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Carnival Corporation: The P&O Princess Acquisition (A)

I remember walking with Ted Arison when we arrived in Miami and he said, "Meshulam, I know I sound crazy to you, but here we will grow an incredible, incredible, strong company."

– Meshulam Zonis, former Senior Vice President of Operations, Carnival Corporation

It was 21 January 2002 and Micky Arison, CEO and Chairman of Carnival Corporation, had just learned that the board of P&O Princess, a rival cruise line, had rejected his second offer to acquire the company for \$5 billion (£3.5 billion). In less than one month, the P&O Princess board would vote on an alternative offer to merge with Royal Caribbean Cruise Lines and create a combined entity that would overtake Carnival as the largest cruise operator in the world. (**Exhibits 1a-3c** provide financials for Carnival, Royal Caribbean and P&O Princess.)

Arison had learned of the proposed merger between Royal Caribbean and P&O Princess two months earlier while visiting Hawaii, where his son was staying with the Duke University basketball team for the Maui Invitational. Arison recalled:

I got a phone call from [Carnival Vice Chairman] Howard Frank saying that Royal Caribbean and P&O Princess had just announced a merger. It ruined my holiday. We had always thought that P&O Princess operations were a perfect fit for us. On a couple of occasions we met with [P&O Chairman] Lord Sterling, trying to convince him to sell the cruise business to us. At one time, we put a group together to buy the company but we were rebuffed again. [...] The feeling from our bankers each time we approached P&O was that we could not take it over in a hostile way, and so we backed off.

In 2001, North American passengers accounted for 89% of global cruises and Carnival led the market with a 36% share, compared to 30% for Royal Caribbean and 11% for P&O Princess. Arison saw Europe as a promising market for future growth. P&O Princess was well-positioned to capitalise on growth in Europe, with a 23% share of the UK market and an 18% share of German passengers. Carnival had 10% of the UK and German markets, while Royal Caribbean lagged, with a 7% share of UK and 4% share of German passengers.

The 9/11 terrorist attacks had hit the passenger cruise industry hard. US consumers avoided flights, cancelled pre-booked cruises and shunned new bookings, leaving many cruise ships sailing half empty. Rising fuel costs and competition from recent entrants further depressed industry profits. By October 2011, several established cruise lines, including Commodore and Renaissance Cruises, filed for bankruptcy, and by the end of the year over 20 operators ceased operations or were liquidated, the highest number in the industry's 35-year history. (**Exhibit 4** plots global entry and exit of cruise lines by year between 1967 and 2001).

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