

AMERICAN SUPERYACHT FORUM 2008
24 - 27 June 2008 — Newport

Day 2 - 25 June 2008

Money Matters – Investing in the Market

Bransom Bean	Management Consultant
Tom Patterson	Yacht Record
Lisa Verbit	Bank of America

Chairman—Martin Redmayne

Thank you. The session this afternoon—an hour long session on the world of money, a subject close to my heart, close to my wallet. I have a stand in speaker--John Johnson is unable to be here, he is delivering a boat down in Carolina and he's been unable to attend but I have to my far right a gentleman called Bransom Bean who is a business management consultant in the yacht market with some interesting perspectives on the world of money, business plans, strategy etc. And more importantly, the right levels of investment to make your business work. We've worked together for the last five years, I think, Bransom, on various projects and there's more things happening out there. We're going to start off listening to what the Bank has to say, they're probably the most important part of the equation. Followed by Tom Patterson who is an entrepreneur who's been involved in a start up business called The Yacht Record who's one of our sponsors here, and Bransom will then follow up with some other bits and pieces. Before I introduce everyone I wanted to just give two minutes of star time to one of our other money sponsors here which is American Express who are getting into the market in a big way. I want to call on Anjulika Singh to just have two minutes of singing the praises of AmEx and their involvement in how they want to get into the yacht market. Anjulika, please?

Anjulika Singh AmEx

So I will not be singing and that is fortunate for all of you. I think you may think how ironic it is that American Express is being headlined right before the money section. It is what we do best at American Express. But like Martin mentioned, my name is Anjulika Singh and we are the giga sponsor for the American Superyacht Forum. I am part of the Merchant Services Group at American Express and just to give my little plug, and for those of you who do accept the American card and encourage your customers to spend with you thank you, we do love you. For those of you who don't, we really do hope you'll stop by today to the American Express area just to learn more about what it is that we do, and what we can provide to the yachting industry. So just to give you guys a little bit of understanding of why American Express is here, you may have seen the Open logo next to the traditional American Express blue box and you're probably wondering what is it, what is Open? So American Express Open is the team that services business owners so there is a specific division at American Express that works for yacht owners, yacht businesses, professionals, all sorts of businesses. And what we're really here to do is to provide you with a range of products, premium products that help you support your yacht business. So whether you're a captain, a supplier, an owner or a broker, what we brought today is again a range of premium products that provide you with flexibility, control, rewards and expense management that can help you in your yacht business. So what we've

learned from past industry knowledge is that yacht business owners need expense management tools to roll up their expenses back either to their companies or to reconcile on a monthly basis. Open is one of the leading providers of expense management tools and products. So we've heard you and we've provided you with these services. In addition we have a set of account management capabilities and specific savings for business partners. So whether it's just office supplies etc we provide these savings to you embedded in some of our most premium products. So what we're really here to do is how do we help yacht business owners with a product that helps manage their cash flow and provides flexibility for their business? We also would love to hear any feedback you have, positive stories are requested, we definitely like to hear what can American Express do better for you, whether it's your set up as a merchant to accept the card or whether you're using the card as a tool to drive your business forward. So that's really my 2 minute spiel, we are only actually here until the end of today so please stop by the American Express area, speak to one of my Open colleagues and hopefully we'll be able to find you a product that helps you run your business better, travel a little bit better and a little bit easier and we do have some specific show incentives that we're offering only today at the American Superyacht Forum. Thank you for your time.

Martin

Thank you Anjulika. Lisa, please? A nice, impartial chat about money.

Lisa Verbit Bank of America

Hello everyone. I thought I would start first my little discussion with what I think is probably the most important place that we should invest in, in the industry, and that's in our people. And by that I mean our craftspeople who build the yachts, our crew members who run the yachts for our clients. When I was thinking about this I thought about what is it that our clients say to us when they call and say we're paying off our loan because we've sold the yacht. And 9 times out of 10 the reason they're getting out of the business is because of crew issues. And that's not to say that there aren't great crew out there but we don't have the depth in the industry to accommodate all these yachts. So we can talk all we want about expansion, yard expansion to increase capacity and put out more yachts but if we don't have the people to build them then throwing money into a superyacht is not going to help. And if we don't have the crew available to service our clients then they're not going to have a happy experience and there's going to be no-one to run the yachts. And I read a book recently written by Robert Frank from the Wall Street Journal called Richestan. And he is a writer for the Journal and he started writing stories about the wealth market. And a few years ago it sort of became a full time gig for him. And a few years ago he went to the Fort Lauderdale Boat Show and he was along that megamillionaire row area of yachts and started talking to someone and he said he stood there and was thinking, after he talked to this guy who happened to own one of these multimillion dollar yachts—there really are two countries in the United States and I would argue that it's probably the world too. That's the very wealthy people and the rest of the world. So he wrote this book and decided to name it Richestan. And it goes through all the different levels, Lower Richestan, Middle Richestan and Upper Richestan, Billionaire Land, how they all interact with each other but it really focuses on the needs of the wealth market. And it's applicable not just to yachts but their homes and airplanes, everything that they need. And it talks about how their inflation is higher than the rest of the world, the rest of us who aren't in Richestan. And you know one of the needs he focussed on was people to run their households, their yachts and things like that. So there's a great demand for these yachts as we all know, especially in the 130 foot plus market. Demand has outstripped supply. So I think that

solving the people problem is really the most crucial thing that we need to invest our money in. So I'll throw that out there. Then beyond that, we have experience in working with shipyards, we do not lend to shipyards generally, we lend to individuals who are buying yachts and we provide construction financing but we have, just by virtue of being in this business, and we've been doing it for over 25 years, often been approached by shipyards to supply financing. Many shipyards would love to be able to start projects without having a contract. It helps even out their revenue stream, their labour force, they don't have to hire and fire and then try and reboot up after times are good again. So that's a great area of opportunity for investment in the market. And also many shipyards, from the conversations I've had with superyacht owners—they would love to sort of have a series of yachts that they could put out where there's limited change order options because that's a real difficult place, when change orders come into play, where owners and shipyards butt heads and trying to price out what that really costs and make a profit is difficult. Sadly our Bank does not finance shipyards but that's an area where if we put some dollars in it we could help even out these revenue streams for some of these shipyards. Of course in the world we inhabit, the gigayacht world, that's not a problem right now. Most of the shipyards are at capacity, and that is the problem. And then the other thing is of course, marinas. We have clients who buy homes just to have a place to put their yacht. And those are becoming fewer and fewer opportunities as the yachts get larger and larger, so investing in marinas like Andrew Farkas was talking about yesterday is imperative and also having the whole hospitality thing worked out, and the high level of service, which really—owners that we talk to when they have issues with crew, the hospitality factor is one issue where there's some need for improvement and that's where you get into training and education. In this book, Richestan, this woman who comes from a wealthy family has actually started—they call them household managers. She started a household managers' school and she goes and she recruits at colleges and things like that; these people go through a rigorous training programme, it's not a couple of weeks, I forget how long it is, I don't have the book with me—but they go through a rigorous training programme learning about boundaries and how to handle the hospitality piece as well as the technical piece of running a home. And I think the same thing would absolutely apply to the yachting industry. I don't know who's going to do this but I think this is essential for us to have this happen or we're going to continue to have turnover in the industry, and I think if we solve that problem and finance it and get these people trained, and educate the community about this being a viable career path, working on yachts and working with the wealth market, it would be a great boon for our industry.

Martin

Lisa, thank you. Bank of America Training School. There you go. Tom, please?

Tom Patterson Yacht Record

If I could borrow one of the portable mikes, Martin? Are there two still here?

Martin

Yes, Lisa's here. Your moment of fame, Lisa.

Tom

If you would separate those into four stacks and give them to the people in the four sections. Let's say—how many of you guys have started their own company? Will you stand up please. Will you make sure that these guys get just one of these little

sections. The next question is—how many people have thought about starting their own company—if you're here with your boss you don't have to raise your hand and you don't have to stand up. I asked Tork this question last night—I thought about asking everybody to bow their head and close their eyes so that the boss wouldn't know. Tork said, after much agonising, that he had decided not to start his own company. So I would ask everybody here to close their eyes and bow their head—except for the people who are passing out papers. How many papers do we have left? Is there anybody who wants to raise their hands even with your boss here if you're thinking of starting your own company? Only one person willing to admit that. This is also supposed to wake up everybody after you've had too much dessert for lunch—low blood sugar. Take the paper and just do what I do, this is what I learned in Alabama as a paper boy. Fold it over once, fold it over again, fold it over one more time, crease it at the end, crease it at the other end, and put it on top of each other. You can throw this thing like this and knock a flower pot off at 30 yards. We're going to go through this a couple more times. Now I'm going to give Martin \$100. Did you guys have success in folding your paper? I'm going to do it a couple more times. Bransom, have you folded one yet? Has everybody got the hang of it? I've been asked to give several talks on entrepreneurship and the one thing that I've found in common when I've researched and looked at what made people successful entrepreneurs is that most successful entrepreneurs at one time or another had had a paper round. So I want you to throw this paper, engaged in a little exercise and possibly win \$100. So here we go. And if you end up with the paper I'm going to tell you about—You've got to throw one more—this is the British way—I like that. Give it a sling. Does everybody have a paper? We'll give the \$100 away at the end because I want to keep everybody awake. You can sit down now.

I really wanted to cover three things with you. President Regan was an absolutely great communicator and I really read a lot of things about him and one of the things that he always said was don't ever give people more than 3 things to think about at a time. And he found that especially true with the American people. We can only handle three things at a time. So I wanted to touch base with you guys about entrepreneurship. We just covered that with the paperboy exercise. I really don't know what makes a good entrepreneur. I've been accused of being a serial entrepreneur and I guess I am, but other than the fact that I really liked my paper round I can't identify anything else that would distinguish me from anybody else that might want to be an entrepreneur. So the second topic has to do with technology transfer. We are new in the industry, we attended the Project USA Forum in New Orleans then Kirstin went to the San Diego meeting, and then we went to the Amsterdam meeting and now we're here. There's a lot we like about the market but for us to come in from the outside we have to transfer technology. What does that mean? Can anybody tell that I'm wearing hearing aids? This thing looks like fish bait. But it works great. I highly recommend it. But it wouldn't exist today if we didn't have a technology transfer from the space programme. I remember back when the instrument control unit for the Saturn 5 was developed—but this aid has more capability than the instrument control unit in a Saturn 5 had. It's hard to believe. The third thing I want to talk about is the case history on Yacht Record. I'm going to move back up to the platform here to do that.

One thing I want to touch on in terms of information: technology transfer—my first experience of this was in 1983 when I had a business partner named Mark Geddis and we were installing systems for physicians and clinics and we had an angel investor that Alan Richie knows well by the name of Bill Featheringill. And Bill wanted to start in HMO and he came to us and said can you guys do HMOs. I said well, never done one. I went to my business partner who was a defector from Czechoslovakia and I said Mark, we've got a chance here but we've got to develop

an HMO system. And Mark said I've done one of those. And I said what do you mean? You're a defector from Czechoslovakia. He said yeh, but I developed an offshore oil rig programme for Mobil Oil and the oil rig is like a patient, and a mechanic is like a doctor. So all we had to do was redo that system and anything the doctor does to the patient is like the mechanic working on the oil rig. And we did that, and we went on to build a company with one of the most successful HMO systems in the market. We got ready to finally start another little company called Daxco—we did the same thing, we took that system which was a member management system and applied it to the YMCA market. And now we have started Yacht Record we're basically taking that same technology—it's almost like a medical record for yachts—and why did we pick this market place? We really liked it for a lot of reasons. Number one—when we surveyed the market there was a lot of opportunity. Talking to Bransom earlier, there's a kind of lack of discipline in the market place so we felt like that was a good chance to bring information technology in to track what happens to yachts. The second thing was the fact that in the other companies that I'd been involved in, we found that 1000 units was an ideal size to get our hands around the market. So if you look at the upper end of the market, take the 1000 biggest boats, it represented an ideal size to attack. If you come down the pyramid, there's another 5000 or 6000 boats that I guess are 30 metres and up. And then the bottom part of the market, which is what we'd use Yacht Record Light for, represents about 44,000 boats. So it's a big market but the important part is the 1000 units that you can really build a good marketing plan and get our hands around. The other things is that there is a lot of money in the market but that doesn't mean that you don't have to do a really good job to put together the right kind of sale and marketing plan, educate the prospects and then tackle the market in a logical way. And we planned to do that or are doing that by talking with people like AJ and Graeme in the yacht management industry. I think it's going to be difficult to go to the owners directly so we probably won't try to do that. But the captains represent a good source for us to market to. And from a funding standpoint we wrote our business plan which was really just a set of projections. You're going to touch on business plans, Bransom, but as an angel investor I'm not too hot on reading detailed business plans. I'd really rather just sit down and talk to the people, get a good feel for the business that they want to get into but really the most important thing is the people. You can take good people with an OK idea and be successful. You can take the best idea in the world with the wrong people and not be very successful. So people buy from people, people are really the most important thing. The other thing we like about the marketplace is the fact that it is an opportunity for small businesses to start, and that's what I would really like to, if there's any way that anybody has a newspaper that feels that they now have a stroke of luck and I can help you in the next year, 2 years, call me up, I'll be glad to spend as much time as you need with me telling you about the mistakes I made in the past and the things that I've learned, it may help you get started in that small business. I really believe that people that start small businesses, once you get that in your blood, you see the new plants coming out of the ground, it's just a very, very exciting thing to do, it's a rewarding thing to do. You read a lot about big businesses downsizing but you don't see very much about a small company downsizing. With us small companies it's usually just onward and upward. So if there's any way I can help you guys, if you struggle with whether you want to start your business, please give me a call, if I can help you identify and find an angel investor I'll be more than glad to do that. Most angel investors are hanging out at their favourite breakfast place at least in Birmingham down south. 6.30-7 o'clock in the morning. And I want to end by saying that there was a lot of discussion yesterday about accents—and since I don't feel like I have one and we need a lot of standardisation in the industry, I'm going to propose that maybe my accent be adopted as the standard.

Martin

Tom, thank you very much. Do you want your \$100 back, or is that an angel investment?

Tom

No, the \$100 is going to the person that has yesterday's Birmingham News Money Section. That section talks about our little sister company in Birmingham called Daxco and it was just selected as the 17th best place to work in the whole USA. So if you have yesterday's Birmingham News Money Section you get the \$100. Does anybody have that? It shows a picture of a kid riding a motor scooter which demonstrates that old guys can change. The President CEO of that company has done something that's really creative—one of them giving everybody a scooter to ride so they can get from one end of the building to the other. Does anybody have that section? Aha. You can claim the \$100.

Martin

He's from Birmingham. Wonderful. Bransom, please—your perspective.

Bransom Bean

First off I'd like to apologise as a management consultant and a sailor and also a former Naval Officer I like to come prepared and my preparation for this has been all of about 90 minutes so I do apologise. They say that those who can, do—and those who can't, teach. Teach could be substituted sometimes with consultants. I call myself a management consultant which a lot of people don't really know what that means so that's why Martin used the term business consultant. But what I try to do, almost like Tom, is at the ripe old age of 56 I can list for people a whole bunch of things that I have screwed up and so I say what I sell is scar tissue. Particularly with new ventures—I can tell you pretty much what I did wrong and I leave it to people with the new ideas to try to do it right. Apropos to this, one of the things that I do quite a bit is help businesses optimise themselves, deal with crises, and also try to seize opportunities that they didn't realise they could actually realise. One of the interesting things for those of you who are in business for yourself is you're unique from your corporate counterparts. And you are the guys or ladies that are out there taking the risk, which for those of you as old as me may remember someone called HL Hunt—in the early days of 60 minutes he was interviewed and at the time—this would be the late 60s—he was interviewed by Mike Wallace and he said to HL Hunt what is the greatest detriment to making a lot of money. And he said a college education. Now for those of you who have kids and you're trying to make them go off to college and certainly my dad made me, one reason he wanted me to be a Naval officer, that may sound bad but what he said was if you drop out of school as I did at age 8, you don't expect anything, the world doesn't owe you anything, and so you take lots of risks. So for those of you who sometimes feel a little bit inferior to your corporate colleagues who have stayed, if I can be a bit insulting, nestled in these big corporate monoliths where the salary comes out every week as long as you don't screw up too badly, I tip my hat to you and that's where the great opportunity is. As someone who now lives over in the UK—I've lived over there, actually the Isle of Man, but I won't get into the nuances of what that means—of the many things that we have to be proud about as Americans is we have a can-do ethic. If you live in the UK very long, and for those of you who are British you know there's a real stigma to going bankrupt in the UK. It's sort of like they don't let you in the club any more. And I tell all my British friends in the United States and you have a small businessman or

later on a bigger businessman if you haven't gone bankrupt at least once it's a bit like not having any qualifications. And if nothing else, as long as you didn't defraud anybody, you'll get a pat on the back down at the Yacht Club or the country club and someone will say good on you, and what did you learn from that? That's the spirit and attitude that is unique to the United States but also it's a spirit and attitude that pervades small business people. Now it relates to what we're talking about today and again, I only actually focussed on it when Martin stepped down from the last seminar and said I'm it—in actual fact there seems to be an awful lot of money out there, as Tom actually proves with his cheque book—that is chasing this industry. And for those of you who were at and selling, Martin, it'll always be Project—GSF in Amsterdam, you saw two and then three guys who are actually chasing business opportunities in this market. The most interesting one—and again, this isn't because I'm American, but Mr Rattner sat up if you remember on the big screen up there and said that he is acquiring and would like to acquire a lot more. Even further proof, because it could be argued that Martin in his indomitable marketing fashion managed to scrounge three guys up that would say that, I was riding in on the train to the session that morning and there were two guys in suits. Now for those of you who are in the yachting business, you can always identify people who are in yachts in that they don't really wear coat and tie a lot. And these two guys clearly were in suits, and they had their leather briefcases and they looked very very Harvard MBA types and as it turned out that's exactly what they were, and the three of us managed to get lost trying to get from the train station and we started to talk. And it turned out that they were with my counterparts if you will in one of the big 4 accounting firms. And I said what are you doing here? And they said well we're management consultants. And I said well fancy that. I said what do you hope to gain? And they said well the strategy guys at—and I can't remember which one of the big 4 it was because I'm 56 and they're dying in legions in my head—but anyway they said we believe that there's going to be fortunes coming into this industry and so they've sent us off, and of course they're always the young guys, 27 year old MBA types, and trying to find out what a superyacht is. Well we can tell you that there's a tremendous amount of money. And as it developed—if you listened to that presentation by Mr Gilmour and the other two gentlemen, you could hear that they were trying desperately to invest in an industry which Mr Rattner highlighted as one of the absolutely incredibly high demand versus product ratios in the world. I happened for another magazine—I shouldn't bring this up with Martin here—to write about Christiansen expanding into the Teleco Lake with their 12 new berths for building superyachts. And as I was there in the typical American, like straight out of the movie Deliverance, green backed Tennessee on the shores of Teleco Lake, just down the lake, Brunswick and several other boat builders were going through what continues to be a retrenchment and layoffs and so forth. As we sit here today we talk about the potential of slump but in fact we can't see it yet. And so the world of venture capitalists and the world of angels not being stupid, and particularly these days unless they're interested in going into real estate, there are not a lot of opportunities, are looking at your businesses, and these businesses of all sizes, and trying to get in. So the point I'm trying to make there is I can tell you point blank there are people interested to get in. I also subscribe to a service that puts me in touch with an investment firm that their clients are asking them for one hour advice on businesses. And about once a week or certainly twice a month I get a request for one hour of time to talk to some suits somewhere in an office and explain to them what a superyacht is and what the dynamics of the industry are. But where I always run into problems, which is the same problem that you heard described at Project, or GSF, in Amsterdam, is quantifying things. If you've been in the industry long, and to be candid I've only been in 5 years myself, a lot of the old guard are always talking about how unique superyachts are, and you'll hear particularly amongst the captains as the boats get

bigger, if you go to these dealing with regulations seminars—they'll tell you oh yachting used to be fun, why do we have to have licences. Well when you get up to \$200million in the value of a yacht and so forth, you have to start to apply discipline. The same ethos means that there tends to be a shortage of numbers and this sort of parallels the discussion we had earlier today and yesterday. It's really hard for someone like Tom coming in and looking at a business to get the normal sort of information that you would have. And the reason is that there's so much money in this industry that people don't have to use the normal disciplines. Which usually relates to cash flow. As a result there are a lot of people happily making \$1 to \$2million a year who if they could just get their act together would probably be making \$20million a year but \$2million a year in the bank is thank you very much quite good. So the second point I'm making is, if you're interested in attracting some of this equity as a small business person who has built a business, sadly even though you're in the superyacht industry, and to many of those in the old guard in the superyacht industry you're going to have to get your act together, things are going to have to be a little less fun and just as Mr Gilmour and Mr Rattner said, they'd be buying a lot more businesses if they could just find a business plan. You don't need me to write a business plan. You don't need a lot of people to write you a business plan. A business plan is simply a 3 year, 2 year, 4 year, depending on what you subscribe to, projection of what you are and the need you're going to satisfy. If you can't identify the need you're going to satisfy then you can't be in business. The problem with small business people, not Harvard MBAs, they don't always think like that, but the business is satisfying a need. There are millions of websites, almost literally, that will give you a free model for a business plan, fill in the blanks and the interesting thing as Tom said, if you go down to the coffee shop you'll probably find an angel that will help you fill it out, because he wants to participate. And that's really the difference between an angel and a VC. Well, what's common in the third point I want to make, which echoes what my two colleagues have said, at the end of the day after you put all those systems in and they're very basic, and that includes monthly accounts or income statements, profit and loss, balance sheet, whatever it is, with a budget to action and also analysing your receivables—the number one reason by the way small businesses go bust is not that they didn't make the sale, it's because they don't collect their receivables. 9 times out of 10 when I'm called in to sort out a business, it isn't trying to get them to sell more, it's they've sold so much but nobody's been collecting the income and they're down at the Bank of America trying to finance their receivables that they can't document. So remember that by the way. If business is good, that's the time to be chasing the money in. But the final thing to remember, of the three the most important, which is what we talked about earlier, is all of these guys are buying the people. And this goes back to what I started with. What makes you special as a business person, is that you had the guts and the energy to go out there and try and to not give up until you did and when you are in there at 4pm on a Saturday afternoon wondering why all your corporate colleagues are on the golf course, you're still bashing away at it unafraid to fail and convinced that you can't fail anyway. So what people are buying—and again, there's money out there desperately trying to come into this industry if they could just figure it out—is you. Because as a small business person you're unique, and once you get that chemistry, if you get an angel, he'll help you out in the coffee shop to do the numbers that you might pay me to do, and if you get your facts and figures sorted there's a VC but he's interested in buying you and not just your business. If that helps a little bit, that's where I come from and that's how I think. You can all be encouraged, you just need to clean up your act just a little bit with some numbers.

Martin

Bransom, thank you very much indeed. OK the floor is open. Any questions from the floor on how to make money?

[From the floor]

This is for Tom Patterson. The Yacht Record, is it going to be modelled along what a lot of us have become accustomed to, giving a full history of the vessel, refit information, ownership information?

Tom

No. What we're really targeting Yacht Record to do is, if you could picture a vessel. With an umbrella over it, and that umbrella's mission is to collect all the information associated with that vessel such as the legal documents, insurance papers, flag registration papers, anything related to the crew that needs to be documented and kept on file. We don't plan to duplicate the systems that are out there but what we do want to do is to have a task section of Yacht Record that can keep up with things like tasks that need to be done in order to stay within compliance and to make all of this, and that includes all the systems' manuals on the yacht. It includes photographs of the yacht that we can capture as it's being built, or as it's taken apart and reconfigured in a refit operation, to document all those processes and then store that information in a landlocked data centre so it's totally safe and duplicate that in a little onboard computer box that's about the size of the small mini Mac, if you're familiar with that. But the idea is to have an iron mountain type safe place to keep all of that yacht information. So god forbid the yacht be destroyed in a fire and have a lot of that documentation, both systems manuals and legal documentation destroyed. So the whole idea behind it is to capture information, store it and then make it readily available from any place in the world via the internet as well as for the captain and crew on board the vessels in a little onboard computer.

[From the floor]

Well the second part of that question is— not that Bradford is guilty of it but many shipyards do refit items on yachts with very little if any documentation. How would that affect the report—let's say for example they started off with a Onan generator and somewhere along the line they went to a Kilopak but that was not recorded. How does that affect the records?

Tom

Well as that Kilopak is installed in the yacht we would be making digital pictures of that installation going in, so that you know, very few things are actually built as strong. In the shipbuilding process and I've got a 52foot sailboat that I sailed across the Atlantic and back and we would make modifications to that boat that weren't properly documented but if we were to document those kind of things—and it's so easy to make a digital picture nowadays with a camera and then that becomes part of the permanent record. The other thing that happens a lot of times is that a crewmember will come on board and look up something that needs to be maintained will go down to the engine room, make notes to himself because he found an easier way to do it but those notes are lost and not available to the next crew change. So by documenting those notes, scanning them in, and making them part of page 46 of the engine manual on how to change a salt water pump impeller, then that crew change know, that note made by the crew becomes available to the next crew change. So it becomes a living part of that yacht.

[From the floor]

OK. I guess the last part of my question is—the burden of responsibility to record any changes made to the vessel. Who do you see that falling upon? Let's take for example that Bradford changes that valve.

Tom

OK. From our perspective if the yacht is under a Yacht Record certification programme that we're in the process of laying out, when that boat goes into refit there would be someone that is appointed, either the captain or a project manager, or a member of the crew that would be responsible for documenting the changes that are made to that boat. Not necessarily the yard, but someone that has an interest in that vessel over and above what the yard's interests might be. It could be a project manager from the yard if the owner or captain designated that person, but there has to be a point of responsibility that can be held accountable.

Tork

Generally to the panel or to the audience—there are a lot of investors who want to get into the yacht business and it's sexy and we're all making tons of money apparently—both the investors and those who wish to be invested in, do they have realistic expectations of what they can offer each other, or are they seeing through rose tinted glasses what the other party can do for them?

Bransom

In other words, are you saying is there a meeting of minds?

Tork

What I'm driving at is, let's say you're seeing investment and you think it's going to be like this—perhaps it's not actually the way you see it, and for investors perhaps what they're investing in is not what they think it is.

Bransom

True. And that's part of the preparation process. But when you go to sell your business you need to think about why do you want to do it. And that's not just a cash out. Most people try to cash out—ideally they'll sell to a large company and then they'll mess it up and you'll get to buy it back about twice and then you'll really retire rich but another motivation is your personal sort of desires as to what you want to do, how much you want to be involved after the fact. So the starting point is to try and find what you want, and then there are numbers—one of the questions I've been sitting here fearing is somebody says—OK, I've got a business turning over X with this sort of profitability, what is somebody going to give me for it? And I would say the British have a favourite saying—how long is a piece of string? Because there's a question of quality, of income quality, of corporate governance. And that's the reason I encourage you to get your numbers together because an investor coming in knows what to expect, because he can see the numbers that are normal. So there will be some misapprehensions, if you will, as to what you can earn for your business but it's horses for courses. The investors at the moment for most businesses already have a model in their mind of what they want and the parameter of what they want, and

they're just going to cast around trying to find it. And that might be numeric—like X turnover, or this sort of growth, and it might simply be, as Tom said, this guy seems to have a great idea, let's bankroll him. So it's almost a brokerage process, trying to get to that point.

Martin

OK. Any other comments? Yes, AJ? Then Sam there. Thanks Lisa. He's the good looking one in the white T-shirt. Well, not that good looking.

Sam Brown Knight & Carver

I do want to ask you a little bit more about that question that you said you didn't want to answer. Which is, in the industry what type of multiples are you seeing in terms of sales of the businesses and you know—assuming good management practices, assuming you have a business that has financial statements that are readable and understandable, what types of—are you looking at a multiple of EVA Dow, are you looking at a discounted cash flow analysis, what are the valuations and how are they being arrived at?

Bransom

Back to the piece of string. I mean, there's one that I'm working with right now where there have been several offers over the years and it's a multiple of income before interest and taxes. Nine. But then as you're looking, what's really sort of funny is the 9 seems to be constant, but if you track the state of the company, and this has apparently been a 3 – 4 year process, if you track the state of the company the actual quality of the information hasn't got any better and so there is a—I would say probably 9 but in other businesses I've seen it go down as low as 4 or 5 in some very legitimate businesses. But 9 is the one I have the most experience with now. But again, with the quality of corporate governance, what I'm already advising this person is, let's go look for 10½ even though no-one's ever talked to you about more than 9. Is that sufficiently evasive to buy time until the session ends?

Sam

Maybe— well I guess I could qualify it as I don't know what size business it is, but maybe something that would be a business that had some consistent turnover, say \$10million or more?

Bransom

This one's not on that order of magnitude. But it's consistent. And it's also so steady you could bank on it. If you could just confirm the numbers, which is part of the exercise.

Tom

I could give you some specific numbers, Sam. The little sister company I mentioned that was featured in that Birmingham News article—we started that company a few years ago and I guess this year we'll do about \$8 or \$9million in sales. This Friday we're closing on our first round of venture capital from an actual VC. And we are closing with a valuation of the money coming in at about I think it's \$19million. And then a post valuation of about \$24 - \$25million. So that's I guess about 2½ times

revenue? But it is a recurring revenue model based on IT technology. But the interesting thing is, the only market we serve are YMCAs. So we have no qualms in taking that same model into this industry, taking basically the same technology and building the Yacht Record around the same idea that that YMCA membership record is built, or in a previous company I had, a health care record and using the same model to generate revenue. The nice thing about our business and your business too is, that if they're using the yacht, or if it's a marina, it doesn't matter, it's ageing and every day that the sun shines on it you're going to get business. So you do sort of have a recurring revenue model. I couldn't advise you on Knight + Carver because I think you have to get somebody to take a look at that with the idea that the value that you add is what's really worth the money that somebody is willing to pay for it. So you kind of have to back out of that the equipment that you buy and then look at the value that you add and how you refit that equipment into the yacht has been the thing that somebody might be willing to pay a premium for.

Sam

Right. I was looking for—it's hard in this industry to get any kind of standardised information and so I'm looking at standard multiples, and then you know you take out your cost capital and then minus debt equals value, right. And multiply times EVA minus cost capital and minus debt equals value. That's normal, but you can normally get those numbers and I'm just looking for some insight from you guys in terms of what you've seen.

Tom

That's too complicated for me. I look at things in a much more simplistic fashion.

Martin

He deals in \$100 bills, that's all.

Tom

For Yacht Record, you know it's a very simple model. We have a strategic goal in making the company worth \$100million in 5 – 7 years. To do that we need to reach about \$35million in revenue with a 10% - 12% bottom line. And if we do that, with a recurring revenue model it'll be worth \$100million to somebody. And finding that somebody that's willing to pay that may take a little fishing, but if you fish long enough you're going to catch the right—either take it public or find the right strategic business partner for a business like that.

Bransom

And as imprecise as that sounds, that's exactly—I mean it's a business drill. And it's a sales packaging comfort level.

Tom

And to expose a little bit more about ourselves, when we did the projections and laid out the model for Yacht Record, we knew that the good news about a recurring revenue model is you can get a really good multiple for the business, the bad news is it takes a long time to get profitable, because you're selling something that has a high value as a service rather than selling it as a product. But the advantage of selling it

as a service, you build that revenue up month by month, year by year, and sooner or later you create a snowball effect. For example at Daxco with the YMCAs, we now have over 370,000 associations, that's a third of the market, and we have 100% customer retention over the last 7 years. So you know with that kind of track record, that company's going to be very, very valuable and we think we can do the same thing with Yacht Record.

AJ Anderson

Trying to remember what my question was. I didn't understand a word of what the other question was, so I'm glad that there's hope because if you don't have to graduate to be successful then there's hope for a lot of us out here. I want to ask—if you were looking at business people like us, generally boat people that eventually found themselves—somebody said would you do something and you say OK and unlike Martin who had the courage to go out there and do it without somebody asking him to—he just did it and made it happen— and there are a lot of us that respond to questions. And so we end up doing it and we have no idea, no experience in running a business per se. We just fulfil the needs and try to achieve that. If we were, instead of looking for an angel investor for the money, but rather looking for an angel advisor, which we have in that a lot of our owners give us advice, say—that's a dumb idea, and you're charging me too much and you're charging him too little—but we get that advice a lot! But if you were to invest in a company would you say to that company owner you need to bring in a chief operating officer, COO, or a chief financial officer, to manage the business part of what you're doing so you can focus on our product, your service. Would that be something that you would advise or require?

Tom

I guess it depends on the situation. First of all, your comment about education. One of my favourite little poems has to do with persistence and determination and part of it says the world is full of educated derelicts and you know I firmly believe that. And I also agree with the comment about education can really get in the way of making money. I would much rather deal with people who have a vision and a dream and a can-do attitude and invest in that spirit than invest in somebody that just goes by the numbers. I think it depends on the size of the business, whether you need a COO or not? I know in the case of the companies that I've started, and I guess Yacht Record is my fourth start-up, I wouldn't even entertain anything like a COO until we were around 50 or 60 people. I think that people starting the company up until 30 – 50 people you can—my rule of thumb is, when I don't know who people are married to and the names of their kids anymore, then we're big enough for a COO. Short of that you really don't need one. And one more point with AJ—I would be glad to be your angel investor if you'll just sign up with us, we'll go sailing or I'll come ride with you when you want to go out on the boat and you'll get a lot of free advice under that scenario.

AJ

I'll be on the fore deck!

Bransom

And that's more insight into the difference between a VC and an angel. My experience, I would say over the last year, is again, coming from—I'm also a pilot but as a Naval officer and a sailor myself I like to know where I am, so usually what I'm

advising people to do is to get a really good finance person. 9 times out of 10 you'll walk into a business that's just going gangbusters and you cannot for your miserable life figure out how much money they're making—and I'm always asking how much does it cost to keep the lights on? And the poor guy or lady that's running it will start rifling through papers and they can't—so the first thing to invest in if you're flush with money and want talent, go get a management accountant to be your finance director. And the other warning I'll say, and if there are any accountants in the audience I apologise, but there are accountants and there are management accountants. And what you want is an accountant that you don't have to ask the right questions. The number of times that I have had an accountant working for me when I was an executive and you spent more time trying to find out well, is it exactly the amount of cash and they become almost anal about accuracy. You need somebody that is thinking with you in the business, but is also counting the pennies and figuring out how the money comes in. So I'd go for the finance guy first and once—as Tom says—once you don't remember the names of the people start thinking about somebody else.

AJ

That was great, thanks. Can I ask just another specific question—on income and outflow. I know that you're supposed to make more than what goes out, most times. I figured that out. Is there a formula of how much of your outflow should be on expense and how much of your outflow should be for capital? Is there an ideal number for that, based on whatever your income is?

Bransom

You mean the profit as a percentage of turnover? Is that what you're saying?

AJ

I don't know what you just said.

Bransom

What I'm saying is, in other words, if you make \$10,000 should your profit be \$1,000 and that's a good rule of thumb.

AJ

No, but that's good information I'll use. But—

Bransom

That's too bad, because that's the wrong answer.

AJ

What I meant was, if I had \$1,000 going out, is there a percentage of how much of that should just be in expenses? And a percentage of how much would be best for capital investment?

Bransom

People ask me how to figure out why should they be in business. And I say well, if you have a certain amount—I'm not sure I understand the question, but say you have \$1,000 to invest in the business, you also have the choice of putting it in the Bank. And one measure of why you're in the business other than maybe pure joy as well—if I put this in the bank or invest it with a good adviser I could get say 5%. So I'm going to be in business and I want to make at least 5% more. I don't know if that answers your—

Lisa

I think he was asking how much should be reinvested back into the company if he's taken \$5,000 out of the company, how much should be expenses and how—is there a rule of thumb?

Bransom

Oh, you mean how much should you reinvest of the profit or how much you should take home?

Tom

I've got two rules of thumb, AJ. The first one was taught to me when I went to engineering school by a metallurgical engineering professor. And doc had a big beer belly, he had been one of the few professors I had who had really worked in industry. And he went to sit on a stool and he always referred to us as gentlemen—now I want to tell you boys something. And every day he would give us at least one good tip that had nothing to do with our education. And one day he said I know you guys don't have time to go over and get a business school education. So I'm going to teach you all you ever need to know about business. He said it's called the 3% rule. You buy something for a dollar and sell it for \$3. That's the 3% rule. If you do that you'll never have a problem. And then years later the guys I had on my Board at Seiko, Caldwell Marks and Bill Spencer started a company called Motion Industries, and I think they sold it for about \$450million to Genuine Auto Parts—those two guys were on my board and Caldwell Marks said don't worry about all that MBA stuff—he said hire the best people you can possibly find, add up how much you're paying those people, and then for your services, charge twice as much as you're paying them. And you'll always make money. Now as far as how much do you reinvest in the company, I think that depends on what you want to do with the company. If your mission in having the company is to take as much out of it as you can without ever selling it, you've got to take care of your people, you've got to take care of your customers, and then some companies can be good little cash flow machines that you can take a lot of money home or put it in the bank. But to me the real value in building a company is ultimately selling it to somebody else. So you want to build up equity in it. So my philosophy is, take home as little as you can, give your employees a piece of the action so that they understand what they're working for is a payoff in the future, and then everybody works towards that end, so you really apply most if not all of the profits right back into the company with the idea that you really do intend to sell it some day. And then the company will be worth a lot of money.

Bransom

And if I can add—you said earlier on it's a fundamental principle that I should always be charging more than it costs—in actual fact that's not true. And this is the reason to

do a business plan. And this goes back to what Tom was saying—and this is why you should try to work on objectives, and again this is hard for guys who are trying to pay the rent every week. But if you can say in 3 years, like Tom cited some numbers about where he wants to raise his business to, then you can say well for the next year I'm actually going to lose money because I'm developing the market share, or I'm implementing new technology or whatever, so in actual fact your plan might be to lose money for the first year which then takes you two seats down to the bank, to finance that. But armed with this plan you can sit there and go to bed every night and say, my aching back, I lost another thousand this month but that's part of my 3 year plan. And because you had a good finance director managing that, he or she will assure you that you're still tracking down that, just like a voyage plan you do. So that's small potatoes but it's just a nuance. So that's why I always say, let's get a 3 year plan and keep working to it. And by the way, unlike a voyage plan, what you really need to be there to get through a tidal window or something, every year when you do your 3 year plan you're probably going to modify it. If anyone says you can sit there with the best Harvard MBA, McKenzie or Boston Consulting guy and project what's going to happen the third year out, forget it. It's out, it's fantasy. But the fact that you have that plan, you're still trying to get to New York by next week.

Tom

When Kirstin and I put together the projections for Yacht Record the only knowledge that we had gained about the industry was attending Martin's forums for the last two years. We spent about \$650,000 investigating the market, learning what was going on, I was involved with a little boat builder up here in the north east, we were trying to figure out how to turn that business around, and a lot of time was spent getting familiar with the processes that need to be captured within boat building but that was something we could never get a handle around. So Jock West, as a matter of fact, really twisted my arm and he said get your fanny down to New Orleans and go to Martin's meeting and see if you can figure out what to do with this money you've spent in the marine industry. So we did, and some day I hopefully will be able to look back and say the rest is history. But between what we've learned at these forums and you guys know that ones we've talked to over the last couple of years, Sam, out in California, Billy down at Trinity—Trinity builds boats but I'm convinced Billy knows how to build backlog. And if you've got a good salesman who knows how to bill backlog and can hire people like Jim who can build boats, then it can be a great business team. I don't know if Barbara is here or not—from the last panel—the brokers took a beating in that session and I'll be hanged if I would ever get on a panel with that many loggers. And be the only salesman. You can make fun of brokers and chastise them but nothing happens till something's sold, and I always like that old saying—you can always tell a salesman but you can't tell him much. You've got to understand the mentality of a salesperson. If you expect a broker to be a lawyer or a surveyor, he's not going to be that. He's a salesman. He brings in the bread and he's got to have the right team working with him, and that's where the owners of the brokerage companies have a responsibility. You hold your salesmen accountable but for god's sakes, leave him be a hunter and not a farmer.

Bransom

If I can just add in that frame—when I'm doing troubleshooting on a company, the first thing you try to figure out is if their sales are going on strongly. My rule is sales can cure cancer. If you come into a business where sales are on their knees, trying to save it is a disaster. But if there's somebody to use like Billy Smith at Trinity who's out there churning up the backlog, if you can just keep the bank happy to pay the

payroll, just keep those sales going and you'll probably come out. If you walk into a situation where the business is about to go in the toilet and you can't find any sales for the last 6 months, you're probably in some sort of—minimise the damage and wind it all up. So having been one myself, I used to sell office buildings and it's a very similar sale, if they're out there selling, let them run. And if their mission is to be a lawyer then you need a new sales manager for them because that's not their job.

Martin

Well, an interesting closing statement. Guys, thank you very much indeed. An interesting session, thank you.
