

UK Leisure Boat Building

Benchmarking the UK position against overseas competitors

Investigative work into the Italian Boat Building Industry

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Executive Summary

- UK Marine leisure industry has shown 5.5% growth for 2003 – impressive as a primarily manufacturing driven, value added industry.
- Demand for larger yachts and super yachts is expanding and UK industry is embracing the change
- Industry is vertically integrated affecting sectors including tourism, construction, electronics, entertainment etc. There is also a significant supply chain.
- Pricing of products and brand pricing is very tight – innovation and new design appears to be high on the agenda of potential purchasers
- Italian boating sector has seen much higher growth, productivity and investment over past 5 years
- Lower cost countries joining the EU in 2004 will have impact on competitiveness. Many are already building as sub contractors for 1st Tier EU manufacturers
- Supply chain is dependent upon UK sector for innovation and growth
- Lack of inward investment or external finance may be an issue
- EUR23.5M grant was awarded to Ferretti from the Italian Ministry of Production and Campania region in 2002
- Productivity from Italian shipyards is generally 2x UK equivalent although this must be taken in context of number of sub contractors also employed
- Future revenues look good for the industry
- Industry associations working hard to promote boating as a leisure pursuit – this years London Boatshow showed over a 40% increase in attendance to 210000
- Employee growth from Azimut shows approximately 50% growth over the past 3 years. Given a limited 5% growth in the UK sector generally, the lack of skilled labour appears to be a limiting factor to growth
- Opportunities look healthy for the future with improved export exchange rates but dollar weakness will cause export difficulties to N American and emerging markets
- Industry is probably much larger than figures indicate due to large number of reliant sub contractors and equipment producers who fall outside SIC coding

Innovation

UK Industry remains strong and highly innovative with lots of model introductions and great designs. Dependent equipment supply chain is also world class in many areas and requires a UK industry to supply for design feedback and innovation

Enterprise

Regulation around owners “driving licences” and potential planning restrictions for new marinas may have implications for industry growth. Directly employed labour in UK companies is probably cheaper than in Italy thanks to lower social contributions. Barriers to entry for new builders are low – hence large number of smaller concerns and a plethora of marine equipment suppliers.

Skills

Industry complains about lack of skilled labour – in particular carpenters, electricians and plumbers. Huge employment growth at yards in Italy would point to more skilled labour availability in this area.

Investment

Lack of finance and source of capital may hinder industry. Only Sealine is owned by a public company (US based Brunswick). Others are privately financed.

Competition

Industry is highly competitive and this certainly drives innovation. There is a need for a long term strategy

Introduction

This investigative report primarily looks at two of Europe's most successful motor boat manufacturing operations with combined revenues approaching EUR 800m.

Based in Italy, Azimut-Benetti and rival Ferretti Group, have grown over the past decade to be significant competitors for our UK Leisure boatbuilding industry which comprises 4 key companies – namely:

- Sunseeker
- Fairline
- Princess Yachts
- Sealine

This growing market is highly competitive with substantial competition from the US and other euro zone countries. Slovenia, Poland and other low cost manufacturing bases are also emerging.

However, this report is limited in looking at competition from the Italian boat building sector. Time constraints mean this study is very limited but it points to a growing industry that requires more analysis.

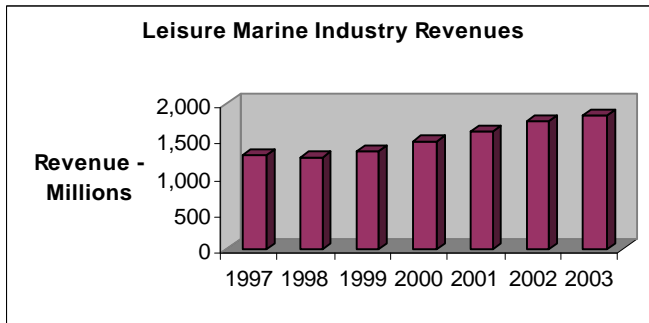
Source of Data

None of the sources of data in this report have been validated. Comments come from interviews with industry personnel, PR cuttings, filed accounts and market information

Some of the data is attached with this report for future use.

Background

The UK Marine Leisure Industry has showed continued growth for the last 5 years despite a turbulent time for discretionary spending.



Total Industry revenue for 2003 was £1.838 billion showing a growth of 5.5% for the year. Further growth is anticipated for 2004, albeit slowing to 3.8%. These figures come from the British Marine Federation (BMF) who are the trade association representing the Industry. They boast some 1500 members, which is largely representative of the Marine Leisure Industry. The Industry is, however, fragmented in that there are many very small

companies employing literally just a handful of people who may not be covered by these statistics.

Exports also show a positive trend with some 43% of revenues from export business – 53% of this to Eurozone countries and 21% being exported to North America.

Figures include both boat building and marine equipment revenue for the leisure sector.

According to the BMF, some 30,000 people are employed within the Marine Leisure Industry representing an increase of 5.5% on 2002. Total exports in 2003 stood at £794 million – up by 10% over the previous period.

Home Market

Being an island, coastal boating is fairly popular throughout the country with the biggest concentrations on the South Coast, particularly the Solent between the mainland and Isle-of-Wight. Inland waterways are also very popular – especially the Thames, Norfolk Broads and Northern Lakes and Lochs. There is an estimate of some 250,000 floating berths throughout the country with possibly as many as 50,000 true marina berths. In the UK, the key boating season is from early April through to the end of October. However, more and more UK boat owners are choosing to keep their boats abroad in the Mediterranean where they enjoy a better climate and longer boating season. Low cost air travel and the removal of EU barriers has boosted this trend. Certainly marina berth availability in both the UK and the Mediterranean could hinder expansion in the sector.

The Industry is highly integrated with a plethora of marine equipment suppliers and manufacturers providing a feed to the key boat builders within the UK sector. Some of these manufacturers are world class and provide a significant proportion of their production to the export market. Companies here include Raymarine, Lewmar and Spinlock. The BMF has recently completed a supply chain analysis which shows a concentration of suppliers in an ellipse spanning Cornwall to the Wash.

UK boat building is dominated by four key power boat builders – namely, Fairline, Princess Yachts, Sunseeker and Sealine. Aggregate turnover of these four businesses is approaching £400 million. Unfortunately, sailboat production in the UK is limited to just a few yards. However, some (notably in the luxury yacht sector) are particularly successful and these yards include Pendennis and Oyster Yachts who have a worldwide quality reputation.

Implications For Other Sectors

The Marine Leisure boat building sector involves an interesting mix of technology, sport, leisure pursuits, tourism and fashion. It is certainly vertically integrated into the overall UK marine industry with a reliant supplier base feeding the major UK boat builders. Some of these suppliers are world class in some areas - like Raymarine, who manufacture a range of marine electronics and Lewmar, who manufacture a range of deck hardware.

Industry figures point to the fact that there are probably an equivalent number of sub-contractors involved within the industry, especially when you consider the material make-up of a modern production boat. There are many items such as entertainment equipment, fabrics, soft furnishings, kitchen appliances and fittings, engines, bathroom equipment, generators etc., which may not be considered to be part of marine industry turnover but yet form a vital part of the boats value.

Perhaps, more importantly, boating generates a large tourist industry. Housing certainly benefits from a marina development and local communities (which can often be rural) benefit from the impact of boating activity in their neighbourhood. Key regions for boating in the UK are the South and South West with Wales becoming an up and coming area despite the hostile waters of the Bristol Channel. The East Coast of England also remains a popular area and also supports several successful sailboat builders like Oyster Marine and some smaller powerboat builders such as Broom and Birchwood. Consequently, there are enormous regional benefits for sustaining a buoyant marine industry both in terms of supporting local manufacturing activity as well as tourism and other industries.

Industry spokes people complain bitterly of the lack of marina berths impacting on the development of the marine industry. Certainly most marinas seem full to capacity and most owners of a modern yacht would choose to keep it on a marina berth for security and peace of mind rather than a swinging mooring. There are also a lack of Inland Waterway berths which limits growth in the “narrow boat” building market which is currently showing substantial growth. Environmental and planning issues have caused concerns within the industry and this is certainly something that we should consider.

The Marine Leisure Industry also impacts on the commercial and naval ship building sectors. In our opinion, there is cross fertilisation between both sectors but certainly the Naval Shipbuilding Programme and the Ministry of Defence benefit from innovation and technological advances within the leisure sector – leading to cost reductions.

Background to Italian Boat Building Industry

The latest figures from ICOMIA (International Council Of Marine Industry Associations) confirm that Italy now ranks as the second largest pleasure boat builder behind the USA and ahead of the rest of Europe. Figures for 2001, showed total pleasure craft production reaching EUR1.388 billion. This is helped by a strong superyacht (generally considered to be boats over 30m LOA) building industry and two key boat building groups, which form the basis of this report. Azimut-Benetti has grown steadily to become one of a handful of imminently powerful European boat building operations. Comprising Azimut, Bennetti and Gobbi, it is estimated that the group directly employs 1300 people but as a substantial amount of labour is sub-contracted, the real total is probably in excess of 2,000. Arch rival, Ferretti, has also transformed itself over recent years into a truly multi-national boat building force. It went public a few years ago and has since used its market generated capital to fund several other yard acquisitions in Italy and abroad. Since then it has returned to semi private ownership. Brands in the group include Riva, Pershing, , CRN, Mochi Craft, Bertram (USA) and Apremare. The group have also acquired a shipyard in Miami, Florida to allow for the worldwide nature of super yacht building and repair.

Other Italian boat builders include Cranchi, Baglietto, Sessa Marine, Cantiere del Mardo, Fipa Italiana, Canados, C & L, Dalla Pietra Yachts and Tecnomar. They are supported by a strong marine equipment manufacturing industry located near to the key production yards.

Italy has a coastline of around 8,000 kilometres and a boat park estimated at 840,000 compared to around 500,000 in the UK. Of that figure, 8% are registered pleasure boats, 42% un-registered pleasure boats and around 50% dinghies, canoes, kayaks and wind boards. Power vessels surpass sail in Italy. Italy, like France and Spain, is also a popular destination for UK owners to keep their boat and UK flagged vessels are not subject to the same stringent regulations that are extended to Italian flag vessels. Driver's licences for both motor boats and sail boats are required and mandatory for craft with engines above 30KW (effectively larger than around 8 metres). There are also complex operating limitations depending on length of vessel and chosen navigation area.

Overview of Azimut-Benetti



With a forecast turnover of some EUR400 million for 2003 and an impressive 29% average growth over the past 7 years, Azimut-Benetti could take the prize as the leading European boat builder. Like UK boat builders, Azimut have a model range spanning some 39 through to 116 feet, the most popular (in terms of production volume) vessels being between 15 and 18m. Interestingly, this is about the limit that an owner operator could manage without the need for professional crew. In the UK, we judge the super yacht sector to start at around 30 metres.

Final figures for the previous year (2002) showed a consolidated group turnover of EUR354 million, which represented a growth of 30% on the previous year. This is an impressive result considering the scale of operations and also the problematic year influenced by the US economy sliding into recession and the September 11th terrorist attacks. This substantial growth has also allowed the group to invest EUR105 million over the past 6 years on expansion, acquisition and modernisation – not to mention a recent diversification into marina development with their 900 berth Marina Varazae. Clearly, the group have realised that marina berths may be a key sales factor for the future and have invested in securing availability.

Azimut is still privately owned with just four principal shareholders – one financial Institution, the San Paolo IMI Bank in Turin and three hands-on individuals that are committed to the company’s long term growth. Company President and Founder Paolo Vitelli is the major shareholder. Main Board Directors are Massimo Parotti who manages the Azimut division and Vincenzo Poerio who is Director of the Benetti division. Like the UK sector, they plan to build fewer smaller vessels and an increased number of larger vessels. Whilst total output numbers may be down, there is still anticipated growth for the future.

Azimut-Benetti sell their production through a group of 40 worldwide dealers. Approximately 60% of all export orders come from within Europe and 35% of export orders come from North and South America. The remaining 5% come from South East Asia, the Middle East, Australia and Pacific rim countries. Approximately two years ago, the Group acquired Gobbi, who build smaller vessels in the range of 6.6 metres to 15 metres. These open style vessels are ideal for the Mediterranean climate and this design is already being incorporated into the Azimut range within a range of new vessels - for example, the Azimut 68S which made its debut at the 2003 Genoa International Boat Show.

UK boat builders have also embraced this style as it has proved popular in the market place – eg: Princess V series

The Benetti element of the group concentrates on the super yacht sector and offers 3 composite displacement motor yachts in the range 31.8 metres through to 45 metres. Whilst no super yacht can be considered a production vessel these are “off the shelf “ designs with an attractive price ticket. Current production is just under 10 vessels per year. At the custom end of the spectrum, Benetti deliver an average of 2 steel-aluminium displacement 50m+ motor yachts per year. This makes them the biggest builder of yachts over 24 metres in the world.

In Italy, the group currently has 8 plants and 2 service centres. The table below shows the breakdown in terms of capacity and the style of boats that are manufactured.

Town	Models Produced
Avigliana	39-68ft – 270 models yr
Savona	Final fit out and test – in water berths for up to 12 vessels
New Viareggio Centre	70-115 ft vessels – 35/yr. Painting centre for yachts up to 200ft
Viareggio	Superyacht Build Centre– producing approx 12 vessels/annum
Fano	GRP moulding yard for large vessels 100-145ft

The main Azimut yard is based in Avigliana and there are a total of 2 plants based here. Avigliana is 30 minutes West from Turin. This site measures some 100,000 sq m of which some 30,000 sq m is covered. It employs some 320 people, with 250 being involved in production and approximately 70 in administration and design. This site currently builds the intermediate models – namely the Azimut 55, 62 and 68. It outputs approximately 85 boats per year and there are plans to add a further 16,000 sq m of production space which will accommodate the new Azimut S models. Expected production for this new series is predicted to top over 100 units per year.

Also in Avigliana is the Mareshi site, which is approximately 1 kilometre away and concentrates on the smaller models – namely the Azimut 39, 42, 46 and 50. It employs around 225 people and builds around 150 boats per year.

All boats are delivered to a quayside inspection and service facility at the port of Savona, which is approximately 1.5hrs SE of Avigliana and 30 minutes west of Genoa. All production is taken there for final sea trials.

In Viareggio there are 3 company sites. Here the larger Azimut vessels (74, 98, 100 Jumbo and the new 116) are produced. Hulls are fabricated by local sub-contractors off site and the total production of these models reaches about 35 boats per year. This is expected to increase to 40 units per year when the new 86S and 105S (open models) are included in the production mix. This site also serves as the production facility for Benetti's composite super yachts. Benetti also has a facility in Fano on Italy's East coast. This provides Benetti with the 30.8 metre, 35 metre and 45 metre composite hulls for their production super yachts. The Adriatic – and in particular Croatia, is becoming a chosen cruising ground for the superyacht market.

The recently acquired Gobbi brand have their plant in Sariano near Piacenza. This employs some 200 people and produces around 200 boats per year.

The group have clearly embraced modern production technology. In Avigliana, there is 125 metre long moulding hall which supports a robotic gel coat spraying system. The mould for the vessel remains in a fixed location with the robot attached to a rigid gantry system allowing it to move overhead the mould. For each model, the robot is taught the production by a skilled operator so that it can then run overnight and outside normal shifts so as to reduce the impact of styrene fumes on the main production line.

Styrene emissions are likely to be a huge regulatory burden for the European Boat Building industry as a whole and Azimut are already working with a low styrene emission vinylester resin together with a orthophthalic/DCPD resin blend for subsequent layers. This may reduce styrene emission by some 15%. At the main yard with its 85 boat per year output, there are two production shifts running from 6.00am – 2.00pm and 2.00pm – 10.00pm. Gross pay on the shop floor is estimated at between euros EUR18-19 per hour for production staff. All moulding areas are kept to a constant 18C inside so as to guarantee quality. Additional productivity improvements have been made by the use of automated mixing equipment and pre-heating resin and gel coats.

Glass cloth is cut using a CNC machine, which means that pre-cut kits can be manufactured for every single lamination aboard a boat.

This move, from which was traditionally a manual process and highly labour intensive to a sophisticated manufacturing program, has allowed a much better quality product. Azimut now boast that the average Azimut 68 hull (weighing around 7,000kg) is now only getting variations on that weight within 15kg.

Azimut also boast an impressive track record with regard to training. Every lamination operator gets a minimum 100 hours training before they are allowed to join any production team.

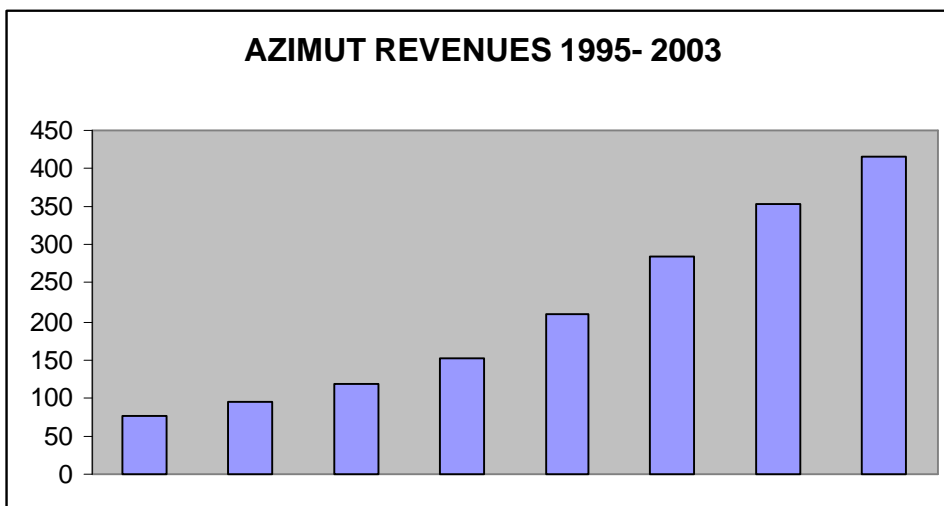
Azimut’s location allows them to easily out source many of their non-moulding operations. Turin is well known for its metal working industries which allows stainless steel work aboard the vessels to easily be fabricated. At the main Avigliana yard there are 24 fit out bays which work on a one shift pattern from 8.00am – 5.00pm. Internal furniture is supplied from 1-3 principal outside sub-contractors. Parts and components route their way into the final assembly line from a 4,000 sq m warehouse which typically holds stock of EUR 5-6m. This is an automated facility with a parts tracker and automatic forklift.

The next few pages show some key figures for Azimut, which have been taken from industry News Releases, Italian Financials and their own Press information.

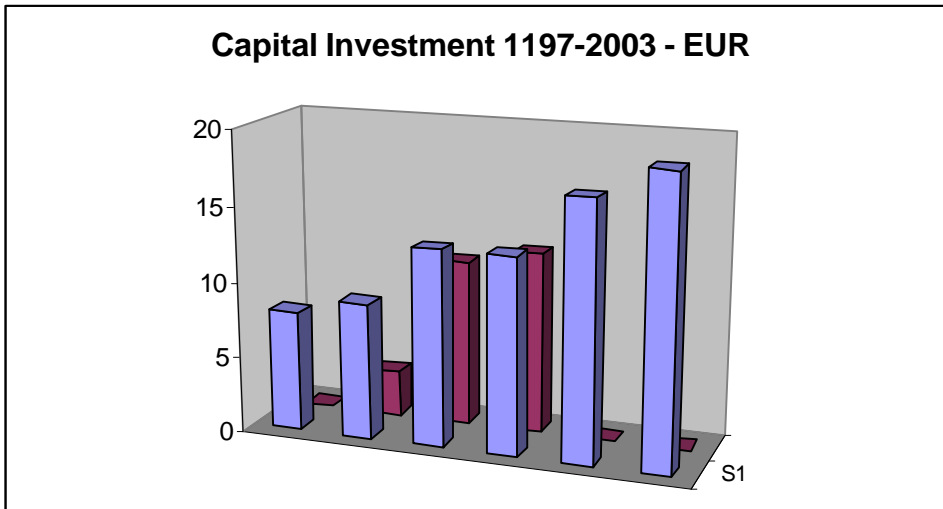
Azimut-Bennetti Key Performance Indicators

Azimut Production Facilities

AVIGLIANA	120000 m2
SAVONA	4800 m2
VIAREGGIO	7200 m2
NEW VIAREGGIO CENTRE	57400 m2
FANO	62000 m2
Total production Space	251400 m2



Note amounts shown in EUR



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Leading series shows capital spend, rear series shows acquisitions. Total approx EUR110m in 6 years

Production Cycle

Figures for 2003, are shown for each model:

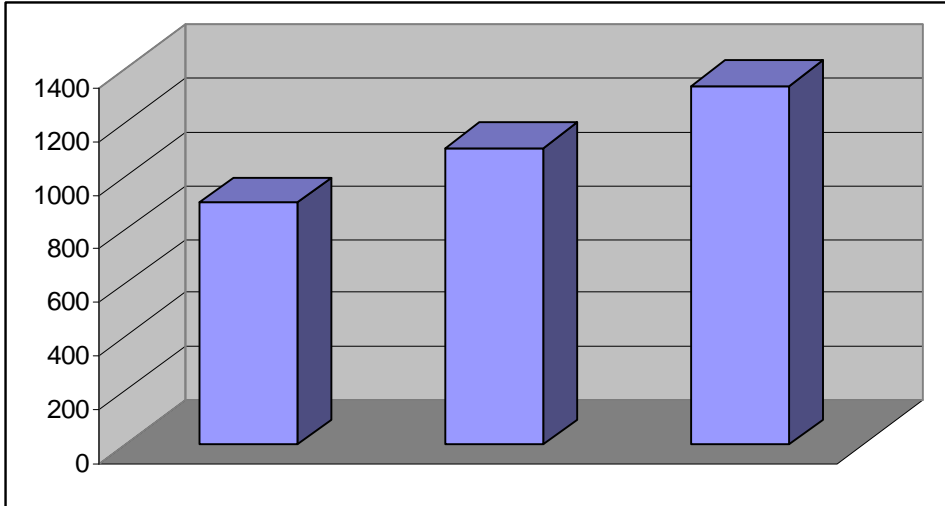
Model	Units/Yr	Retail Price/EUR ex vat
39	35	285000
42	35	260000
46	35	500000
50	50	650000
55	40	900000
62	25	1300000
68	18	1775000
74	12	2200000
80	9	2725000
85	5	3000000
98	5	5000000
100	4	5000000
116	1	N/A
68s (new)	N/A	N/A

Export Revenues

Like the UK sector, AB enjoy a healthy export order book. 5% is currently exported to Middle East/Far East, 38% to N America and the remaining 67% within Europe

Employees

The graph below shows direct employees for the period 2000-2003 – showing a healthy growth of about 50% over the past 3 year period. Industry reckons on approximately the same number of sub contractors being directly employed.



Ferretti Group

Headquartered in Cattolica, has taken a different approach to Azimut-Benetti with an aggressive period of expansion through acquisition. Approximately 3 years ago, the group went public and used funds to embark on a series of acquisitions. However, at the end of 2002, the group went back to private ownership with the purchase of 90% of the shares by Impe Lux and Coci.

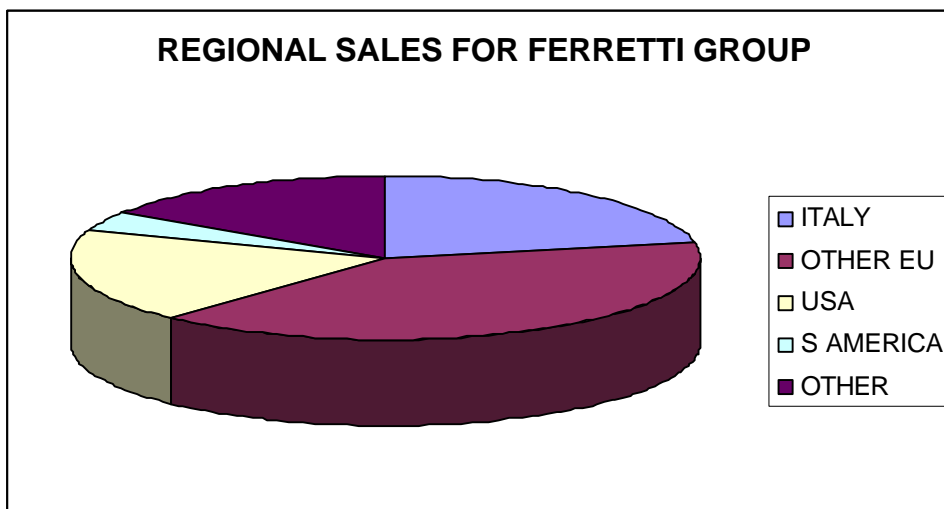
The group now has the following key brands:

Ferretti	Flybridge motoryachts 13-24m
Pershing	Fast performance open cruisers 11 to 27m
Apremare	Traditional design vessels with unique appeal 7-16m
Mochi Craft	New models for 2003 with open and flybridge models up to 24m
Bertram	Sports fishing boats, US based 11 to 22m
Riva	Flybridge and open motor boats 10-26m
Custom Line	Maxi Yacht 28-40m production super yachts
CRN	Mega yachts – steel construction 30-65m

We have been able to obtain analysts presentations from the initial public offering back in 2000 which gives an idea of their manufacturing & marketing strategy. Despite the recent return to private ownership, these core values probably still remain and they will be implemented within the recently acquired companies such as Apremare.

Key financials for 2002 show sales of EUR333m with EBITDA of EUR 68.86m and a net income before tax of EUR46.3m – approx 13.9% to sales and a factor of nearly 3 times the best of class in the UK

Regional sales break down as follows:



With EUR73m of home market sales, this is clearly a national brand. These home market sales are not enjoyed by our domestic producers which may be related to climate, location and availability of berths

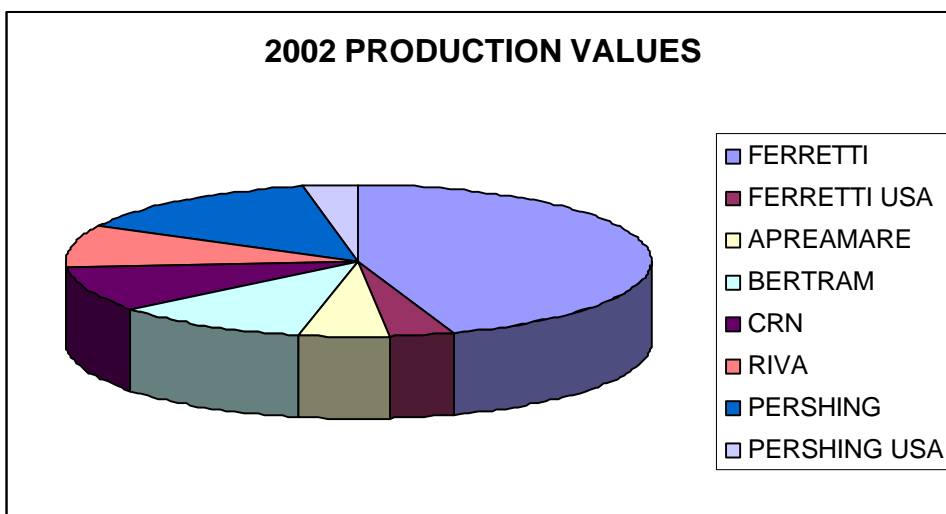
Figures in the 2002 accounts show capital expenditure of EUR41.5m.

In terms of cost, Ferretti Group declare some EUR172m of gross margin, equating to 51%. Bought in services which probably related mainly to sub contractors and sub contracted supplies amount to EUR92m which gives an operating margin of EUR 80m.

EUR31m is attributable to wages with a further EUR11.9m of social costs (nearly 40% of wage costs). Hence the relatively small wage bill where Ferretti are clearly choosig to utilise sub contractors.

All figures are included in the 2002 Annual Report which is attached

Figures in the 2002 accounts show the following break down of revenues between brands:



Interestingly, sales and product value do not always match – the biggest difference relating to CRN who have clearly either built a boat for stock or speculatively which is uncommon in the superyacht industry. Detail of this is in the attached accounts.

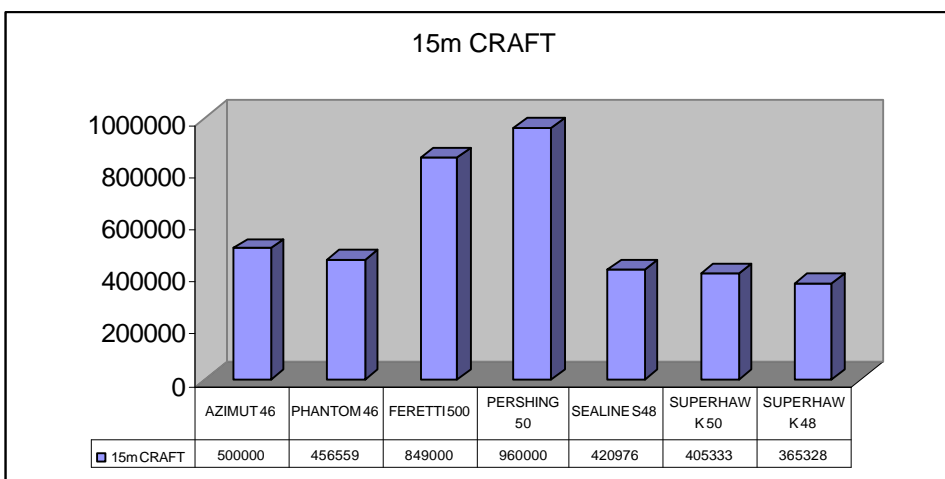
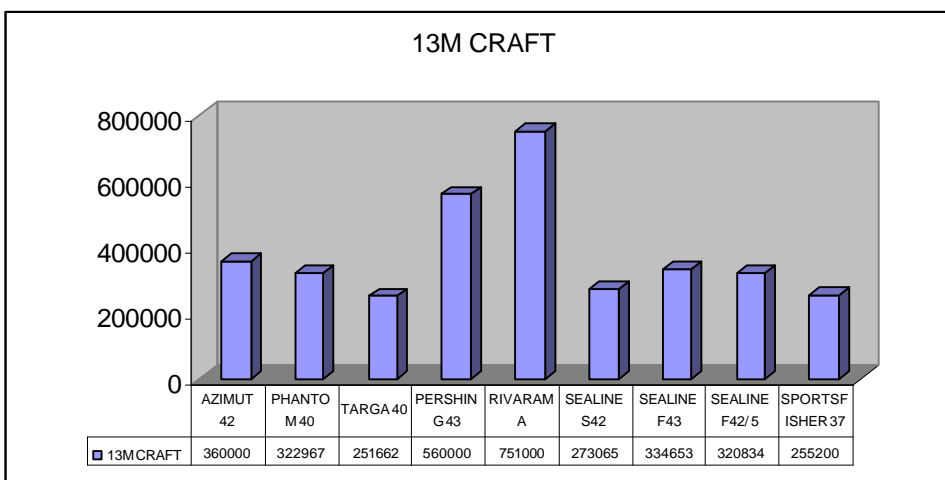
The next pages take a look at model pricing across a variety of UK & Italian brands.

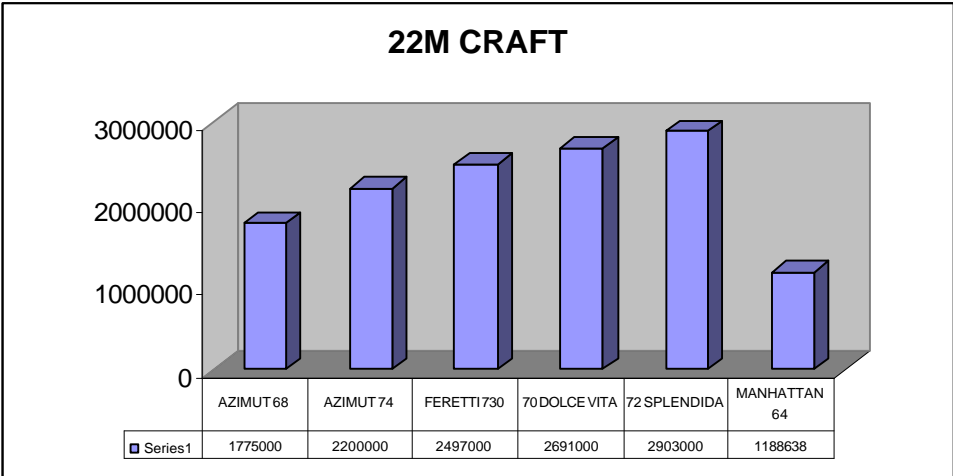
Pricing Comparisons

Taking manufacturer's list prices across a range of craft in the 13-22m sector produced the following results. Prices based in £ have been converted into EUR at an exchange rate of 1.45. This traditionally has always been much higher making the UK offering more expensive for EURO denominated transactions. Note these are list prices and no attempt was made to find out if additional discounts or savings were available. Key findings are:

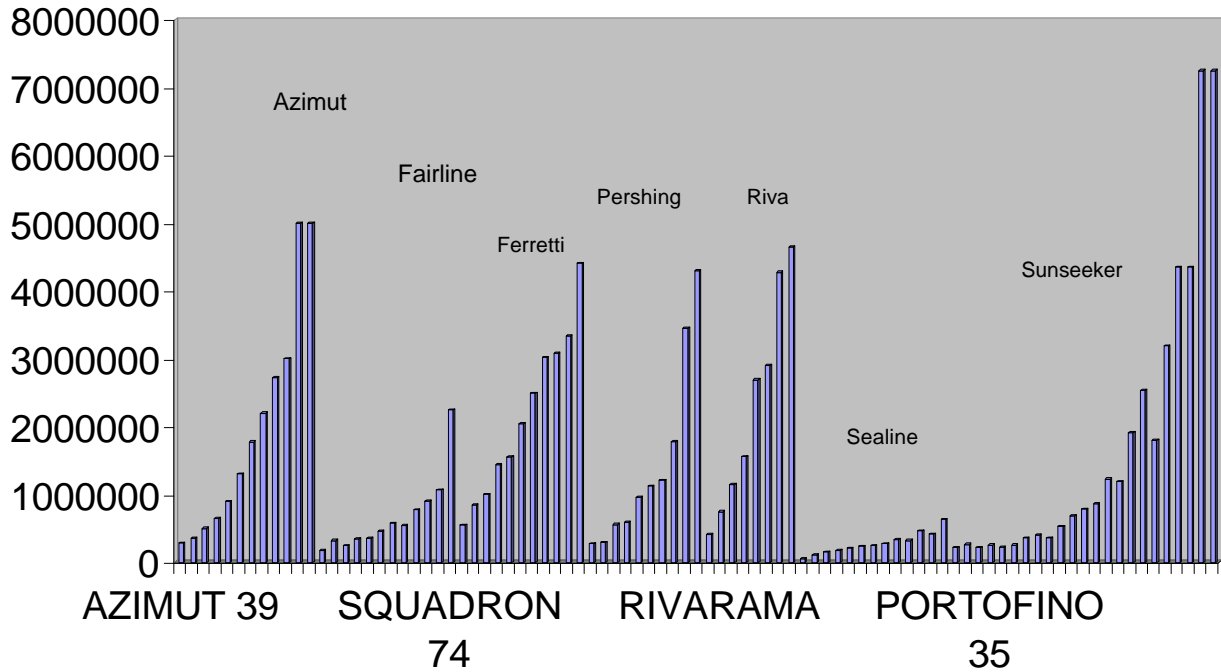
- Riva, Pershing and Ferretti brands carry a price premium
- UK manufacturers offer good value for money compared with Italian manufacturers but overall earnings are substantially less than Italian counterparts
- As craft become larger, the differences in pricing structure are more limited
- UK producers may have buoyant times ahead thanks to new euro strength
- No account is taken for options or extras included with base purchase
- Some pricing is distorted due to model introductions and discontinued stock

This is clearly an area for discussion





POWER BOAT MODEL COMPARISON



The above charts shows models available with pricing from Azimut, Fairline, Ferretti, Pershing, Riva, Sealine & Sunseeker – as a group. We could not obtain prices for the larger models in the Azimut & Pershing range so we have omitted them although they will be similar to the Sunseeker offering. It shows the very competitive levels of pricing across all brands that exists.