Global leisure boating market report 2009

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Global Market overview

Even billionaires with Super Yachts have had to tighten the purse strings in 2009, so it's not surprising that pleasure boat industry has been suffering across the world as it starts to emerge from the worst downturn in business it has ever experienced. Essentially driven by consumers discretionary spending power, leisure boating is always affected by economic downturns and the global financial crisis we are experiencing is the worst since the depression of the early 1930's.

For over a decade the important middle size power and sailing boat market of 13 to 24 meters and the Superyacht sector have been driven by the high bonuses in the banking and finance sectors and growing profits generated by small and medium size businesses. This convinced the bankers and business owners that they could fulfill their dreams of boat ownership despite the substantial purchase and running costs involved. The near collapse of the banking system in the western world and the subsequent drop in business confidence has changed all that as the industry wrestles with a downturn in business in most boat manufacturing sectors of up to 50% as customers have shied away from spending on expensive luxuries. The prudent boat manufacturers and dealers saw the market decline coming and started to scale back production in early 2008, even so the speed and depth of the market down turn has caught out many companies especially those in the high volume sector. Some boat builders have been discounting heavily in an effort to survive, with figures of up to 40% having been reported on medium sized power boats, a factor that has further undermined the market.

An additional factor for the industry, not evident in previous recessions is that all boating markets across the world are being affected to varying degrees by the downturn, as our regional market comments later in this report make clear. This means that cushioning of any global downturn by some markets being stronger than others is not taking place. An additional negative factor is the attitude of banks across the globe, especially in the USA to avoiding marine industry risk as evidenced by the short notice withdrawal of new boat dealer stock finance facilities.

2009 will be a year that the industry would like to forget. From September 2008 the global marine market had been caught in the maelstrom of the world economic crisis. By late 2008 year the downturn was evident and that the market growth of the past 10 years would halt was widely recognized. But few anticipated that growth would not only stop but would also result in a massive drop in business reaching the 50% downturn level and more, depending on the market sector. However, as we pass the end of 2009 there are an increasing number of positive signs that the industry may have started to bottom out this year, these include:

- Dealer stocks are starting to run at a low level, reducing the number of stock clearances at 'fire sale' prices and increasing demand from manufacturers.
- The world's largest marine industry group Brunswick based in the USA and publicly traded on the Wall Street stock exchange has recovered its stock value considerably, up six times in November over its November 2008 low. At the retail

end of the business US boat dealer group Marine Max, one of the largest in the country also recorded a similar recovery in its stock value.

- Marine Trade associations are reporting that new boat registrations are holding up marginally better than what was anticipated at the start of 2009.

Boat shows

Boat Shows that have occurred in 2009 have shown a universal trend of reduced public attendance of up to 15%. Although this can cited as being a knock on effect of the global down turn, boating exhibitions have been showing a long term decline for the past decade although this has not seemed to affect boat sales until the current recession loomed. While this may be due to a mixture of factors, such as an increasing number of shows, high attendance charges and competition from the internet, another more worrying reason could be that interest in boating and water sports is on the decline and the industry is heading, at best for a natural plateau in the more developed boating markets.

Global market summary and the future

With increasing signs of worldwide economic recovery, particularly in the less indebted Asian economies and some signs of recovery in the global boating markets, there is increasing optimism that the industry is about to enter a more positive period for sales. With industry cycles historically lagging some 12 months behind the global economy, a firm upturn for the industry in my opinion will only be felt in 201, with 2010 being another year of restructuring and at best marginal sales increases over 2009.

As the industry emerges from the storm of recession it will be a vastly different one from the boom years of 2006/2007 the likes of which will not be repeated in the foreseeable future. The cost cutting, plant closures and redundancies that have taken place will result in an extremely lean and efficient industry – for those that have survived. The demand for efficiencies in manufacturing will drive an increase in out sourcing of not only equipment and components but complete boats to lower cost countries mainly in Asia. This will also be matched by the need to find new consumers for boating, again these will be mostly in Asia with emerging markets such as India, Korea, Vietnam and some of the Gulf countries such as Bahrain, Qatar and Oman coming on stream to take up the slack from the more developed western boating countries which are approaching market saturation.

Consumer demands will be different too as the flamboyant tendencies to display wealth are curbed and environmental issues become much more important. For boat builders and designers this means more practical and fuel efficient designs will be required and manufacturing will have to adapt to lower volumes but higher customer demands in terms of delivery time and customization.

Regional market reports

United States

Worldwide up to date statistics on boat and equipment production are difficult to ascertain as they are usually reported annually by Marine Industry Associations (MIA's) and are subject to a lag of some 12/18 months. The most reliable statistical indicators for the United States are from the National Marine Manufacturer Association (NMMA). The latest data for November 2009 is contained in the NMMA's '2008 US Recreational Boat Registrations Statistics report 'which showed that the number of registered boats in the US fell by 1.4% in 2008 from 13 million in 2007 to 12.8 million in 2008, new registrations were 270,555 boats with over 400,000 boats not re registered, some of these might be stored by owners waiting for better times. The world's largest boat manufacturer Brunswick, based in the US, has cut production levels considerably and closed some 13 of its manufacturing plants although, as mentioned in the global overview section of this report, the Brunswick stock price has increased considerably in the last few months.

At the end of 2008 the US boating industry was in a state of shock at the severity and speed of the downturn in sales, most reports were of year to date sales down by over 50 %. The most worrying aspect for dealers and manufacturers at the end of 2008 was the immediate removal of dealer finance plans for new unsold stock boats in dealer hands. This was removed on 30 days repayment notice across the industry. The impact of this was that some dealers defaulted and there was a massive discounting of stock boats in the system as dealers rushed to reduce their financial exposure. Now at the end of 2009 dealers have much lower stock levels and with faint signs of a recovery in sales manufacturers will see an immediate upturn in demand when consumers order.

Europe

Most European marine industry boat and equipment manufacturers started to experience weakening markets in early 2007 which quickly resulted in the failure of some large boat dealers who were ill financed or over stocked. The largest failure was B A Peters in the UK who were the largest UK boat dealer with a turnover just under 100 million pounds. The trend gained momentum in 2008 and 2009 with many boat builders going out of business or cutting production levels considerably. This has been particularly felt in the small boat sector under 12 meters in length and in the northern European markets of Norway, Sweden and Finland which have large small boat markets and many manufacturers in this sector.

The main boat manufacturers in Europe such as the Azimut and Ferretti Groups from Italy, Beneteau Group from France, and the UK based powerboat builders, Fairline, Princess and Sunseeker have all cut back production and investment plans to varying degrees and are also actively seeking new markets, mainly in Asia. These companies are large with turnovers between 200 to 800 million US$, generally profitable and were seen (In 2007) to be well financed. A brief report on the status of these large European based boat builders is as follows:

Azimut

Along with Benteteau from France, Brunswick from the USA and its fellow Italian boat manufacturer Ferretti, Azimut ranks as one the world top four boat manufacturing groups. Azimut has developed efficient manufacturing systems and has a strong global dealer network, especially in the new markets of the Gulf States and Asia. With most of the equity being privately owned it is seen as well placed to withstand this global downturn. Some Azimut dealers have been discounting heavily indicating that there are considerable boats available as manufacturer and dealer stock.

Ferretti Group

The Ferretti Group comprises nine different boat brands having expanded considerably in the last decade. In 2008 Ferretti had heavy private equity funding and long term debt liabilities of Euro's 1.1 billion. In late 2009 CEO Norberto Ferretti managed to reach approval with the main lenders Royal Bank of Scotland and former private equity shareholders Candover and Permira to restructure the loans and the shareholding with Norberto Ferretti now owning 38.5% of the shareholding and together with Mediobanca SpA all of the Groups voting rights. Despite managing to stave of placing the Group in Administration the business reputation has been damaged in the industry and speculation abounds that some of 'the crown jewels' in terms of the flagship brands, such as Riva, may have to be sold for the Group to stay afloat. According to key Ferretti dealers there are no stock boats available.

Beneteaux

French boat building giant Beneteaux produces small and medium size power and sail boats and an extensive global distribution network. Sales have dropped by 42% for the year August 2008 to August 2009, a small improvement on the 45 % drop forecast with sales of sailing yachts down 44% and motorboats 38.2%. Beneteaux expects the market downturn to extend into 2010 before any recovery.

Fairline

Fairline produces a range of power boats from 12 to 24 meters in length and has been established 40 years with a strong reputation and brand name for well detailed quality boats that perform well on the water. Fairline was subject to a management buyout some 6 years ago and a key investor is the 3i fund. Fairline is well managed and reacted quickly to the market downturn in 2008 and has cut production capacity by about 40% in order to match supply to demand and has few cancelled or stock boats in its inventory. Fairline has a product range that is limited to 24 meters because of the inland factory site, with the market trend to larger boats they have been looking at an additional waterside facility but this is on hold in the present market conditions. Fairline is concentrating on new markets in Asia having set up a regional office in Singapore.

Princess

Princess produces and range of power boats from 12 to 27 meters plus in length with plans to go larger. Having a waterside factory location in Plymouth Princess is able to extend its product range without road transport problems. Like Fairline Princess reacted quickly to the market downturn by cutting the production capacity and is re deploying resources from its smaller boat range to the larger boats including development of larger designs. Princess has a more traditional and conservative image than Fairline and Sunseeker and is privately owned by a French luxury brand.

Sunseeker

Sunseeker is privately owned by the Braithwaite family and is based in Poole with several waterside manufacturing facilities allowing it extend its size range of boats from 13 meters to over 40 meters and is currently concentrating on development of larger boats. Sunseeker has a more ‘flashy’ brand image than Fairline and Princess and spends larger amounts on brand promotion than its UK competitors. Sunseeker is seen to be withstanding the recession quite well cushioned by its concentration on larger boat models.

The Gulf States

The six Gulf countries have seen strong growth in their boating markets in the past five years and with high revenues from oil have invested in substantial infrastructure projects in all of the countries.

Until recently it was felt that the Gulf was largely immune from the global financial downturn. However, throughout 2009, business confidence had fallen in the UAE Emirate of Dubai and in Kuwait and peaked in late November 2009 with the announcement that Dubai World, the investment group owned by the Dubai Government had requested a deferment of 10 billion US$ bond payment due on December 14th. This announcement created global uncertainty about the financial stability of Dubai that was only partially alleviated when Abu Dhabi the UAE capital Emirate supported Dubai to make the payment on time. Dubai is highly financially leveraged with borrowings estimated at 80 billion US$ to fund the once rapidly growing real estate market. The result of the down turn has been a considerable slow down in leisure boat sales which is also apparent in some other Gulf countries. Kuwait is at the other end of the Gulf from Dubai Kuwait and historically the best market in the Gulf for small boat sales but has had slow sales in 2009.

The over 100 marina developments under construction or planned in the 6 six Gulf countries had made it the most concentrated area of marina development in the world. The viability of many of these projects will be affected in the short term, at least for the next two to three years, the time widely estimated for the real estate markets to recover in the Gulf.

Gulf Craft

The major boat builder in the Gulf is UAE based Gulf Craft who have developed a range of boats from 7 to 40 meters and have a substantial market share in the Gulf and Asia region. Due to low manufacturing costs they are very competitive in the Gulf market and are also able to do a certain amount of custom building of their designs. They are backed by Kuwaiti investors.

Asia

Asian boating markets have gradually recovered from the financial crash of 1997 with business peaking in 2006/7, since then sales have declined in 2008/9 in line with weakening business confidence although the situation is considerably better than in the US and Europe and the boating market is recovering.

China has not yet proved to be the major boat consumer market that many companies had anticipated with the reality that only some 100 leisure boats per year are estimated to have been imported into China in the last three years. Cultural blocks to the acceptance of leisure boating by the population are considerable and the law for owning and operating a leisure boat in China is not transparent.

India is a growing leisure boat market that has shown good potential in the past 5 years with a surge in leisure boat buying in Mumbai and some other areas. The economy is one of the strongest in the world and the last quarter GDP figures as at December 2009 exceeded forecast at +7 % annualized GDP growth. The open culture of modern India is closely aligned with that of the west and the potential for having fun on the water is more readily understood than in markets with a larger cultural gap such as China. Although no full service marinas are yet in place there is considerable interest in growing this aspect of the industry which if successful would lead to a sustained growth in boat sales.

Other key established consumer boating markets in Asia are Thailand, Singapore, Malaysia, Hong Kong and Japan with Hong Kong having proved to be the most consistent market in the long term. New markets are emerging in Asia and the past two years has seen considerable interest in South Korea with leisure boating gaining from considerable Provincial Government support including a funded Korea International Boat Show by Gyeonggi Province and over twenty marina projects planned country wide. Another emerging market is Vietnam where some seven marina projects are planned and leisure boating is just becoming visible on the radar screen.

A major area for industry growth in Asia is the manufacturing of boats and equipment. China is the largest player in the industry leveraging on its low cost of labour and flexible manufacturing skills. Other Asian countries such as Sri Lanka and Vietnam offer good potential for manufacturing with highly reliable and motivated work forces and lower costs than China. South Korea, although not offering low cost labor, is highly efficient in manufacturing with a proven track record in the automobile and electronics industries and may also prove to be a growing force in leisure boat building. As the

Leisure boating industry around the world is forced to restructure and look at more flexible and lower cost manufacturing solutions, out sourcing of boat production is likely to be a growing opportunity in Asia as recovery starts in boating markets in the west.

Asia is recovering much faster from the world wide recession as it is much less indebted than Europe and the US and this in turn will offer the best prospects in the world for long term growth of the marine industry both as consumer market and a manufacturing centre.

Australia

The Australian boating market has been badly affected by the recession and which has reduced consumer demand by well over 50%. The boat manufacturing industry has suffered several failures including Australia's largest Riviera which has been placed in administration.

Conclusion to the 2009 global market report

The next decade for the boating industry will be a challenging one but with opportunities for those companies who can innovate and adapt to the changed market conditions and customer demands. In some cases, start up businesses with new marketing and manufacturing ideas, will have an edge on established and less innovative industry players who will be saddled with downsizing a business unsuitable for the leaner conditions the industry is now experiencing.