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Barry Gilmour
Neil Miller

Royale Oceanic Limited
Deuxmil Marine Plc

Chairman— Martin Redmayne

Introduction

.....online community with GSF where, post the event, all delegates will be able to interact with each other online and carry on the debate. We're trying it as an experiment but I think it's going to work, where any questions that come from the floor or dialogue that happens as part of this event will be put on line and then you have a chance to continue this debate and continue the Forum, but it'll be private, only available for you guys. We'll choose the best of that to go in The Yacht Report or on Synfo to a wider audience, but to try and protect your interest, we want to make it your industry network.

To start the session quite quickly, this is what I hope is going to be quite an interesting Summit—it's an experiment in bringing two very diverse individuals to talk about their perspectives on this business. I use the word business from the point of view of how we run businesses, how we make profit, how we manage and run the companies. Not necessarily manage yachts, but manage the companies as a whole. To my right is Neil Miller, from a company called Deuxmil Marine Plc, a listed company in the UK; Barry Gilmour of Royal Oceanic who has several interests in the yacht market. They are both what they call business minds that have invested in this industry and I'm sure will continue to invest, and what they've discovered. And I think they'll have some very interesting comments to make for all of you.

I'll start the session with Neil Miller, with his outside looking in perspective. Neil?

Neil Miller Deuxmil Marine

Good afternoon everybody. My name is Neil Miller. I think that many of you here have never heard of me. I'm the warmup act really for Barry today, for the main event. I come from outside the industry; my background is as a stockbroker until 1987 when the stock market crashed and I crashed with it. After that I went into bond trading in emerging markets. I traded Nigerian promissory notes which is a sovereign debt in Africa and stayed there and saw 3 coups, two of them very bloody. I survived those. I did that for ten years, then went into venture capital. Whilst I was in venture capital I invested money in perhaps 50 companies, 20 of which I listed on the London Stock Exchange—obviously they're public companies, and they're still around today. It was at a point about 5 years ago that after doing some venture capital and not really doing very much work, trying to improve my handicap in golf which I didn't do, I decided to really make one last go at doing something else. And I came across the marine industry—an industry that the whole time I was in venture capital I'd never seen or heard of before. I never came across it. A lot of the time I was in it I was in internet based stuff that I invested in. So this was a new thing to me really. I found a small company, there were only two employees, but it was probably the largest

supplier of fuel at that time in this market. Which surprised me. Two people, one of them was retiring and the other was just an employee. I had a good look at it and then went ahead and bought it. It was a company called Yacht Fuel Services. To my astonishment—the company was dated in the way that it was run as a business, but it was the market leader and that intrigues me somewhat, coming from the very high tech industries that I'd already been in. So after buying the company I then went about seeing what we could do to improve the market it was in and how we could get more business. And so I spent a year running around looking at everything, looking at the marketplace. I found that the market was really, I thought, quite naïve and backward in the way it approached industry. A lot of the companies I looked at were run by ex captains, not to say that they were silly, but they could do their job to a point, they knew what the yachts wanted, and they delivered to that point. But in terms of businesswise, I thought they could do much more. So that's when I went about trying to buy other companies within the industry as well that had strong brand names. I felt that a lot of the companies out there had huge potential if they could change their business practice. It was a very fragmented industry, it still is, to my mind, with some very strong brands. There's a lot of weak management within the industry so whilst I was out there I found that buying these companies at the right time and finding others to buy was relatively easy. The hard part was that none of them really produced much information in accounting wise, none of them had much information accounting-wise, and none of them really had a clear view on the way forward, how they could make more money. We formed a company called Deuxmil, that's what we bought Yacht Fuel Services with. It was just a holding company. We listed Deuxmil two years ago on the Stock Exchange and we've been buying companies since then within the market place, and having some fun along the way, I must say. It's been good.

How will the industry grow? I think that's something to touch on. I think, in my view, over the last few years I've noticed that there are a lot more businessmen coming into the industry as opposed to land based people that were on yachts wanting to start up and run businesses. I think that is making the difference. There's a lot more entrepreneurs coming into the industry, the industry has had a lot more coverage in the financial Press recently over the last few years than it had before. The coverage that it had before was all about the largest yachts in the world and who owns these yachts and everything else; I think that now it's much more professional in the way it's going forward. Better business practices in the industry is probably a whole other summit that I could have with Martin one day with owners and so forth. This is something that needs to be looked at and we can take that in questions later on. One of the things that amazed me, because I've been in business for 35 years, I'm fortunate enough to know a lot of owners that have yachts above 40 metres. And I think that they would be horrified if they really knew what was going on. A lot of the owners that I've expressed my feelings to—things have changed. The business practices I saw were going on have to change and will start to change. Owners especially are becoming more aware of cost which I think is a good thing for the industry. Even for me. We all need to compete more and that will produce better work at the end. In my view, over the next few years there will be maybe three or four, major players within the industry where there would have been a large consolidation of what is going on. Obviously I would hope to be one of them but you never know. It depends on how good I get at what I'm doing, I guess. There's a lot still to think about with the industry—I think we're going through a period now where the growth will not continue at the rate that it has been. This is really just my view as a stockbroker, and as a bond trader, and someone that has been involved in the City for a long time. I think that everyone within the industry at the moment is enjoying a good run of success and it's my experience that this will not continue. I think that things will

change and I'm not sure that everybody within the industry is ready for that change that will happen. Every article that you read is all about growth, how order books are full, how we're short of experienced people within the industry, how the next yacht coming out will be 550feet, it just goes on like that the whole time. I can't remember reading any bad news within the industry. And that sets a few alarm bells ringing for me as an ex stockbroker. There will be a wakeup call for people. I think that the people that are not managing their businesses properly will be the first people obviously that will be hit. Companies that are very one dimensional in what they do, will be the next lot of people that will be affected and with a high oil price, a weak dollar—these are all sign to me that there will be a problem. You may think that in the industry there's so much money, the owners have got so much money, why will there be a problem? It's the feeling that I have that a problem will come along. I'm not saying the industry is about to collapse, I'm saying we could easily go through a straight line period and then see what happens after that. And that could last a while. So, as I say, there's a weak dollar, a strong oil price—companies that may be, for example, only doing sales, or they only do charter, and that's all they do—even us at Yacht Fuel Services, we're seeing less yachts going over to the Caribbean this year. And for me that's the first sign that they don't want to go to the Caribbean to charter because it means they're going to be paid in dollars, it means it's not really worth it, and maybe they'll just go to the yard and do a little bit of work on it, do a refit. They're not bothering. As opposed to last year, where there were a lot of yachts going over. I'm seeing that first hand. Maybe I see it a lot before other people because we fuel yachts in that part of the business; I know where the yachts are, I know what they're doing, I know what they're thinking, I know what the owners are thinking, and I'm definitely seeing yachts are not moving around as much right now. So that's the first little sign that something may be on the way later on. The big players in this market have already made their moves; we don't really need to talk about their names, everyone knows who they are. You can see they've been buying companies up, which is good for them—they can offer other things, they're buying strong brands, and they're not the one dimensional company that we say. I think that now would be a good time to be buying those companies as the market is moving forward. There will be a lot of opportunity for people like myself and others to go shopping in this market because I think there will be companies out there that will become available to be purchased over the next 18 months. Probably I'm going to wrap up what I have to say now about that and I'll take questions—I'm sure there'll be a lot of them—afterwards. I'll pass over to Martin now.

Martin

Yes, Neil, thank you very much. Before we have any questions we'll go straight to Barry for his 15 minutes and then we'll throw it open to the whole floor. Barry, thank you.

Barry Gilmour Royale Oceanic Limited

Good afternoon ladies and gentlemen. Just to stimulate the debate I've jotted down a series of observations, on a sort of bullet point basis, but I must confess that without any collusion, some of my comments are extremely similar to Neil's. Strange, isn't it. My notes are jotted under the headings of basically the current market, which I'm sure you're all well aware of, demand/owners/suppliers and then the future.

Firstly, the current market. Recent years have seen a period of extraordinary growth in most sectors of the luxury yacht market. However it is not always appreciated that with large yachts we are dealing with the world's most expensive and complex assets. For example, a new 747 costs approximately \$200million. The best of large country estates will cost approximately \$40million. And just last week one of the

world's most expensive diamonds sold for \$14million. This interestingly compares to a large luxury yacht which can cost in excess of \$250million. Therefore, in executing these large projects, our industry must be wholly professional. Only the fit will survive in the future; the days of the enthusiastic amateur must surely be numbered. This must be particularly true for large luxury yachts, by which I mean those in excess of 75metres in length. Where most yards currently have full order books, and are quoting long lead times. However there are still a large number of owners seeking to place orders, but have not done so due to frustration caused by perceptibly long delivery times and high prices. It will therefore be interesting to see how such owners ultimately react to not being able to place their orders at prices and deliveries they consider acceptable. And in this connection some owners are turning away from the North European market and exploring the building of large yachts in the Far East. It is probable that at least one of these ventures will ultimately be successful. With regard to second hand vessels, it will also be interesting to see how the recent surge of new orders and deliveries affects the used yacht market. Whilst there is much hype about the booming market and there certainly is a strong demand for large second hand yachts, a casual perusal of sales information shows that in reality some vessels in the 40—50metre sector, which were once regarded as large, have been on the market for some time, some for years, and even when sold, achieve sales prices substantially below the asking price.

Moving on to market information. Whilst there is a general need for client confidentiality and that's understood, there is also a lack of transparency and accurate information and even purposeful disinformation in the industry. This makes it difficult to accurately analyse the market and conduct the necessary research to make accurate economic forecasts and formulate viable investment strategies for the future, which in reality is detrimental to the industry at large. We believe that the next year will be a telling indicator of industry prospects for the next few years to come, especially given the perception of many industry participants that the luxury yacht market is impervious to most external influences. However, no market grows for ever and only the foolhardy would discount the current level of disruption in the financial markets, the general lack of confidence—especially as some heads of organisations that have recently lost millions, even billions, of dollars are also large luxury yacht owners. Moreover, prices in the currency markets and rising fuel prices only serve to exacerbate matters.

Turning now to demand/owners. The 75metre yacht sector and above tends to be bespoke and by that I mean specifically designed on a one-off basis, although there are exceptions. The order books are full, and builders are quoting long delivery times. However, owners still shop around and the projects' gestation period has surprisingly not got any shorter, despite the shortage of berths. If existing yacht builders do not increase production to meet demand, then that demand must be satisfied elsewhere otherwise it means we are simply expecting our customers to wait until we are ready to supply them. The over-emphasis on a booming market I believe is ultimately counter productive as owners have a perception that everyone in the industry is making large profits. As a result, they are becoming price sensitive especially the owners becoming more experienced, educated and streetwise. With regard to the growing wealth of our customers, because that's important, whilst a large number of billionaires are being created every year, which given the current lack of supply bodes well for the large yacht sector, one wonders what the relative growth of the high number multi millionaires is relative to the growth in billionaires as it is these customers that essentially feed the smaller yacht sectors especially when you consider that to own and operate a second hand yacht of circa 45 metres requires an approximate net worth of circa €250million.

On the supply side, there are also some interesting developments. There's the question of production versus bespoke, and different yacht builder strategies and with the large yachts it is interesting to note that well positioned and branded suppliers have decided not to enter the very large luxury yacht market—the VLLY market, as we call them—which is interesting, given their brand strength and experience. Instead, they seem to be opting for upmarket, semi bespoke vessels essentially supplying different superstructures and layouts to similar hull strength and engineering platforms. This production approach involves pre-booking suppliers, which can introduce a level of monopoly buying power with the yards fighting for the same equipment suppliers and a resultant increase in costs which must be passed on to the end user. This also creates long equipment lead times and poses an operating risk for the truly/genuine bespoke yacht builders—builders that build one yacht at a time, each one different, especially as the time from receiving equipment quotations to actually placing the order can be lengthy and thereby presents an expected delivery and price risk.

Another important question which everybody asks and we don't know the answer to is—are builders really making any money? If so, how much? Is the return on capital adequate and can it be maintained? As with other industries it would be useful to be able to conduct a profit analysis of our industry in order to calculate which sectors of our business are profitable, to what degree, and to what aspect is the risk return ratio. Another important factor is that to meet demand we are seeing and will experience more, the emergence of new entrants in what I call virtual yacht builders. This possesses a risk element to the existing suppliers and owners alike.

So. The future. Well, in the next year we can expect something like the following. Whilst many observers believe the market is impervious to turn-down, no markets grow at a consistently high rate. Hence we should prepare for the worst and prepare for slower growth, whilst hoping for the best i.e. it doesn't actually occur. It is only by adopting such strategies that our businesses will be stable and not subject to boom and bust cycles, very common in commercial shipping, I'm afraid. The industry is growing up, whether we like it or not and we are dealing with the world's most complex and expensive assets, and high net worth customers and therefore we must expect a period of change with outdated views giving way to new, fresh and more efficient business approaches. As I mentioned earlier, the emergence of new suppliers who are more competitive in terms of price and delivery and operate as virtual builders—i.e. they don't actually own any facilities or have any capital investment in them, but frequently lack any experienced and professional management structures. These must be currently viewed as high risk options for owners, and therefore to reduce operational risk owners must be protected by the employment of strong project management. The global situation and lack of confidence is hitting many financial institutions and businesses hence coupled with the dollar fuel price situation this may affect the thinking of prospective owners and have a consequential impact on order flow. There is a need for professionalism in all areas of the industry especially if the current demand does start to slow and the rate of order inflow declines, as unless carefully managed, difficulties will arise and consolidation in many areas will occur, and therefore only professionally managed businesses will prosper and survive. When adjusted the currency fluctuations we can also expect to see annual depreciation not being confined to yachts in the smaller sector but starting to creep into the 40-50metre sectors which is an important aspect for yacht finance. There is generally a greater need for more professionalism, technical and project management experience when negotiating the purchase of new large yachts. The previous practices of the past will not suffice in the future and there is a need for new professional skills especially regarding the project management

and negotiation for the new entrant virtual yacht builders. As previously mentioned, the yacht industry is becoming potentially the victim of its own hype with a perception amongst buyers that the industry is full of highly profitable sectors, a factor not helped by the recent explosion of articles in the society media and lifestyle Press. As mentioned on previous occasions with regard to professionalism and differences of approach a typical €100million merger or acquisition transaction is normally subject to what seems an endless operational, financial and legal due diligence by the highest qualified professional staff. This is not done for fun. The process is well established and is undertaken to reduce risk and ensure prospective purchasers acquire exactly what they thought they were buying. However by comparison the acquisition of a €150million large yacht can almost be amateur. The objective of our products is to provide fun and leisure. With many glamorous industries, fashion, cosmetics, etc, there are serious businesses to run and only professionalism will ensure that we are able to serve our clients' needs in the future. And that is the end of me.

Martin

Not literally!

Barry Gilmour

In more ways than one!!

Martin

OK., thank you guys for being so candid in your comments. Can I have some light please? We have a few emails and questions already come in—anything from the floor, to keep those girls moving around? Can I bring you down here, please, Elena?

Jeff Partin

Bartram + Brakenhoff

I'm Jeff Partin. I have a question with respect to the weak dollar. To what degree do you think that's going to take business away from the European yards and drive it to the US?

Neil Miller

It's probably one for Barry really, because he's more involved in that. But first of all I'd like to say that Barry and I up until about 20 minutes ago had never met, but it was uncanny, bizarre, that we both covered the same things—he did it much better than I did but we both covered the same things; it makes you kind of think that a lot of what we're saying is there. How will it affect us? Well, listen, if you're a businessman and you can get things done cheaper in the States now relatively, well why wouldn't you. Or anywhere else. So the European yards—if you are the kind of businessman that has hundreds of millions to spend on building a yacht, why wouldn't you try and get better value somewhere else. If it's about quality spending the money in those yards will eventually get you the quality, if you practise hard enough and more people spend, they will eventually be better, or as good as, what we have say in Europe as a perceived top quality yard. If you're asking me as a businessman, if people that I know would go and build their yachts, you would definitely have to go to America and have a look at that. And as I'm sitting here, it's not possible to believe that people aren't doing that already. I mean if I were looking to build a yacht I would be looking to see what I could do in America or the Far East. Now I wouldn't particularly go to Europe.

Martin

Barry, your comment?

Barry Gilmour

I think it's a complex question. I think with regard to—a lot of people in the audience are more experienced in yacht brokerage than I am. But with regard to yacht building in America a lot of American yachts feature European equipment and so all it's going to mean is the cost of American yachts increases. Because of the weak dollar. You'll just pay more for it in dollars. I think the interesting question is possibly how it affects the American secondhand market which I'm guessing—I'd love to have some comments from the audience, because I'm not too sure what's happening there. But the other important thing is that people who are generating their revenue in dollars they're going to be relatively worse off. Because there is a tendency now for yachts to be priced in euros, especially in Europe. So I think American players looking to acquire yachts from European owners are going to find it difficult—which again, will influence their thinking. And in fact not just the Americans. A lot of Middle Eastern countries—their revenues are generated in dollars. So they'll be generating in dollars and spending in euros. Which is not a particularly attractive way to do it. So I think it's not going to be good.

Martin

We'll have a couple of emails then we'll—

Tork

I've got 3 here actually. The first one—they're all anon—the first one is for Neil. What would you say are the 3 or 5 poorest business practices that you've identified in our industry?

Neil Miller

From anon, hey? I wouldn't like to say. I mean let me say that this year I've probably looked at, in the last 12 months, at least 8 companies to buy and we purchased two, the other 6 really couldn't even give me a business plan. So I mean there's a lot of businesses out there, I wouldn't want to be specific, but there are a lot of businesses out there that I don't think—they're surviving out there now on the back of organic growth within the industry and the way it is, and a lot of them it has to be said, are surviving because they have a lot of friends within the industry. I've looked at very well known businesses and when I really looked at it, they're surviving because of their relationships that they have with captains on yachts, and that way they're getting orders—I'm only looking at the service part of the industry here, I'm not looking at manufacturing or anything. And there is a relationship industry and a lot of them are surviving based on their relationships. It's my view that that can only go so far, and will not hold up. And if that's how you run your business, based on having someone in the right place while you're earning your money, that will only go so far. I think eventually that cannot continue.

Tork

Thanks. Actually the second question is for you as well. Are you planning to offer carbon offsets for yachts included in your fuel price, or separately?

Neil Miller

Carbon offsets for fuel—am I planning to? No!

Tork

This one's for Barry. What do you estimate shipyard profit level to be, and do you think that this is a reasonable return on their building risk?

Barry Gilmour

That's the problem. I haven't the foggiest idea. I know—let's ask a shipyard. I mean, the industry is rife, as always, with rumour, myth, you know, some people saying certain shipyards are making super returns, other projects I happen to know across Europe are in serious financial difficulty. Projects, not the companies. So I think it's a mixed bag. Some companies are undoubtedly making some money; otherwise they wouldn't be in the business—or would they? I did speak to one major owner of an organisation recently and I said to him why are you in the business? And he said because of the passion, Barry. It's the passion. So fine. But passion is not going to keep it going. In the long term. So the short answer is I can't answer that question, I wish I could.

Tork

Is that part of the problem you were talking about earlier on, is that we can't answer the question?

Barry Gilmour

Absolutely. It's the same with most of our companies. In a normal business you'd be able to do full competitor analysis, analyse accounts, understand the accounts, it doesn't take very long when you start looking at an audit trail in our industry and you disappear into Monaco and then you come out of Monaco and go somewhere else—you can't trail it. It's very very difficult. And I don't think that's good for the industry in general, because it means you can't plan. And if you can't plan you can't invest and I think that's what Neil was saying there—that you rely on a lot of personal relationships, which is good in the short term but when things start to go a bit wrong you need businesses with viable strategies.

Martin

OK. I've got 4 patients. Another anonymous question. Comments to both of you. Hearing about one dimension businesses, investments, if our market is about emotion buying by the owner what's wrong with supplying top custom builds, being proud of the product, and accept a fair profit. Craftsmanship versus money? It's an obtuse question but—

Barry Gilmour

I don't really understand the question Martin. Is it aimed at yachts, or anything?

Martin

I think anything. And in theory but let's take yachts as an example. If our market is about emotion from the owner's perspective, his buying process, what's wrong with supplying a top custom build and accepting just a fair profit.

Barry Gilmour

Nothing. Nothing at all. But I think a lot of our customers are not totally driven by emotion.

Martin

Is that changing, the decision process?

Barry Gilmour

I think it's becoming not better or worse—clients are becoming a lot more sensitive to profitability and again as I was saying, we're a victim of our own successful hype that we are perceived to be a highly profitable industry and therefore these high net worth individuals who didn't get their wealth by emotion are not going to take it, are they?

Neil Miller

Can I just say, I agree with Barry and for so long, when I first came into this industry and that's not so long ago, I can't be specific about the industry itself in terms of yachting as Barry knows it on the technical side but we on the yacht fuel side of the business supply 300 of the largest yachts around the world with fuel; and it's incredible that a lot of the businesses that also supply these yachts with services—take the owners I think just as being incredibly naïve and I think for a long time maybe that was true, that the owners just let management companies and captains and everyone else just get on with their jobs and didn't really care. But I think the ones I know are taking much more of an interest, and as Barry said, they didn't become some of the richest people in the world by being stupid, and it's incredibly stupid of us to think that they're just going to sit by and let it happen. I think a lot of them have had wake up calls and there's—I know many of them have switched out of the way they were doing things, swapping management companies, getting rid of captains, different things to make their yacht more of a business and make it work. Many of them set up their own management companies, as you know, and control the costs themselves. I think that the gravy train might be running out of track soon. I think that the business will become more professional and I think the people that are left in the business will understand that and will deliver a better product in the long term.

Martin

Barry—a quick question for you anonymously. Does the panel think that new yachts are too expensive to build at the moment and how would you advise your clients to proceed.

Barry Gilmour

Oh that's a very good question, isn't it? I think there's a perception amongst customers, as I've said, that large luxury yachts are too expensive. And certainly the delivery times coupled with that are very very long. Now whether that is in reality correct—all these are connecting questions and answers—if the yacht industry, from a builder's perspective, completely lacks transparency and you can't analyse profitability, you can't really make a comment. Because it may be—I mentioned that I know yacht builders who are making tremendous amounts of losses on projects. And in that way we shouldn't forget that these customers are hard nosed; quite often we talk about profit analysis or margin analysis. But quite often it's the owner that wins. He will get a high value product or a product that has a higher value than what he's paid for it, and that has certainly been true of the last few years. Whether it will continue I don't know. But when a yard overruns on costs the client still gets the same product and so therefore it's the clients that win. I think it's a difficult question. Some are making very good money I guess, but others aren't.

Martin

Is that what's made the market grow? Owners making money out of new builds?

Barry Gilmour

I think there's a tendency of asset play—it's certainly taken place. I know owners that have said to me well how much money am I going to make if I order 4, and things like that. It's a high risk strategy and it has paid off, although there are some notable people who should know an awful lot better, major financial brains of the world, who have got projects that are seriously in trouble. So they've got it wrong.

Martin

Tork?

Tork

Just a quick question riding on the back of that. You mentioned earlier on that shipyards really need to improve their ability to produce more quickly. The problem is that requires investment. If the growth is going to flatten out, isn't that a pretty catastrophically bad strategy for a shipyard to invest, if we're actually going to see, not a bust, but a slowdown?

Barry Gilmour

I think that the ship builders, obviously they're in business and they know exactly what they're doing, and they've got their own strategies developed and are following them. I think that any bespoke yacht, any sort of 125metre yacht, is a very complex thing to both manage and build. And it has a very high operating risk attached to it. I think with regard to whether they generate enough money—any business that doesn't generate enough money to invest is inherently in trouble. So I mean whether or not they're living off the back of the current market, and when a downturn does come, they will be in trouble I don't know. Or alternatively, they're being eminently sensible. They're just saying our production is this, we are not going to make it any more than that, as long as our order book is full we're happy. And whether or not the emergent yards coming out of China and the Far East now, they do take a big chunk of the market? As we say, there are people waiting to place orders now, but can't. Now that can't carry on forever. Something's got to give. The trouble is, by doing that, and we've seen it so many times in industry, especially in Europe, by allowing shall we say Eastern competition to come in, when the market does turn down they are still there, and they may then become more competitive and we lose market share overall.

Neil Miller

I would just say that from my limited knowledge on this subject, from a business point of view that if the shipyards have not invested up to this point in trying to make yachts, to deliver quicker, they will not do so now, with what is going on in the market. Now would be the wrong time for them to invest, but I think that as Barry said, that is not important. If they're making money, they don't care whether their order book is 4 years or one year. As long as they've got an order book and they're looking forward, they're happy with that situation. It's whether it continues to be there with continued investment in other countries in those boatyards, whether they can sustain that afterwards. And probably you know they will, but they will not make an investment in their yards now. I can't see that.

Martin

Neil, a question for you. What kind of companies are you looking at? What is your minimal annual turnover, the requirement for your acquisitions, and do you have a resale point? Is it time or money?

Neil Miller

It sounds like a loaded question. The company itself, I'm only looking at this stage at service based companies, for me. I feel safer with that. I'm more interested in the brand or the perceived brand that is there as opposed to what it does in turnover. The turnover is something that we as a company can deliver to the company we buy. With the cross selling that we have within our own business we can deliver turnover to almost any business that we buy. So that is not important. What is important is how the brand is perceived. And if the brand is perceived out there as being strong and with weak management that is really more of interest to me. It's rare that we would buy a company and keep the management for any length of time so we would

add the management and add the turnover and add the profit. Not immediately, some things you need to spend time and money and investment; so it's not a short term strategy that we have. It's a longer term strategy because a lot of the businesses we have are good on an image point of view and are loved by the customer but in terms of making money are not very good at it. And so in order to get all of it to work you do need to spend time and money and investment to deliver the final product. As an exit, if you're asking me when—me personally, I'm not yet 50, that's next year, so it's still a bit early.

Tork

I've actually got 4 questions here but I'm just going to pull one of them out in the interests of time. This one is anonymous as well, it's for both of you. Why haven't we seen a boom and bust cycle in new yacht build in say the last 10 years.

Neil Miller

The last 10 years, I don't know, because I've not been involved. Why haven't we seen a boom and bust? I think that because of the type of industry that it is, there were only small numbers of people involved, when you look at it as an industry. And still is. You're talking about only a few people can afford to buy these yachts and get them built, so the impact is not like the car industry was, for example, whereby there were a lot of car manufacturers out there and many people that could afford to buy a car at different levels. But I think the industry has changed over the last few years, there are obviously more people out there that can afford yachts and because they can come in now at lower entry levels I believe you won't see a boom and bust but as I've said already, and I think Barry has said, you could see a bit of flat line growth here. I don't see a bust. I do see companies going bust but that happens every day in every industry. No I think it will slow down but I don't think the market was ever that big in terms of the people in it. The numbers weren't there, although the money was. But that was private individual money going in to buy something for pleasure; it's not the same as manufacturing at the level you would a car where you could do it at all kinds of levels.

Barry Gilmour

Yes, I think that it's an interesting question. The reason we haven't experienced it and maybe we never will is that essentially I think we are in a developing market. Ten years ago there was not a demand for the size of the vessels that are currently being produced, as we've seen. We talk about it all the time. 50metres was a big boat not long ago. And now it's pretty mediocre. I think there is an economic reason for it; you have to, without being boring, you get into cycles which are long term cycles and they're analysed, as stockbrokers will know, over a long period of time. I mean a typical cycle in the commercial shipping industry is 9-12 years. So for example, I was losing a fortune in 1997 on bulk carriers. The indices were at the lowest they'd ever been for 25 years. Losing a fortune. This year I wouldn't say we're making a fortune but the indices are higher than they've ever been for 15 years. So therefore you go for 15 plus 25 years. The cycles can be very very long term and I think this is part of the issue here, that we are developing, we haven't seen the level of growth in this industry before. And I don't think it'll go bust but we will probably get flat line very slow growth in the future. For a while. Which is still very good for most industries.

Martin

Any questions from the floor please?

[From the floor]

Can either of you comment on the recent purchase of Ferretti Group and how you see private equity coming in and buying up larger companies?

Neil Miller

I mean I touched on it there, that there will be a consolidation, I believe, within the industry as in other industries and the major people out there will gobble up some stuff to be more diversified in their market. I think you will see this continue. It has to be, because it's safer for them to do that right now. They're on the back of the crest of a wave where there's money available for large companies like that; there's money available in the marketplace for them, or there has been until a little bit of turmoil has hit the markets, so whilst it's there, they will use that money and they will pick up strong brands that they think at their level to continue to go forward and I think we will see more of that as time goes on.

Martin

OK Tork. You have a comment.

Tork

Yes, this is an emailed comment. We're working with a client at the moment who has been looking at building an 80metre yacht. He was let down by two yards this year as the yards gave the build slot to another owner. The reason? He would not pay the premium they demanded for an immediate slot. This was in America. I received an email two weeks ago from a captain asking for advice on a yard. I gave him one in Australia, which has its hulls built in China and is now in discussion. He was not interested in Europe as the cost was going to be far too high.

Barry Gilmour

I think a lot of people are looking at building hulls and superstructures in Japan and in China. The big issue is adequate and experienced management to ensure they can build large luxury yachts of the quality that is necessary. In many areas they do not have the quality. I looked at one which was quoted to us just the other day. The Chinese interior outfitting company were charging €4,000 per square metre for luxury accommodation. Which compares to an average of about €12,000—€16,000 in Europe now. It's either rubbish quality or we've got a problem.

Neil Miller

Just quickly again, from my perspective. Anyone who is paying a premium to get something done in this market, that won't hold. It will soon disappear and you should just sit tight and hold out for 18 months and you'll be able to get your slot.

Martin

Thanks Neil. From the floor.

[From the floor] Camper Nicholsons

Hi. A few years back we were taken over by the Rodriguez Group and then you got Azimut Benetti taking over Fraser Yachts. And now recently Trinity have bought IYC so what do you think of that?

Neil Miller

Well I think I'll let Barry answer this because I've already said what I think, that's exactly what's going to happen.

Barry Gilmour

I think that strategic acquisitions will be inevitable and I think they can be driven by two things. People genuinely wishing to expand their business because they see the right gaps in the products that they supply or alternatively you can see private equity/venture capitalists coming into the industry and thinking they can make some big consolidation play. I think the problem with that is that the minute you get that, in my own experience, which is not a lot but nevertheless enough to be not enchanted by it, venture capitalists are like banks. They tend to want to give you money when you don't actually need it then when you do need it they don't give it to you. They're really driven by what they perceive as sexy trends. So a few years ago you'd get none of them investing in yachting. Now it's sexy so therefore they perceive high returns and they come in. The big problem is when the business doesn't perform. Because if you're a manager in those businesses it's not a very nice place to be. Because they're quite ruthless in their approach; and again it's not necessarily that good for the industry. I mean Neil will probably have a view that that's a refreshing cathartic process that you flush out the bad and leave the good. But nevertheless it's not very good if you're a manager and one of the bad, is it. So I think there will be continued consolidation, people are always looking at new moves. There's always rumours about everybody being bought and sold. But at the end of the day if you look at research, the number of acquisitions that add true shareholder value are quite low, and they've got to be well managed, and the problem is that in our industry, and I'm including myself in this, we're not always that professionally managed. We do manage on instinct, and the companies that have got good business plans, that can tell you what they're going to do in the next three or four years, why they're going to do it, how much money they need, etc—are quite few and far between. So there will be a lot of businesses acquiring but whether they can actually make a bigger return to their shareholders is another question.

Neil Miller

Barry touches on a good point. There is a lot of money out there if you want to get involved in this industry. The venture capitalists are out there offering the money and a lot of companies are taking it, as you mentioned. And ultimately they will flush out the bad operators within the industries, within the companies they buy. The venture capitalists will give you the money but the management has to be good. And at the moment within these companies, even the ones you speak about, there's a lot of adjustment to be done and a lot of streamlining to do. And then that process is slow. It doesn't happen overnight but it can take 18 months for all this to work its way through to see what you've got at the end of it. But at the end of it you'll have something that is more streamlined, that will deliver better returns for the shareholders. At the moment it probably doesn't, but it will, and it will work its way through, and as it works its way through it works its way down. And so that means that everything beneath those companies will have to get better to compete. And so they will improve their management and so on. Until it all becomes much better and the good survive and the bad do not.

Martin

Any other questions from the floor? I have one more question here—you were talking about professionalism. Be specific about what needs to change in terms of professionalism.

Neil Miller

That's probably a whole day more—I wouldn't know where to start, Martin.

Martin

Give me one example.

Neil Miller

You can't give examples without backing it up with a lot more information. But I can't believe there's anybody here that doesn't understand what we're all speaking about. There's a lot of it goes on within this industry still that horrifies me, that is not very professional. I mean clearly I could do much more business if I were prepared to hand over brown paper bags with cash in them. There's no question about that, which obviously we refuse to do. I mention that now and there will be people probably in here shaking their heads thinking it doesn't go on. I can tell you first hand that it goes on. And I could do a lot more business if I got involved in that way. But I'm hoping—I'm not on any kind of crusade here—we just manage our own business, do our own thing, and I think eventually that as better people come into the industry then that part of it will get flushed out.

Tork

I've got an email question—unusually not anon—it's again from DVB Bank—a simple yes/no question. We've seen contract prices appreciate 30% for superyachts in the last 2 years. Hearing all the arguments, can I get a yes or no answer—are we in an asset price bubble zone?

Barry Gilmour

Probably yes.

Martin

Anything else from the floor? Any shipyards want to comment on this? Yes, thank you at the front here.

Antonio Port Adriano

Hello, I'm Tony from Porto Adriano. I was really surprised to see how easily the CO2 emissions offset question was dismissed. I think environmental issues are key in our industry. In my part which is marinas, they are extremely important because we cannot do marinas because of environmental issues and I can see every time younger people more worried about climate change, about environmental concerns and it doesn't seem to me that the industry is doing anything in that sense and I would like to know if you feel the same or if you think it's not important to the industry.

Neil Miller

Was that Port Adriano did you say? I know it well. Well, CO2 emissions. We act in between the fuel manufacturer, i.e. BP, Shell and the yacht. You'd be amazed how over the last few years—those of who know that MARPOL has been introduced and we with our yachts only encourage them to take MARPOL supplied fuel, whereby there are certain criteria where it's delivered, what has to be done, how it's used, what it is, the specification. We don't manufacture, so I can only sell what is made. And force the manufacturers, through the yachts saying look, this is the standard that we want and we try and deliver that standard in. But you would be amazed at the amount of companies that do not want to comply on a MARPOL basis with fuel. And so we would like to, and we say to yachts this is the fuel, we're MARPOL compliant, this is what you should do. It's a bit more expensive. It has to be more expensive. And so the reaction to the yacht is OK, then find a cheaper fuel. Well we won't supply you with a cheaper fuel. OK, so they go somewhere else and buy the cheaper fuel. You know, we can only manage it to a point. I'm all in favour of everything going down that road and everyone being MARPOL compliant and a cleaner world. Sure.

Barry Gilmour

I think that everybody's got concerns about green issues, but by and large we just follow on. It's not up to us to make personal crusades in this industry and you can say that the product itself is not very environmentally friendly, but so are a lot of other things. We follow on from commercial shipping aspects where IMO have got a lot of regulations with regard to environmental issues. We recommend all our owners to have the equivalent of EP notation with class compliance, so I think there are bigger people out there making the rules and regulations, some of which again, are currently hitting commercial shipping and will eventually spill down to us. I mean control of CO2 noxious substances etc is becoming very very strictly regulated. And anybody who operates passenger ships in the West Coast of America would know that. It is quite a challenge. And it will come down to us. We don't really have any global representation, do we?

Neil Miller

On the fuel side, as I say, we supply fuel around the world. I mean there are so many of the manufacturers, the major manufacturers of fuel that will not comply with the levels of fuel that we're asking for for the yacht. So if they will not put it there, we can't sell it. It's the fuel supplier that needs to comply so we can put it onto the yachts really and they're not in a hurry to do so, because our level that we're dealing at marine gas oil is still small in their world, and until that changes then they're not in a hurry in far away places to make sure that fuel is correct when they take it on.

Tork

But as a general point, don't you think that it behoves the owners of superyachts to be seen to be green? There is definitely the potential for negative publicity associated with burning tons of fuel an hour just to go to lunch in Corsica. So I think there is a public relations aspect even if you don't particularly adhere to the concept that we need to be green.

Neil Miller

I'm not sure—the owner wants to sail his yacht and he would have no problem, I guess, in only buying the most environmentally friendly fuel that he can get, but he can't get it. I would say that there are still many places around the world that he cannot buy it, and the people that sell the fuel in those places will not produce it. Until that changes he can only—I mean in Europe obviously it's a lot easier. But outside that, in other places, it becomes very difficult.

Tork

I think as a general point perhaps.

Barry Gilmour

I think we should get it into perspective as well. Again, you can moralistic judgements as to whether as you say, people should burn tons of fuel to go to lunch in Sardinia or whatever they do, but I think in relative terms the yachting industry is pretty clean. Most vessels burn gas oil, marine diesel oil, which is not so bad. I mean the majority of shipping runs around on burning stuff called 3,500 second redwood. It's like tar. You put it in a bucket and turn it upside down and it doesn't come out. It needs steam to heat it, to burn it. So we are very clean compared to a lot of other industries. And a lot of our owners are concerned on environmental issues in addition to that.

Martin

Neil, a question anonymously. Does Neil really think shady deals in brown paper bags or something else changing hands really doesn't happen elsewhere in other industries. Is it unique to us?

Neil Miller

No. Of course it happens all around the world in lots of other industries. It's just that when it happens in the industry that you're in, you really want to take care of that. I'm not in all the other industries around the world. I know these things go on—I worked in Nigeria. They go on at government level. Of course I know this. But I'm hoping that it changes in this industry. A lot of the owners would not be happy if they knew what was going on and the reason they were buying from certain suppliers was because people were getting paid off along the line. So it is a very small, close industry when you think about it and it's not as large as everybody thinks and we're all quite a close community really. A lot of people know a lot of people and I'm hoping that over a period of time now that it will change.

Eric Goldring Goldring & Goldring

I think, and this may not be the right forum for it, this summit, but the idea of carbon offsets and what our industry does or doesn't do, it's been kind of dismissive yet something to talk about. Well I also work with the cruise industry and in the cruise industry they've made it a tremendous marketing point, to have environmental awards for various ships, to shut the engines down when they're in port on the West Coast in advance of regulations. We were just hearing about not being able to put marinas in certain areas or do certain things because of the environmental impact and on the other hand we're talking about we need marinas. I think that our industry needs to say we need to talk about carbon offsets and not just in theory greening. We are burning tons of fuel. It may be better than other fuel but when that tanker is going from point A to point B there's a productive purpose. When you're having a

yacht go from point A to point B it's for fun. And I think that our industry is going to get hit, not this year, not next year but maybe in five year's time, with a very bad situation where we've got these big yachts that are going to start not being able to be used because of a regulatory scheme that we haven't thought of yet. So I would encourage us to think about carbon offsets and to voluntarily green us up rather than wait for the regulations to come.

Neil Miller

I agree with most of what you say, but there's only so much that we can do. It's going to take the refiners, the BPs of this world, and Shell, to make sure the fuel is available for those large yachts wherever they may go. You'd be surprised at how many places, if you are a large yacht, that you cannot go to get this fuel, that we will not supply it, because it's not of the quality that we would want it to be, so when the large yachts come in and say we're fuelling here, we're fuelling there, we'll say you can't do that because a fuel that's acceptable to us would not be available. I think it's a whole other debate to get into about where the owner takes his yacht. I mean that's his right, he spends his money, he owns his yacht and he's free to travel around in it where he feels, and all of us make a living out of him doing that. I think there is a lot of people trying to tackle this within the industry and to make it better, and I agree with Barry that we're probably a lot better than a lot of other industries at doing it, but it's highlighted because we're in this kind of Hello magazine industry where yachts are on the front pages all the time and the owners, and where they're travelling. There is a lot being done.

Barry Gilmour

I think we don't want to get into this area of dubious morals, do we. I mean, the cruise industry. It's people having fun, isn't it. So I think it's wrong to say because it's for fun and one is for business that it's different. I don't think it's different at all. I think we should be aware that the cruise industry didn't voluntarily rush in to make all these changes itself. California State legislation started it all off.

Eric Goldring

Oh I agree with that. That's not my point. My point is that when you sell a gallon of fuel, or a ton of fuel, there's an offset and maybe everyone isn't clear on what that is. You can purchase something somewhere else that's more environmentally appropriate, purchase some wind power to be used somewhere else. So when you're purchasing that fuel that can't meet MARPOL or even if it does, you take 5 cents or 10 cents per litre or gallon, not as tax, but as the cost of doing business, and then use that to develop that other industry. I'm not saying that that makes the most economic sense today for that particular industry but we're talking about the yachting business overall. Which is exactly what the cruise industry has started to do and I'm not saying we are the cruise industry but there are things we need to take on at our cost to keep our business going rather than getting shut down.

Neil Miller

I'm all in favour of offset. I'm happy to plant trees everywhere.

Martin

Haven't you ever heard of the Forest of Deuxmil?

Tork

I've got a question here from Ken Hickling. He says do the panellists think that the increases in professionalism and better management will take the spirit and fun out of our industry or can we actually do both?

Barry Gilmour

I don't think that being more professional—and I think you can debate what exactly is meant by being more professional, it has an implication that people are not professional now, which is not meant to be the implication. I think it's just people doing things in a more businesslike fashion and in a more transparent fashion. I mean none of our owners are particularly angels; we have a lot of owners who will take as much as they can out of us in terms of getting free consultancy, a lot of projects—and then surprisingly you find that your specification turns up in someone else's yard and strangely enough your name is on it. So you're not dealing with a level playing field when it comes to ethics. I think it comes back to the brown envelope syndrome. At the end of the day you have to take a view as to who you're working for, and most yacht crews are working for their owners, or should be, and nothing else. The reality is that there's a lot of self interest in there. I mean, the industry is fun itself, the fashion industry is fun but it's very very cut throat and you don't survive unless you're profitable and use good business sense. Look at the management of the brands—Prada, Chanel, and everything else. That is serious business. And yet it's still fun. So I don't see that the two are mutually exclusive.

Martin

Alright. Gentlemen, ladies. Any further comments? One last comment? Because I've got Steven waiting for us in New York now. Anything before I close off?

Gentlemen, thank you very much indeed. Thank you.
