



Royal Caribbean Group Annual Report 2020

Form 10-K (NYSE:RCL)

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

(Mark One)



ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2019

or



TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number: 1-11884

ROYAL CARIBBEAN CRUISES LTD.

(Exact name of registrant as specified in its charter)

Republic of Liberia
(State or other jurisdiction of
incorporation or organization)

98-0081645
(I.R.S. Employer Identification No.)

1050 Caribbean Way, Miami, Florida 33132

(Address of principal executive offices) (zip code)

(305) 539-6000

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$.01 per share	RCL	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒
Emerging growth company ☐

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

The aggregate market value of the registrant's common stock at June 30, 2019 (based upon the closing sale price of the common stock on the New York Stock Exchange on June 28, 2019) held by those persons deemed by the registrant to be non-affiliates was approximately \$22.0 billion. Shares of the registrant's common stock held by each executive officer and director and by each entity or person that, to the registrant's knowledge, owned 10% or more of the registrant's outstanding common stock as of June 30, 2019 have been excluded from this number in that these persons may be deemed affiliates of the registrant. This determination of possible affiliate status is not necessarily a conclusive determination for other purposes.

There were 209,000,016 shares of common stock outstanding as of February 21, 2020.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Definitive Proxy Statement relating to its 2020 Annual Meeting of Shareholders are incorporated by reference in Part III, Items 10-14 of this Annual Report on Form 10-K as indicated herein.

ROYAL CARIBBEAN CRUISES LTD.
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PART I

As used in this Annual Report on Form 10-K, the terms “Royal Caribbean,” the “Company,” “we,” “our” and “us” refer to Royal Caribbean Cruises Ltd. and, depending on the context, Royal Caribbean Cruises Ltd.’s consolidated subsidiaries and/or affiliates. The terms “Royal Caribbean International,” “Celebrity Cruises,” “Azamara” and “Silversea Cruises” refer to our wholly- or majority-owned global cruise brands. Throughout this Annual Report on Form 10-K, we also refer to regional brands in which we hold an ownership interest, including “TUI Cruises,” and “Pullmantur.” However, because these regional brands are unconsolidated investments, our operating results and other disclosures herein do not include these brands unless otherwise specified. In accordance with cruise vacation industry practice, the term “berths” is determined based on double occupancy per cabin even though many cabins can accommodate three or more passengers.

This Annual Report on Form 10-K also includes trademarks, trade names and service marks of other companies. Use or display by us of other parties’ trademarks, trade names or service marks is not intended to and does not imply a relationship with, or endorsement or sponsorship of us by, these other parties other than as described herein.

Item 1. Business.

General

We are the world's second largest cruise company. We control and operate four global cruise brands: Royal Caribbean International, Celebrity Cruises, Azamara and Silversea Cruises (collectively, our "Global Brands"). We also own a 50% joint venture interest in the German brand TUI Cruises and a 49% interest in the Spanish brand Pullmantur (collectively, our "Partner Brands"). Together, our Global Brands and our Partner Brands operate a combined total of 61 ships in the cruise vacation industry with an aggregate capacity of approximately 141,570 berths as of December 31, 2019.

Our ships operate on a selection of worldwide itineraries that call on more than 1,000 destinations on all seven continents. In addition to our headquarters in Miami, Florida, we have offices and a network of international representatives around the world, which primarily focus on sales and market development.

We compete principally by operating valued brands that offer exceptional service provided by our crew and on the basis of innovation and quality of ships, variety of itineraries, choice of destinations and price. We believe that our commitment to build state-of-the-art ships and to invest in the maintenance and upgrade of our fleet to, among other things, incorporate many of our latest signature innovations, allows us to continue to attract new and loyal repeat guests.

We believe cruising continues to be a popular vacation choice due to its inherent value, extensive itineraries and variety of shipboard and shoreside activities. In addition, we believe our brands are well-positioned globally and possess the ability to attract a wide range of guests by appealing to multiple customer bases allowing our global sourcing to be well diversified.

Royal Caribbean was founded in 1968 as a partnership. Its corporate structure has evolved over the years and, the current parent corporation, Royal Caribbean Cruises Ltd., was incorporated on July 23, 1985 in the Republic of Liberia under the Business Corporation Act of Liberia.

Our Global Brands

Our Global Brands include Royal Caribbean International, Celebrity Cruises, Azamara, and Silversea Cruises.

We believe our Global Brands possess the versatility to enter multiple cruise market segments within the cruise vacation industry. Although each of our Global Brands has its own marketing style, as well as ships and crews of various sizes, the nature of the products sold and services delivered by our Global Brands share a common base (i.e., the sale and provision of cruise vacations). Our Global Brands also have similar itineraries as well as similar cost and revenue components. In addition, our Global Brands source passengers from similar markets around the world and operate in similar economic environments with a significant degree of commercial overlap. As a result, we strategically manage our Global Brands as a single business with the ultimate objective of maximizing long-term shareholder value.

Royal Caribbean International

Royal Caribbean International is positioned to compete in both the contemporary and premium segments of the cruise vacation industry. The brand appeals to families with children of all ages, as well as both older and younger couples, providing cruises that generally feature a casual ambiance, as well as a variety of activities and entertainment venues. We believe that the quality of the Royal Caribbean International brand allows it to achieve market coverage that is among the broadest of any of the major cruise brands in the cruise vacation industry. Royal Caribbean International's strategy is to attract an array of vacationing guests by providing a wide variety of itineraries to destinations worldwide, including Alaska, Asia, Australia, Bahamas, Bermuda, Canada, the Caribbean, Europe, the Panama Canal and New Zealand, with cruise lengths ranging from two to 19 nights. Royal Caribbean International offers multiple innovative options for onboard dining, entertainment and other onboard activities. Because of the brand's ability to deliver extensive and innovative product offerings at an excellent value to consumers, we believe Royal Caribbean International is well positioned to attract new consumers to cruising and to continue to bring loyal repeat guests back for their next vacation.

Royal Caribbean International operates 26 ships with an aggregate capacity of approximately 87,150 berths, including the brand's newest ship, *Spectrum of the Seas*, which entered service in April 2019. Additionally, as of December 31, 2019, we have six ships on order with an aggregate capacity of approximately 32,400 berths. These ships consist of our fifth Quantum-class ship, which is scheduled to enter service in the fourth quarter of 2020, our fifth and sixth Oasis-class ships, which are scheduled to enter service in the second quarter of 2021 and the fourth quarter of 2023, respectively, and the first three ships of a new generation, known as our Icon-class, which are expected to enter service in 2022, 2024 and 2025, respectively.

Celebrity Cruises

Celebrity Cruises is positioned within the premium segment of the cruise vacation industry. Celebrity Cruises' strategy is to target affluent consumers by delivering a destination-rich, modern luxury experience on upscale ships that offer, among other things, luxurious accommodations, refined design-forward spaces, high-standard service and fine dining. Celebrity Cruises offers a range of itineraries to destinations, including Alaska, Asia, Australia, Bermuda, Canada, the Caribbean, Europe, the Galapagos Islands, Hawaii, India, New Zealand, the Panama Canal and South America, with cruise lengths ranging from two to 19 nights.

Celebrity Cruises operates 14 ships with an aggregate capacity of approximately 26,220 berths, including the brand's newest ship designed for the Galapagos Islands, *Celebrity Flora*, which entered service in the second quarter of 2019. Additionally, as of December 31, 2019, we have three ships on order with an aggregate capacity of approximately 9,400 berths. These ships consist of three Edge-class ships, which are expected to enter service in the second quarter of 2020 and the fourth quarters of 2021 and 2022, respectively.

Azamara

Azamara is designed to serve the up-market segment of the North American, United Kingdom and Australian markets. The up-market segment incorporates elements of the premium segment and the luxury segment, which is generally characterized by smaller ships, high standards of accommodation and service and exotic itineraries. Azamara's strategy is to deliver distinctive destination experiences through unique itineraries with more overnights and longer stays as well as comprehensive tours allowing guests to experience the destination in more depth. These destination experiences include over 1,700 pre and post-voyage land programs. Azamara offers a variety of itineraries to popular destinations, including Asia, Australia/New Zealand, Northern and Western Europe, the Mediterranean, and South America with cruise lengths ranging from three to 26 nights.

Azamara operates three ships with an aggregate capacity of approximately 2,100 berths.

Silversea Cruises

On July 31, 2018, we acquired a 66.7% equity stake in Silversea Cruise Holding Ltd. ("Silversea Cruises"), an ultra-luxury and expedition cruise line. Silversea Cruises, formed in the early 1990's, is positioned as a luxury cruise line with smaller ships, high standards of accommodations, fine dining, personalized service and exotic itineraries. Silversea Cruises delivers distinctive destination experiences by visiting unique and remote destinations, including the Galapagos Islands, Antarctica and the Arctic.

Silversea Cruises operates eight ships, with an aggregate capacity of approximately 2,450 berths offering cruise itineraries generally ranging from six to 25 nights. As of December 31, 2019, Silversea Cruises has five ships on order with an aggregate capacity of approximately 2,400 berths. Two ships are scheduled to enter service in the third quarter of 2020, another in the third quarter of 2021, with the remaining two ships scheduled to enter service in the first quarters of 2022 and 2023.

Our Partner Brands

Our Global Brands are complemented by our 50% joint venture interest in TUI Cruises, which is specifically tailored for the German market and our 49% interest in the Spanish brand Pullmantur, which is primarily focused on the Spanish and Latin American cruise markets. We account for our investments in our Partner Brands under the equity method of accounting and, accordingly, the operating results of these Partner Brands are not included in our consolidated results of operations. Refer to Note 1. *General* and Note 8. *Other Assets* to our consolidated financial statements under Item 8. *Financial Statements and Supplementary Data* for further details.

TUI Cruises

TUI Cruises is a joint venture owned 50% by us and 50% by TUI AG, a German tourism company, which is designed to serve the contemporary and premium segments of the German cruise market by offering a product tailored for German guests. All onboard activities, services, shore excursions and menu offerings are designed to suit the preferences of this target market.

TUI Cruises operates seven ships, with an aggregate capacity of approximately 17,600 berths as of December 31, 2019, including the brand's newest ship, *Mein Schiff 2*, which entered service in January 2019. Additionally, TUI Cruises has three ships on order with an aggregate capacity of approximately 11,100 berths, that are scheduled to enter service in the second quarter of 2023, the third quarter of 2024 and the first quarter of 2026, respectively. On February 7, 2020, TUI Cruises entered into an agreement to acquire Hapag-Lloyd Cruises, a luxury and expedition brand for German-speaking guests, from TUI AG. Hapag-Lloyd Cruises operates two luxury liners and three smaller expedition ships. The transaction is subject to regulatory approval and customary closing conditions.

Pullmantur

The Pullmantur brand is a joint venture owned 49% by us and 51% by Cruises Investment Holdings S.A., an affiliate of Springwater Capital LLC. Pullmantur operates in the contemporary segment of the Spanish and Latin American cruise markets and is designed to attract Spanish-speaking families and couples and includes Spanish-speaking crew, as well as tailored food and entertainment options. The three ships operated by Pullmantur have an aggregate capacity of approximately 6,050 berths. *Zenith* was sold to a third party in January 2020. To offset the decrease in capacity to the Pullmantur brand, commencing in the second quarter of 2021, we expect to charter *Grandeur of the Seas* to Pullmantur.

Industry

Cruising is considered a well-established vacation sector in the North American, European and Australian markets and a developing sector in several other emerging markets. Industry data indicates that market penetration rates are still low and that a significant portion of cruise guests carried are first-time cruisers. We believe this presents an opportunity for long-term growth and a potential for increased profitability.

The following table details industry market penetration rates for North America, Europe and Asia/Pacific computed based on the number of annual cruise guests as a percentage of the total population:

Year	North America ⁽¹⁾⁽²⁾	Europe ⁽¹⁾⁽³⁾	Asia/Pacific ⁽¹⁾⁽⁴⁾
2015	3.36%	1.25%	0.08%
2016	3.43%	1.23%	0.11%
2017	3.56%	1.28%	0.15%
2018	3.87%	1.38%	0.16%
2019	3.89%	1.41%	0.20%

(1) Source: Our estimates are based on a combination of data obtained from publicly available sources including the International Monetary Fund, United Nations, Department of Economic and Social Affairs, Cruise Lines International Association ("CLIA") and G.P. Wild. In addition, our estimates incorporate our own analysis utilizing the same publicly available cruise industry data as a base.

(2) Our estimates include the United States and Canada.

(3) Our estimates include European countries relevant to the industry (most notably: the Nordics, Germany, France, Italy, Spain and the United Kingdom).

(4) Our estimates include Southeast Asia (most notably: Singapore, Thailand and the Philippines), East Asia (most notably: China and Japan), South Asia (most notably: India) and Oceania (most notably: Australia and New Zealand) regions.

We estimate that the global cruise fleet was served by a weighted average of approximately 579,000 berths during 2019 with approximately 354 ships at the end of 2019. As of December 31, 2019, there were approximately

67 ships with an estimated 159,000 berths that are expected to be placed in service in the global cruise market through 2024, although it is also possible that ships could be ordered or taken out of service during these periods. We estimate that the global cruise industry carried approximately 30.0 million cruise guests in 2019 compared to approximately 28.5 million cruise guests carried in 2018 and approximately 26.7 million cruise guests carried in 2017.

The following table details the growth in global weighted average berths and the global, North American, European and Asia/Pacific cruise guests over the past five years (in thousands, except berth data):

Year	Weighted-Average Supply of Berths Marketed Globally ⁽¹⁾	Royal Caribbean Cruises Ltd. Total Berths ⁽²⁾	Global Cruise Guests ⁽¹⁾	North American Cruise Guests ⁽¹⁾ (3)	European Cruise Guests ⁽¹⁾ (4)	Asia/Pacific Cruise Guests ⁽¹⁾ (5)
2015	469,000	112,700	23,000	12,004	6,587	3,129
2016	493,000	123,270	24,000	12,274	6,512	4,466
2017	515,000	124,070	26,700	12,865	6,779	5,415
2018	546,000	135,520	28,500	14,062	7,343	5,685
2019	579,000	141,570	30,000	14,246	7,554	7,317

- (1) Source: Our estimates of the number of global cruise guests and the weighted-average supply of berths marketed globally are based on a combination of data that we obtain from various publicly available cruise industry trade information sources. We use data obtained from Seatrade Insider, Cruise Industry News and company press releases to estimate weighted-average supply of berths and CLIA and G.P. Wild to estimate cruise guest information. In addition, our estimates incorporate our own analysis utilizing the same publicly available cruise industry data as a base.
- (2) Total berths include our berths related to our Global Brands and Partner Brands.
- (3) Our estimates include the United States and Canada.
- (4) Our estimates include European countries relevant to the industry (most notably: the Nordics, Germany, France, Italy, Spain and the United Kingdom).
- (5) Our estimates include Southeast Asia (most notably: Singapore, Thailand and the Philippines), East Asia (most notably: China and Japan), South Asia (most notably: India) and Oceania (most notably: Australia and New Zealand) regions.

North America

Industry cruise guests are primarily sourced from North America, which represented approximately 47% of global cruise guests in 2019. The compound annual growth rate in cruise guests sourced from this market was approximately 4% from 2015 to 2019.

Europe

Industry cruise guests sourced from Europe represented approximately 25% of global cruise guests in 2019. The compound annual growth rate in cruise guests sourced from this market was approximately 3% from 2015 to 2019.

Asia/Pacific

Industry cruise guests sourced from the Asia/Pacific region represented approximately 24% of global cruise guests in 2019. The compound annual growth rate in cruise guests sourced from this market was approximately 24% from 2015 to 2019. The recent coronavirus outbreak and the resulting measures taken by China and other countries to move aggressively to contain the disease, including travel restrictions, have resulted in the cancellation of several of our cruises in Southeast Asia and modification of several itineraries in the region. In addition, we have imposed several measures to protect our guests and crew, including denying boarding to those that have traveled from, to or through mainland China or Hong Kong. See *Outlook* for further discussion.

Competition

We compete with a number of cruise lines. Our principal competitors are Carnival Corporation & plc, which owns, among others, Aida Cruises, Carnival Cruise Line, Costa Cruises, Cunard Line, Holland America Line, P&O Cruises, Princess Cruises and Seabourn; Disney Cruise Line; MSC Cruises; and Norwegian Cruise Line Holdings Ltd, which owns Norwegian Cruise Line, Oceania Cruises and Regent Seven Seas Cruises. Cruise lines also compete with other vacation alternatives such as land-based resort hotels, Internet-based alternative lodging sites and sightseeing destinations for consumers' leisure time. Interest for such activities is influenced by political and general economic conditions. Companies within the vacation market are dependent on consumer discretionary spending.

Operating Strategies

Our strategic emphasis on **People, Profits and Planet** has led us to focus on the following principal operating strategies:

- Protect the health, safety and security of our guests and employees,
- protect the environment in which our vessels and organization operate,
- invest in our workforce in order to better serve our global guest base and grow our business, and promote gender equality, diversity and inclusion,
- strengthen our consumer engagement in order to enhance our revenues,
- increase the awareness and market penetration of our brands globally,
- focus on cost efficiency, manage our operating expenditures and ensure adequate cash and liquidity, with the overall goal of maximizing our return on invested capital and long-term shareholder value,
- strategically invest in our fleet through the upgrade and maintenance of existing ships and the transfer of key innovations, while prudently expanding our fleet with new state-of-the-art cruise ships,
- capitalize on the portability and flexibility of our ships by deploying them into those markets and itineraries that provide opportunities to optimize returns, while continuing our focus on existing key markets,
- provide extraordinary destination experiences and state-of-the-art port facilities to our guests,
- continue to integrate digital technological capabilities, data analytics and artificial intelligence into our operations to service customer preferences and expectations in an innovative manner, create efficiencies and enhance employee satisfaction, and
- maintain strong relationships with travel agencies, which continue to be the principal industry distribution channel, while enhancing our consumer outreach programs.

Safety and health policies

We are committed to protecting the health, safety and security of our guests, employees and others working on our behalf. Our efforts in these areas are managed by our dedicated Safety, Security, Environment, Medical and Public Health Department which is responsible for all of our maritime safety, global security, environmental stewardship and medical/public health activities; overseen by the Safety, Environment and Health Committee of our board of directors and informed by a Maritime Advisory Board of experts.

Protect the environment

We are focused on the environmental health of the marine environment and communities in which we operate. This includes reducing our carbon footprint through the energy and carbon efficiencies included in the design of our new capacity, our ongoing energy management program on our existing fleet and the development of new technologies.

Our long-term partnership with the World Wildlife Fund focuses on greenhouse gas reduction strategies, sustainable food supplies, sustainable destinations and guest education on ocean conservation issues, including climate change, which supports onboard conservation efforts such as our reduced use of plastics and increased sourcing of sustainable seafood. We are also committed to water quality and management projects onboard and in the communities in which we operate.

We believe in transparent reporting on our environmental and sustainability stewardship, as well as our corporate governance efforts, and annually publish a Sustainability Report. This report, which is accessible on our corporate website, highlights our progress with regards to those environmental and social aspects of our business that we believe are most significant to our organization and stakeholders. In addition to providing an overview, the report complies with the guidelines of the Global Reporting Initiative to ensure the report is as complete and accurate as possible. Our corporate website also provides information about our environmental performance goals and sustainability initiatives. The foregoing information contained on our website is not part of any of these reports and is not incorporated by reference herein or in any other report or document we file with the Securities and Exchange Commission.

Investing in our workforce and promoting gender equality, diversity and inclusion

We believe that our employees, both shipboard and shoreside, are a critical success factor for our business. We strive to identify, hire, develop, motivate and retain the best employees, who provide our guests with extraordinary vacations. Our ability to attract, engage, and retain key employees has been and will remain critical to our success.

We focus on providing our employees with a competitive compensation structure, development opportunities, and other personal and professional growth opportunities in order to strengthen and support our human capital. We also select, develop and have strategies to retain high performing leaders to advance the enterprise now and in the future. To that end, we pay special attention to identifying high performing potential leaders and developing bench strength so these leaders can assume leadership roles throughout the organization.

We strive to maintain a work environment that reinforces collaboration, motivation and innovation, and believe that maintaining a strong employee-focused culture is beneficial to the growth and expansion of our business. We support the equal representation of women in all levels. We foster diversity and inclusion among our broad employee base.

Consumer engagement

We place a strong focus on identifying the needs of our guests and creating product features and innovations that our customers value. We are focused on targeting high-value guests by better understanding consumer data and insights to create communication strategies that resonate with our target audiences.

We target customers across all touch points and identify underlying needs for which guests are willing to pay a premium. We rely on various programs and technologies during the cruise-planning, cruising and after-cruise periods aimed at increasing ticket prices, onboard revenues and occupancy. We have and continue to strategically invest in onboard projects on our ships that we believe drive marketability, profitability and improve the guest experience.

Global awareness and market penetration

We increase brand awareness and market penetration of our cruise brands in various ways, including the use of communication strategies and marketing campaigns designed to emphasize the qualities of each brand and to broaden the awareness of the brand, especially among target groups. Our marketing strategies include the use of travel agencies, traditional media, mobile and digital media as well as social media, influencers and brand websites. Our brands engage past and potential guests by collaborating with travel partners and through call centers, international offices and international representatives. In addition, our Global Brands target repeat guests with exclusive benefits offered through their respective loyalty programs.

We sell and market our Global Brands, Royal Caribbean International, Celebrity Cruises, Azamara and Silversea Cruises, to guests outside of the United States and Canada through the combined efforts of internationally focused internal resources and a network of approximately 80 independent international representatives located throughout the world covering more than 183 countries. Historically, our focus has been to primarily source guests