

AMERICAN SUPERYACHT FORUM 2008
24 - 27 June 2008 — Newport

Day 1 - 1 **Opening Address**

and **The Owner's Summit — Investing in the Future**

Andrew Farkas IGY

Chairman—Martin Redmayne

Good afternoon. How are we all? Nice to see you all, smiling faces, old friends, new friends. All those who can read, I'm Martin Redmayne, to my right is Tork Buckley, Editor of the Yacht Report. And to my far right is Andrew Farkas, our first speaker of the day.

Before we do all the introductions of Andrew, I have the usual housekeeping stuff I have to go through, which is the simple things like the rules of engagement, the plan of action, the objectives, security, those sort of things. Very simply, security is pretty obvious, there's a big thing on safety at these things, a lot of people in one room, the fire exits are marked very clearly; if anyone feels ill or unwell, hangover, see my team. They'll look after you. They're the girls or blokes in white shirts and jeans, all very lovely people, very helpful. Welcome to Newport, Rhode Island. We're promised the weather will get better, especially in time for our Friday sailing. Tonight's clam bake—there may be a technical hitch with the weather—we're going to keep an eye on it, the staff at the hotel are keeping an eye on it. But we promise you we'll go outside and see the clambake and see the lobsters. We may have to come back inside if the weather turns. But it'll be all set up so we can still eat later on today.

The objectives are very simple. We have a few objectives. One is to have fun and enjoy the event. That's the fundamental we have in our company's policy—to interact and network with each other as much as you can. To exchange ideas and opinions—that is the fundamental of this meeting here, to make sure that this group of people, you all have such incredible knowledge and thoughts and opinions, but sometimes they don't get openly discussed or shared, and that's really one of my—not bugbears really, because our Forum on the website is becoming more and more active—but I think ultimately these things are much more highly intellectually driven by the people in this room to say look, if you've got issues, let's raise them, let's propose solutions and try and change the way we do business. One of the things we focus on is—the American superyacht industry is going through some interesting times—I've got some stats I'll quote to you later on, but I think there's an opportunity for the US market to get even more dynamic and grow a bit more—strategically we're still a very small industry in the US compared to the rest of the world and it may seem an insult but I think there are a lot of things that need to happen in the US to make it even better business. You're still only producing about 45 or 50 boats a year over 100 feet which is still a small fraction of the whole market. So there are things I want to discuss over the next few days about how we think that should be changing.

On the point of the actual Forum and debate which we actually manage here is—we have two key things—one is, please keep your mobile phones on silent because

that's a real pain in the neck if you get lots of things buzzing and beeping or vibrating on tables. These tables are like sound boxes—so if it's on vibrate we still hear it. So please keep it silent. But that's just a key issue so you don't interrupt any of the speakers or the discussion. However, those who have Blackberries or laptops with you, there is a wireless network within this room—Tork has his laptop here which is there to receive any anonymous or discreet questions you want to pose to the floor. This basically means that people ask questions they wouldn't ordinarily feel comfortable standing up and asking. It can make it more interesting. But obviously we do have the wonderful microphone team here that will walk around—Lisa and Tess—who will walk up to you and thrust a microphone in your face and ask you to raise a question. If you want to email Tork, we have a sort of bespoke email address which is simply the acronym asf@synfo.com so make a note of that if you want to use that email address. If you want to text me a question just because you like me, I'll give you my mobile number as well but don't abuse it, it's mainly to find out where I am at night, which bar I'm in. That comes later. We want to make sure that you all have your say, so whenever you raise your hand or stand up to ask a question, because we're recording the whole programme we want to make sure that you say your name and company so we know who said what and when. It's quite a key thing for our transcriptions and the way we report the event.

Social programme—a fundamental part of our event—oh I knew he was going to interrupt!

Tork

If you're sending an email and you do want to be anonymous, say on it that you want to be anonymous, because obviously who you are shows up for me, so say "anon".

Martin

Thank you Tork. Someone described us once as the two old guys out of the Muppet Show. You'll see why later on. The social programme is quite important, as I say. We try to make sure that you come here and have some fun and the whole networking programme of a social event is very important. There are people here who don't know each other, let's make sure we break down those social barriers. Tonight as I say we have the clam bake, weather permitting it'll be outside, but we may be dragged inside if the thunder and lightning hit. That's not for our benefit—apparently the staff will not work when there's lightning striking. I understand! Wednesday night we have the dinner over at Newport Yachting Centre. Again, it should be a lot of fun, wonderful venue, the weather will be beautiful tomorrow I've been promised, I have a hot line to God. We have a fleet of tenders that will take us from Goat Island Marina straight across the water and dropped off at Newport Yachting Centre—it should be a nice evening and we'll have a lot of fun. The people who want to get back to the hotels and change before that dinner—obviously there are maps at the back of your delegate pads and packs that explain how to get there. Thursday night we have the barbecue at Newport Shipyard—that's really to meet the teams, the race teams of the 12metre races that they're having on Friday. If anyone hasn't yet signed up to race, please see Georgina and see about the availability on the boats. There are eleven 12metre classics, it will be a beautiful thing to see and if you're not racing but you're still in town on Friday we have a fleet of spectator boats as well so you can go and enjoy the race from the water but on a safe, secure, happy floating platform.

One of the things we always add to our events. Charity stuff. Obviously we are here at the home of the International Yacht Restoration School. Quite a fundamental event, a wonderful thing that's been developed here training a lot of young people how to build incredible things. So what we've done is, we've had a huge amount of prizes donated by sponsors and friends and people of influence like Dean du Toit, thank you Dean, and ultimately what we're doing is, all these prizes are there to be won. Some nice prizes—there's a list outside at Georgina's registration desk. But simply, every ticket sold—all the money goes to the IRS. IYRS, sorry! Every ticket is \$5, and we will make some fun activity on the Wednesday night to make sure even more money is raised. We've got some ideas—any other suggestions to raise money, fun things, let's do them. We'll have a lot of fun that night. The other thing I need to add to this is, The Yacht Report team are renowned for partying. And we have rented a nightclub in town—that is a tiny nightclub owned by one of the local businessmen, David Ray, he owns the Clark Cookhouse and the Black Pearl and a few other key locations that yachties know and love. Below there is a tiny little room called the Boom Boom Room, which we have taken for the whole week, and it is The Yacht Report hangout—we call it the Yacht Club—all delegates are welcome as our guests and we'll have some fun there as well until about 1am every morning when I think we're closing. We'll see who lasts the night. But it's a bit of fun.

Race day—we have waiver forms—every person racing has to sign a waiver form so if you haven't signed a waiver form and you're racing please see the registration desk to make sure you have done. It's a legal requirement to race. The winning team of that race—there's a beautiful half hull wooden model we've commissioned for the race—that will be for the winning team, it'll be held in Newport Shipyard's offices for when we come back in the future and in addition to that every winning team member will get a replica wooden model of Endeavour—it's quite a nice little prize. And that day should be spectacular.

Right. We've been hosting Seminars for about 12 years now and as I've said, the primary objective is to bring every facet of the business together, to make sure we exchange ideas, interact and improve the business. We all in the market seem to be enjoying some huge growth—that's a fundamental fact that everyone seems to keep quoting. Order books are full and the service companies seem to be enjoying that knock-on effect. Now I'm a very positive person normally but I do predict there's some sort of possible doom and gloom on the horizon that we need to be prepared for. There's a huge amount of overload in every facet of this industry. The supply chain, as I wrote in the magazine recently, is quite weak and in terms of there are certain—*[we'll have penalties for mobile phones that go off, I promise you]*—ultimately what it means is that we need to sort of plan for the future, plan for the supply chain network, make sure the industry is looking after its future needs and future demands. So that's one of the things I want to make sure is a fundamental part of the debate here. Interestingly enough, from the US point of view, as I pointed out earlier on, we deal with yachts over 30metres in The Yacht Report and when you look at the US market, as I said there are about 40 boats that are delivered every year in the US over 30 metres, which is a tiny fraction of the global market. The current order book is around 70 boats over 30 metres. So it's a tiny part of the 460 boats in the world that are being built at the moment. I can't understand why this is—well I can understand, but it's a capacity thing, it's the number of yards that can actually deliver on the promise. But what I'm trying to get at is that with only 24 yards in the US that are actually currently building yachts over 100 feet, I think there's a potential here for the whole market in the US to grow up and expand its horizons, and I think that's one of the things I want to raise in the next few days as part of the debate. The client base in the US is huge. Any one who was at GSF—Global

Superyacht Forum—in Amsterdam last year would have heard Steven Rattner talk about the supply/demand imbalance. It's incredible the number of people who can seriously afford to buy yachts or own yachts. And ultimately what it comes down to is finding out how the US market can meet that supply/demand imbalance. I'm sure that will come into the next discussion. One of the key areas of growth and development in the market today is the world of marina development. Now there's no point in owning a large yacht unless you've got a place to keep it or a place to have a home port, or a place to transit through and enjoy the hospitality of a good marina. Without doing too much of a longwinded introduction this is obviously the strategic backbone of our keynote speaker's world at the moment. Andrew Farkas, the CEO of the Island Capital Group has been the brainchild, the visionary financial brain to create the Island Global Yachting Group. If you haven't heard of them you've been living in a cave for the last 5 years. Because they really are taking the market by storm. Ultimately Andrew is going to start the programme with I hope some very interesting dynamic personal accounts of what he sees as being the fundamentals of this marketplace and how the large yacht market needs to grow up and develop even further to meet this world's demand. Andrew, the floor is yours.

Day 1

The Owner's Summit — Investing in the Future

Andrew Farkas IGY

Andrew

Should I sit?

Martin

The floor is yours—you can sit, stand or dance!

Andrew

I'll stand. Good afternoon. I arrived here I believe entirely unprepared for this particular session—I'm going to blame Chuck Smith, the man who's in charge of PR for IGY. But there are a number of things I was not told about in advance, Chuck, if you don't mind—the first was I was going to be in a room with people each of whom had thirty or forty more years of experience than I did. So I am probably the least qualified person in the room to talk about the issues that I'm going to discuss. But as usual I hate to be encumbered with fact so you'll allow me just to sort of wax poetic. The second—I found your reference to Sesame Street interesting because I also didn't know that in order to be on the panel you had to be as tall as Big Bird. No-one told me that there was a dress code, you had to wear white shirts, blue jeans, and black blazers and I also find it very interesting that at the American Superyacht Forum you have to have some exotic foreign accent in which to talk about it. So I am, as admitted, completely unprepared for this conversation but this is the way I like to do it. So you'll excuse me, I dress like this because I'm basically a finance guy and let me give you a little bit of background on myself so that when you do begin to critique what it is I'm going to say, and I'm sure you will, I have some excuses to give prior to having to listen to what it is you're going to critique.

I spent most of my youth back and forth in the West Indies, believe it or not. I grew up a lot in St Anne's Bay, Jamaica. I then moved back to New York where I was educated at a secondary school in New York City by the Episcopalians having been raised by the Rastafarians and then ultimately Barmitvah'd. So I'm very confused. I graduated from High School, I went to Harvard, I graduated from Harvard in 1982—you will not hold that against me—I then tried to get into business school, I was summarily rejected. I got a job on Wall Street at Sullivan Brothers, I worked there for several years until I was summarily discharged at which point I discovered that I was simply unemployable and decided to start my own small firm. It was a very successful small firm for approximately 24-30 months at which time, courtesy of the Federal Government which passed the Tax Reform Act of 1986 amongst other things, the business that I had started at the tender age of 24 hit the screen and every single deal I had done basically turned to mud. So now I was 25 or 26 years old trying to dig myself out of the problems that I had created. I had \$10million of indebtedness, no job, no career, no business, no money, no way to repay the money and therefore my primary ambition at age 26 was to be broke, because then at least I would be \$10million to the better. In 1987—and there's a reason I'm giving you this much detail, it'll allow you to understand why I think the way I think—I tried to take over the Burlington Northern Railway—I was 27 years old and it was perhaps amongst the largest public companies in the world—I was once again summarily unsuccessful but they paid me a lot of money to go away. Which then became basically the focus of the balance of my career. Just pay me to go away. And it was a sufficient success in that particular respect that I was able to repay my indebtedness and have enough capital to start again. In 1989 I started to wonder what it was that the real estate industry had done to try to bail out all of those who had invested in real estate tax shelter deals around the United States—the answer to the question is—nothing. So there were literally millions and millions of people who had invested billions and billions of dollars back when that was a lot of money into just hundreds of thousands of units of housing and shopping centres and office buildings throughout the United States. And so I had an idea. Sometimes I think we all know that experience, wisdom, knowledge can be a burden, because it allows you to understand that ideas that you have are impossible. Fortunately I was not encumbered with those facts at the time and so I decided that I was going to consolidate the entirety of the American real estate industry by going out and buying all the failed real estate companies and banks that the Federal Government was in the process of dismantling. And this idea was called Insignia Financial Group. I raised \$5million in 1989 to start Insignia Financial Group. By 1996—I'll just move forward quickly—Insignia had become one of the largest real estate companies in the world. We owned and operated approximately 350,000 apartments, and 200million square feet of commercial retail and industrial space throughout the US, UK, Europe and Asia and we had about 30,000 employees. I started dismantling this business after having taken it public through 2003. It was in 2003 that we took the balance of the business, merged it with a company called CB to create what is now known as CB Richard Ellis, which is itself amongst the largest real estate services companies in the world. So that's basically my background. So what the hell am I doing—I really don't know. But let's see if we can't sell you the idea on which we embarked really as recently as 2005 to try and create this new concept called Island Global Yachting.

I guess the background that I have that gave me any kind of credibility to undertake to do such a thing was that I've been sailing since I was about this big, which I guess was only about 3 years ago, right? I was sailing since I was 5 or 6, I guess when I was at early High School I started buying magazines like yachting magazines, sort of fantasising about what these extraordinary things were, and by 1992 contrary to my personal expectations I had made enough money that I was able to actually charter

my first boat of any size and it just sort of went from there. I started sailing all over the world and learning about the dynamics of the industry, getting to know captains, engineers, crew members—getting to know what the venues were about and not about what the challenges and opportunities were. And I just started thinking about the industry back then. The dynamics of the industry have changed so dramatically over the course of the last 35 years. 35 years ago a 40foot boat was big, right? It was big. A marina was a place where after your trip you would take the boat in, tie it up, turn it off, hose it down and cover it up and there you would leave it until it was time for your next trip. And if it was a seasonal venue and the boat was not a particular size the marina owner would take the boat out of the water and shrink wrap it and stick it on a shelf for the Winter. So really you were talking about floating parking lots. Many of the dynamics of the marina industry even today are similar to what we saw in the apartment industry back in the late 80s and early 90s. There are today even in the United States alone tens of thousands of marinas, the vast majority of which are on lakes. But what's really interesting is that during this past 35 years there are a number of dynamics that have changed. And what are they? Well, in no particular order of priority, one—a tremendous amount of money has been made in the US in particular. Yachting, which was an activity that was previously reserved for royalty and well monied families of Europe became an accepted part of the lifestyle of the rich and famous in the United States. So all of a sudden people had money and wanted to buy boats. That was accompanied by tremendous developments in technology, which allowed yards to build boats more quickly and less expensively and larger. The culmination of these two dynamics, lots of money to spend and the ability to build them, created this megayacht industry, at least coming into the United States, and a lot more people starting to buy these boats. The dynamic affected European makers and everybody around the world but it was very pronounced in the United States because it really went from a dead stop to a huge industry. One of the things that was apparent to us was that during this period of time the marina industry didn't change at all, did it. Basically you had an industry which was one of the last of the non consolidated, capital constrained, Mom and Pop operated, non professionally managed, industries left. Again, similar to the way in which the apartment industry operated prior to Insignia in 1990. So we felt that a real opportunity existed because in many venues we knew, there were lots and lots of large boats. But in virtually every venue there was a dearth of available space into which you could put your boat. In particular even where there was space, most of the marinas were in many ways antiquated. They didn't have the kinds of facilities that are really required to support the vessels. For vessels of size, on which people spend a lot of money, you should have things like concrete docks. You should have bollards that can hold the vessels even in weather. You should have operations that are up to par. You should have 600 amps of three phase power. You should have in-slip fuelling, in-slip pump-out. In-slip oil disposal. You should have people who are well trained and professional. One of the things that is a misconception about just people of money in general is that the wealthier you are, the more secure you are. That's exactly wrong. The wealthier people are, the more insecure they are, the more frightened they are. The higher touch they require to feel safe wherever they're going to go—they feel they're always going to be taken advantage of, they're always a target for security problems, if someone gets sick they don't know what to do, the creature comforts they require are of a much higher scale so it's not that they feel better, they feel worse. So the service you have to be able to provide to make them feel safe enough to go someplace is a much higher level of service. Yes, they travel with an entourage, but they won't go someplace they don't feel safe. One of the best examples of that that I've been able to conjure—in New York City (I'm going to try and be diplomatic here) we have a category of people sort of, shall we say the trust fund group. Those who are very well monied, men and women who don't necessarily

have to have a career to support rather exotic and expensive lifestyles. And until about I would say 24-30 months ago, I think there was almost nobody in Manhattan who knew where Costa Rica was. Never heard of it. Then all of a sudden two Christmases ago everybody's going to Costa Rica. Why are they going to Costa Rica all of a sudden? Because Costa Rica became a great destination location because the Costa Rican Tourist Board spent zillions of dollars trying to make people feel safe? No. A Four Seasons opened in Costa Rica. So they weren't going to Costa Rica, they were going to the Four Seasons. Why? For exactly the reasons I just described. All of a sudden there was a place in an exotic location where they knew if something went wrong they would be just fine. There was airlift in and out, there were proper medical facilities, there was a service level with which they could feel comfortable. So a lot of this comes into play to create the underpinnings of IGY's fundamental business plan. Tremendous demand, very limited supply, not a lot of professional management, lots of venues to which people wanted to go, but many of these venues limited in their ability to service them, all the way from the physical plant to the proper service level. So that was the business plan behind IGY. The business plan basically—to provide a global network of very high touch facilities, where the service levels are consistent, wherever you go, where you knew what you were going to get. Where the physical plant was not only appropriate to the vessels that were being serviced but where, if you went to an IGY facility in Turkey, it felt like you were in Turkey. Not in mid town Manhattan. If you went in the Virgin Islands, you were in the Virgin Islands. The architecture was culturally consistent. The experience was culturally consistent. The cuisine, etc etc. But your service requirements were always there and always met. If you don't mind, could you put the website up? These are not my slides. I didn't have any slides. I didn't even write anything down, I'm just talking.

Right. I wanted to put the website up primarily because it's kind of nifty looking and it moves and it will show you photographs of what it is we've accomplished in a relatively short period of time. But I think about this very much as a living breathing business. I'm trying to basically follow the model, which was created originally by Starwood Lodging. Starwood Lodging has a series of different brands, different experiences that it offers to an entire set of different constituencies. They have their St Regis brand, which is at the very high end, they have Westin, W, Sheraton, etc so Island Global Yachting right now has two brands, we have the Yacht Haven Grand Brand, and then we have the IGY signature service brands. We focus basically on two classes of vessels, sort of 70 feet, the sports fishermen and things like that and then of course the megayachts and superyachts which are as large as 500 feet. And many of our facilities can accommodate vessels of that size. Having started literally from scratch—there were three employees and no money—IGY's balance sheet in a period of approximately 2½ years has swelled to approximately \$1billion. We have facilities today that are under development or in operation in Mexico, St Kitts, Antigua, St Lucia, St Martin, Anguilla, St Thomas, Tortola, Virgin Gorda, the Bahamas, Turks and Cacos, Puerto Rica, Florida, New York, Massachusetts, Spain, Turkey, Greece, Croatia, Oman, the United Arab Emirates, and Egypt. And I remember that only because basically I do it geographically as I move. The website—and you can take your own time to go to it, I don't need to take you through the various different aspects of it—will teach you a lot of what it is we're trying to do and how we're trying to do it. But each one of the facilities, once again, tries to accommodate all the requirements that I've just described to you, including creating this very special experience. So many of the venues to which you go which are Island Global Yachting venues not only have people whose job you know by looking at what it is they're wearing, sort of like when you go into a 5* hotel, you know who the concierge is, you know who the bellmen are, you know who the captains of the

restaurant are, etc—but we have an entire series of operating systems and accounting systems and reporting systems just like a Four Seasons, for example, if you've been to one Four Seasons and you go to another Four Seasons hotel, they know everything about you. This is even more important when you're dealing with yachts. Because with Customs + Immigration issues all over the world, having a boat come into one of your marina facilities and having all the paperwork already populated—we know everything about the vessel, the captains, the owners, etc. And of course crew members come and go, they change, but we know what visa statuses are of different people, it's very very helpful. Also, having a global network allows us to do things that other people simply can't, and it would take too long to go into all of them, but none of this is rocket science. For example, our facilities in the Caribbean are obviously seasonal. Our facilities in the US on the East Coast, in most cases, are seasonal. But guess what. They're counter cyclical. When things are booming in the Caribbean, they're quiet up here and vice versa. So what do we do? We move our managers, we move our people, from one venue to another. It allows us to achieve economies of scale. It also gives people career paths. The marina industry has never had a career path. It allows people to move globally. They can progress through the entire system and in the organisation. It allows us to achieve pricing advantages. It allows us to achieve economies of scale and to create things like insurance programmes for vessels that utilise our facilities. Fuel purchasing programmes, insurance programmes, medical services, and all kinds of things we can implement and provide to people on a discounted basis because we're able to do it in such scale. A lot of these things are in development, some of them are just now being implemented. But what's interesting is that it's an industry that's in formation. So none of the rules have yet been written, that's the good news and the bad news. There are no models for us to emulate so everything we're doing is brand new and we've got to learn by making mistakes. On the other hand you're not confined by convention. And that's important as well, because we can try and do new things. Right now we're focussed primarily on expanding the operations in the Eastern Mediterranean. We have stayed, you will have noticed, for the most part away from the Western Mediterranean right now. Why? Once again, all the reasons are very straightforward. The Western Mediterranean is probably the single most well developed marina market in the world because people have been boating there for the longest period of time. As a result there's very little that we can bring to bear in terms of incremental technical expertise and things like that. All the facilities are full, no-one really cares that much about the service level because there's so much demand so it's very difficult to utilise intellectual capital to try and create competitive advantage. I don't have a fancy accent, that means I trade in dollar denominated currencies. My dollar is all but worthless in the Western Mediterranean. As a result, if I have no intellectual capital I can apply to create competitive advantage and my currency actually puts me at a competitive disadvantage—I have to wait until the market dynamics change for us to go into those market places. Other places however the marina industry is nowhere near as well developed and as a result we are actually able to make a difference in various ways, shapes and forms even if it's not necessarily by virtue of the fact that our currency is as strong. The good news is we have plenty of it, we just have to apply it intelligently. Another area that is a huge growth area for us—look at the picture right now—we have a very unusual relationship with the government of the UAE, Dubai in particular. They own 25% of the company. As a result Island Global Yachting is the exclusive designer, developer, operator, and builder of all the marinas in all the government sponsored island based communities throughout Dubai and the UAE, so Palm Jumeirah, Palm Jebel Ali, Palm Deira, Dubai waterfront, the World, Dubai Festival City, Dubai Maritime City, etc etc. *Did you just yawn? He works for IGY! Your ass is grass, dude. Sorry to be keeping you up.*

One of the reasons that we are able to do this, and I'm going to cite a couple of statistics in a moment and I'm going to tell you in advance that I know do not sound credible so I don't expect you to believe me but you can do your own homework and you'll discover that in fact it's true—one of the things that made us quickly credible enough to do many of the things that we do is that early in the life of IGY we were fortunate enough to create a key strategic alliance with a firm called Applied Technology Management—ATM—the chairman of which is Ed Modzelewski, his wife Nancy is sitting over there in the third row on the right. Ed has been in the engineering, design, architecture, environmental sciences business, as has his spectacular firm of 125 scientists and engineers for 25 years so he's forgotten more than I'll ever know. But they chose us as their key strategic partner and that made us extraordinarily credible and we'll never forget that. I thank you again Eddie for doing that. But in Dubai we are actually building over 40,000 slips at a cost of approximately \$4billion—over the course of the next 8-12 months, the first 2,000 of them will actually come on line. It's very exciting but it's also very daunting at the same time because we have to staff all of these. And once again, the marina industry doesn't have a large professional association so we have to create all of this pretty much from scratch as we go. So we're creating training programmes and professional career paths and things like that to try and create a professional industry. So I know all of this sounds incredibly ambitious, it is incredibly ambitious, but by the end of next year we will have deployed several billions of dollars into this business plan so I hope to god that it's not too ambitious and that it works out OK. Again, my fundamental training is in finance, I do know how to build businesses, so hopefully that will help me here. We try and surround ourselves with as many professionals as we possibly can, the company is now north of 800 people strong, it'll be almost 2,000 by the end of next year, but then again when Insignia started it was 3 people and when we finally merged the last piece with our final partner we were almost 27,000 people so it's happened OK in the past, hopefully the winds of fortune will continue to be at our backs. Before I stop boring you Eric and take whatever questions you'd like me to take—let me just talk about what I see as some of the biggest challenges, not just the marina industry has but the yachting industry has over the coming several years.

Again, there's nothing here that's rocket science so you'll excuse me if I'm just telling you things you already know, because I know this is really a very fine group of professionals in every other part of the industry. But the price of fuel. The price of fuel is unbelievable and in many locations to which the yachts like to go which are almost by definition remote I've seen diesel as high as \$7 a gallon. A 200 foot vessel will have a 40,000 gallon tank so let's call it \$1¼ million a tank. A tank is good for maybe a month, so a five month season in the Caribbean is \$1¼ million alone. A trip from the Mediterranean to the Caribbean is about a tank and half, a tank and a third, so let's call it \$300,000, so a \$600,000 round trip. Which means to bring the boat from the Mediterranean to the Caribbean, enjoy the season and back, that's not quite \$2million in fuel alone. Wow. That's almost three times what it costs. I think that's great for Dockwise business, because now there's real economy of scale there, but I also know that it's not inexpensive to send your vessel by Dockwise, and how much are you really saving over the cost of fuel? I don't know the answer but Dockwise margins should be great. It's a great business, I applaud you. So fuel concerns me. What are we seeing in fuel? Well in the 40-70 foot vessel range, which are mostly big sports fishermen, a couple of things. One—they used to go out 50 miles. So they could fish right off the shelf and they would go to 8-10 locations in a day if they needed to, to catch the load. Now they're going out 25 miles, they'll go 3-4 places. Enrolment—and this is anecdotal—I can't document this—enrolment in fishing

tournaments is off 30% plus. Which I believe. So that's very significant. We're seeing a lot of boats stay at the dock a lot more, people are partying on their vessels at the dock as opposed to going out for the day on day trips, transient visits to marinas seem to be down, a little early in the season to tell, but it feels that way. I was walking around Newport today and while once again it's early in the season a lot of the wharves looked 40% vacant, I think we'll know a lot more in the next couple of weeks. But you know again, just anecdotal, watching and being cautious, so I think the price of fuel is big there and it's going to have some impact on the megayachts and superyachts. I don't know what it's going to be, it may be nothing, but it's a good segue into the next issue. Which is that the global economy is a disaster and it's going to get worse. One of the things that is helping to keep the US buoyant and other economies that are dollar denominated buoyant, is in fact the weakness of the dollar, so Dubai for example is kept buoyant because the dirham is hard pegged to the dollar. The US, some of the real estate economies, higher end, are kept buoyant because they're dollar denominated. So if you're buying fuel in dollars and it's \$7 a gallon, it's only £3.50 a gallon, or only €4 or €5 a gallon, which is probably consistent with what it is at home, so you don't care quite as much. So that's going to help a great deal. If the dollar strengthens it's going to hurt a lot. I don't think there's any real risk of that in the near future, but it's an issue. So global economic conditions are going to have some impact—I don't have a crystal ball to tell you exactly what it is, and if I did have one I wouldn't tell you what it is. So we'll have to see what happens.

Another big impact on yachting is that with the passage of, it seems, every 3-6 months US homeland security makes it increasingly difficult to bring a vessel into US waters from anywhere. Anywhere. Most of our venues have Customs + Immigration on site because it's one of our ambitions to help ease that burden for many of the vessels but let's face it the majority of crew are British, Australian, Kiwi, and they require all kinds of complex visas and the existence of a single crew member on a vessel without adequate visa documentation makes the entire vessel ineligible. So that's very difficult. The other side of that equation is that the US seems to be successfully imposing its requirements on other jurisdictions so that I believe over the course of the next several years everybody is going to start to impose the same requirements on everybody and that will have somewhat of an equalising effect. But once again, it remains to be seen.

And finally the basic, the real fundamentals of the business model, at least our business model, is if they stopped building yachts now there's still an extraordinary imbalance between the number of vessels in the water and the number of available, properly developed, properly equipped, well merchandised and serviced slips in the world. So I believe that we can continue to build them and sort of like Field of Dreams, if you build it, they will come. But again I suppose time will tell. So I think that's about as much misinformation with which I can fill your minds—I suspect that I have now fulfilled my obligation to this wonderful organisation. Thank you for listening to me this afternoon and I hope next year you are able to book better talent for the entertainment!

Martin

You're the warm up!

Andrew

Happy to take any questions as long as they're softballs.

Martin

Thank you Andrew. Lisa and Tess are you in the room? Would you stand up and make yourselves known? There's a guy called Andrew from Techtonic there, Lisa can grab him. Gently.

Andy Stewart Techtonic Design

Hi, I'm from Techtonic Design. I've got a question regarding the UAE. What percentage of docks or dock space down there is going to be dedicated to large yachts, from your company?

Andrew

Define large?

Andy

Superyachts, over 100 feet. You don't have to give me a dead on number, but say 70 metres, are there going to be 20-30 spaces —

Andrew

Oh, 5%. The vast majority of the slips are 40-80 feet.

Martin

There's a hand over this side.

Andrew

Try and contain your enthusiasm.

Tork

Since such a large proportion of the market is the 60-100 foot, which is the one most radically affected by the oil price, how big a problem is that for the marina sector?

Andrew

In the UAE?

Tork

No. Say globally? The oil price obviously hits the 60-100 foot segment hardest, it may be irrelevant to 70 metres but it certainly hits highly to 60-100—how big a risk is that for marina development worldwide? Does it change the mix in other words of how you—

Andrew

I don't think it does. Because one of the interesting things about a boat is that if you have a boat of any quality, regardless of who owns it, it needs someplace to live. It just needs that. So even if the Bank is taking it back, it still needs someplace to live. And there's still a dearth of places for them to live.

Tork

I was going to say, that's for a home port. But how important are itinerant slip sales?

Andrew

We don't really care. First of all we don't sell them. We rent them by the night, the week, the month, the season. And so whether you're in your home port or a transient port, to us it doesn't really matter. Just to speak about that, one of the things that we're doing by region is we're creating seasonal memberships where vessels in order to utilise IGY facilities basically buy a seasonal membership and that seasonal membership allows them to move from IGY facility to IGY facility in that region for the entirety of the season. So they buy 60, 90, 100, 120 nights and then we just sort of check it off each night regardless of which venue they're in. They pay one price for the entire network, and they just go wherever they want, which allows us effectively to increase the average daily rate per foot per slip to the highest common denominator from the lowest common denominator. So the natural question that emerges from that—well doesn't that mean that everybody is just going to want to go to the nicest of the facilities, and the facilities that aren't necessarily as fancy are going to be empty? The answer is absolutely not. Because by definition boats like to move and why would you spend the money on fuel to move back from point B to point A when you're already at point B? The amount of money you're going to save in fuel costs more than makes up for the docking.

Martin

There's a question over there, Tess—

[From the floor]

How are you working with the local communities as far as the berthing issues, local governments—we're in Fort Lauderdale and I know that's a really big issue for us right now. Everybody wants the big yachts there but no-one is doing anything about it as far as making the changes necessary. There's always these stonewalls all the time with developers and condos versus marinas.

Andrew

It's an excellent question. *[Could you leave the lights down a little bit, if you don't mind? Thank you].* One of the greatest complexities of what it is that we're doing is that we have to accomplish that objective in 40 different jurisdictions, dealing with 40 different governments, each of whom have their own set of politics and remembering of course that in the vast majority of circumstances those governments change every 4 years. So you've really got to get it done, you've got to get it locked in, you have to become part of the grass roots effort, you can't just be a friend of the then Prime Minister or whatever. And the answer to the question is education, effort, credibility. And a lot of that comes to us from ATM. ATM has had more success in accomplishing exactly those objectives in more jurisdictions than any other company in the world. So the constant vigilance and the constant focus, the expertise, and the credibility of having done what you said you were going to do and focus not just on the commercial side but the environmental side, is what allows you to ultimately get there. But it is not a light lift. It's a very heavy lift. In all circumstances.

Martin

Clive please, Tess? Tall dark and handsome here in the middle.

Andrew

Don't run, it's OK!

[From the floor]

Where next? You went from West to East, I think you started in Mexico and finished in Egypt actually.

Andrew

The Black Sea.

[From the floor]

The Black Sea is next?

Andrew

Yes.

[From the floor]

Anything in India?

Andrew

Not yet.

[From the floor]

Australia?

Andrew

Looking.

Martin

Is there any limit to where you'll look?

Andrew

Yes. There are micro limits and macro limits. You know, on a macro perspective there really needs to be a yachting market there.

Martin

So you can't create one?

Andrew

Well you can. We're doing it in Dubai. But the only reason we can do it in Dubai is because it's a monarchy. So it's very difficult to create markets where they don't exist. Mexico is struggling to do so. There is really not much of a yachting market, even really not much of a boating market, in the Quintana section of Mexico. Which includes Cozumel, Cancun, Playa del Carmen. It's sort of counter intuitive. Why wouldn't there be a great yachting market there? So we went to look and they took us on helicopter tours to show us everywhere and all you had to do was spend 30 minutes in a helicopter to know exactly why. The coastline is flat. There are no natural anchorages. So you can't take a big boat down there and hope to have a protected anchorage if god forbid you needed it. So now they're trying to create it, but try and build something that complex in Mexico.

Tork

What about China?

Andrew

We actually started to do some work in China—we started to do the engineering on the Olympic sailing village—where are we with that, Eddie?

Tork

Would you mind just hanging on until we get you a mike? Thanks.

[From the floor]

We haven't—other than the established market around Hong Kong and Singapore, where we had sort of British influence and sailing clubs and yacht clubs, that's where we've seen some extension of that market, maybe some upgrading, but in mainland China we had an opportunity to work in the Shanghai area and some of the major developers the last 5 years and I think the model that Brunswick Corporation has taken on to itself was actually to try and define and introduce the Chinese to boating and what they found is through a family boating club, including family outings, children's programmes, golf and women's clubs, they're actually in a couple of major marinas in China now introducing the Chinese to boating. The mainland Chinese don't really have much experience with it. And their model seems to be working—Lake Suchow, I think, near Shanghai, has got some interesting—but they've tackled the entire industry. They have boating, technical schools for Mercury Marine, they're trying to create career paths for technicians, they're starting from scratch but they are doing it and they are seeing some—but there's not a real cultural experience with big boating. Although the income is there; my client in Shanghai had I think his 4th Lamborghini and he was saying I really need to get a boat, but I need a captain, I need to figure out how to get into this. Because they're great consumers and the same way with racing cars, yachting, and golf. We see that kind of programme going. But it's got a ways to go. Thank you.

Tork

I've got one anonymous question here—Will IGY be looking to partner and be open to outside vendors—that is non IGY employees—who wish to service, or offer services to resident docked and transient ships throughout your network?

Andrew

The answer to the question is—yes, where we can. Most of the facilities have to be ISPS compliant. And if they are, it's very difficult to accomplish that objective.

Jeff Beneville Camper + Nicholson's USA

Is there, from a regulatory standpoint, DEC, DEM, is there anybody tougher than the United States, trying to do marina projects ?

Andrew

Hi Jeff. Is there anybody tougher than the US? Give me a second. Not that I've experienced, although when you say tough, the United States rules are probably best defined and there are more of them but there's also a system for progressing through the system. Other venues it may be much more Lucy-Goosey, but there are no sort of judicial requirements that they process within a certain period of time and things can get caught up in political processes and all kinds of things can be happening in a sub rosa kind of way. So the US requirements are probably the most stringent, but it doesn't mean they're the most difficult to get through.

Tork

For superyacht berths, let's say 30 metres and up, is there a given percentage generally of how many you are trying to sell, or whether you're trying to rent short term—

Andrew

No.

Tork

Given that, when you're selling a superyacht berth, are you finding it extremely important to the purchaser that you have something in place by way of allowing them to gain income from sub-leasing, if you like?

Andrew

We don't sell them.

Tork

You don't. Right.

Andrew

Too soon.

Tork

Longest lease you do is?

Andrew

In the UAE we will do a 10 year. In the Caribbean we'll do a season.

Tork

Really.

Eric Goldring Goldring + Goldring

Along the lines of the UAE, you were talking about if you build it they will come, and the tremendous investment that's being made into Dubai. Looking at Dubai, when I was there it looks like the average sized boat is about 30-35 feet and I know they're putting in massive amounts of docks. But from the superyacht perspective how do you perceive the superyacht industry getting there and wanting to stay there—also in light of your comment about you looked at the Mexican coast and it's straight, and I know Dubai is trying to make a coast with Palm Juhmeira etc, but do you see the industry developing outside of Dubai, or Dubai developing its own superyacht industry to stay there?

Andrew

I see both. The success of Dubai to date is found in the fact that they have been able to diversify their economy in an enormous way, away from petroleum based products. Dubai has become the tourist Mecca, excuse the turn of phrase, for really the UK, Europe and Asia. The best way to describe it is that Dubai is to the UK, Europe and Asia as Miami is to New York. It's a destination location—you're getting north of 15 million tourists a year now. 5* hotels, spectacular restaurants, great night life, etc. And so people are coming from all over the world and sending boats there. They are buying boats there. But in fairness there's a question inside what you said, which is a very astute question. Which is—until IGY arrived, there were really only about 700 berths in all of Dubai, which meant there weren't a lot more than 700 boats. So one of the things we are doing is helping to bring the boat manufacturers to Dubai, create finance opportunities for the boat manufacturers, provide them with berths that they can deliver with their vessels to actually create an industry where one did not exist.

Martin

Who's offering the finance for that investment? Is that Island Capital or the Dubai government?

Andrew

I don't understand the question?

Martin

Well developing the infrastructure in the UAE, for boat builders or manufacturers who come into the area—who's offering the investment?

Andrew

For boat builders and manufacturers coming into the area? The boat builders and manufacturers.

Martin

Right. So there's no external investment.

Andrew

No. The investment is that we are creating an industry for them by virtue of allowing them to have a place to put the boats which they couldn't otherwise sell.

At the back please?

[From the floor]

How many of your facilities are going to have refit places where yachts that are staying there can be refit if they're going to be there for extended times?

Andrew

That is an excellent question. And the answer is most. Not all but most.

Martin

To what sort of level? Just sort of service, or—

Andrew

Some of our facilities have yards presently in operation that can take boats up to 120 feet. We have facilities that are being developed that will be able to haul 180-200 footers.

Miguel Lopez Piñeiro Flamenco Marine, Panama

One question. Following the question from Peter, a lot of the countries in Central America right now are developing a series of marinas creating a lifestyle, if you mean as the one you mentioned with the Four Seasons in Costa Rica, for example. Some of them are combining refit, small shipyard operations, but most of them are combining the marina with the lifestyle of having condos, apartments, and so forth. What's your opinion on that.

Andrew

I think it works in some venues, it doesn't work in others. We've done it in some venues, we haven't done it in others. There are venues in which we have done it where I wish we had not. And there are venues in which we have not done it where I wish we did. So it's very venue specific.

Martin

Andrew. Which is more important—shore based revenues or berthing revenues?

Andrew

I never met income I didn't like!

Martin

Any other questions out there. OK. I have a question re the business plan. When did it come to you?

Andrew

When did it come to me? Most people talk about business plans in terms of vision but I found that a business plan is not a function of vision until it's successful. Until then it's hallucination. And so this hallucination sort of started in —I started toying with the idea in 2001, 2002.

Martin

Right. And why marinas? That was just the big gap you saw? As a real estate—

Andrew

Once again, it had many of the characteristics that demarcate successful consolidation plays. This is really an industrial consolidation play in its purest form. You know, non consolidated separate disparate ownership, large volume, capital constrained, non professionally managed, so there were a lot of characteristics of the industry that we thought would lend it to areas of expertise that we had.

Martin

And what's the time period on the business plan? Until you get your XZ or your sort of perfect—

Andrew

It's not a destination, it's a journey.

Martin

OK. Any other sectors of this industry you're looking at?

Andrew

Every single one of them.

Martin

Can you be more specific?

Andrew

Why? You want me to unfold the dorsal fin on my back?

Martin

I'm intrigued, because I think more people like you are coming into the market.

Andrew

If you really want to understand the way we think, just go to Google and research the history of Insignia. We believe in fully integrated operations. So to the extent that we can have resources, capabilities, operating businesses contained within the four corners of the corpus of Island Global Yachting itself, and so we don't have to rely on outside industries to service the various components of our business—we will seek to do so.

Martin

So can I put words into your mouth and say the charter and brokerage sector needs work on?

Andrew

You can do what you like, sir.

Tork

How important are local partnerships? Is that in every case, some cases or is it a bit like the outlying development, sometimes yes and sometimes no?

Andrew

Excellent question. Always of quintessential importance. We generally will not go into a region where we do not have a partner. The first thing we do is pick the region, then we pick the partner, then we start going after specific venues. Because as pointed out by the lady sitting back there, any waterfront development or operation is so politically charged in every venue to which you go and let's face it, how much juice do I have in Turkey? None. So I have to have a partner in Turkey who's got as much juice in Turkey as we would have in New York or the US Virgin Islands or something like that. So yes, partners everywhere.

Tork

But it must be tremendously hard to choose the right one.

Andrew

Very difficult. And I will admit right up front that one of the great legs up that we have gotten has been from our friends in Dubai. Amongst the various different businesses that Dubai has is Dubai Portsworld, which is now the second or third largest operator of ports in the world, and so the relationships that they have governmentally and otherwise in most of the major economies everywhere are quite extraordinary, so being able to piggyback off of those relationships has been extremely helpful.

Tork

If I'm right, they tried at one stage to buy the right to operate in American ports did they not? And they failed politically.

Andrew

Yes they did. One of the most embarrassing moments in American history.

Tork

Yes it was rather, wasn't it.

Martin

Any other questions out there? OK. What are your clients saying, Andrew, about the IGY vision? What's the feedback?

Andrew

Well it's unlikely that they're going to come up to me and say boy, this sucks. So I don't hear the complaints myself. For the most part we have heard that people love it, they like the experience, they like the touch, they like the service, the friendliness, the full integration of being able to provide for every aspect of what the boat needs in a single venue, but also being able to service the various constituencies that are touched by the vessel. For example, the single most important piece of equipment on any boat is its crew. The crew have to be taken care of on a regular basis so most of the IGY venues have facilities specifically for crew. Swimming pools for the crew, tennis courts for the crew, bars for the crew. Things where crew can go and feel like this is a place for them. This is very helpful to people who own vessels. Even though they don't necessarily realise it. One of the most expensive things you can have is crew turnover. It's expensive to the boat, to you individually, it's wear and tear on the balance of the crew, so making crew happy is very important. We try and do that everywhere.

Tork

I've got another anonymous question here. They say you dismissed the Western Mediterranean as over-developed but there is a tremendous under supply during a short season. Is it not worth considering it?

Andrew

I haven't dismissed it at all. I just can't afford to go there right now.

Martin

Thank you very much Andrew.

Andrew

Thank you very much, I had a good time.

Martin

OK. I think on that note we're going to break for a tea break now. We'll be coming back at 4.15 for the industry forum session with the four speakers which will be an interactive debate.

Thank you very much.

Andrew

Can I just apologise—I'm going to have to run out of here immediately because I have to drive back to Manhattan for another event tonight—I was hoping to be able to

fly but the weather has precluded that, so excuse me, I'm not being rude but I'm just going to take off. Thanks again.

Martin

Andrew thank you.
