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[MUSIC INTRO]

**David Solomon:** Hello everyone and welcome to Talks at GS. I'm excited to be joined today by Frank Del Rio, the President and CEO of Norwegian Cruise Lines, which operates Norwegian Cruise Line, Oceania Cruises, and Regent Seven Seas Cruises.

Frank, it's great to see you. And thank you for joining us.

**Frank Del Rio:** David, it's always good to see you. And thank you for having me.

**David Solomon:** Well, really appreciate it. I would imagine this year has really been, it has to be the toughest one that you've had. I remember touring Norwegian's newest ship, the Regent Seven Seas Splendor with you in February, you know, 14, 15 months ago. It was incredible. It's an incredible ship. And at that point, Norwegian and the other cruise line companies were really expected to have one of the best years ever. Things were really rolling. But then the pandemic obviously changed all that.

Talk a little bit about kind of your sense of the impact that COVID-19 has had on the industry as we look forward.

**Frank Del Rio:** Well, you're right. 2020 was looking great. You know, one of the wonderful things about the cruise industry is you have incredible visibility into the future because people book their cruises six, seven, eight months ahead of time. So, when you and I met in late February, I wasn't worried about the first quarter or second quarter or third quarter. I was worried about 2021 because 2020 was just about done. And we were following 2019, which was a record year. So, it was just everything was coming up aces. We were very happy with our new ship. Just a few months before we had also launched our newest ship on Norwegian brand, Encore. And then the pandemic hit. And, of course, no industry took it on the chin like ours, David. Not only did the government, the US government not give us a penny of relief in any way, shape, or form. There was no program. We did not participate in any of those relief programs. But the CDC shuts us down. So, it's a double negative. And we had to fend

for ourselves.

And that's when you guys came in. And what you guys did for us back at the time when there was still a lot of drama, a lot of concern. No one really knew what the pandemic was going to bring. And for you guys to pull off a simultaneous quadruple tranche, where we raised 2.4 billion dollars in an afternoon to put us out of danger. Because I've got to tell you, while I was talking to your team in the morning, I was talking to bankruptcy council in the afternoon. Because had we not been successful doing what you guys did, we would have had to file.

Because the cruise industry is a heavy asset business. We have very predictable cash flows because of this visibility. We know exactly when the cash is coming in from customer payments. We know when exactly it's going to go out for expenses. And so, we operate, you know, I have a 15 billion dollar asset business. 7 billion dollars in revenue. And I would get upset with my CFO if, at the end of each quarter, we had more than 100 million dollars of cash in the bank. Because why? Do something with it. Don't just let it sit there.

And of course, the whole thing about the pandemic early on was liquidity, liquidity, liquidity.

**David Solomon:** You've argued, and you just articulated again, that the cruise industry was really treated differently compared to other industries that rely on large gatherings. This is with hindsight, but with hindsight, what do you think should have been done differently?

**Frank Del Rio:** You know, one of the things that I think we as an industry did wrong was, we let ourselves be labeled by the CDC as a super spreader, as a petri dish because of the events that occurred on a handful of ships that you all know which ones they are, which companies they emanated from. And we were always on our heels. We thought the issue would go away a lot faster than it did. We didn't want to make waves with our regulator. There had never been a regulator up to that time.

And so, we just allowed ourselves to be put in a corner, be labeled what we were labeled erroneously. And I think that just perpetuated itself. We didn't push back. And you had the upheaval in the Trump administration, what they did with the CDC. Whether they were bullying them or not or influencing them or not, who knows? But it was a series of events that I, if I had to do it all over again, I would have been a lot more

aggressive, a lot more vocal that we should not have been treated differently.

And it's getting a lot better, David. Hopefully we'll talk about that. It's getting a lot better. I think we are days, if not weeks away from being able to restart cruising from US ports. The CDC has really come a long way. But they could have come a long way a while back. You tell me what the difference is between a crowded casino, a crowded hotel resort, an airplane, and cruising. Yet we were treated very, very differently. But now there are vaccines. And as you know, we have committed to having 100 percent vaccinated ships, both crew and passengers. And we think that's what broke the logjam at the CDC. We put them in a corner. We said, "Okay, you won't engage with us," because, by the way, that was our biggest complaint throughout the first 12 months of this pandemic with the CDC is here is a regulator who claims they're your regulator who shuts you down. And no opportunity for conversation. They would literally not talk to us, David, for months and months and months.

So, here I am running a public company shooting in the dark. I have no idea what they have planned for us. What the timeline is. They simply would not engage in any meaningful conversation. And I thought that was just plain unfair.

But like I said, we survived it. We want to put this behind us. And I do believe that we've made a lot of progress with the CDC in the last two or three weeks. And it won't be long now before I invite you back on another cruise ship.

**David Solomon:** Well, I look forward to that, Frank. You know, there's no question that all the headlines and all the noise in the early part of the pandemic created issues. Talk a little bit about the work you're doing to restore confidence in your brand, both with customers. How has COVID-19 prepared the cruise industry for another health crisis? How are you better prepared?

**Frank Del Rio:** You know, I'll tell you from a financial perspective, David, we're going to have a lot more cash in the balance sheet going forward. I mean, this idea that, you know, I don't want to say that we're infallible, but that things always are going to operate as planned, we saw that's not the case. And at least at the beginning, we're going to be a little gun shy. And so, there's going to be more cash on the balance sheet than we ordinarily would have or would need just in case.

But look, we like to think that the cruise industry has always

had a hell of a record, a very good record safety wise, health wise. You know? We carry over 30 million people a year. And you don't hear of major events. We are better booked today for 2022 sailings and 2023 sailings than we've ever been in any year in our history at this point of the booking curve. And David, I don't mean that we're ahead by a little bit. We're ahead by mucho, mucho. Yes, a lot. We're seeing pricing strength, which I think goes to the ugly side of pricing strength, which is inflation. We're seeing inflationary pressures on the cost side. You know, protein has gone up. Fuel has gone up. But I'm okay with all that because I see that we've been able to raise prices even more. So, I'll take a 5 percent inflationary factor on pricing and on cost because at the end of the day I'm ahead of the game.

So, look, what did we do? Early on we teamed up with Royal Caribbean Group, one of our nemeses. And we put together the Healthy Sail Panel, which is a group of the Americas top health experts, led by former FDA Commissioner Scott Gottlieb. Scott now has become a TV sensation. We watch him on CNBC every morning. And former Health and Human Service Secretary Mike Levitt. So, those two guys put together a blue ribbon panel. They worked on it for five months. And they came to us with a list of 74 protocols that said if you guys do these things, even without a vaccine, because this came out in October, before the vaccine, if you guys do these 74 things, you can cruise safely.

We presented it to the CDC. And they did nothing with it. So, our savior has been the vaccine. And we've now said we're now only going to implement these 74 recommendations with very few exceptions. But we're also going to demand, at least early on, David, early on where we have to prove ourselves to our customers, to our travel agent partners, and to ourselves that we can operate these ships without COVID 100 percent vaccination required for both crew and passengers. Plus, these protocols.

And like I said, the proof is in the pudding. The numbers in terms of future bookings, the strongest they've ever been. And put it that way, and I said this at the earnings call, if we can, indeed, operate the itineraries that we're actually selling, if we can actually sail those itineraries, 2022 could be a record year. That's how good things are for the future. And it's nuts to think that you've been shut down for most of 2020. You're going to be shut down for a good part of '21. And you can rebound that quickly? And the answer is yes. That's how much pent up demand there is. 15 million would-be cruisers that would have cruised in 2020 and '21 have not. And they want to come

back to the high seas.

**David Solomon:** When do you think, as summer approaches, and in particular as the US population continues to be vaccinated, when do you expect to get back to the seas?

**Frank Del Rio:** Well, we've already announced that we will definitely have seven ships operating by the end of Q3. So, we have 28 ship fleet. 25 percent of my ships will be operating. The question is how many of those ships could operate out of US waters? We're targeting returning to US ports out of Seattle for our Alaska cruises in early August. I think some of my competitors can likely stand up a ship for the Caribbean some time in mid to late July. But it's not a race. We want to do things right. We've got to find vaccinations for 100 percent of my crew. We have to get the crew back.

There are still travel restrictions. There are still visa issues for crew members. So, things aren't back to normal yet. But I can see for the first time momentum really picking up. Spain, today, announced that they're opening up their ports to cruises. And I think that will trigger a series of domino effects.

You know, as long as the CDC was not going to allow us to cruise, other countries were not going to allow us to cruise either. Why should Denmark or Japan or any, why should they take the risk if the CDC doesn't? And so, now that the CDC is lifting the restrictions facilitating our return, I think you're going to see a very quick domino effect.

**David Solomon:** And so, you're well set up. I know you raised 8 billion dollars to basically position the company so you can wait this out, be in the position you're now talking about so you can get going again. You've got a strong '22 and '23.

So, how do you grow from here? What's the plan as this normalizes? What's the plan from here?

**Frank Del Rio:** David, we've got six ships on order for the Norwegian brand. Two for Oceania. A sister ship that's coming from the one you were on, Splendor. So, we're going to have 40 percent plus growth over the next few years in the total number of beds that we have to sell. Plus, like I said earlier, we've got pent up demand that's going to fuel '22 and '23 growth. We've got some pricing power behind us.

And now the question is, you know, fixing the balance sheet.

I've had to raise money via debt. A lot of those debt instruments have no call features. So, I'm going to be-- one of the things that I was discussing last week when your team was in Miami with my team, with Dane and Matt and Greg is, what do I do with all this cash? I can't buy back debt yet. I can't buy back stock yet. It'd be stupid to do a dividend I can't pay back. So, you know what's left. There may be an acquisition in the future because we've got cash. And we know how to run a cruise line.

Prior to the pandemic we had the highest yields in the industry, the highest EBITDA per capacity day, the highest RIOC, the highest gross margin. We generated more on board revenue than anybody else. We had the youngest fleet, which meant we were more efficient. And we have nine vessels on order. We're the fastest growing. So, pre-pandemic, David, if you and I sat down and we said, "Okay, let's map out how you can improve things," we would have been hard pressed to come up with things to improve because we were literally hitting on all cylinders. And hopefully we have muscle memory, and we can get back there quickly.

**David Solomon:** I think you will. I want to shift gears. I want to talk about a topic I know that's important to both of us, diversity and inclusion.

**Frank Del Rio:** You know, I know it's the flavor of the month to be inclusive and diversity and all that. But we were all that before because I felt the sting of discrimination. I remember the first time in New Britain, Connecticut I was called a spic and what happened afterwards. And so, you know, we approach this with genuine interest. It's not something that we're trying to check the box. This is not a window dressing exercise ESG. We do it from the heart.

And so, it starts from the top. I'm a minority. If you look at my board, I've got a third of the board members are women. 55 percent are underrepresented minorities of some sort. Worldwide, 59 percent of our employees are women. In the US, 64 percent of our employees are underrepresented minorities. So, we believe in this as everyday basic stuff. And but at the end of the day you still have to perform. There's no babying. There's no free-- we're not padding any statistics for the ESG or for the-- no. We do this in earnest, and we do this from a genuine, pure motives basis. We think it's the right thing to do. We think it's the right business thing to do. And I think it's one of the reasons why we outperform the industry on all those metrics that we talked about.

**David Solomon:** Really enjoyed chatting with you. Thank you for spending the time today. Thank you for being with us.

**Frank Del Rio:** Thank you, David. My pleasure.

**David Solomon:** Absolutely. Great to be with you.

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