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Steven Rattner

Very good—I can hear and see you. By the way you look marvellous in that tie.

Martin

Please. Keep the jokes to a limit. We've been waiting so long, Steven. It's like a long, long relationship. Steven Hullo!! Houston, we had a problem, but no longer.

Steven Rattner

I will never pick on my captain again when the V-Sat is not working.

Martin

OK. I'm going to say that we've got you on screen, we've got you in a very faint voice, I'm going to talk to the technicians and see if we can get a bit more volume there.

Steven Rattner

I'll lean in and see if I can't get closer.

Martin

OK Steven. Let's rock.

Steven Rattner

Great. Thank you and I apologise for not being there in person; there has been a little bit of volatility in the capital markets over the past couple of weeks, as you can understand, and so we're dealing with a number of issues on our business. I understand that I am the only thing that separates a bunch of yachties from their cocktails, so I will also try to keep it brief.

I thought that I would cover two basic areas today. One is an overview of what our organisation has found in the white yacht yachting market and from an owner's standpoint what I personally think is going on today. I'd like to start with a quote from Charles Dickens. *It was the best of times, it was the worst of times.* And I think nothing sums up the state of our market better.

A brief introduction. I started at Donaldson Lufkin & Jenrette, a US investment bank, in 1985. My partner and I founded their leverage finance group. We went on to build that from nothing in revenues to \$2billion. For 14 years in a row we were the no.1 underwriter of non-investment grade bank and bonds for the LBO industry. I probably financed more companies than most people alive, including a number in the commercial and yachting business. In 1991 I took over as managing partner of DLJ Merchant Banking Partners; we are a global private equity fund with about \$18billion of equity under management. We have over our course of 22 years owned or currently own approximately 278 businesses around the world, from insurance to retail, Neiman Marcus is a business you might have heard of, industrial businesses in Germany, healthcare businesses, the pharmaceutical company Warner Chilcott, media companies such as MGM, energy companies, chemical companies, such as Rockwood, gaming companies such as Hard Rock Hotel & Casino; and maybe most appropriately a number of maritime related businesses including Frontier Drilling, one of the largest owners of deep sea drilling rigs in the world and Seacore, also a major

user of commercial maritime. So that background led us a number of years ago to take a look at the yachting market to see if we could, as a private equity shop, make money in this industry. And what we found was very interesting to me and I'd like to talk to you a little bit about it today. Our organisation has done a lot of research, including using you at The Yacht Report, Martin, as one of the best sources we know. I do believe there is a continuing boom in new construction in the pleasure yachting market. There are 90,000 families in the world today with net worth greater than €250million. That number is increasing over the next 3 years by over 10% a year. That's 9,000 new families that will have net worth over €250million, that can technically afford a yacht greater than €25million in cost. You tell me, how many yachts are there over 45 metres today. Certainly less than 1,000. If you look at the penetration versus anything else that this group owns, aeroplanes, super luxury cars, ski homes, beach houses, anything else, that 1% or less penetration is ridiculously small. And yet when we went out and sent consultants to take a look at this ultra high net worth group about their potential of buying yachts it has never been greater. I think one of the biggest reasons is that technology has finally come to bear. The no.1 reason that group told me that they would not have got a yacht in the past was the potential for motion sickness. They didn't want themselves, their family or friends to feel uncomfortable on their big toy and they believe now that the size of these yachts and the technology with stabilisation especially at anchor had addressed a major problem in motion sickness. If we continue to solve this we will continue to see much higher penetration. The ultra luxury yacht—it's no longer enough for this group to stay at a Four Seasons or Ritz. They want exclusivity, they want flexibility but most of all they want predictability. They want to be able to get on somewhere and have their own personal chef, their own personal valet, their own personal crew, so they know what they're getting every time. And of course they want to impress their friends and family. So I do believe that we will see unprecedented growth in the 45 metre construction market over the next 5-10 years. It will come not only from Western Europe and North America, which has traditionally been over 50-60% of the buyers, it will continue to come from Eastern European buyers but don't forget about the Asian market. They have a long tradition of maritime and are creating the fastest amount of wealth, even faster than Eastern Europe today, in order to be able to access that market. But supply is severely limited, we found in our studies. I have a raging debate between an owner of a well represented builder and myself over the number of yards that can deliver a quality yacht of over 45 metres. Is it 15 yards, 20 yards, or even 40 yards? It doesn't really matter. What is the number of actual delivery slips available per year at 45 metres and over? 50, 100, 150. That too doesn't matter. If you consider 1% penetration and 9,000 new families being entered into that ability to buy that yacht a year, we have huge explosive growth. It's probably the best supply demand imbalance that I have ever seen in any industry. It would make sense then that most yards are in an excellent position these days to make very good profits. Unfortunately the work that we have done doesn't always tell us that. In other industries that we own with these supply demand economics and these sort of fundamentals, we would expect to see Earnings before Depreciation, Amortisation, interest and taxes, i.e. cash profits that we look at, to be in excess of 20-25% in good times and between 10-15% in not so good times. And these are the good times for the industry. We would expect these profit margins to be even higher in components suppliers, but in a number of situations that we have looked at, yards are not meeting these earnings expectations. In many cases they're not even coming close and even more unsettling to me was the fact that from build to build many of these margins were very inconsistent. I asked our team why is this? In a market with such good supply demand imbalance why can't the vast majority of yards be more profitable, more consistently. There are a number of answers that I'd like to go through today.

I think the biggest thing that we saw is that many builders that we looked at are still running the business like they did 20-40 years ago. It really is an industry of the past. Sure, there have been advances in materials and technologies, but compared to the construction procedures we see in our aeronautics business, commercial ship building, in energy and maybe most appropriately in commercial construction, the yacht manufacturing business is still in the Middle Ages. We lack efficiency to build on time and cost. In many cases this inefficiency is hurting quality, with the amount of redo work hurting margins substantially. I realise that in many cases every build is custom and owners are willing to pay for that, but in commercial construction, or in residential commercial construction, we have found that there are procedures that carry on from one build to the next that can dramatically cut time and increase efficiency. We are building high rise construction projects that are over a hundred stories tall, where we can build and cap off one floor per week. We have cut the time it takes and the cost it takes, on an inflation adjusted basis, to build a 50 storey condo tower by half, compared to what it took 15 years ago. Can the yachting industry say that?

Second, I think a big problem today in the industry that we have found is the quality and quantity of experienced workers in the yards. We found fewer apprentice programmes than ever before and fewer programmes in the schools leading to qualified workers.

Third, many yards are outsourcing more of the work than they have ever done before. This is certainly best business practice in many industries but it's a double edged sword. With more builds taking place, there is less experience and thus less efficiency. But most yards are not using multiple sourcing available to them that other industries are using. They are very happy to use the same HVAC, the same transmission sub-assembly, the same motor assembly that they use from one build to the next. This does not allow them to bid their work out aggressively and to get best practices from one job to the next. I have also thought that most builders are far too nationalistic. This probably won't play well but the truth is we are a global manufacturing society. Many of the builders that we have looked at are not willing to use parts manufacturers from outside their geographic region. A boat that is built in a certain region has all the parts built from that region as well. This does not permit efficiencies or best practices in many of the yards that we looked at.

Four, many of the yards give the owners too much flexibility. Rarely do they build for change orders that match up to their original margin expectations. Take more time up front and make sure the owner understands what he or she is getting. An extra month or two in the upfront design will save much in dollars and efficiency in the life of the 24-36 month project.

Five, it was amazing to us, the lack of standardisation in many yards and many builds. I understand when an owner wants a custom yacht he or she wants a custom yacht. But think about it. There are many different types of owners. It is a rare owner that wants recreate the wheel as in the case of that wonderful yacht *The Maltese Falcon*. Most owners want as big a toy as their budget or wife will let them. Most will be in the engine room only twice in the life of their yacht, and that happens at the same time. It will be their first and their last time in the engine room. They see it only when they take delivery and probably will never see that engine room again. So, there is I think a greater chance for standardisation in over 45 metre yacht construction, in hull shape, in mechanical, in HVAC, in piping, plumbing, etc. But, as an industry we often don't take advantage of that. What owners care about is size and performance. Why do most owners care about length and not the much better gauge of actual yacht size gross tonnage? It's because they care about bragging to

their family and friends, they care about appearance, they really don't care about what's going behind the walls or underneath their feet, as long as it's working well for them. Make no doubt about it. Size does matter. They care more about the pretty insides—and it's getting bigger every day. If you take a look at the ultra net worth of what's going on in the places they live, gyms are no longer single rooms, but vast areas of saunas, treatment rooms, and speciality. There's no longer just libraries, there are casinos, there are cinemas and there are other speciality rooms. Get ready, it's happening faster in the yachting community than you think.

Finally, I think the regulatory environment is threatening the builders and owners without regard to what it actually costs in both materials and time to build. What everybody wants is to make sure that the world is around and a good place for us environmentally for our children, grandchildren and beyond. I think many builders and owners feel that the regulatory environment today is being shoved down their throat rather than having a good discussion about what is actually valuable to the environment and to our safety. We did a study and found out that the white yachting community is the safest mode of transportation today in the world. It is much safer than private airplane, private car, even trains with fewer deaths per mile travelled than any other industry that we could find on the planet. I would say that we are already very safe, we are already moving towards a better environmental standard and that the increased regulatory environment will only hurt this industry exponentially rather than helping it. The builders that will emerge as winners from this spate of new builds I believe will be bigger, will be more global, and will be more efficient. They will have a more integrated workforce with more people actually on their staff rather than subcontracting. When they do sub contract, they will have multiple parties available around the world for them. They will be a more global player and we will see more standardisation of the parts of the yacht that the owners really do not care about—those 80% of the owners that don't care about it. It will produce a better quality product that will be built faster and at a lower cost with substantially better profits to the builders. I cannot be more bullish on the industry although there are a few clouds on the horizon from the point of view of a businessman, that I would be remiss if I didn't talk about. I do believe that a recession is upon us in the United States. The credit crunch, the cost of fuel for the average American is starting to take a real bite out of the average American's pocketbook. We're starting to see less spend—less spend on housing, on durable goods, on automotive. And we're going to start to see that recession really take hold in the next 6 months to a year. Europe will not be immune to that recession and neither will Asia. Asia will not go into a recession in terms of negative growth but they do export so much into North America and into Western Europe that their growth will slow dramatically. Although a recession will not affect the ultra wealthy as much as it affects the middle class it could have an effect on those boat builds below 45 metres. The second worry is FX. Foreign exchange will I believe continue to be unpredictably volatile and that will cause large problems potentially for the manufacturers as well as potentially causing issues with the builders and the owners of these magnificent vehicles. I think the biggest issue that the current group of yacht builders have is the Asian yards. I know I've heard it a thousand times if I've heard it once—it will be tens, if not twenties, of years before the Asian yards have the quality and the expertise in order to build to compete with the Northern Europeans and the better quality of the Americans today. I don't believe that to be true. In every one of our businesses the Asian communities have come on faster and harder than any of our management ever, ever thought possible. When you take a look at it, we have found that between 40-50% of a cost of a new build is labour hours. Many of the Asian communities have labour costs between 10-30% of what it is in a Northern European or an American yard. That will be a distinct advantage. They will get it right faster than any of us think

possible. It will be next year? No. Two or three years? No. But it will be within the next 5-8 years. We will see major Asian yards competing on a global basis. They are doing it in aeronautics, they are doing it now for the first time in the automotive and they will do it in the yachting community and we need to be ready for that in the rest of the world, to be competitive.

What are some of the issues that I think about today as an owner, but not as a businessman? I guess the first and foremost since I mistakenly sold my last yacht in June and I'm now in the market—no calls from brokers please—is that the cost and timing to build a new yacht today is daunting to say the least. 36-42 months in many cases. That is not the instant gratification that many high net worth individuals are looking for. The quality of the yachts, the lack of warranties that stand behind the new builds and the payment schedules that many yards are looking to get today are also big concerns to me as an owner. It always makes me nervous when a builder—whether it be on a commercial construction, residential, or on a yacht—gets dramatically ahead of me in the new build process in terms of the payments. I really don't know what to do. I was just in Fort Lauderdale with Martin and for the first time also there was a complete dearth in the secondary market, I think over 40% of the slots available in the secondary's for yachts over 45 metres went empty at Fort Lauderdale for the first time ever. It's really a conundrum for a yacht buyer today to figure out where to go and where to buy that new or secondhand yacht.

The second biggest issue we face as owners today I believe is the lack of available qualified crew. The record number of yachts needing increased staffing levels means that there are thousands if not tens of thousands of new crew needed every day. The crew costs and the regulatory environment to keep the crews up to speed is really daunting for an owner. Although some owners don't care about the turnover and don't ever really look at the crew when they come on board, I will tell you that the vast majority of owners enjoy socialising with the crew as much as they do with their guests, and I know it's always heartbreaking for my children to come aboard our yacht and find out that half of the crew has turned over because they're in it for short term and not professional careers. We as owners in the industry need to find a way to get more crew involved for longer periods of time. As owners we know we have to give better crew accommodations, we have to give better health insurance, we have to give better training, better time off. But we need that crew to make our lives enjoyable.

The third and maybe the toughest thing for an owner today is the regulatory environment. MCA, ISO, 500 gross tons, MARPOL training requirements for crew, manning requirements for crew, it's really getting un-fun to be a yacht owner. And I think many of us believe that there is no-one, not the builders, not the yachting community, that are standing up for us. We want to be green. We want to be safe. We want our crews to be well trained and well taken care of. But I think if you take a poll of many of the owners today they will say that it has gone too far. That no-one is standing up for the owners to say what is really required in the regulatory environment in this hodge podge. And where is it going? I think if there is anything that will drive owners out of this industry faster than anything else it's the regulatory requirements. And having people monitoring that for you isn't enough. It is the cost and the fact that we cannot use our yachts in the way that we want that I think will drive people out. One of the things that will start, I think, to also have a big effect on the ownership community is the lack of refit yards. These toys need to go in every year or at least every 2 years into a yard to be hauled, to be able to have some major refits. If you think that there's a problem trying to get a new yacht built it's doubly hard trying to find refit space for qualified yards that can do the work on time and on budget, if you can even get a quote.

A couple of other issues is dockage. Where do we dock all of these fancy new yachts and with *not in my back yard* the lack of facilities with proper power, with proper facilities—it's only going to get worse. I think one of the smartest businessmen I know is purchasing every slip that he can get his hands on for a new business over 45 metres. I think the dockage business might be a better real estate play in the long run than even building.

I think owners have an issue with the brokerage community. Who do they really work for? There are some very good brokers out there that are very knowledgeable in the industry, that I think are as honest as the day is long. But I think there's a feeling out there in a large part of the ownership world that there are some very shady brokers out there as well, that are certainly working only for their best interests and not the best interests of the builders or the owners.

And I think this leads me to my final point on an issue that the owners have—is graft. Yes, many of us are ultra high net worth. And many of us are willing to pay whatever it takes for the enjoyment of our family, and our freedom. But no-one, I repeat no-one, likes to be taken advantage of, whether it is captains, yards, day workers, port facilities. No-one likes to see graft. And mark my words again, we have owned 278 different businesses. We have very high moral and ethical standards for each of those. I have not seen the amount of graft in any other industry that I see in this business overall, from an owner's standpoint. And unless something is done to clean it up from beginning to end, it will be a poison that will eventually gag us all.

I don't want to be too negative though. There is nothing better for myself or many of the owners that I socialise with, for the crews or for the builders, than this industry. It is truly remarkable how far it has come in the last 20 years. There's nothing better than being out at anchor or on the open sea to have that flexibility and that joy of using our yacht with our friends and family and good crew. I have met more interesting people and gone to more interesting places on our yacht than I ever thought was possible as a boy growing up on the wrong side of the tracks in Pittsburgh, Pennsylvania. There are great things to be done out there and we're just at the beginning of this industry. If we manage it right it will be an unbelievable growth industry for years to come. We will get unbelievable amounts of new money in, new owners involved, as well as great crew—it will be a driving force in the economies of Western Europe, Eastern Europe, the United States, the Caribbean and beyond as we go further and further afield. Thank you very much and I appreciate you taking the time to listen to me.

Martin

Steven can you still hear me?

Steven Rattner

I can hear you fine.

Martin

OK. Can we have some lights up so we can see the audience? I'm sure there are some questions from the floor? Steven, thank you very much for that—it was a fantastic scene setting presentation for the rest of the 3 days. Any questions that need to be put? Neil, surely you must have something to say? Can you just wait for the microphone Neil.

Neil Miller Deuxmil Marine

Yes, hi Steven. Neil Miller, Deuxmil Marine. I was on the stage just before you and I think I said a lot of what you said, although you said it much better. I agree with everything you say really.

Martin

Steven, can I ask you a question. What do you think the real solution is, and how can we solve all these major problems. What do you say as an individual owner are the ways to solve the problems?

Steven Rattner

I think that in a lot of the industries where we have had this potential, we have to put together a global focus group that is made up of owners and of manufacturers and suppliers that will work to put out standards and to work on a number of these issues that come together on a global basis, having all the constituents in a room. I'm not sure whether Martin, it's you, or who is ready to take up that banner but it really needs to be done. I can only put together a ½ dozen to a dozen owners that will meet at least telephonically, or on a quarterly or semi annual basis to discuss this but it's—all constituents needs to be in a room to talk about that.

Martin

OK. I'll have a private conversation with you another time.

Steven Rattner

It sounds like it's going to cost me money!

Martin

Any further questions from the floor please.

Tork

I was going to say that it's quite evident that all the factors are connected together and you can't cure it all by just curing one or ten or sixty percent. I mean yes, you can get some of the parties together to talk about it, but to actually put it into action—I mean, we've been talking about lack of crew and the necessity to promote the concept of working in the yachting industry as a real serious, wonderful career. It's difficult to find the right mechanism, to actually turn what we've all said is a good idea into actual action. Suggestions?

Steven Rattner

I agree. You know, I am a capitalist at heart. I believe, and one of the things that we're looking at is - is there a way to profitably provide these type of people to the yachting community? Because I believe that capital will answer most of those questions. So can you start a series of schools? If you take a look at what a professional captain or an engineer or a chief stewardess makes today—a captain of a yacht will make substantially more after tax than an airline pilot flying a 747 today and yet there are no shortages of pilots for 747s or Boeing triple 7s. It's because there are schools now, dozens of them, that train these people. They're not all coming out of the air force. We need to be able to do that in this industry.

Martin

Are you willing to invest in that?

Steven Rattner

We are taking a look at that.

Martin

There's a question from Theo?

Theo Hooning Superyacht Builders' Association [SYBAss]

It's a newly formed association which also addresses quite a lot of the issues you mentioned. And I think you asked for a kind of cluster within the superyacht industry which solves problems which are not just focussed on one of the specific groups like the yards or the owners or the suppliers. In that way I can say that the Superyacht Builders' Association is absolutely one of the means to start such a conversation—within one and a half years we get it about 55% of the yacht production in the world and we can in that way contribute absolutely to solve problems which we also know we can't solve as an association on its own. For example if we look at the production of yachts yes of course you have the dock space problem. It's not a thing we can solve in that way but we need to be in that way in contact with each other to have good solutions to that, as at the bottom line we produce yachts which has to be docked. So in that way I can understand and I hope we can continue a way of discussion how we can group together and make a cluster to address the different problems we see now facing the industry.

Steven Rattner

A good time to do that I would point out—you have two natural times, you have the Monaco Show and you have the Fort Lauderdale show that brings together an unusual concentration of all of the groups that you need to get together. Builders, suppliers, crew and owners. You know those people are already there in vast numbers. I think both of those times would be great to have those round table face to faces.

Martin

OK. Thank you. Behind you there, Stefanie.

G. Anderson Chase Maine Maritime Academy

Hi Steven my name is Andy Chase of Maine Maritime Academy, a little ways north of you there. We're looking at starting a crew training programme for the yacht business. I'm interested, not surprised, that you put the crew shortage as your no.2 issue right after the ability to get a yacht to use those crew. It seems to me that the first thing that came to mind hearing your presentation and the one before you that business is as much a part of the captain's job as anything and the personnel management issues that go along with it, so there's much more breadth to this career than just seamanship and that one key piece that seems to be falling out of this is—this is the question I have for you—do you think there are enough owners out there with a similar interest in the industry that you have that would make space on their vessels for one or two or three or as many as they could fit trainees—to get started, to get a start in this industry. We run a Co-Op type of programme every year and so anybody in our situation, any other educational institution would be looking for berths like that.

Steven Rattner

I think that given usually the tight constraints on a yacht in terms of crew space apprenticeship programmes on board would be unrealistic. But what we have found is that there are plenty of openings at the bottom rungs of these positions in order for people to get hired and to get experience while they're actually getting paid and working.

Martin.

OK. Steven, a question from me. Do you think the brokerage market and the designer world is overselling complex projects and should be looking at the cookie cutter approach?

Steven Rattner

I do believe that we don't have to recreate the wheel every time. There are 10-20% of the owners that want to do that. But 80% of the owners care much more about the finished product, the cost of it, the time to get it out, rather than that it is on the absolute bleeding edge of technology. And I think many builders and brokers try to sell the new thing rather than going back and saying this is a proven hull, and a proven yard, and a proven design, and we can build it faster and for less if you don't want that cutting edge technology.

Martin

Is that because they're looking at getting the maximum dollar value on that deal?

Steven Rattner

There is always a discrepancy when a broker is getting paid a percentage of the sale price rather than at a fixed cost, yes. But look, I think the vast majority of brokers earn you know every dollar that they get in commissions—not every one—but a lot of them do.

Martin

Any further questions from the floor please. Thank you—one at the back please, in the middle.

Ben Cussons UK Sailing Academy

Hi Steven. Ben Cussons from the UK Sailing Academy. You talk about saying you've seen the best supply demand imbalance you've seen so far—classically that would mean that prices are going to rise, and you then laid out a list of critical issues, many of which to my mind require money to develop them and solve the problems. As an owner, do you see this as being cost neutral so the cost of boats coming down is relative to the cost of meeting the regulatory environment or do you believe there's a price sensitivity here of an owner to the cost of ownership of the vessel and that once the running costs go 10% they'll start to move out and we'll see a natural balance returning to the demand supply.

Steven Rattner

There are very few owners, even the ultra ultra high net worth—there are some that just don't care what their yacht costs and they don't care what it costs to operate. I would conjecture that that is a very low number; less than 100. The rest of the world cares what it costs and cares what it costs to operate on an annual budget. And so our job I think as owners and in the industry is to make sure that that cost of build and ownership is in line with the psychic gratification of using it. I think it is in fairly good line today if I talk to my fellow owners and think about it myself. The question is, where does it go from here? And I think if we don't address some of the issues that I talked about, it could get out of balance but today I think we're all right.

Martin

Tork, please.

Tork

Yes. Steven, I have an email question here which is anonymous. They're asking do you think that the brokerage community should be openly challenged to deal with the

problem of taking secret commissions, and I suspect that also in line with the other way around, it probably also ought to mention the giving of secret commissions to those that bring sales to them.

Steven Rattner

Can you just repeat that one more time? My apologies, I couldn't hear you all the way.

Tork

Surely. This is an anonymous question. Do you think that the brokerage community should be openly challenged to deal with the problem of taking secret commissions and I suspect that also extends to the giving of secret commissions to let's say captains that bring clients to them.

Steven Rattner

Yep. I think that—let me tell you as an owner, that a secret commission is nothing but a bribe or graft. It should be illegal and those people who do it should go to jail. They're stealing from me or they're stealing from the yard. OK. None of our companies, and we own a number of financial companies and other companies—when we have a commission it has to be stated up front in writing to all parties. We have what's called a New York Times rule. OK. Everything you do in business you should expect to have written on the front page of the New York Times. And if you don't want to see it there then you shouldn't do it. If it embarrasses your mother to read it then you are doing something wrong. And this industry should be no different than any other.

Tork

I'll take that as a yes, then!

Martin

Steven just a hypothetical question. What do you think the level of investment is that's required by people like yourself to take this business to the next level?

Steven Rattner

Are talking about dollars and cents?

Martin

Euros

Steven Rattner

Euros, sorry! I think the industry is under-invested in and I think that whether it's DLJ Merchant Banking Partners or anyone else I think you're going to see hundreds of millions of euros coming into the market because I think the profitability potential is there and the supply will be there. So I think you're going to see an unprecedented amount of capital coming into the industry over the next year to three years. When we come and have this conference in three years it's going to be a lot less Mom and Pop and a lot more corporate and we're not going to be talking about graft because I think that you know the corporate world will drive that out by necessity.

Martin

OK. I think Tork has another email.

Tork

A question, again anonymous. Steven, did you make a profit when you sold your yacht? From the owners you know is there a speculative trend at present which could also be one of the dangers ahead?

Steven Rattner

Yes we made a profit when we sold our yacht. Though I think there are two different types of owners. Owners of ultra high net worth families generally got that way because they're fairly good businessmen and women. Ten years ago 75% of the Forbes 400 were there because they inherited it or married it. Today they're there because they've earned it themselves. So generally they are pretty good whether it is buying homes or cars or aeroplanes—at buying right. But the vast majority of people today are buying their yachts not because they want to make a profit but because they want to enjoy the use. There is a sub set again, I don't know if it's 10 or 20%, that are buying slots, that are really doing it for a business purpose. I don't believe it's a bubble; I do believe that it will at one point in the next couple of years inhibit growth but it won't cause a downturn. I believe the demand is there so strongly that we will grow through that.

Martin

I have a question for you Steven. After doing your research—what's your next step? Are you ready to make your next step.

Steven Rattner

We continue to—we look at hundreds if not thousands of businesses before we invest and so we continue to look at a lot of businesses around the world, then you have my email address, feel free to give it to anybody over there who wants to talk to me about potential—we have a lot of money and good expertise to partner up with great management teams in this industry. I really am a bull on it.

Martin

OK. You have my email address as well, don't forget that. Another question—would you advance an owner group in support of ethics standards for all sectors?

Steven Rattner

Look, I think the owners have to be held as accountable as anybody else, so yes, the owners again are usually a very high achieving group of people that are used to getting their way. I think if anything, getting owners together is like herding cats. It's probably the hardest group in the entire equation to get together. But if they think it's in their economic best interest they are herdable.

Martin

Understood! Any more questions from the floor? Thank you, one more here from Tork.

Tork

This one is anonymous again. It's three questions, but firstly he asks do you realise that a shipyard pays a brokerage fee to a broker for a new construction that they bring, rather than potentially reducing the price to the owner. And do you know what the average percentage is.

Steven Rattner

I realise that if a broker brings a client, that broker will get paid a percentage and that percentage can be somewhere, from what I've heard, between 3% and 10% of the cost of the finished product, and that gets tacked on directly to the cost of the yacht

from the yard, and the owner should understand that up front, the broker should tell them that, and you know it should be clear—the owner can decide whether he or she is getting that amount of value from the broker in that transaction.

Martin

OK. I have one text question. Do owners care about their personal image when it comes to the environment?

Steven

It's a broad question. Some do, and some don't. I will tell you that those with teenage children or younger do, because their children pound them over their head about it, but I think that more and more we care about the environment, not only just in our yachts but in our every day life. And in the companies we own and run.

Martin

Steven—I think it's been enlightening—I think you've said some very interesting pieces that I would like to pick up the ball and run with; to use an Americanism, and certainly I'll be in touch with you when I get back to London. But thank you very much for your time and I'm glad we made contact in the end and that we spoke to you live in New York. Thanks again.

So Steven enjoy the rest of your day.

We actually made contact—you heard from the New York horse's mouth; the key issues that owners face. And from a business point of view perfectly following on from what the oracle, Neil Miller, and the god, Barry Gilmour predicted.

There are certainly contrasting issues in terms of the doom and gloom that was being painted and the "if we do it right we can make a lot of money". So it'll be an interesting next decade ahead of us. Watch this space.

We're now serving drinks—I'll see you all out there for a beer. And certainly tomorrow morning we'll have breakfast at 8.30. Thank you very much.
