), large reduction in order book post covid, rapid deleveraging to reduce interest costs
- **Founder led:** Founded in 1972 by the Arison Family, Micky Arison is current Chairman & 2nd largest shareholder having served as CEO for 34 years



Source: Bloomberg, Geometrica

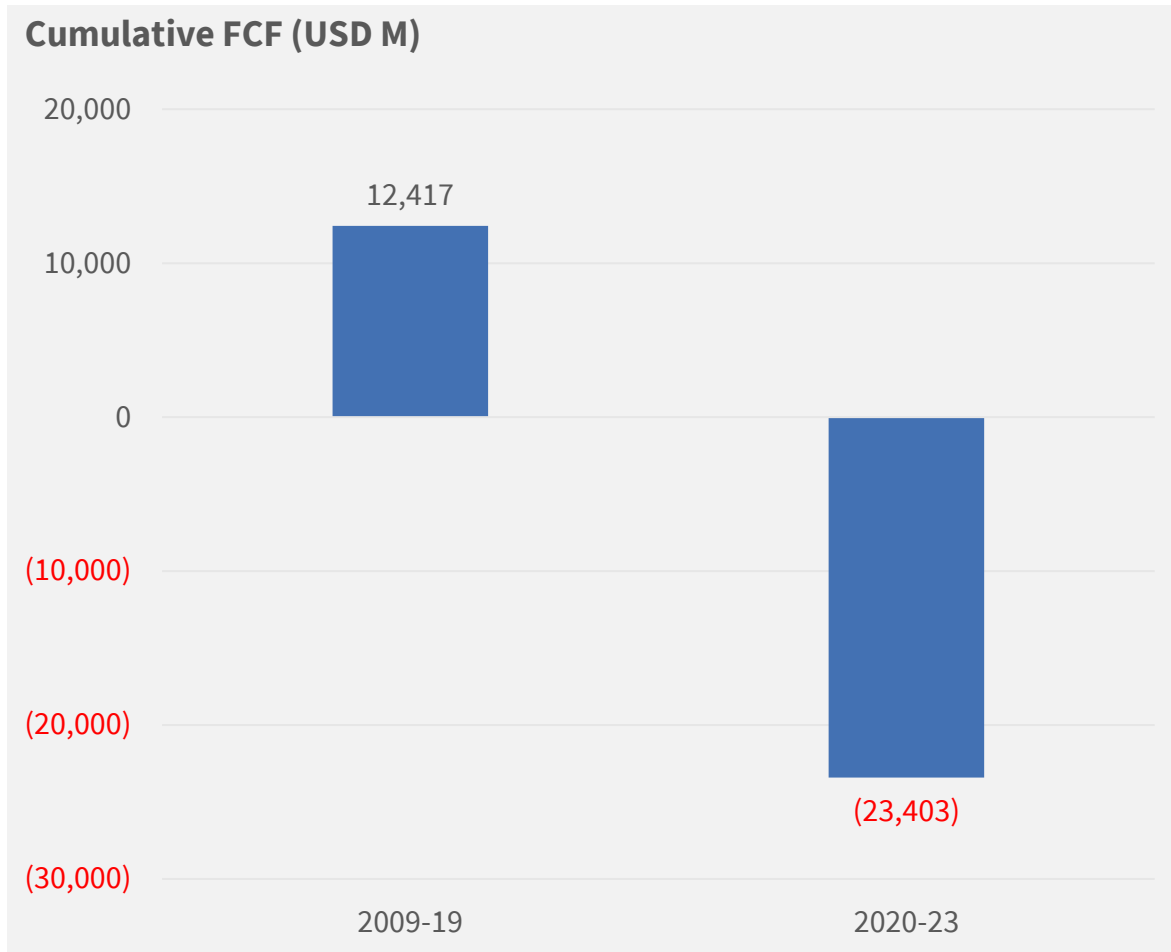
Covid 2020-2022...for cruise lines...THE Perfect Storm

- **Unprecedented hard stop** of operations due to COVID-19;
 - Paused cruises in March 2020
- No USA cruises until July 2021, following **CDC enforced shutdown**.
 - A phased resumption from mid 2021 - 2022
 - Depressed occupancy levels until mid 2023
- **Negative publicity** from media and **multiple lawsuits**
- Revenues & cash receipts went close to zero , but **significant commitments remained:**
 - Customer Refunds
 - Wages & other opex
 - Ship lay-ups
 - Debt Servicing
 - Capital expenditure
- No government bail-outs (they don't pay tax)
 - “flag of convenience”, CCL Panama registered



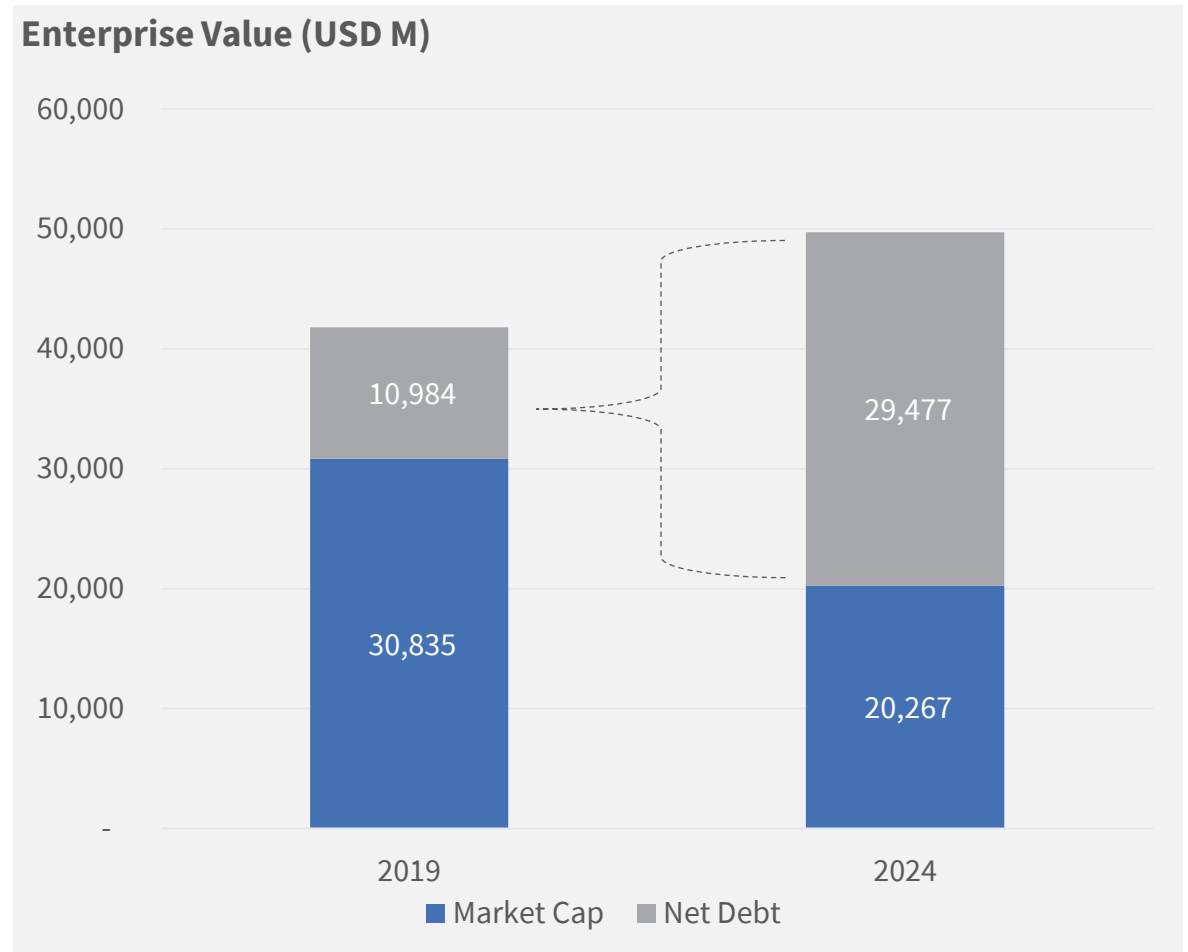
Covid losses drove significant debt funding needs...

-\$23b cashflow post COVID: 115% of current market cap and ~2x last 11 yrs FCF



Source: Company Materials, Bloomberg, Geometrica

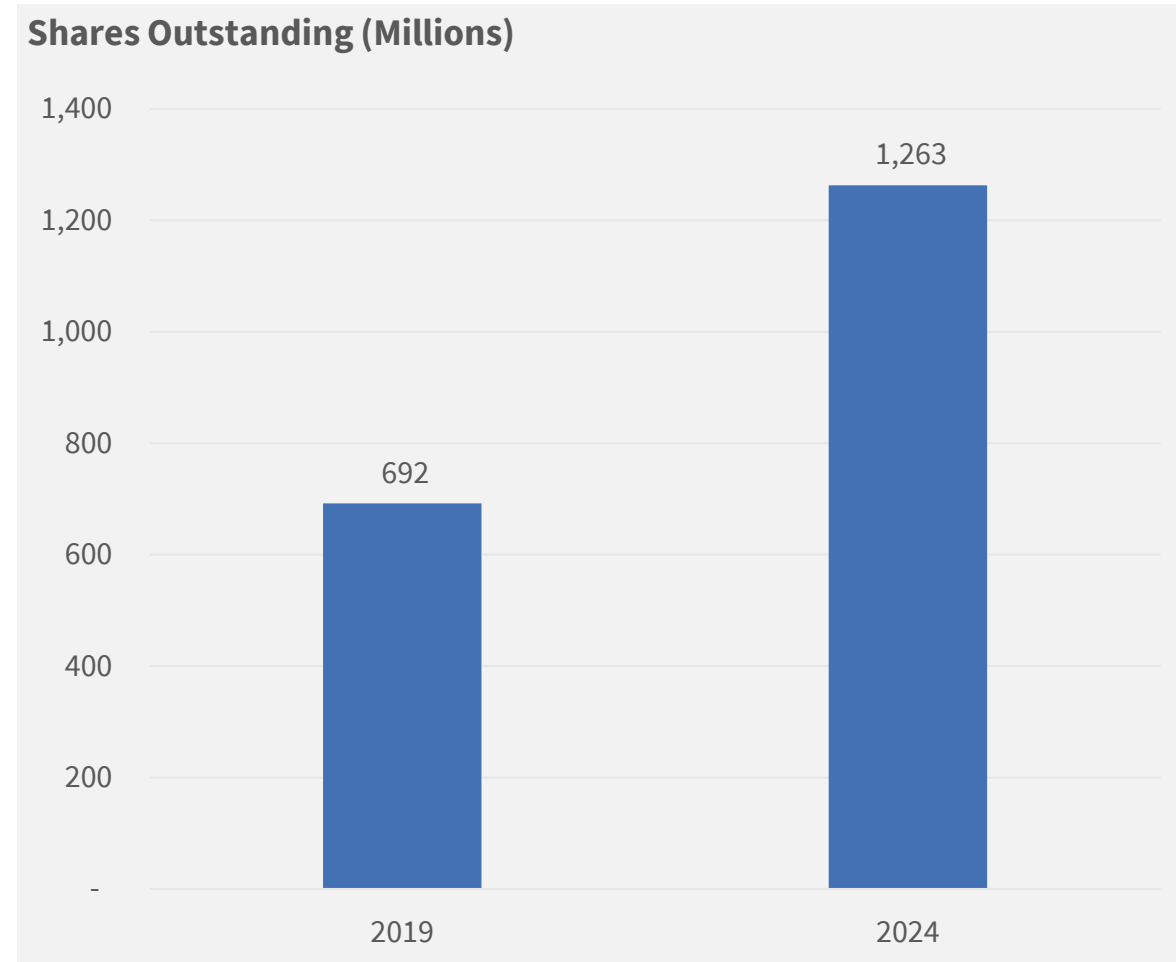
Partial EV recovery, but Net Debt ~3x 2019 level, crushing equity value



Source: Company Materials, Bloomberg, Geometrica

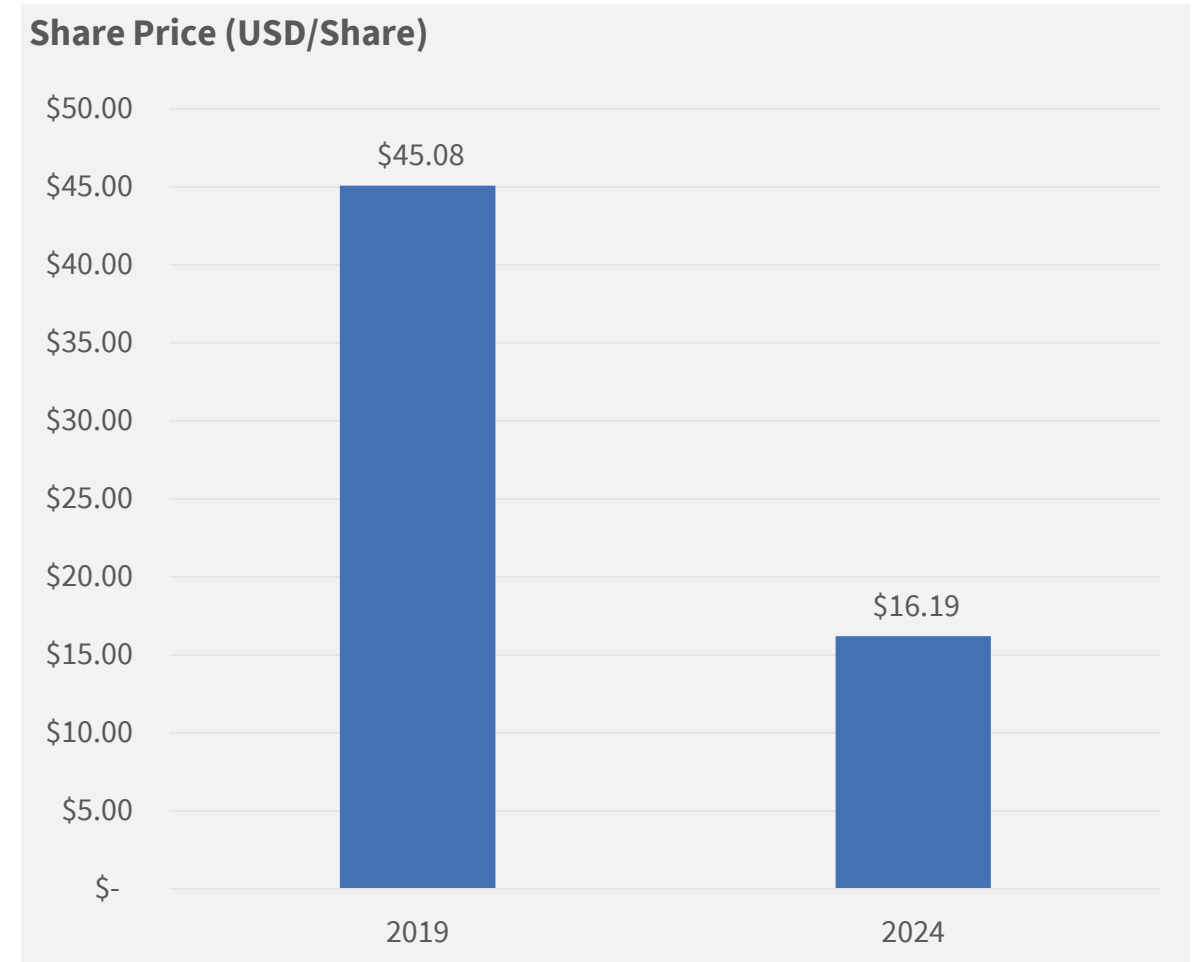
...in addition to highly dilutive equity raises

CCL forced to raise \$5.4b capital at depressed valuations



Source: Company Materials, Bloomberg, Geometrica

Shares -65%, driven by debt & equity funding required to survive COVID



Source: Company Materials, Bloomberg, Geometrica

Industry Fundamentals

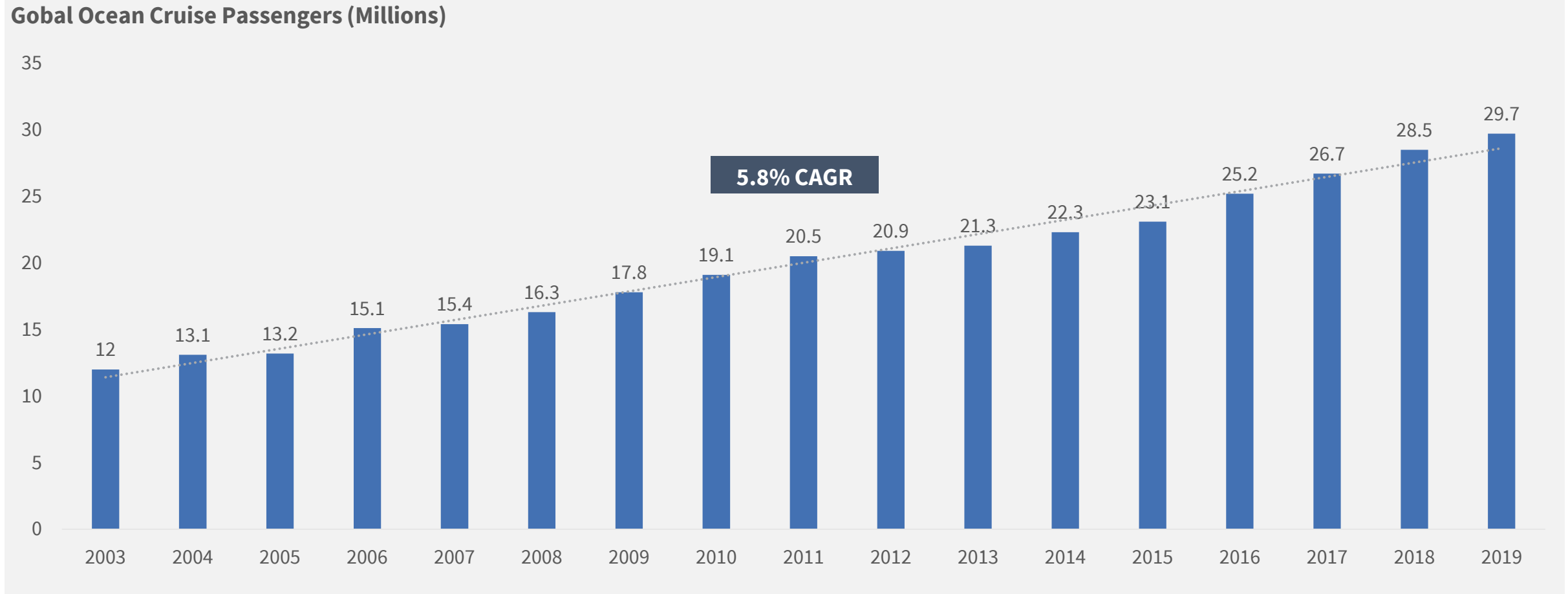
Value destruction from covid obscured a favourable industry backdrop

Cruise Industry Attributes

- **Highly consolidated:** Top 4 players control 80% of capacity. Top 3 prioritizing debt repayment over capacity growth.
- **Strong value proposition:** 25-50% discount to land-based alternative equivalents + visit multiple destinations. Beneficiary of “trading down”
- High **barriers** to entry: financing, shipbuilding, scale, port access
- **Recurring** revenue streams: ~55% of customers are returning guests
- High value **advance deposits** providing visibility of demand for next 12 months
- Onboard revenue streams from **captive audiences**

Value destruction from covid obscured a favourable industry backdrop

Durable demand growth: Industry volumes growing 5-6% p.a, yields 1-2% p.a

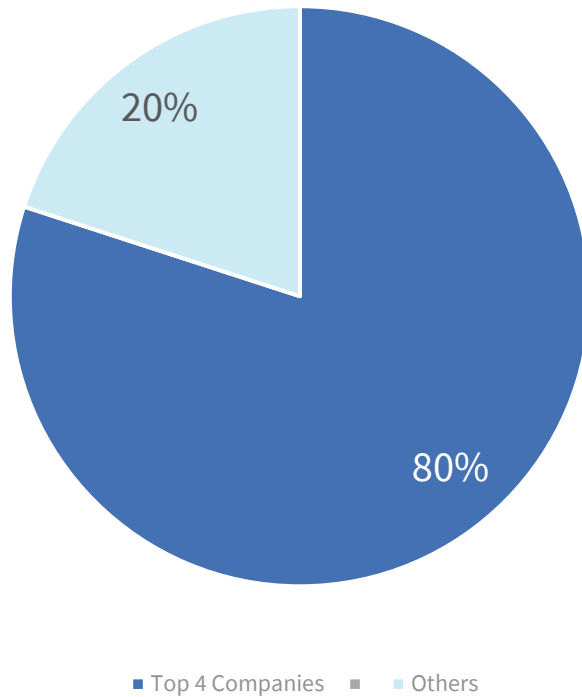


Source: Company Materials, Geometrica

Value destruction from covid obscured a favourable industry backdrop

Consolidated Industry: Top 4 control 80% of capacity

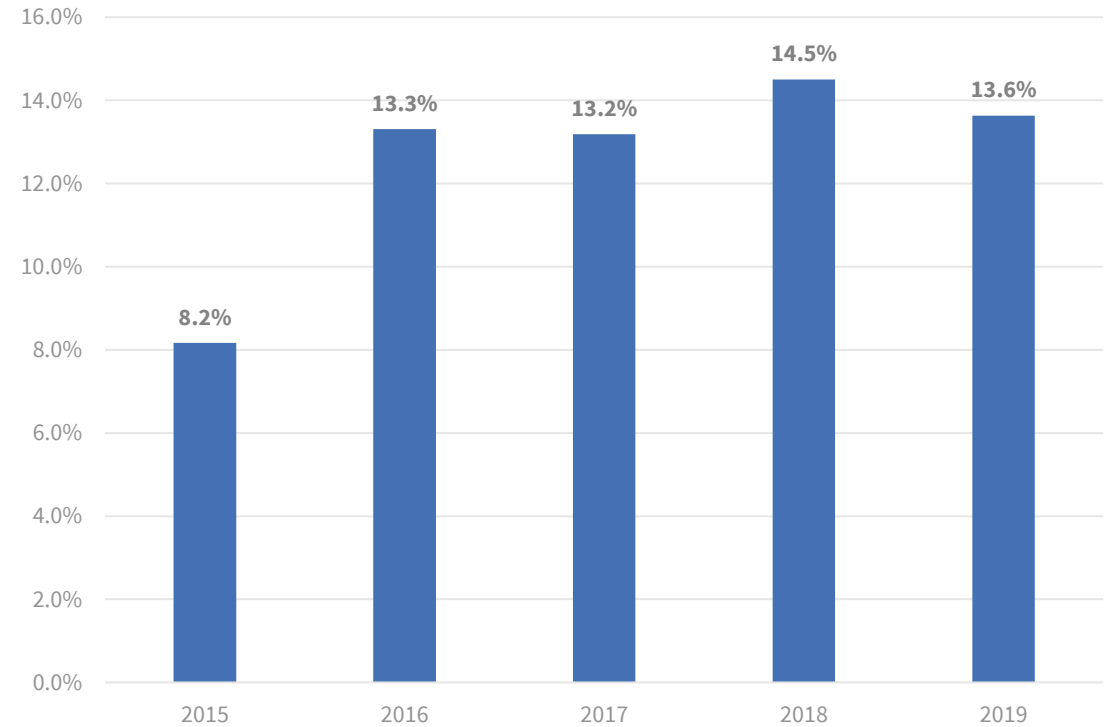
Global Cruise Industry: Passenger Capacity



Source: Company Materials, Geometrica

History of attractive returns

Industry ROE

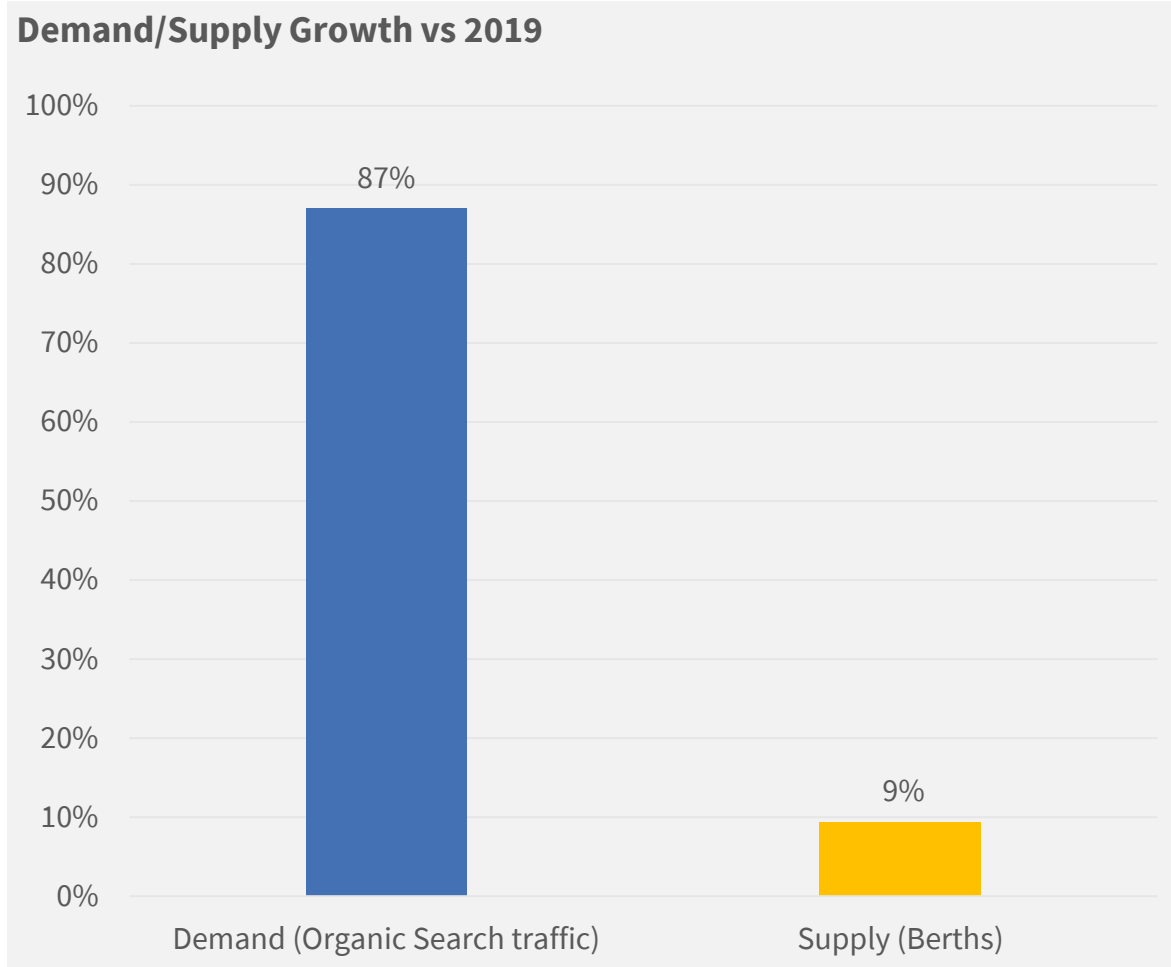


Source: Company Materials, Bloomberg, Geometrica

Thesis Point #1: Ticket pricing growth

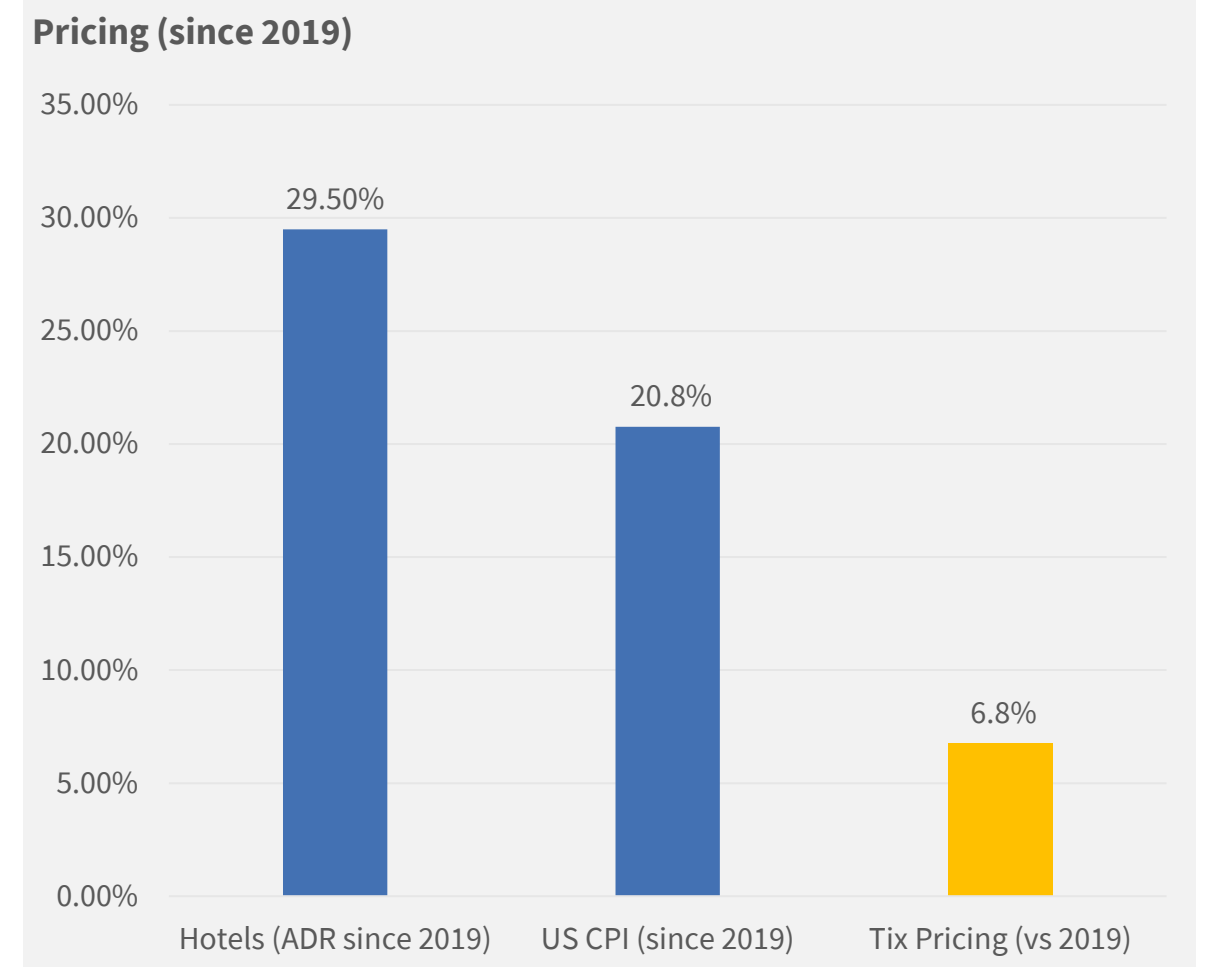
Demand has now come roaring back ... But pricing is down vs 2019 (inflation adj.)

Demand & Supply Imbalance...



Source: Company reports, Geometrica

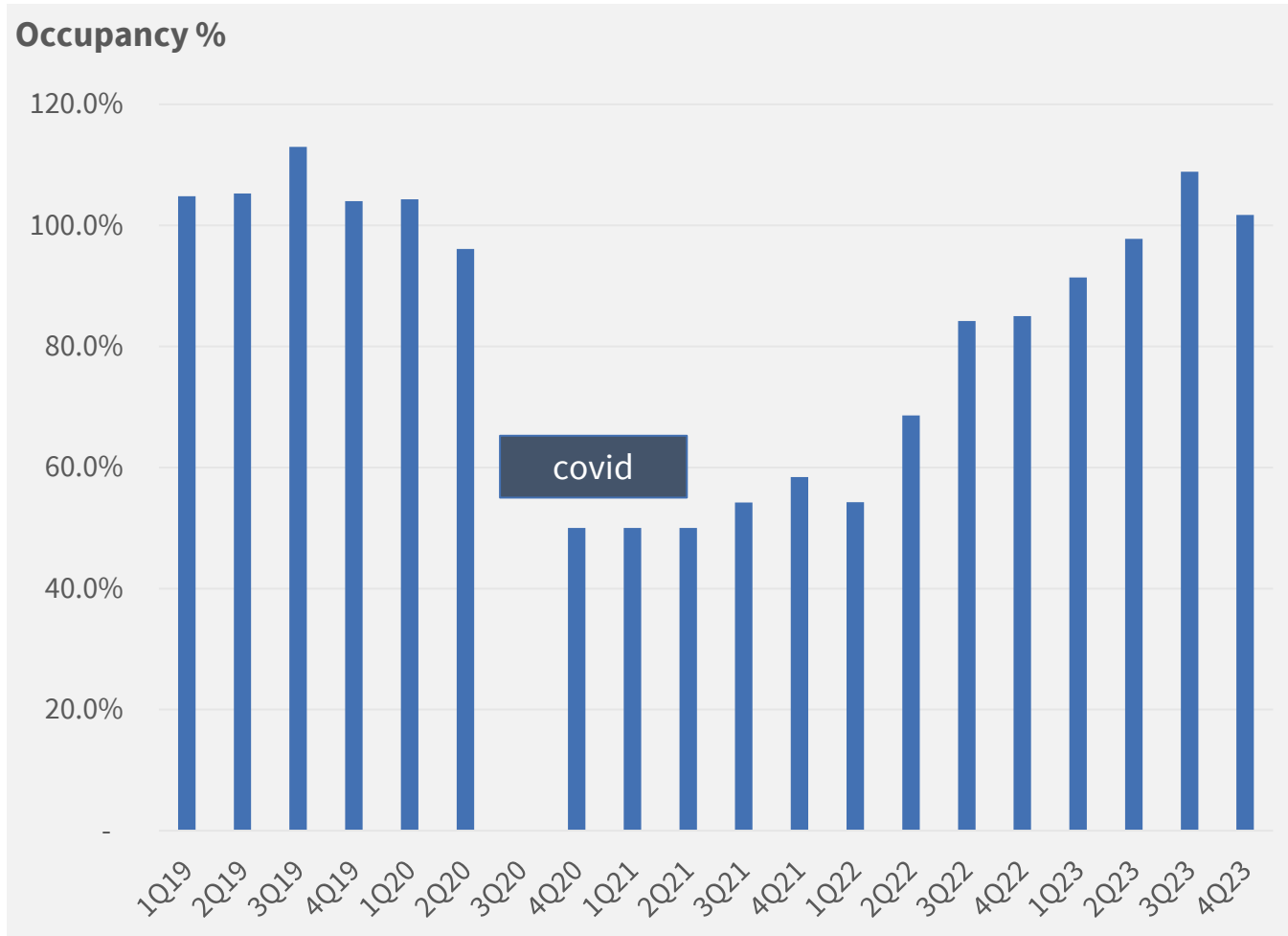
Yet pricing has gone backwards on inflation adjusted basis



Source: Company reports, Co-Star, US Bureau of Labor Statistics, Geometrica

Since COVID, the focus has been on filling the boats

Occupancy is only now just back to pre-COVID levels

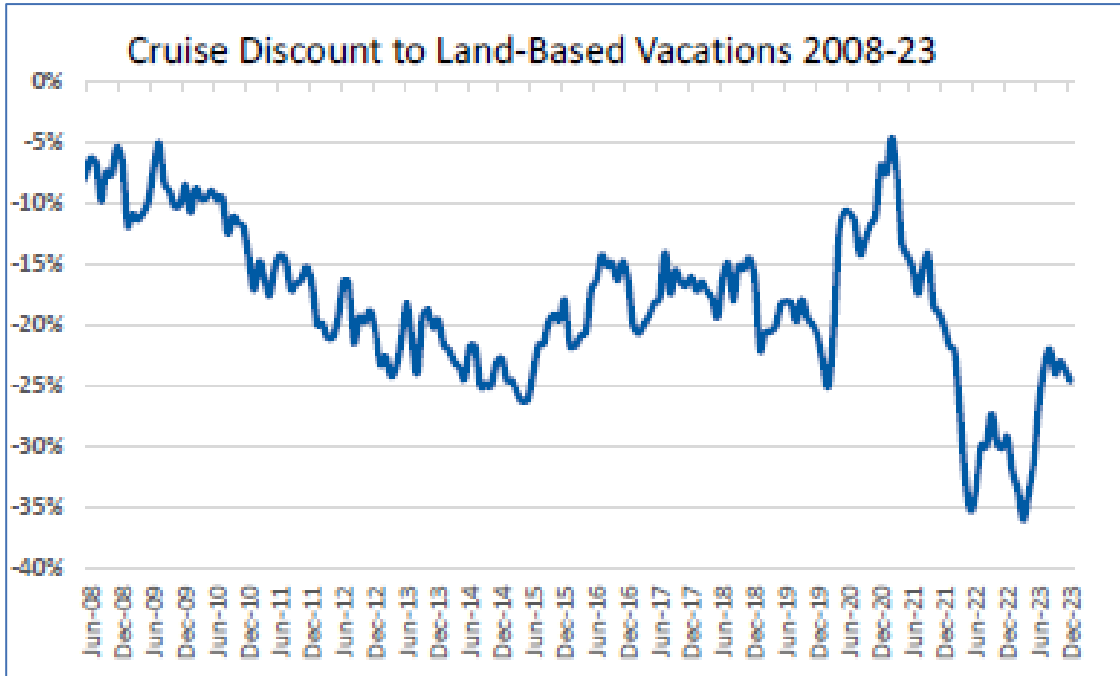


Source: Bloomberg, Geometrica

“Last year... a lot of what we were trying to accomplish **was just filling the ships** because we were in such a different position from an occupancy perspective.”
- CEO, Josh Weinstein Dec 2023

The Discount to Land Based Vacations has widened

Discount to land based vacations provides pricing power



Source: Morgan Stanley, Geometrica

Unpack once to...

| Visit Multiple Destinations | |
|--|---|
| And Enjoy Dozens of Included Onboard Amenities | |
| Art Exhibitions | ✓ |
| Bars and Restaurants | ✓ |
| Broadway-Style Production Shows | ✓ |
| Comedy Club | ✓ |
| Cooking Demonstrations | ✓ |
| Fitness Center | ✓ |
| Game Shows | ✓ |
| Kids Camp | ✓ |
| Live Music | ✓ |
| Mini Golf | ✓ |
| WaterWorks | ✓ |
| Additional Amenities | |
| Premium F&B Options | ✓ |
| Bolt Sea Coaster | ✓ |
| Casino | ✓ |
| Photography Studio | ✓ |
| Shops | ✓ |
| Spa | ✓ |

➔

25% - 50%
Discount vs.
Land-Based Offerings

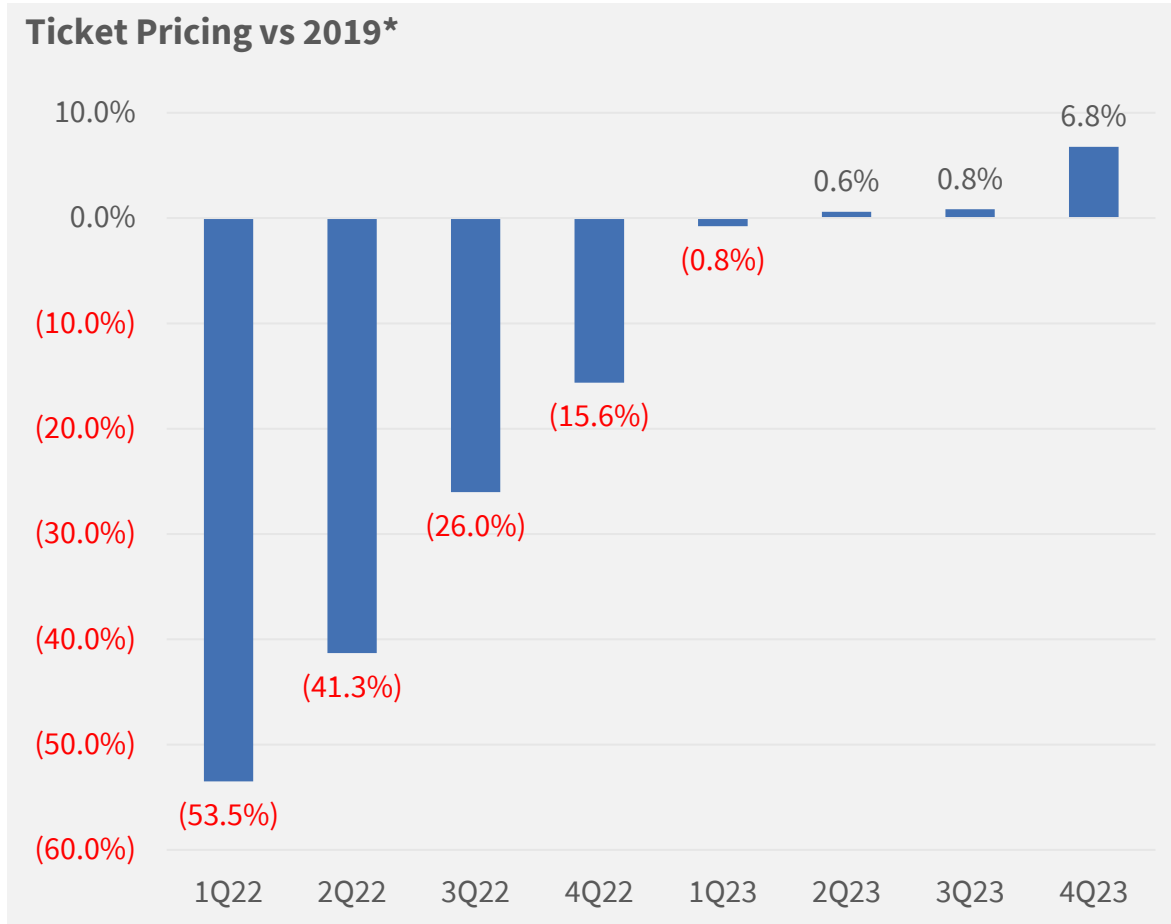
Source: Company Materials

“As we’ve improved on the pricing front in 2023, it’s still a big gap versus land. So all of those things are wind at our backs and I expect more of that over time.”

- Josh Weinstein, CEO, December 2023

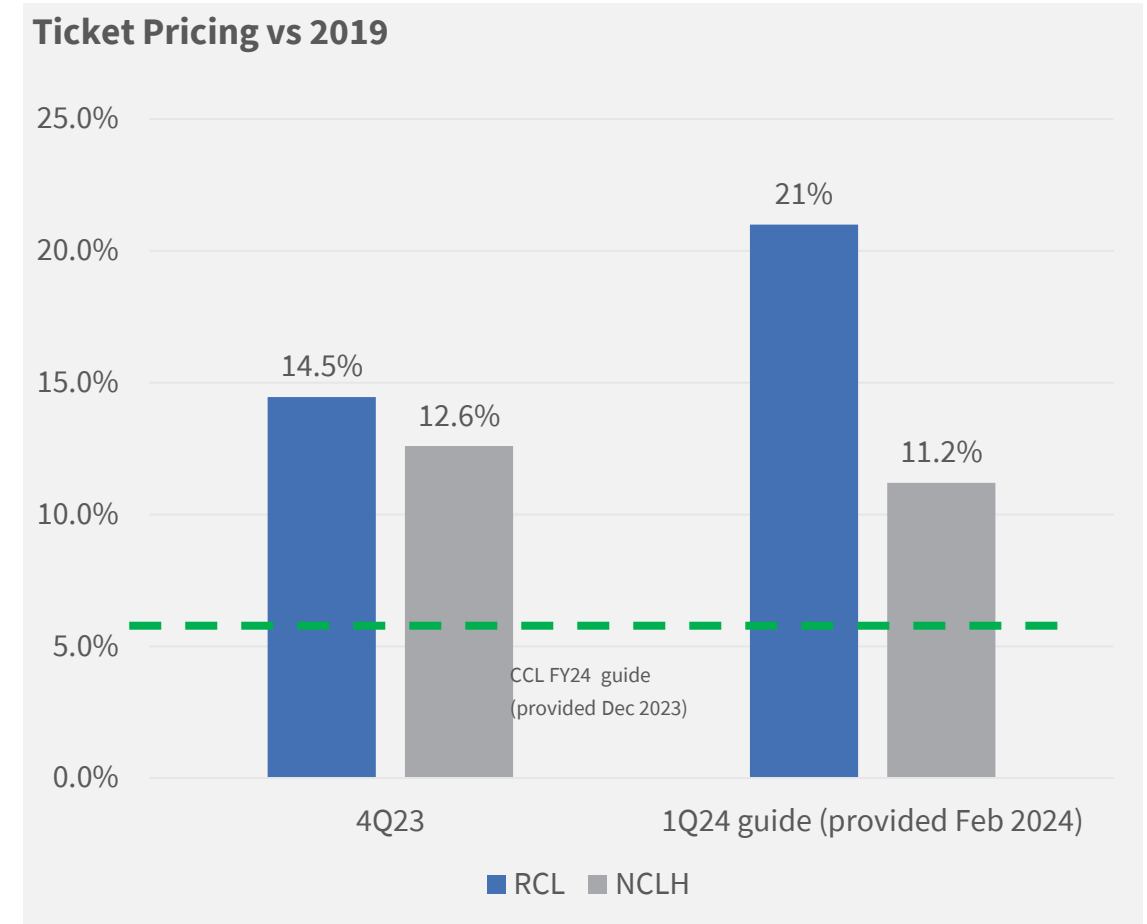
Pricing is now starting to respond...

CCL's ticket Pricing +6% in 4Q23



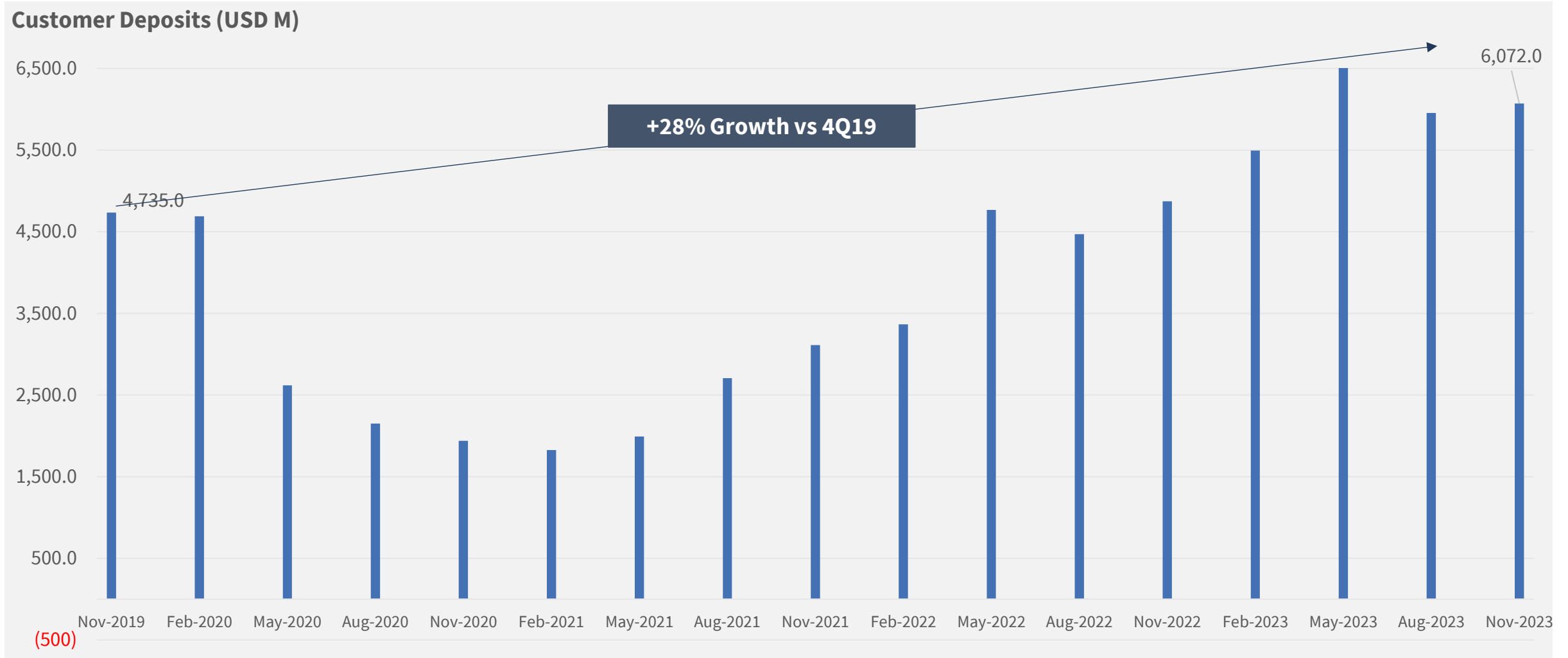
Source: Company Materials, Geometrica

Peers guiding up to +21% tix pricing growth in 1Q24



* CCL has a November Year End whilst comps have a December Year End. CCL Reported 4Q23 and provided guidance in December 2023, whilst peers reported and provided guidance in February 2024. Peers pricing guidance is significantly ahead of CCL's we assume in part due to benefitting from seeing 2024 YTD trading trends.

Customer Deposits: a lead indicator for pricing

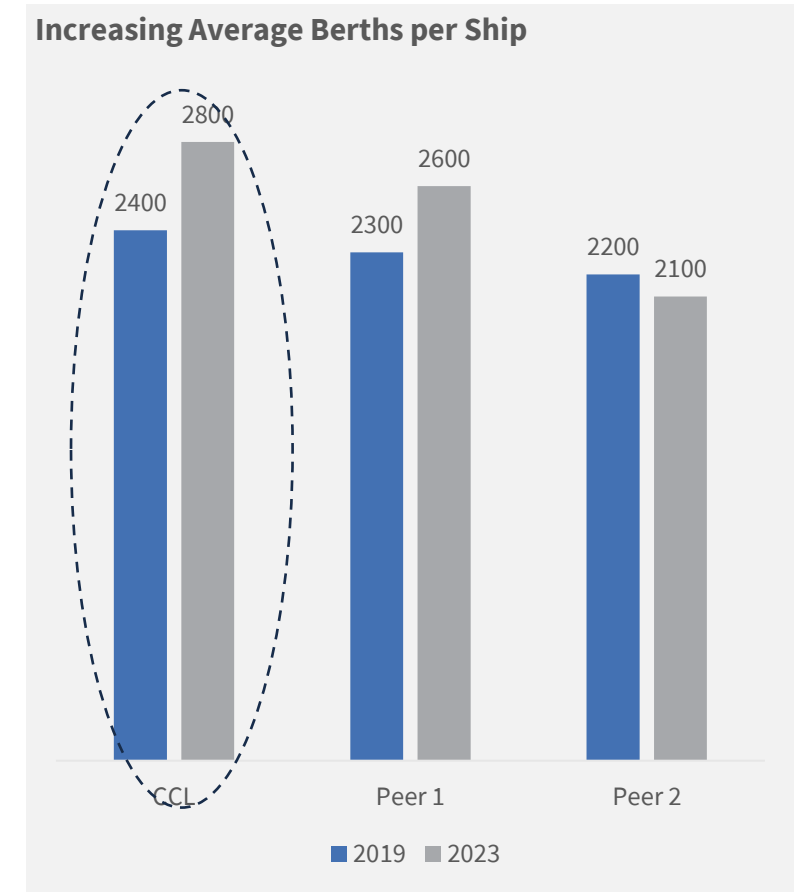
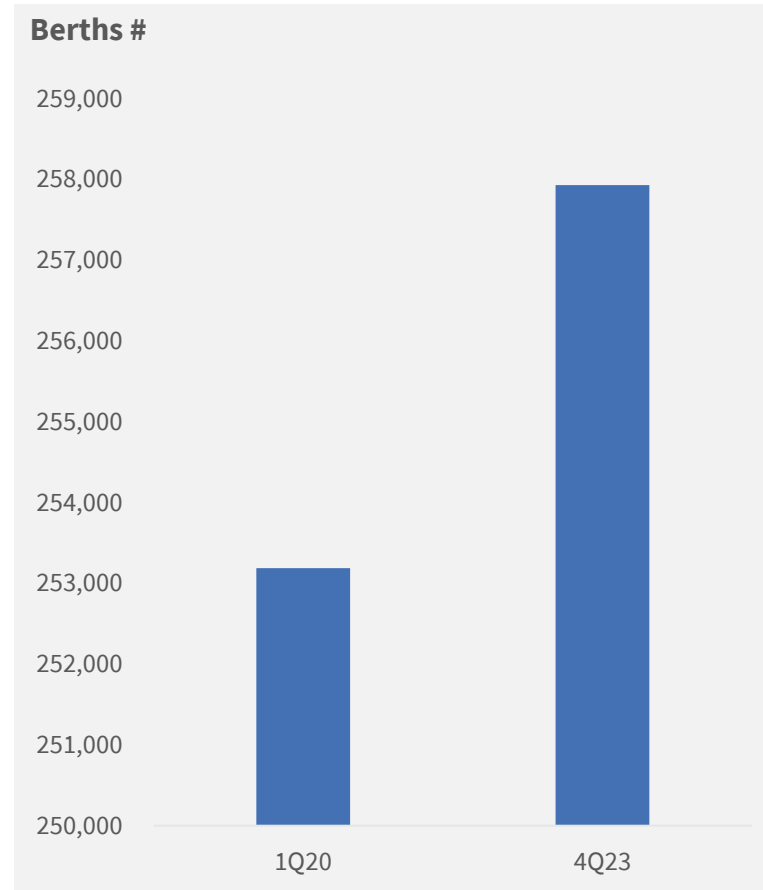
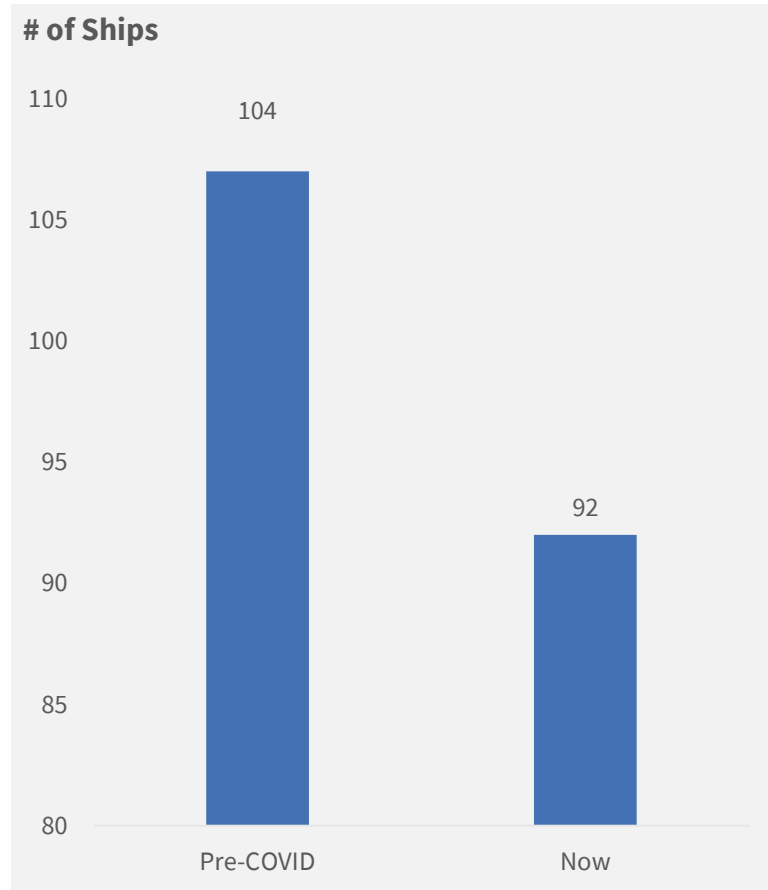


Source: Company Materials, Bloomberg, Geometrica

Thesis Point #2: Margin Expansion Above Expectations

Fleet Management has structurally lowered unit costs...

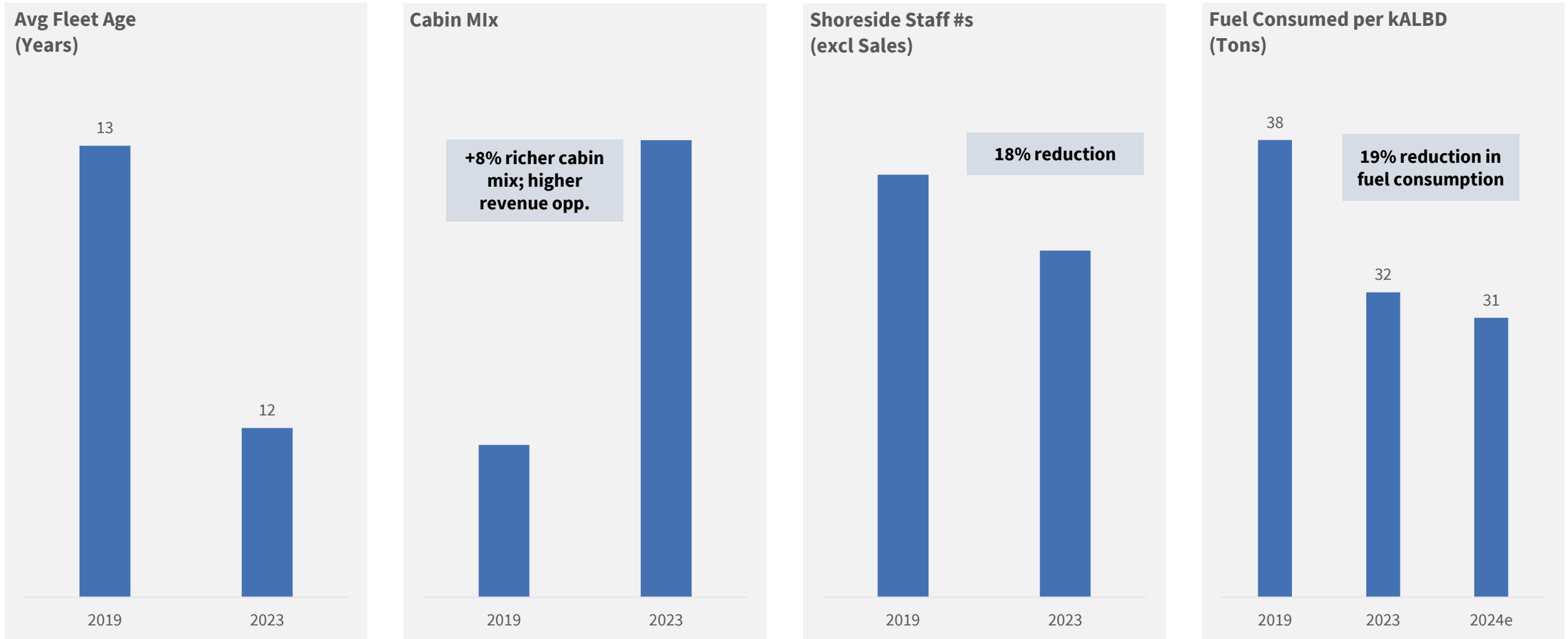
Ship additions (14) and removals (26) since covid has increased capacity but also Margin potential



Source: Company Materials, Geometrica

...driving increased EBITDA margin potential

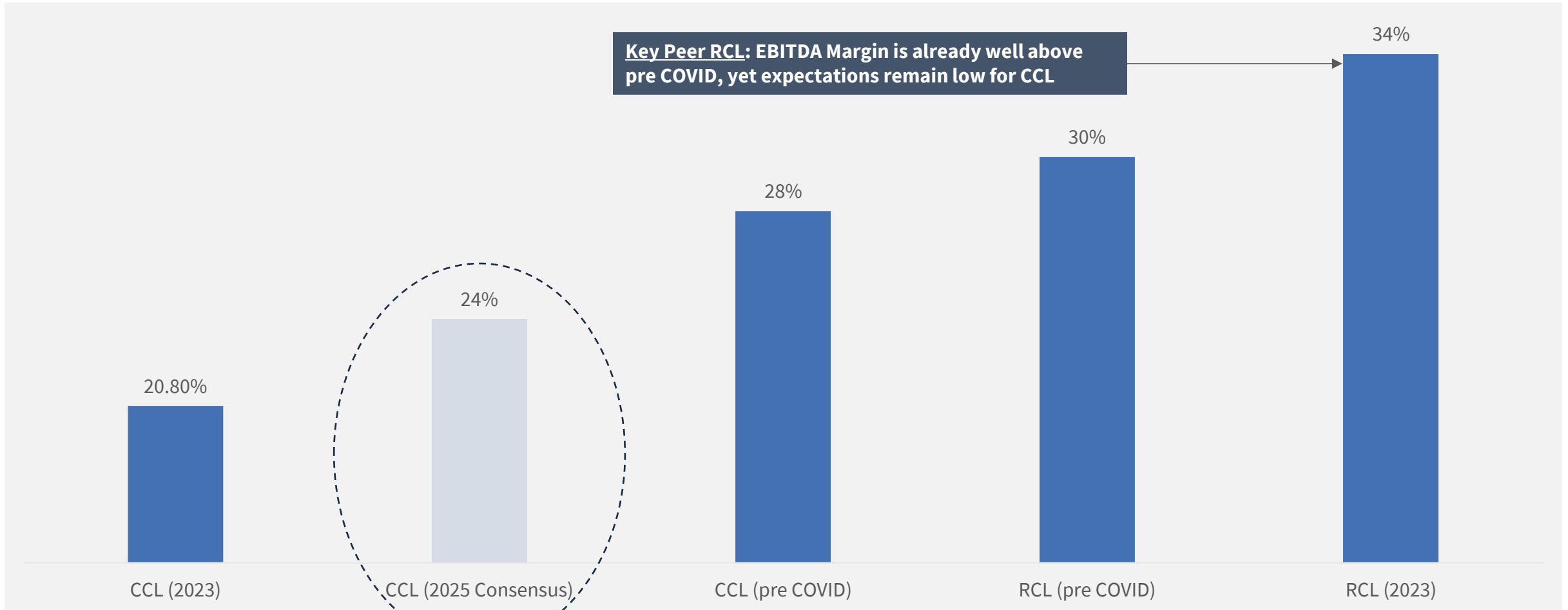
Younger & larger ships likely to drive higher prices and structurally lower costs



Source: Company Materials, Geometrica

Yet margin expectations remain depressed

Expectations for CCL's margin are low vs history and peers

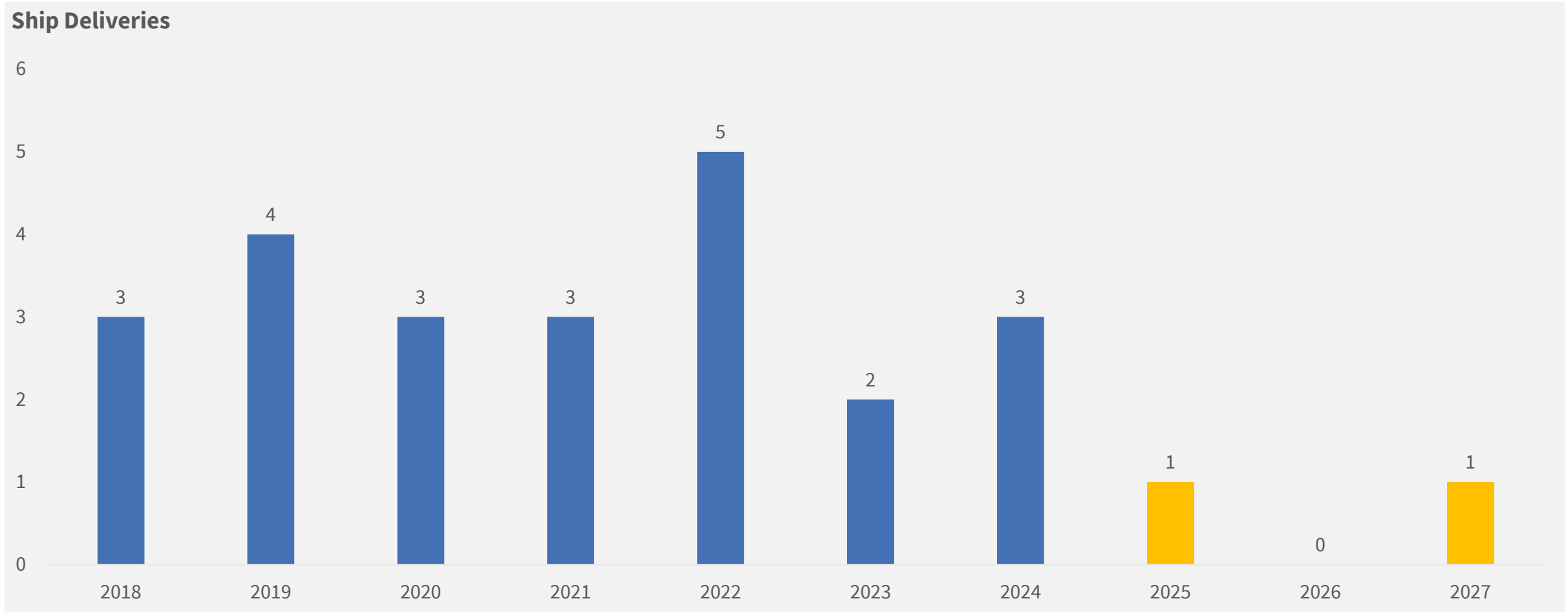


Source: Bloomberg, Geometrica

Thesis Point #3: Free Cashflow to drive Deleveraging

Deleveraging: 'Capex cliff' is approaching

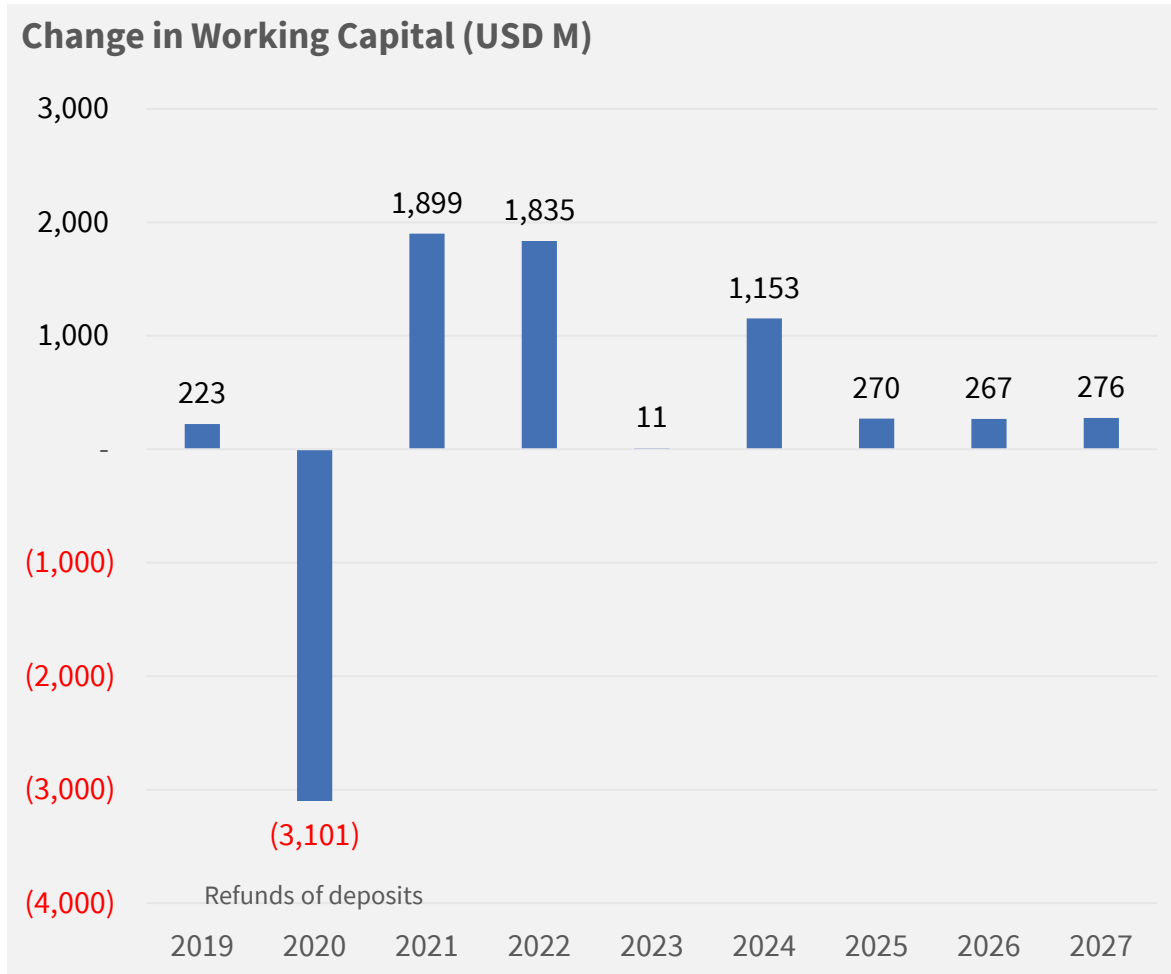
Each new ship costs ~\$800m ... Given a stretched Balance Sheet, order book is at a multi-decade low.



Source: Company materials, Bloomberg, Geometrica

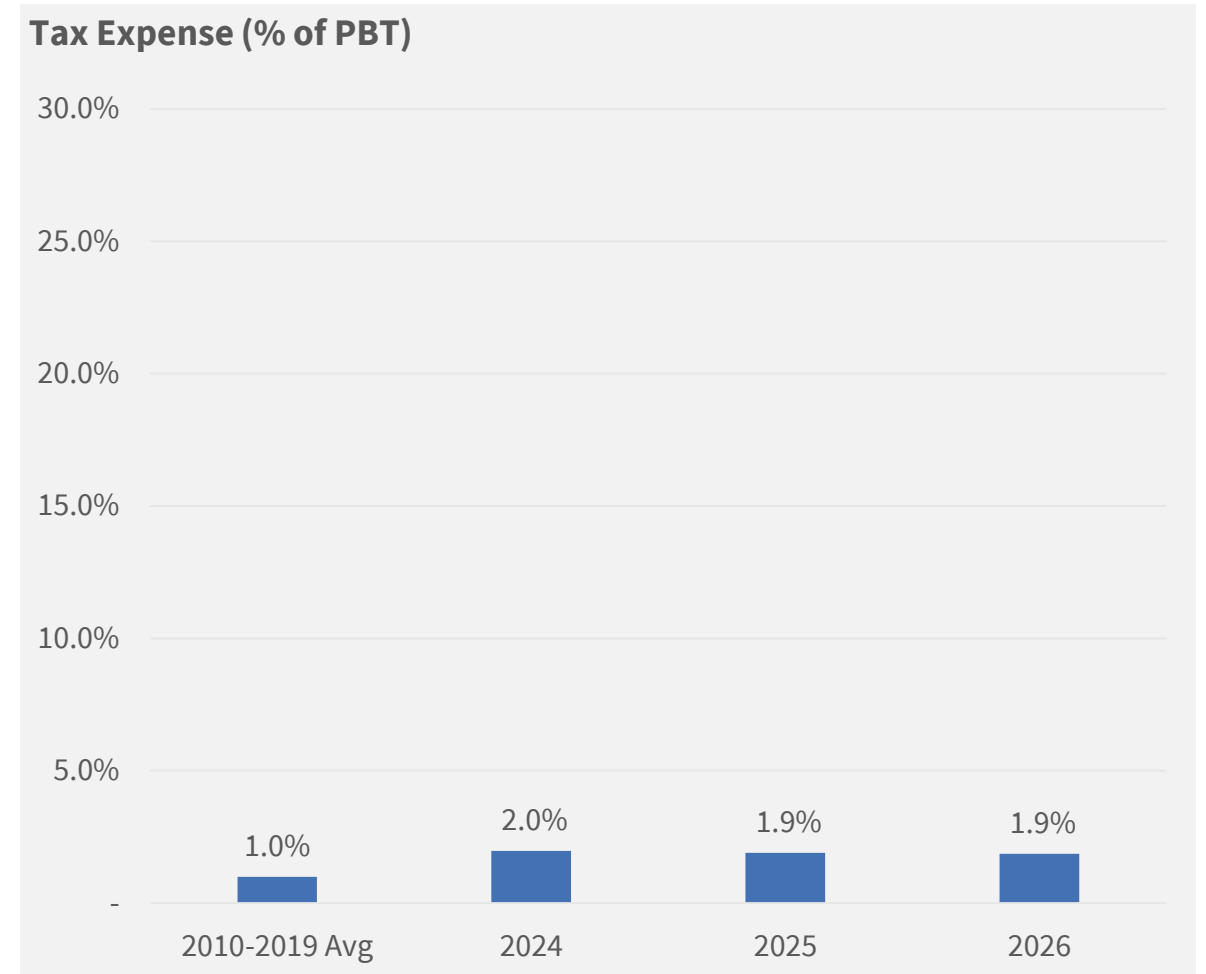
Deleveraging: Working Capital tailwinds, low tax

Working Capital a tailwind driven by growing customer deposits



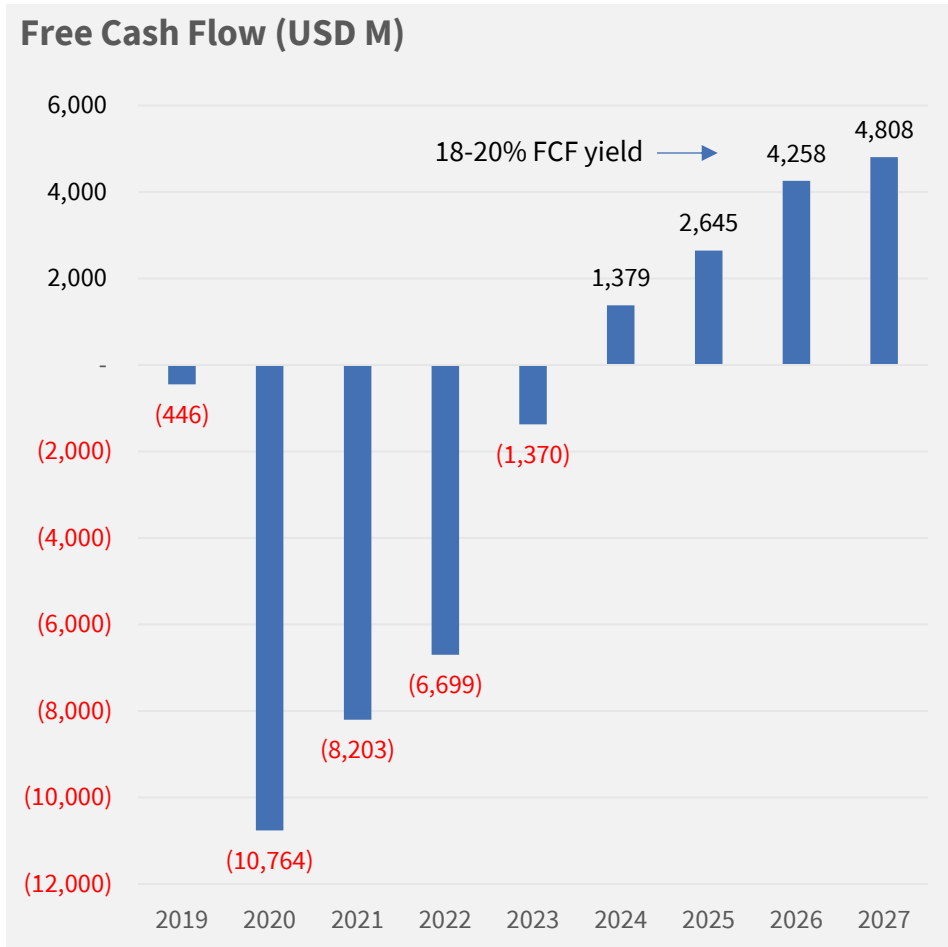
Source: Company materials, Bloomberg, Geometrica

Low tax burden, Panama incorporated

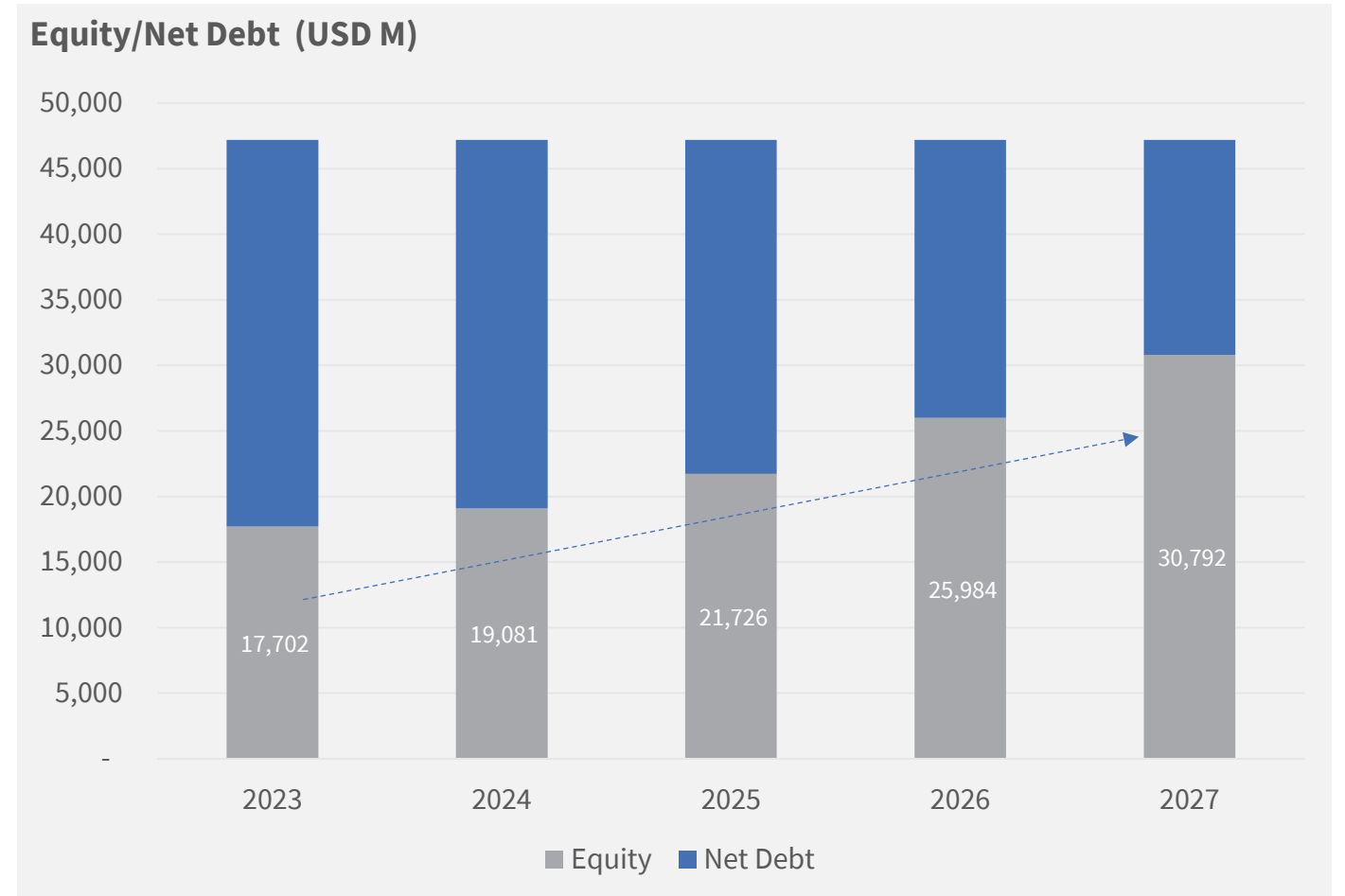


Free Cashflow will enable accelerated deleveraging, driving the value of equity

Significant FCF inflection approaching



Even assuming no growth in EV, Debt paydown offers large Equity upside



Source: Company materials, Bloomberg, Geometrica

*NB, the above assumes all surplus FCF is used to pay down debt, which is management's stated objective

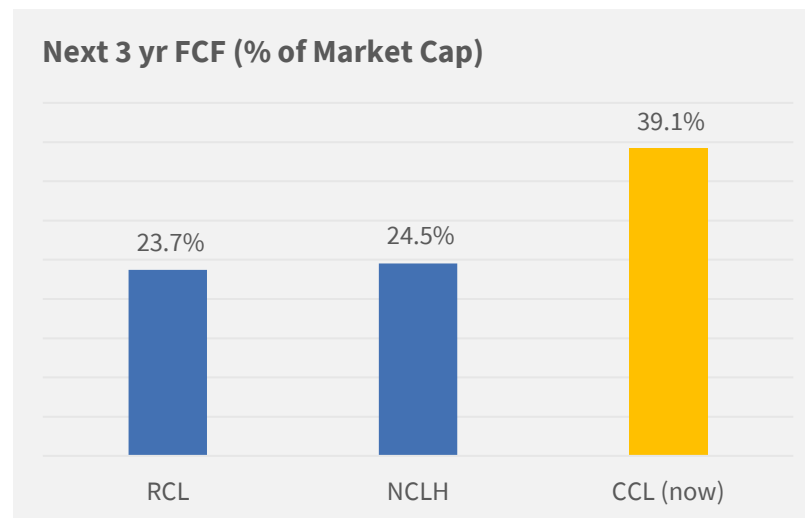
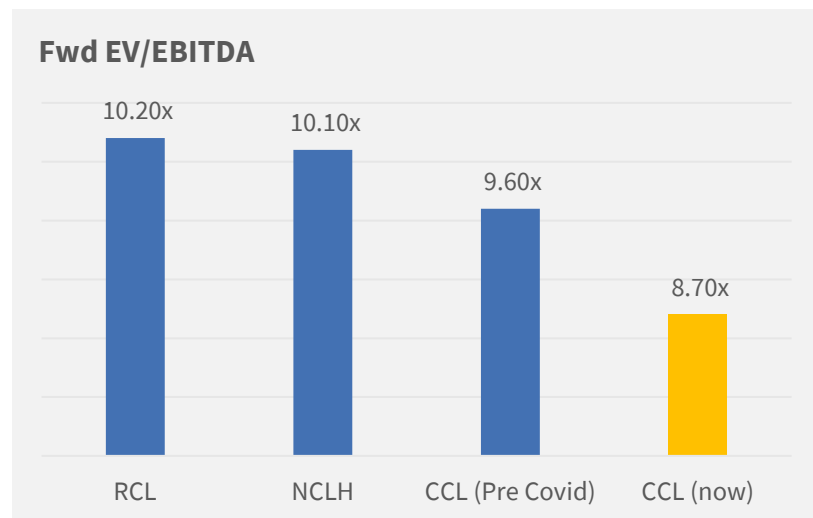
Thesis Point #4: Valuation

Carnival's Enterprise Valuation is dislocated vs peers

Carnival has nearly 2x the capacity to RCL with lower EV

| | Enterprise Value (USD B) | Capacity (2024 Available Passenger Cruise Days (m)) | EV/Capacity |
|------------------|-----------------------------|--|-------------|
| Royal Caribbean | 56.7 | 50.8 | 1.1x |
| Norwegian Cruise | 23.1 | 23.5 | 1.0x |
| Carnival | 50.7 | 96.2 | 0.5x |

CCL's valuation is lower on fwd earnings with significantly higher free cashflow



Source: Company materials, Bloomberg, Geometrica

RCL has a higher multiple due to:

- Higher EBITDA margin (34% vs 20%)
- Lower leverage (4.6x vs 6.6x ND/EBITDA)

As CCL's margins revert and the company deleverages, discount is likely to close

Large Upside – Margin/Multiple Reversion + Debt Paydown

| | 2019 | 2026 | Growth |
|--------------------------------------|---------------|---------------|------------|
| Passengers (Millions) | 94 | 103 | 10.1% |
| \$/tix | \$150 | \$188 | 25% |
| Onboard \$/ person | \$67.4 | \$84.2 | 25% |
| Revenue (USD M) | 20,435 | 28,124 | 38% |
| Pre COVID Margin | | 28% | |
| EBITDA (USD M) | | 7,875 | |
| Pre Covid Multiple | | 10.00x | |
| Enterprise Value (USD M) | | 78,746 | |
| Net Debt (USD M) | | (18,951) | |
| Market Capitalisation (USD M) | | 59,795 | |
| Shares Outstanding (m) | | 1,398 | |
| Target Price (USD/share) | | \$42.8 | |
| Current Price (USD/share) | | 14.06 | |
| Upside | | 204% | |
| ND/EBITDA | | 2.41x | |

Pricing Continues to improve vs 2019 levels driven by demand/supply imbalance

Margin Reversion driven by operating leverage & fleet optimisation

Multiple reversion driven by Margins & leverage normalizing

Low capex allows **accelerated debt paydown**, driving equity accretion

Leverage returns to investment grade

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