As we discussed in our first article "The Industry Is Setting Sail for New Heights: Everyone's Invited", the cruise industry has undergone significant changes in recent years, finally getting back to voyages to exotic destinations and luxury travel experiences with fuller ships. In this article, we highlight our perspective on the cruise mergers and acquisitions (M&A) market where we delve into the future potential for the sector. We think the near future is bright and holds promise for activity as cruise lines search to generate significant demand and pay down debts. The cruise industry is already highly consolidated with limits on capacity expanding every day. There are exciting developments on the horizon for the acquisition of specialty lines, launch of joint ventures and expansion to new markets. With an increase of 19 percent in lower berths in market by 2028 and several smaller brands rolling out, growth will be strong over the next few years.

# Assessing the Current State of the Cruise Industry M&A Landscape

### How Can M&A Help Cruise Industry Players Drive Sustainable Growth?

### a. Big Acquisitions/Industry Consolidation Largely Done

In the past few decades, major players in the cruise industry engaged in substantial acquisitions and industry consolidation to expand their fleets and offerings. Carnival Corporation's acquisition of Princess Cruises and Norwegian's acquisition of Prestige Cruise Holdings (Oceania and Regent) are examples of such transformative deals. However, the era of mega-acquisitions appears to have subsided, with the industry focusing on other avenues for growth.

#### b. Expansion Into the Expedition and River Cruising

One notable shift in recent years has been the expansion into expedition and river cruising. Cruise lines have been diversifying their offerings to cater to travelers seeking unique and immersive experiences in less-traveled destinations, from the Arctic to the Amazon. Expedition cruises allow guests to interact with wildlife and ecology experts onboard, enhancing passengers' understanding of the regions they visit. The luxury brands are well suited to take advantage of this trend with Seabourn taking delivery of several new expedition vessels as is Celebrity Cruises. Smaller vessels also have the ability to sidestep many of the newer capacity restrictions in many ports, being small enough to still call ports. There is potential for acquisitions to be made to retain the rights and slots to call ports given some of these emerging restrictions.

#### c. New Brands to Market

The cruise industry has welcomed new entrants like Virgin Voyages, offering fresh and innovative approaches to cruising. Even though the official launch happened during the pandemic, this likely only delayed the inevitable success of Virgin. The focus on adult-only experiences and eco-friendly initiatives represents a new direction for the industry. This includes innovative dining options, entertainment choices and sustainable practices such as eliminating single-use plastics on board. We also are experiencing a surge in luxury cruising with Ritz-Carlton and Four Seasons launching cruise offerings of their own.

#### d. Premium Legacy Lines Challenges

Even with an additional 11 million people sailing in 2023 over 2022, some legacy cruise lines have faced challenges in keeping up with changing customer preferences and evolving market dynamics. Competition from newer players, legacy competitors and changing consumer expectations have put pressure on these premium lines. While there is growth at the lower end, value brands and higher end luxury, those in the mid-market are getting squeezed on both ends. As a result, they may need to reposition themselves by upgrading their onboard offerings, accelerating delivery of new ships, enhancing digital services or exploring strategic partnerships.



## What's on Deck Next for the Cruise Industry?

### a. Expedition Lines Continue Expansion

Expedition cruising will continue its growth trajectory, with both established cruise lines and new entrants expanding their expedition offerings. This expansion includes both within the umbrella of large cruise brands and as standalone operations. Cruise lines may collaborate with scientists and conservationists to provide passengers with educational and environmentally responsible expedition experiences. We see potential for expedition cruising to cross over from the luxury and ultra luxury to become more accessible to the mainstream cruiser.

#### b. Selling Off/Winding Down

To streamline their operations and focus on profitability, some cruise companies will thoughtfully consider selling off or winding down smaller, less profitable lines that no longer align with their strategic objectives. There is potential for the larger cruise lines to assess (and action) brands within their portfolio which have too much overlap in customer segment. This will likely involve divesting assets, consolidating routes or repurposing ships for more lucrative ventures.

#### c. Smaller Brands Potential for Acquisition and/or IPO

Smaller cruise brands that offer unique experiences and have carved out niche markets may become attractive targets for acquisition. Alternatively, they may explore the possibility of going public through an initial public offering (IPO) to fund expansion and capitalize on investor interest in the industry. Investors may see clear potential for profit with cruise lines in an effort to bolster strong commitments to sustainability and technology integration in the hardest to abate sectors. The IPO market isn't as strong as years past but with several private equity (PE) owned enterprises looking for an exit, it's likely a matter of time before we see a cruise IPO.

#### d. Opening of New Markets

The cruise industry is continually seeking new markets to tap into, and the opening of markets like Saudi Arabia presents exciting opportunities for growth. Thus far, only MSC has ventured in the arena signing a capacity agreement with Cruise Saudi during the pandemic. As regulations and infrastructure develop, cruise lines are likely to explore the potential of these emerging markets in the Middle East and North Africa. This will involve the creation of culturally immersive experiences, tailored to the preferences of Middle Eastern and international travelers alike. There is also likely going to be an increasing number of vessels homeport in this area of the world so consideration will be needed to the direct air service to enable passenger sourcing.

# **How A&M Can Help**

A&M can play a pivotal role in guiding cruise industry players as they navigate these dynamic changes and embrace future opportunities. Here's how A&M can assist:



#### **Market Analysis:**

A&M can provide comprehensive market analysis to identify emerging trends, potential areas for growth and opportunities for diversification. This includes consumer sentiment analysis and demand forecasting for various cruise segments.



#### **Financial Strategy:**

A&M can help cruise companies optimize their financial strategies, identify cost-saving measures, optimize cashflow and develop revenue-enhancing initiatives. This involves detailed financial modeling and scenario planning.



#### M&A Strategy:

For those considering mergers, acquisitions or divestitures, A&M can offer valuable insights and guidance to ensure successful transactions. They can conduct due diligence and assess the cultural fit between merging entities.



#### **New Market Entry:**

A&M can assist in developing market entry strategies for new destinations, including emerging markets like Saudi Arabia, providing a roadmap for success. This includes regulatory compliance analysis and partnerships with local stakeholders.



#### **Platform Transformation:**

In an increasingly digital world, A&M can advise cruise companies on digital transformation strategies including the core operational platforms to enable the crew to enhance customer experiences and operational efficiency. This involves the integration of IoT (Internet of Things) technology for personalized experiences and data-driven decision-making.

In conclusion, the cruise industry is at a pivotal juncture, with a shift away from mega-acquisitions towards a focus on unique experiences and niche markets. Cruise industry players can leverage the expertise of firms like A&M to navigate these changes and chart a course for sustainable growth in the evolving cruise landscape.

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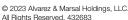
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