Investing in Alaskan Tourism

Presented by

Denali Sovereign Fund

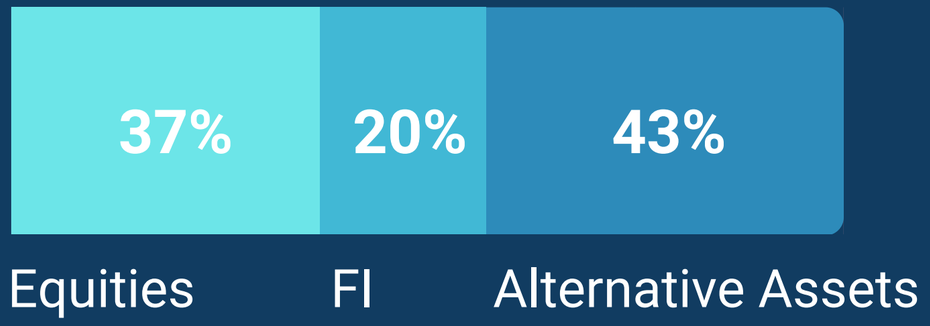
Team C2

https://youtu.be/quxt54wI83E

Denali Sovereign Fund

Fund Background

- Alaska based, ESG investment fund
- $3.5B Assets Under Management
- Modeled after Alaska Permanent Fund
- Distributes profits to Alaskan citizens



Investment Criteria

- **Target Return: CPI + 5%**
- Low volatility
- Reflecting the values of the Alaskan people

Our Opportunity

How should we approach **investing in the tourism industry** while prioritizing the **environmental**, **social**, and **economic** concerns of the Alaskan people?

Roadmap

Industry Drivers

Importance in Alaskan Tourism

Impact of COVID-19

Financial Assessment

Carnival stocks are overvalued and its debt is too risky

Industry CSR

Carnival's CSR stands out, but the cruise industry's does not

CSR Solutions

Optimize waste management

Improve workers' conditions

Invest in regenerative cruises

Investment Decision

Invest in Alaska Airlines, has a projected 16% return

The Cruise Industry is Important But **in Danger**

KEY INDUSTRY DRIVERS

60%

ALASKAN TOURISM

60% of summer tourists in Alaska are from cruise ships

Washington Post

76%

IMPACT OF COVID-19

76% of customers took future credit over a cash refund

Mintel Report

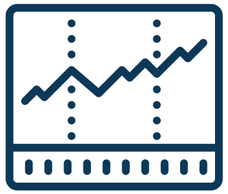
We Have **Two Methods** of Investing in Carnival

Debt

- Bonds
- Exchange-traded notes
- Commercial paper

Equity

- Stocks
- Equity derivatives



Carnival's Debt is **Far Too Risky**

Debt

- Bonds
- Exchange-traded notes
- Commercial paper

Equity

- Stocks
- Equity derivatives

Potential Indicators of Bankruptcy:

Credit Rating: **b-**

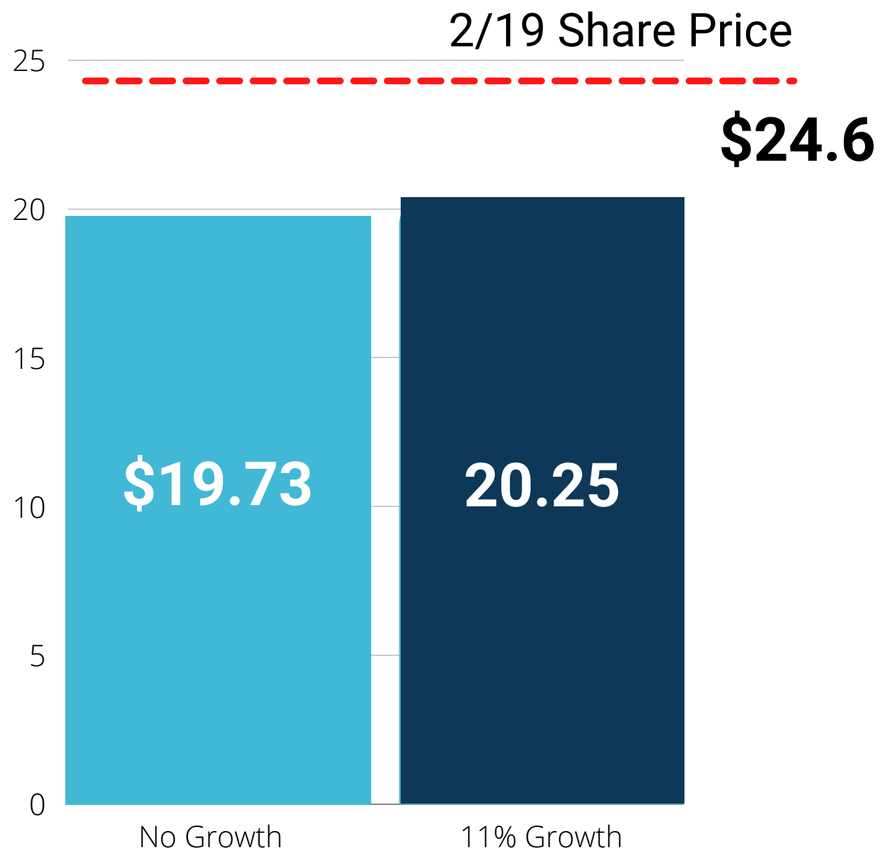
Increased debt levels by 150% over the last year

Issued stock in Q4 2020

S&P Capital IQ

Carnival's Stock is **Overvalued**

Dividend-Discount Model



Assumptions

- Cruise industry fully rebounds by 2024
- Carnival maintains it's $2 dividend
- 11% dividend growth by 2027
- 8.6% WACC

Net Loss per Share at varying WACCs

8.65%	8.70%	8.75%	8.80%	8.85%
($5.00)	($5.13)	($5.26)	($5.39)	($5.52)

Nasdaq S&P Capital IQ

Competitors are Performing **Even Worse**

S&P Credit Health Ratings

	Carnival	Royal Caribbean International	NCL
Operational	Below Average	Below Average	Bottom
Solvency	Below Average	Bottom	Bottom
Liquidity	Above Average	Bottom	Bottom

Carnival is a CSR Leader... **on the Surface**

ONE OF THE INDUSTRY'S BEST

Recognized for CSR by Newsweek in 2019

TOO FEW OPERATIONAL DEFINITIONS

Definitions of CSR success can be changed to fit Carnival needs

LACKS GOALS IN KEY PROBLEMS

CSR strategy is almost completely focused on sustainability

PR Newswire

Carnival CSR Report

The Cruise Industry Has **Four** Common CSR Trends

CSR IS NOT CORE TO THE BUSINESS

Research in Transportation Business & Management

LACK OF FORMAL REPORTING

Journal of Sustainable Tourism

LIMITED THIRD PARTY AUDITING

Journal of Sustainable Tourism

FOCUSED MAINLY ON SUSTAINABILITY

Royal Caribbean Group, Norwegian Cruise Line, Disney Cruise Line

Carnival **Recommendations**

1

Optimize waste management

2

Improve working conditions

3

Invest in regenerative cruises

Carnival Cruises **Generate Waste**

1

Each passenger uses up to 40L of sewage & 340L of water per day

JSTOR Daily

Carnival was fined $20 million in 2019 for illegal waste disposal

Business Insider

Optimize Waste Management

1

Publicly and repeatedly commit to legal and environmentally friendly waste disposal to create a culture of accountability

Invest in new technologies, like Wärtsilä’s auto gasification and Scanship's advanced water purification

Wärtsilä | Scanship

Crew Members Face **Several Challenges**

2

UNDERPAID

Carnival pays their workers as little as £0.75 per hour, due to flat pay rate and no overtime

The Guardian

OVERWORKED

Crewmembers often work 20 hours per day, expected to take on extra tasks if need be

New Yorker
Business Insider

DANGEROUS TASKS

Commonly experience soft tissue or back-related injuries, burns, and exposure to viruses and other illnesses

Business Insider
Attorney Steve Lee

Technology and Automation are **Key**

Less danger and strain, higher per-hour wage, higher-quality work

2

CONVEYOR DISHWASHER

Increases safety, increases productivity, and saves resources

Cruise Industry News

ANTI-VIRAL SURFACES

Eliminates the need for harsher chemicals, less at-risk for illness

BBC Future News

PROGRAMMABLE VACUUMS

Allows for faster cleaning, doubles work in same amount of time

Vacuum Fox Programming

ELECTRIC LOAD LIFTERS

Reduces physical strain, handles more loads in less time

GenieLift and Apollo Lift

Costs Quickly **Even Out**

2

MOST ARE REPLACEMENTS

Cruise lines drydock every 2-3 years, update every 5

CruiseMapper and Travel Weekly

SETTLEMENTS ARE EXPENSIVE

A single settlement in 2020 cost Carnival $1.36M

Miami Herald

INCREASES VALUE

Increases speed and quality of work, creating better experience for customers

Regenerative Cruises

SERVE ALASKA THROUGH SUSTAINABLE FISHING AND OCEAN CLEANUP EFFORTS

3

6 BILLION POUNDS

Amount of seafood that is harvested in Alaska every year

8 MILLION METRIC TONS

Amount of plastic that ends up in the ocean every year

State of Alaska

Anchorage Daily News

A Fishing Co-Op Allows for **Sustainable Sourcing**

3

CELEBRITY CRUISES CASE

This Royal Caribbean subsidiary had success with its "Daily Catch" co-op for Galapagos fisheries.

Landry & Kling Global Cruise Services

STREAMLINED VALUE CHAIN FOR FISHERIES

Alaskan fisheries will have access to a plant that will make it easier to process, store, and sell their product.

SUSTAINABLE SOURCING FOR CARNIVAL

Carnival Cruises can commit to serving seafood from MSC-certified, locally-sourced fisheries.

Assist **Cleanup Efforts** on Alaska's Coasts

3

COASTAL CLEANUP VOLUNTEERING EVENTS

Give environmentally-conscious cruise-goers the opportunity to participate in the Center for Alaskan Coastal Studies' annual beach cleanup event.

GUIDED TOURS FOR INQUISITIVE PASSENGERS

The Center for Alaskan Coastal Studies also offers guided tours from April to October that passengers may attend.

Center for Alaskan Coastal Studies

Carnival Must Meet **CSR Benchmarks** Before We Invest

1 Reduce waste by 20% (current goal is 10%)

2 Decrease worker injury claims by 25%

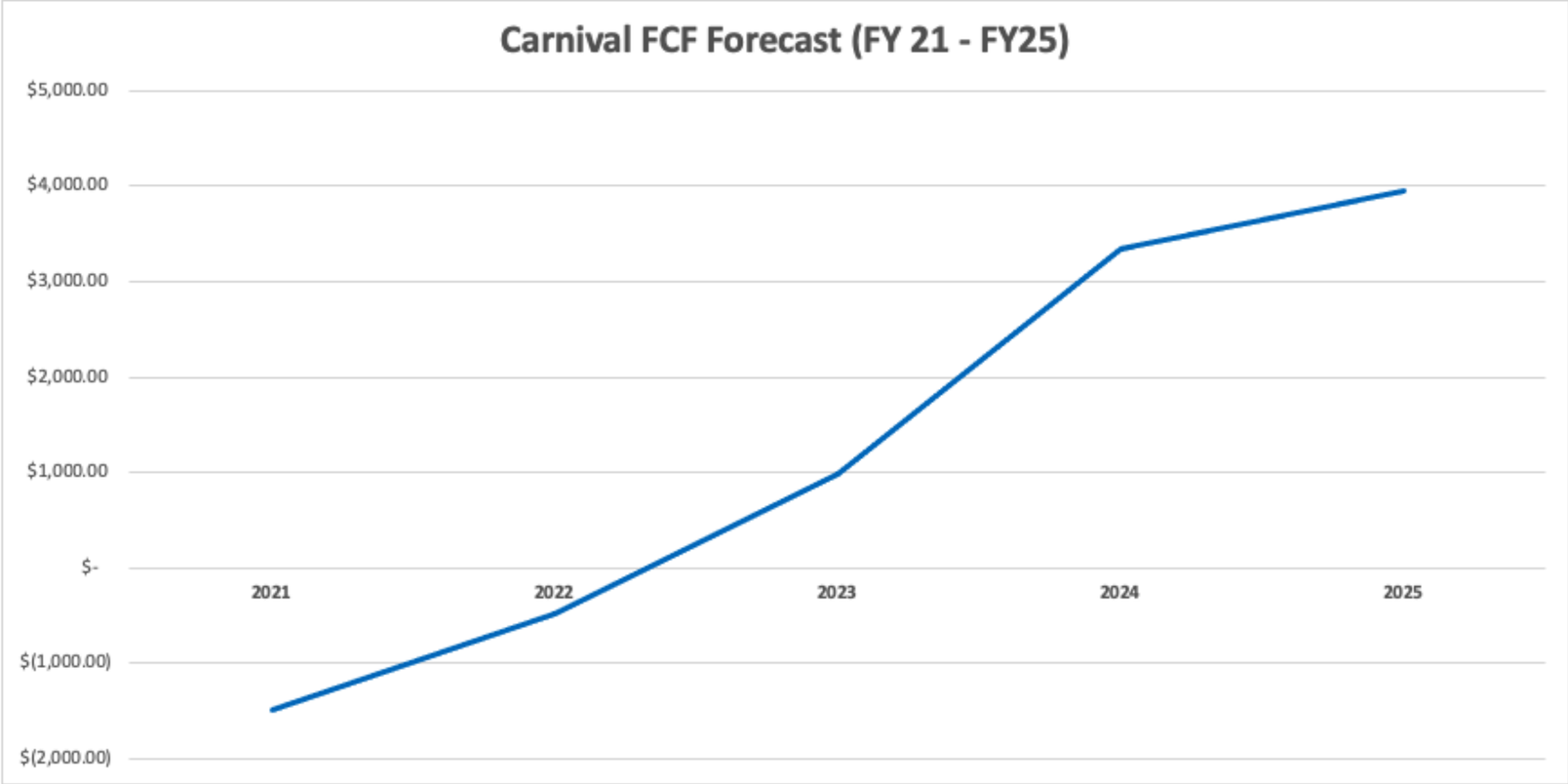
Based on average OSHA of implementing a safety program

3 1% of revenue from sustainable sources (e.g. regenerative cruises)

4 Continue and support all other current CSR initiatives

Carnival **Valuation**

Base Case



DCF Analysis

Implied Share Price

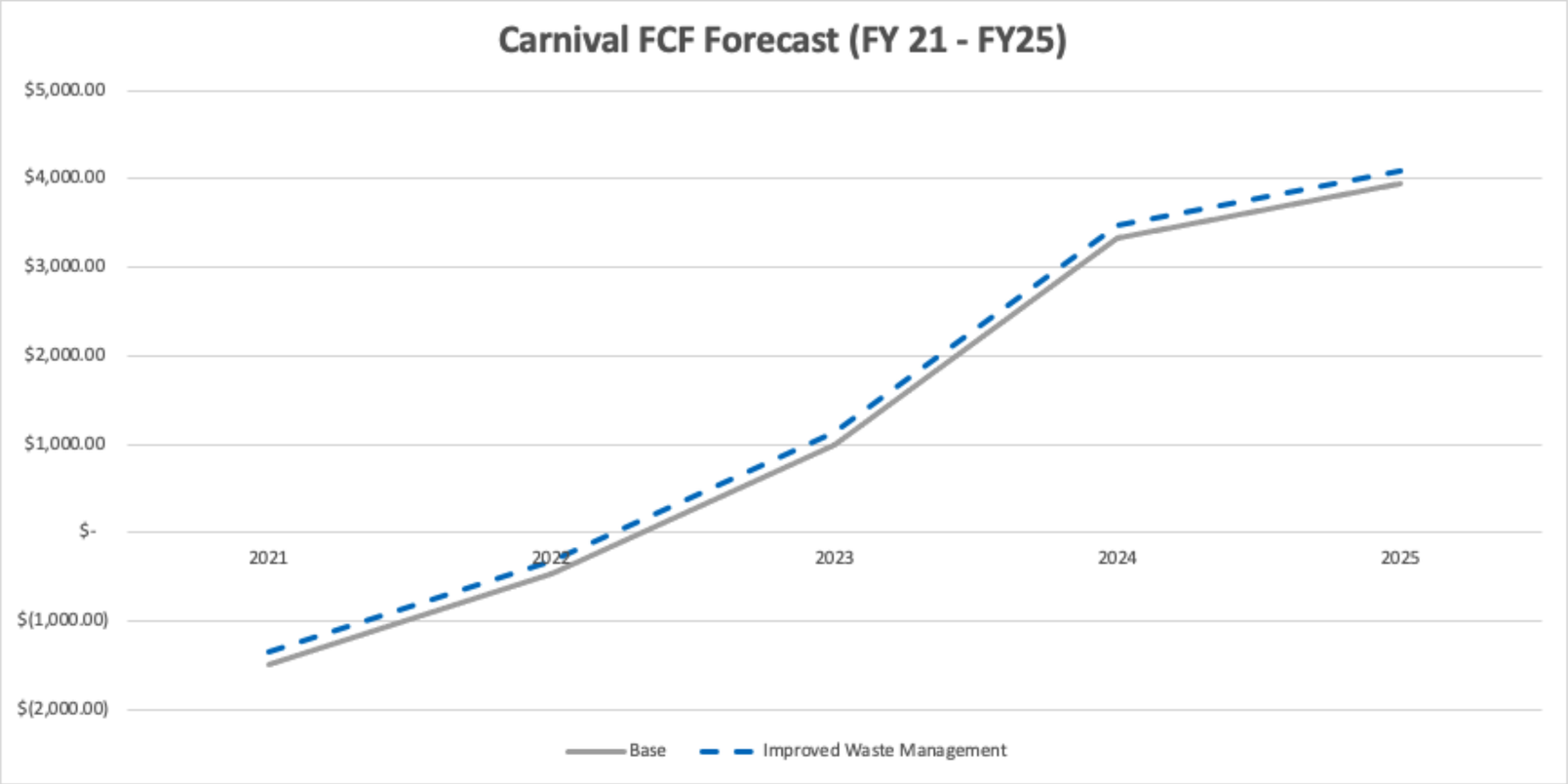
$25.49

Assumptions:

- 7% YOY Sales Growth
- 58% COGS % of Sales
- Full rebound in 2024

Carnival **Valuation**

Improved Waste Management



DCF Analysis

Implied Share Price

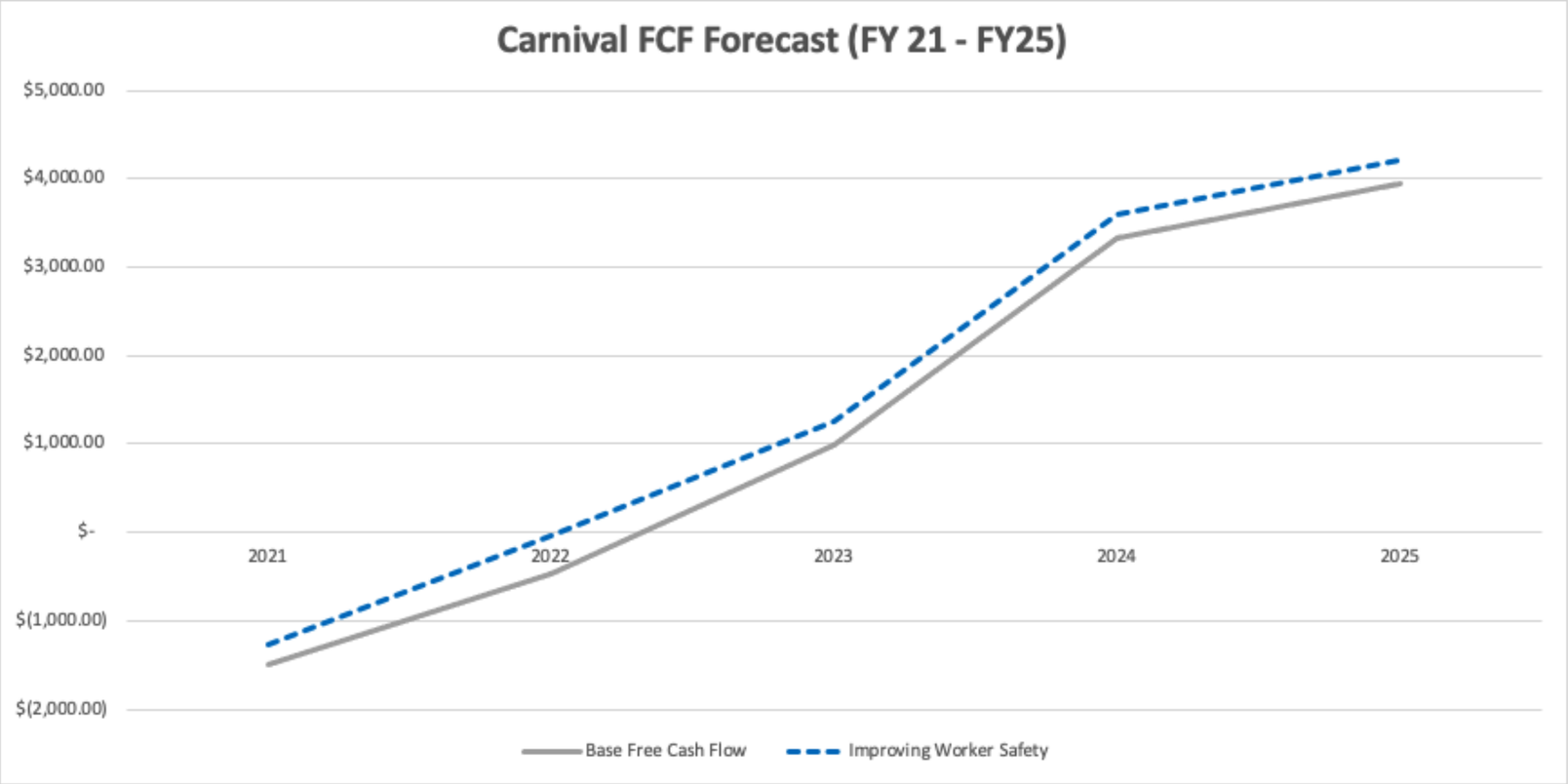
$27.71

Value Drivers:

- $20MM less in legal fees per year
- 5% increase in operational efficiency

Carnival **Valuation**

Improved Worker Safety & Automation



DCF Analysis

Implied Share Price

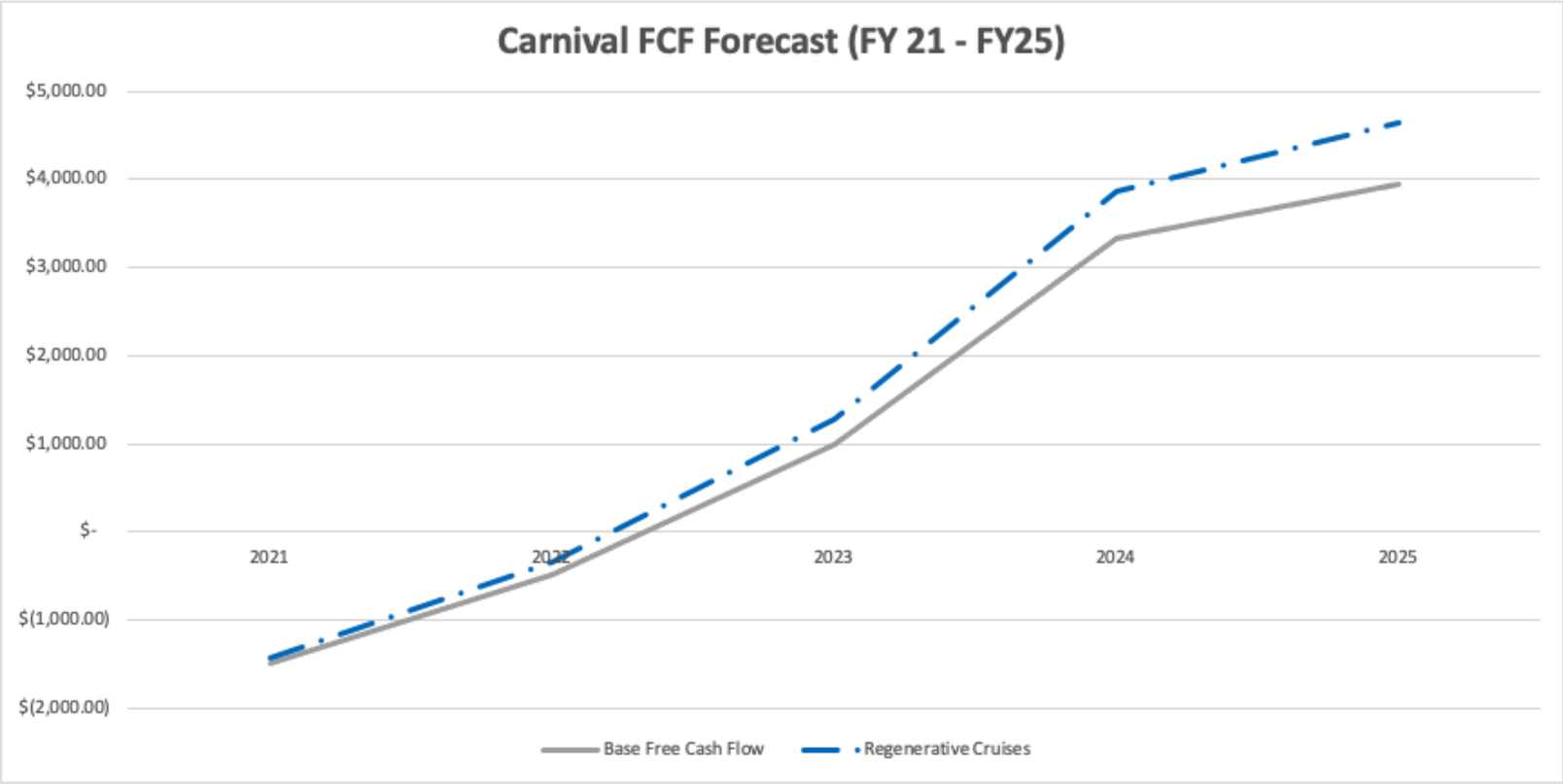
$29.63

Value Drivers:

- $15MM less in legal fees per year
- 10% decrease in SG&A

Carnival **Valuation**

Diversifying Revenue to Sustainable Sources



DCF Analysis

Implied Share Price

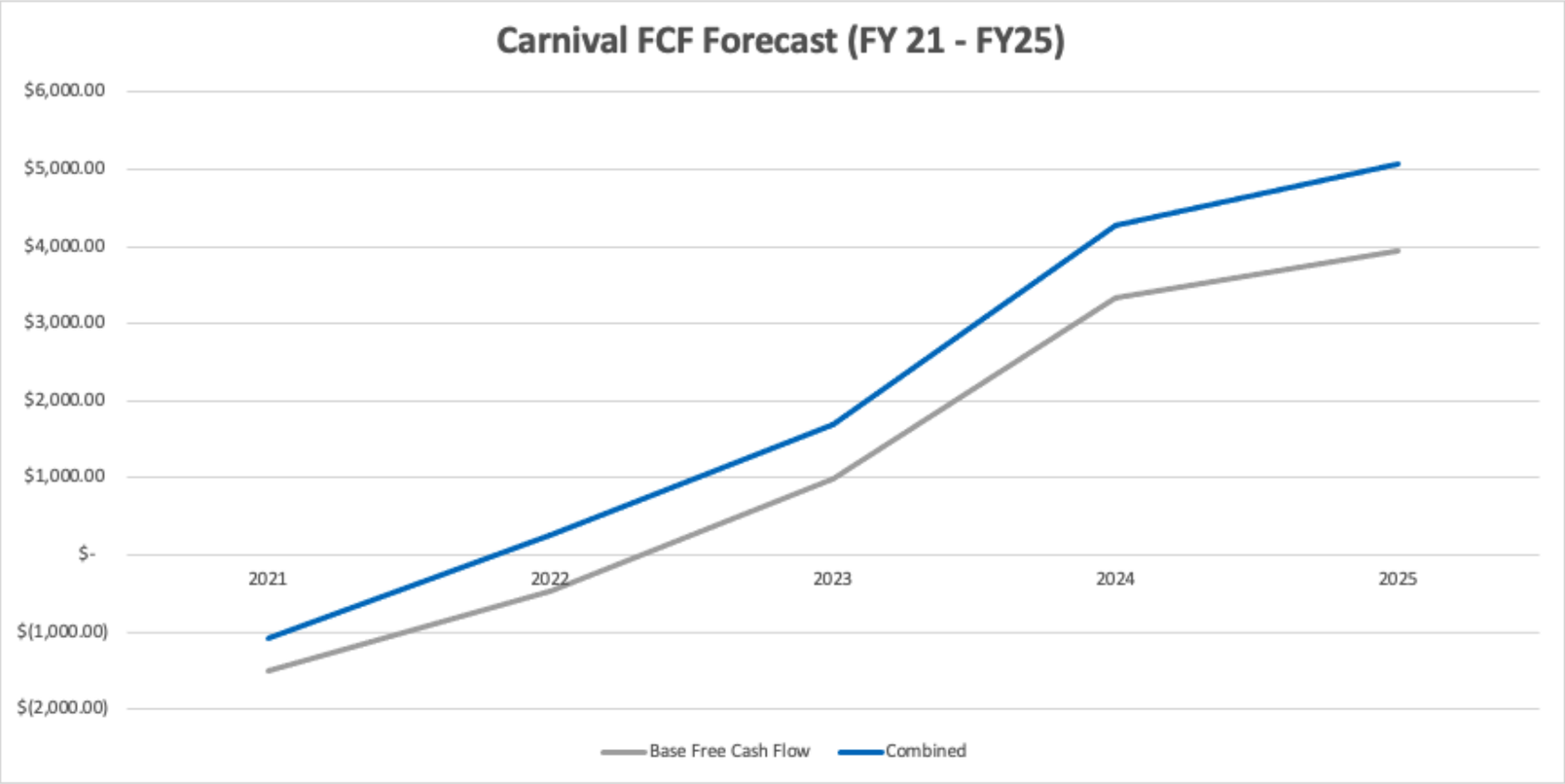
$34.30

Value Drivers:

- 1.5% increase in revenue YOY

Carnival **Valuation**

Combined



DCF Analysis

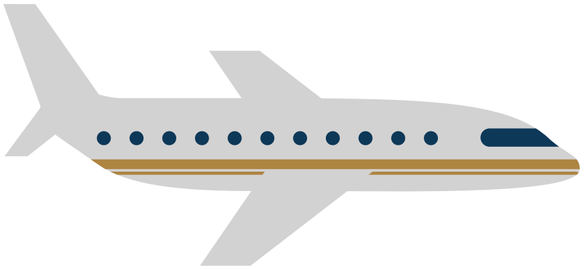
Implied Share Price

$40.64

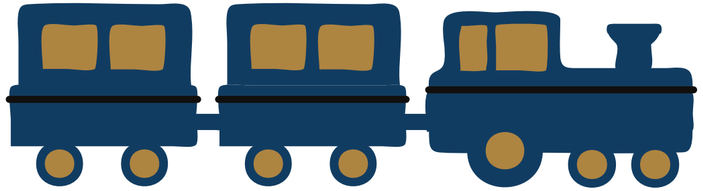
Total Value Created

$14.1B

Alternative Investment Options



Airlines



Railroads

Tourism Agencies

Evaluating Our Options

Decision Criteria	Strong Financial Prospects	Good CSR	Benefits Alaska
Alaska Airlines	●	◐	●
Alaska Railroad	◐	●	●
Expedia	●	◐	○

Invest in **Alaska Airlines**

1 in 3 Alaskan tourists arrive via plane

Alaska Resource Development Coucil

Alaska Airlines network is focused on Alaska and the West Coast

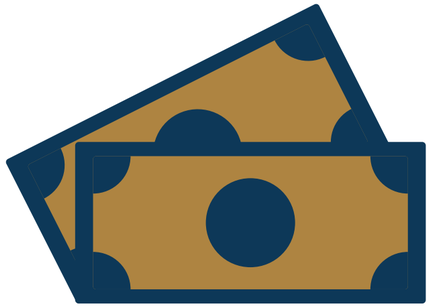
Alaskan Airlines Routes

20% increase in Alaska Airlines bookings (Dec.-Jan.)

Seattle Times

Alaska Airlines is Likely to **Outperform** Competitors

LOWER DAILY CASH BURN[1]



OPTIMAL NETWORK GEOGRAPHY[1]

LESS RELIANCE ON BUSINESS TRAVEL[2]

[1] NASDAQ [2] Appendix 2

Investment Structure

$700K

0.5% of total investment in equities

Current Share Price	Projected Share Price
$62.28	$98.24

Holding Period	Annualized Return	Value Created
3 years	16%	$371K

McKinsey NYU Stern US Travel Association

CSR Solutions

- Optimize waste management
- Improve workers' conditions
- Invest in regenerative cruises

Investment Decision

Invest in Alaska Airlines, has a projected 16% return

Aurora

Alaskan resident

Environmentally conscious

Works in tourism industry

Joe

Works in cruise industry

Underpaid

Overworked

Appendix

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Carnival is Committed to **Green Energy**

SO OUR CSR ENVIRONMENTAL RECOMMENDATION FOCUSED ON WASTE MANAGEMENT INSTEAD

29%

reduction in carbon emissions from 2005 to 2019

Carnival Website

1st & 2nd

cruise ships in the world powered 100% by LNG (2018, 2019)

Carnival Website

Neptune Award

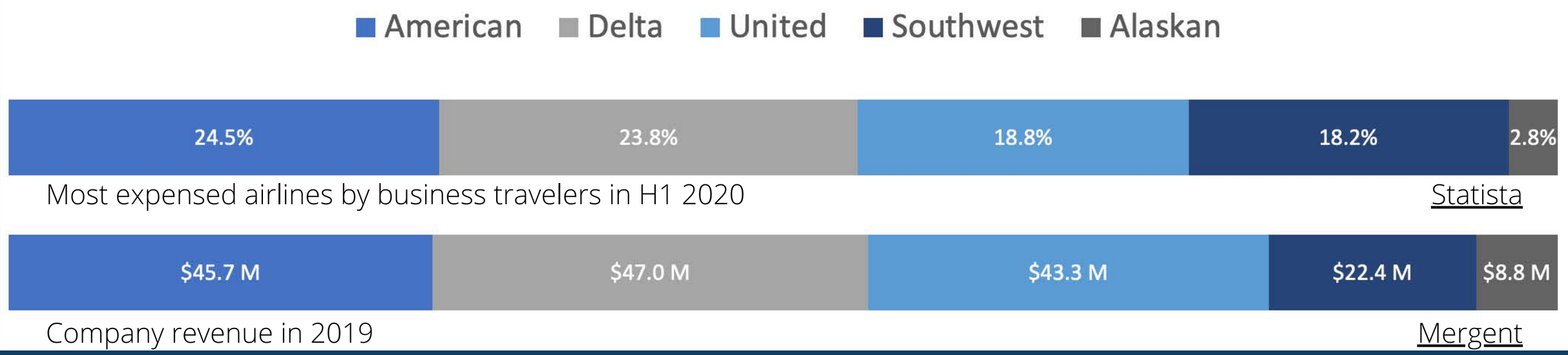
Greenest Shipowner of the Year (2019)

Carnival Website

Alaska Airlines is **Less Reliant** on **Business Travelers**

Business travel will rebound more slowly than vacation or pleasure travel

Business Insider



Appendix 3

Cash Burn of Airlines

	Q3 2020	Q4 2020	Revenue	
Alaska	$4.4M	$3.8M	$3.8M	Yahoo Finance
Delta	$24M	$12M	$12M	CNBC
American	$58M	$30M	$30M	Investor Place

MSC Fisheries Standard

1

Sustainable fish stocks

Are enough fish left in the ocean? Fishing must be at a level that ensures it can continue indefinitely and the fish population can remain productive and healthy.

2

Minimising environmental impact

What are the impacts? Fishing activity must be managed carefully so that other species and habitats within the ecosystem remain healthy.

3

Effective fisheries management

Are operations well managed? MSC certified fisheries must comply with relevant laws and be able to adapt to changing environmental circumstances.

Marine Stewardship Council

Appendix 5a: Carnival WACC

Capital Structure		
Debt	58%	
Equity	42%	
Cost of Debt		
	Structure	*Rate*
Bond and Notes	39.10%	4%
Term Loans	47.20%	7.50%
Revloving Credit	10.90%	1%
Cost of Debt	5.35195%	
Cost of Equity		
Beta	2.32	
Rf	0%	
Market Premium	5.60%	
Cost of Equity	13.07200%	
WACC	8.5943737%	

Appendix 5b: Dividend Discount Models

WACC	8.59%
Current Share Price	$24.59
No Growth Model	
Dividend	$2
Year Resumed	2024
Implied Share Price	**$19.73**
Implication:	Overvalued
Net Gain/(Loss) per Share	($4.86)
Delayed Growth Model	
Historic Growth Rate	11%
Dividend	$2
Year Resumed	2024
Year Grown	2026
Implied Share Price	**$20.25**
Implication:	Overvalued
Net Gain/(Loss) per Share	($4.34)

Appendix 5c: Carnival DCF

FCF Forecast ($ million)	2021	2022	2023	2024	2025	
Sales	$ 7,886.86	$ 11,119.51	$ 15,677.16	$ 22,102.90	$ 24,077.09	
COGS	$ 4,595.53	$ 6,479.13	$ 9,134.79	$ 12,878.94	$ 14,029.27	
Gross Profit	$ 3,291.33	$ 4,640.38	$ 6,542.37	$ 9,223.95	$ 10,047.82	
SG&A Expense	$ 1,860.45	$ 1,836.21	$2,237	$2,237	$2,237	
Depreciation Expense	$ 2,405.09	$ 2,581.19	$ 2,770.18	$ 2,973.01	$ 3,190.70	
Other Operating Expenses	$2,401	$2,401	$2,401	$2,401	$2,401	
EBIT	$ (3,375.30)	$ (2,178.12)	$ (866.31)	$ 1,612.44	$ 2,218.62	
Income Tax	$ (11.51)	$ (7.43)	$ (2.95)	$ 5.50	$ 7.56	
NOPAT	$ (3,363.79)	$ (2,170.69)	$ (863.35)	$ 1,606.94	$ 2,211.06	
+ Depreciation	$ 2,405.09	$ 2,581.19	$ 2,770.18	$ 2,973.01	$ 3,190.70	
- Change to NWC	$ 109.17	$ 153.91	$ 217.00	$ 305.94	$ 333.27	
Free Cash Flow	$ (1,067.87)	$ 256.58	$ 1,689.83	$ 4,274.01	$ 5,068.48	$ 74,291.29

Appendix 5d: Carnival DCF Inputs

Base Assumptions	
3-year average sales growth rate	7%
2020 Sales	$5,594
Bounceback growth rate	139%
Assumed COGS % of Sales	58%
2019 SG&A	$2,486
2020 Depreciation Expense	$2,241
3-year average Other Operating	$2,568
2020 SG&A	$1,885
SG&A Bounceback Rate	110%
Tax Expense % of Sales	0.34%
2019 Change in NOWC % of Sales	1%

Decreasing Worker Claims	
Settlement Cost	$1.30
Incidents per year	60
Reduction	25%
Automation Benefit	10%
Improving Waste Management	
Settlement Cost	$20.00
Op. Improvement	5%
Regenerative Cruises	
Additional Revenue	1.5%

Appendix 5e: FCF Comparisions

	2021	2022	2023	2024	2025	Share Price
Base Free Cash Flow	$ (1,491.99)	$ (476.98)	$ 990.93	$ 3,332.98	$ 3,945.81	$ 25.49
Improving Waste Management	$ (1,344.10)	$ (329.09)	$ 1,138.82	$ 3,480.87	$ 4,093.70	$ 27.71
Improving Worker Safety	$ (1,266.54)	$ (28.30)	$ 1,258.11	$ 3,600.16	$ 4,212.99	$ 29.63
Regenerative Cruises	$ (1,440.21)	$ (339.00)	$ 1,275.74	$ 3,859.93	$ 4,654.40	$ 34.30
Combined	$ (1,067.87)	$ 256.58	$ 1,689.83	$ 4,274.01	$ 5,068.48	$ 40.64

Appendix 5f: Alaska Air Group DCF

2019 Revenue	$8,781					
2021 Recovery Rate	65%					
Post Covid Boom	15%					
YOY Sales Growth	6%					
COGS % of Sales	80%					
SG&A Expense	$313					
Depreciation Expense	$400					
Other Operating % of Income	8%					
Tax Rate	21%					
FCF Forecast ($ million)	**2021**	**2022**	**2023**	**2024**	**2025**	
Sales	$ 5,707.65	$7,025	$ 8,078.52	$ 7,931.24	$ 8,427.43	
COGS	$ 4,545.11	$ 5,593.98	$ 6,433.08	$ 6,315.80	$ 6,710.92	
Gross Profit	$ 1,162.54	$ 1,430.82	$ 1,645.44	$ 1,615.44	$ 1,716.50	
SG&A Expense	$203	$313	$360	$313	$313	
Depreciation Expense	$400	$400	$ 460.00	$ 488.78	$ 519.36	
Other Operating Expenses	$445	$547	$629	$618	$656	
EBIT	$ 114.49	$ 170.62	$ 196.21	$ 195.86	$ 227.69	
Income Tax	$ 24.04	$ 35.83	$ 41.20	$ 41.13	$ 47.81	
NOPAT	$ 90.45	$ 134.79	$ 155.00	$ 154.73	$ 179.87	
+ Depreciation	$400	$400	$460	$489	$519	
Free Cash Flow	$ 490.45	$ 534.79	$ 615.00	$ 643.50	$ 699.23	$ 11,876.10
WACC	4.95%					
Enterprise Value	$ 12,018.83					
Total Cash	3346					
Total Debt	3217					
Shares Outstanding	123.66					
Implied Share Price	$ 98.24					

Appendix 6a: Carnival Credit Health Panel

Company Relative Credit Health Score Methodology

Overall Score	Financial Panel	Score
Bottom	Operational	Below Average
	Solvency	Below Average
	Liquidity	Above Average

Financial Panels and Metrics (USD mm) Financial Metrics Definitions

1 Top 2 Above Average 3 Below Average 4 Bottom

LTM Period Ending:			Nov-30-2020	
Weight (%)	Metric	Score	Company	Group Mean*
Operational (USD mm)				
2.78	**Total Revenue**	1	5,594.00	3,252.52
2.78	Total Equity	1	20,555.00	3,052.53
2.78	Return on Capital (%)	4	(10.05)	0.11
2.78	Recurring Earnings/Total Assets (%)	N/A	NM	3.70
2.78	Net Working Capital/Revenue (x)	4	(0.47)	(0.07)
2.78	Asset Turnover (x)	4	0.10	0.42
2.78	Intangible Assets/Revenue (x)	2	0.36	0.85
2.78	Net Working Capital/Total Assets (x)	3	(0.05)	(0.03)
2.78	Payables/Receivables (x)	3	1.46	2.12
2.78	Management Rate of Return (%)	3	(13.37)	(3.25)
2.78	Gross Margin (%)	4	14.91	31.70
2.78	EBITDA Margin (%)	4	(47.84)	5.35
Solvency				
4.76	FFO Interest Coverage (x)	2	(7.04)	(15.59)
4.76	EBITDA/Interest Exp. (x)	N/A	NM	6.98
4.76	FFO to Total Debt (x)	4	(0.22)	0.00
4.76	Net Debt/EBITDA (x)	N/A	NM	16.79
4.76	Total Debt to Capital (%)	2	58.00	72.48
4.76	Total Debt/Total Liabilities (%)	1	85.93	66.48
4.76	Total Debt/Revenue (x)	4	5.08	2.21
Liquidity				
6.67	(FFO + Cash) to Short Term Debt (x)	3	0.64	7.08
6.67	FFO to Gross Profit (x)	4	(7.56)	(0.36)
6.67	Basic Defense Interval (days)	2	319.43	243.45
6.67	Current Ratio (x)	3	1.22	1.37
6.67	Quick Ratio (x)	2	1.14	0.93

Appendix 6b: Royal Caribbean Credit Health Panel

List: Public Industry Peers (28) Currency: Reported Currency Go

Company Relative Credit Health Score Methodology

Overall Score	Financial Panel	Score
Bottom	Operational	Below Average
	Solvency	Bottom
	Liquidity	Bottom

Financial Panels and Metrics (USD mm) Financial Metrics Definitions

1 Top 2 Above Average 3 Below Average 4 Bottom

LTM Period Ending: Weight (%)	Metric	Score	Sep-30-2020 Company	Group Mean*
Operational (USD mm)				
2.78	**Total Revenue**	2	4,692.08	3,724.57
2.78	Total Equity	1	8,328.59	3,543.16
2.78	Return on Capital (%)	4	(6.84)	1.74
2.78	Recurring Earnings/Total Assets (%)	N/A	NM	3.62
2.78	Net Working Capital/Revenue (x)	4	(0.59)	(0.05)
2.78	Asset Turnover (x)	4	0.15	0.39
2.78	Intangible Assets/Revenue (x)	2	0.28	1.02
2.78	Net Working Capital/Total Assets (x)	3	(0.09)	(0.00)
2.78	Payables/Receivables (x)	1	3.02	1.70
2.78	Management Rate of Return (%)	3	(8.26)	0.37
2.78	Gross Margin (%)	4	20.09	35.22
2.78	EBITDA Margin (%)	4	(13.48)	6.60
Solvency				
4.76	FFO Interest Coverage (x)	3	(3.45)	(1.45)
4.76	EBITDA/Interest Exp. (x)	N/A	NM	7.97
4.76	FFO to Total Debt (x)	4	(0.12)	0.00
4.76	Net Debt/EBITDA (x)	N/A	NM	17.90
4.76	Total Debt to Capital (%)	2	70.27	77.08
4.76	Total Debt/Total Liabilities (%)	1	83.75	65.55
4.76	Total Debt/Revenue (x)	4	4.19	2.22
Liquidity				
6.67	(FFO + Cash) to Short Term Debt (x)	3	0.53	8.08
6.67	FFO to Gross Profit (x)	4	(2.44)	(0.49)
6.67	Basic Defense Interval (days)	4	159.41	269.37
6.67	Current Ratio (x)	4	0.76	1.45
6.67	Quick Ratio (x)	4	0.68	0.96

Appendix 6c: Norwegian Credit Health Panel

Scores | Financials

List: Public Industry Peers (40) Currency: Reported Currency Go

Company Relative Credit Health Score Methodology

Overall Score	Financial Panel	Score
Bottom	Operational	Bottom
	Solvency	Bottom
	Liquidity	Bottom

Financial Panels and Metrics (USD mm) Financial Metrics Definitions

1 Top 2 Above Average 3 Below Average 4 Bottom

LTM Period Ending:			Sep-30-2020	
Weight (%)	Metric	Score	Company	Group Mean*
Operational (USD mm)				
2.78	**Total Revenue**	3	2,750.95	2,989.78
2.78	Total Equity	2	4,087.77	2,717.02
2.78	Return on Capital (%)	4	(7.20)	0.25
2.78	Recurring Earnings/Total Assets (%)	N/A	NM	3.66
2.78	Net Working Capital/Revenue (x)	4	(0.56)	(0.01)
2.78	Asset Turnover (x)	4	0.16	0.41
2.78	Intangible Assets/Revenue (x)	2	0.22	0.86
2.78	Net Working Capital/Total Assets (x)	3	(0.09)	(0.01)
2.78	Payables/Receivables (x)	3	1.48	1.98
2.78	Management Rate of Return (%)	3	(9.05)	(0.64)
2.78	Gross Margin (%)	4	13.72	31.03
2.78	EBITDA Margin (%)	4	(14.33)	5.93
Solvency				
4.76	FFO Interest Coverage (x)	2	(4.30)	(13.70)
4.76	EBITDA/Interest Exp. (x)	N/A	NM	6.41
4.76	FFO to Total Debt (x)	4	(0.14)	0.01
4.76	Net Debt/EBITDA (x)	N/A	NM	17.51
4.76	Total Debt to Capital (%)	2	73.19	73.31
4.76	Total Debt/Total Liabilities (%)	1	83.80	67.51
4.76	Total Debt/Revenue (x)	4	4.06	2.18
Liquidity				
6.67	(FFO + Cash) to Short Term Debt (x)	3	1.61	10.94
6.67	FFO to Gross Profit (x)	4	(4.09)	(0.29)
6.67	Basic Defense Interval (days)	3	212.82	247.22
6.67	Current Ratio (x)	3	1.14	1.65
6.67	Quick Ratio (x)	3	1.04	1.12