

GE Capital  
Commercial Distribution Finance Canada

# *CDF Canada*

## Strategic Marine Industry Review

November 22, 2012



imagination at work



**AMTA**  
ATLANTIC MARINE  
TRADES ASSOCIATION

# Agenda

- ✓ Global Economic Trends
- ✓ Canadian Economic Indicators
- ✓ Canadian Marine Industry
- ✓ Atlantic Marine Industry Update

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# Global Trends

## Impacting Recreational Boating

### Consumer Confidence Index

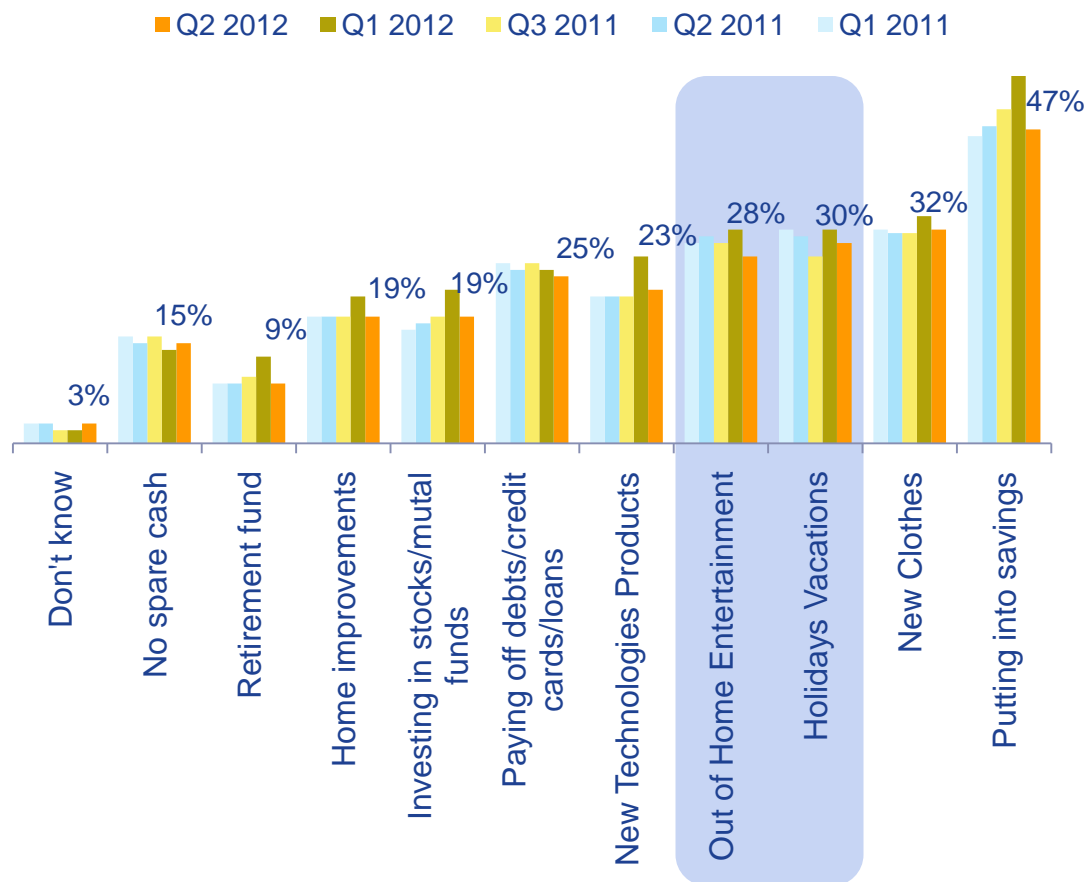
Declines 3 points in Q3 2012 vs. Q3 2011. More than two-thirds of respondents changed spending habits to save on expenses decreasing spending in entertainment & recreation.

### Eurozone Breakup

Decreased profits (total pre-tax profit of all the companies decreased by 32.7% for Q2 2012 in comparison to Q2 2011).

Freezing of financial markets and sudden lack of credit.

### Global Consumer Confidence Index



# Global Trends

## Impacting Recreational Boating

### GDP Growth

Global growth has shifted down a gear, with a loss of momentum affecting both developed and emerging markets.

### US Political Fiscal Cliff

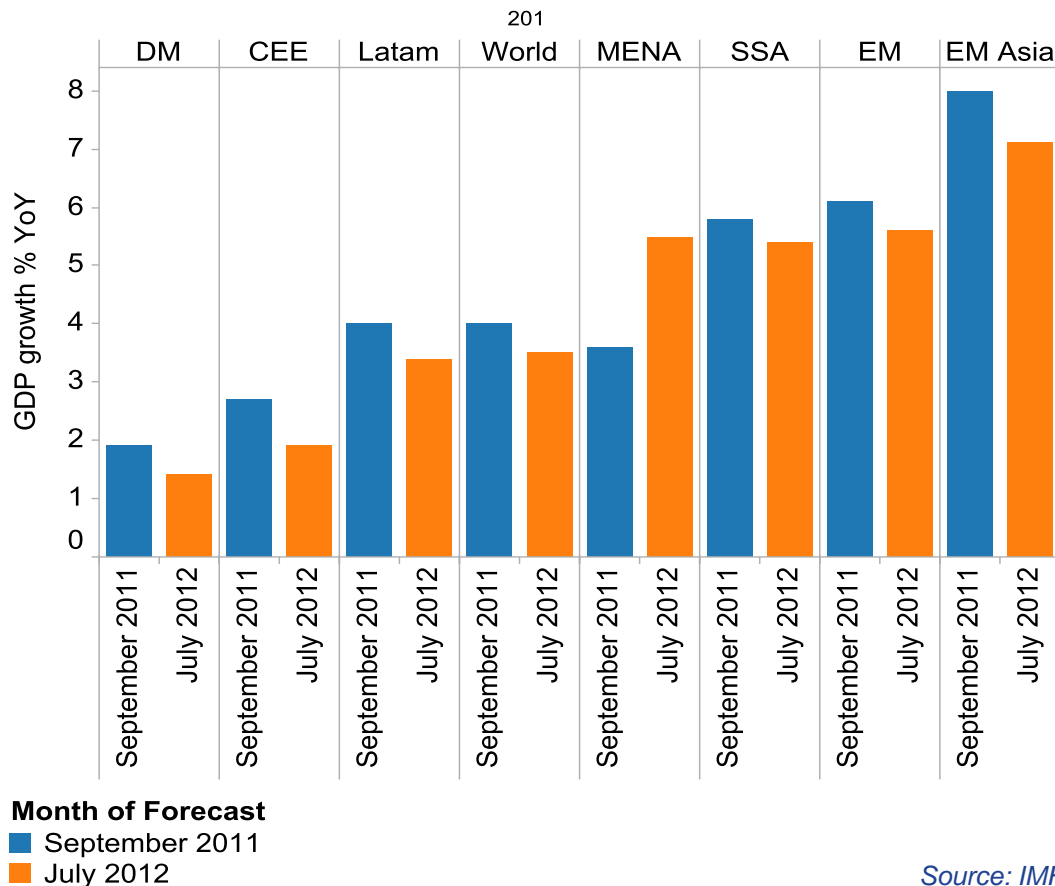
Current fiscal trends in the US are on an unsustainable path:

- Sudden rise in US Treasury yields, with corresponding rise in funding costs for US entities
- Sharp depreciation of the US \$
- Unemployment rate is still above 8%

### China Slowdown

GDP has narrowed from 10% in 2007 to 7% in 2012

### 2012 GDP Growth Forecast



Source: IMF

# Global Trends

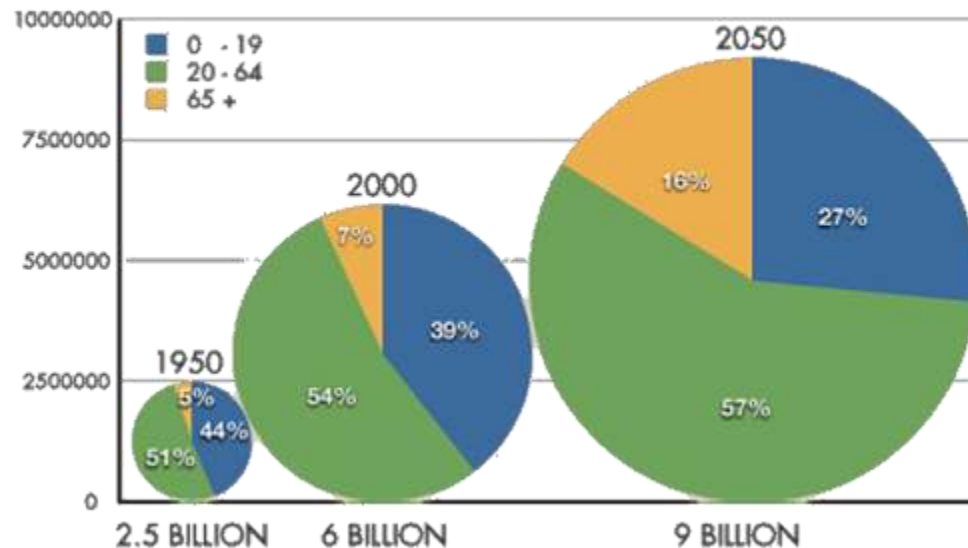
## Impacting Recreational Boating

### Change in Aging Trends

- Growing pressure on health care and pension spending, requiring reform of current programs
- Slowing growth and potential labor shortages in developed countries
- Stronger immigration flows
- Slower labor supply growth and faster wage dynamics in China

The aging population creates shortages in specialized labor in the marine industry. Globally, only 241 higher education establishments offer marine courses

### Population by Age Group



Source: Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat

# Global Recreational Boating

## 2011-2012 Key Facts

### Market Value

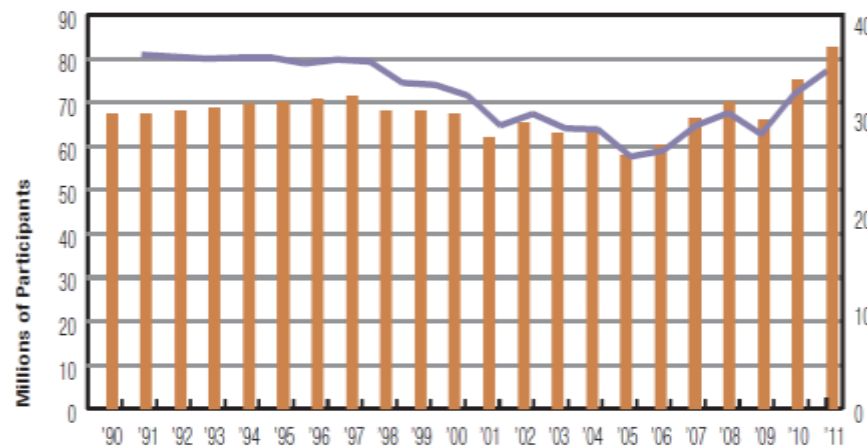
According to the Global Recreational Boating Industry Analysis by Lucintel the value of global recreational boat market shipment was \$20 billion in the year 2011 and is expected to grow to \$27,8 billion by 2015 with a compound annual growth rate of 8,9% over the next five years (2012-2015).

### Boat Building in Europe

According to the Polish boating industry report 2011 it was estimated that there was even as big as 50% decline in production in Poland. In these hard times of crisis many companies were forced to reduce their employment up to 70%. Some companies were even forced to go bankrupt or were sold to the competitors. That happened to i.e. Norwegian Askeladden (bankruptcy, now is rebuilt by the new owner), German Dehler (bought by Hanse Yachts) or French Dufour and Grand Soleil (merged with Bavaria). (Nietupski, 2010).

### North America

North America has continued to be resilient, and OEMs are still showing growth over last year. There were 571,400 new boats sold in 2011 (44,400 in Canada), with a total retail value of \$7.7 billion (\$1,6 billion), an increase of 3.5 percent over 2010. A total of 179,652 powerboats were manufactured in the United States in 2011; 20.5 percent (36,828 boats) were exported to other countries. Canada exported 7,038 (rowboats and outboard boats) in 2011.



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# Positive Economic Trends

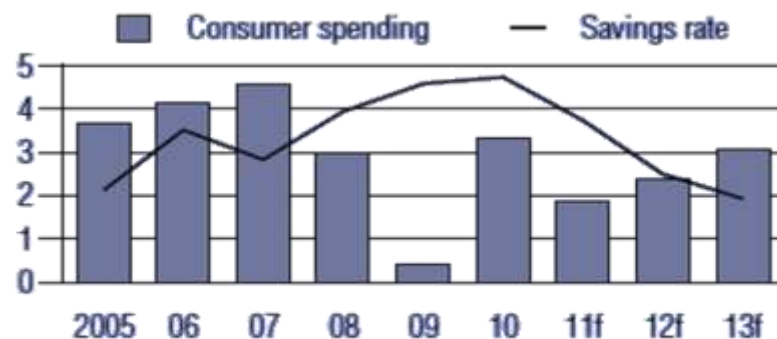
## Increasing Retail Sales

Retail sales—including vehicle sales—continue to strengthen. As consumer confidence improves, it is expected that this will help spur continued growth in household spending. Overall, real consumer spending is expected to gain 2.4% this year, bringing the aggregate household savings rate down from 3.7 in 2011 to 2.5% this year.

## Stable GDP

Real GDP will advance at an average pace of 2.7% from 2012 to 2016. Beyond 2016, economic growth will slow drastically as it realigns with weakening growth in potential output. Slower population growth and the effects of an aging population will restrain labour force growth and heavily influence income and spending patterns.

## Real Consumer Spending vs. Savings



f = forecast

Sources: The Conference Board of Canada; Statistics Canada.

# Risks to Maintain Growth

## Household debt

continues to be a risk, driven by an overheated housing market. Whether a soft or hard landing, the result could be a sharp deleveraging by the consumer

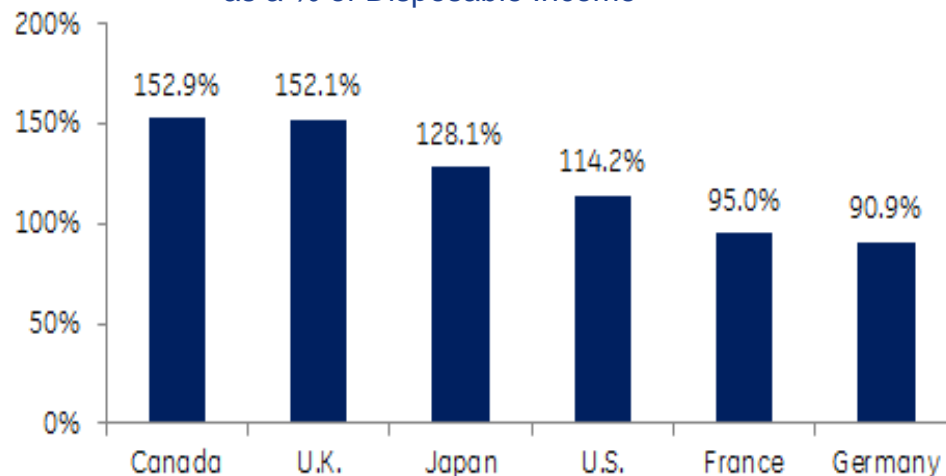
## External Turmoil

Potential risks to Canada's growth prospects that would result in lower demand for Canada's goods exports and likely flight-to-quality purchases of Canada's currency, which would further erode export competitiveness are:

- Hard landing in emerging markets
- A disorderly outturn to sovereign debt issues in Europe
- Or a sharp downturn in US growth.

## Personal Debt

as a % of Disposable Income



Source: GE Market Intelligence Network

# Long-Term Forecast Canada Economic Indicators (4/4)

<b>(Average annual percentage change unless otherwise stated)</b>				
	<b>2001-2005</b>	<b>2006-2010</b>	<b>2011-2015</b>	<b>2016-2020</b>
<b>GDP</b>	2.5	1.2	2.5	2.5
<b>Consumption</b>	3.2	3.1	2.0	2.0
<b>Investment</b>	5.7	1.5	4.2	3.2
<b>Government Consumption</b>	2.6	3.2	1.3	2.2
<b>Exports of Goods and Services</b>	0.5	-2.3	5.3	5.1
<b>Imports of Goods and Services</b>	3.1	2.0	4.8	4.7
<b>Unemployment (%)</b>	7.3	7.0	7.2	6.7
<b>Consumer Prices</b>	2.3	1.7	2.2	2.1
<b>Current Balance (% of GDP)</b>	1.9	-0.7	-2.5	-1.1
<b>Exchange Rate (Trade-Weighted Index)</b>	91.1	111.1	110.5	108.9
<b>General Government Balance (% of GDP)</b>	1.3	0.0	-1.8	-0.2
<b>Short-term Interest Rates (%)</b>	2.8	2.3	2.4	4.1
<b>Long-term Interest Rates (%)</b>	4.8	3.7	3.8	4.8
<b>Working Population</b>	1.4	1.4	0.5	0.1
<b>Labour Supply</b>	1.8	1.4	0.5	0.1
<b>Participation Ratio</b>	67.0	67.2	67.0	67.0
<b>Labour Productivity</b>	0.7	0.1	1.7	2.3

GE Capital Exclusive Fall 2012

# Canadian Mid-Market CFO Survey

# Key learnings

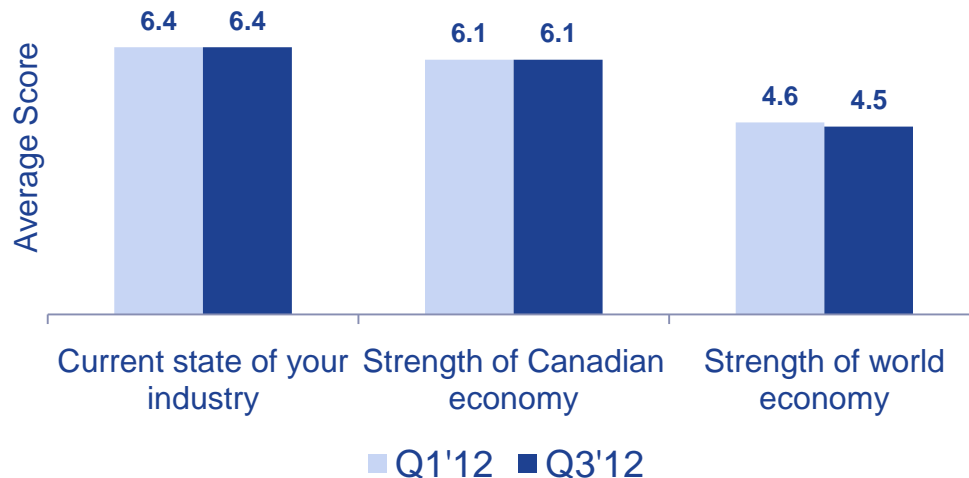
## Current/prospective business environment

- Current sentiment on national economy and industry remain positive
- Bias toward growth over next 12 months
- Top short-term concerns: European fiscal conditions and U.S. economy
- Top business concerns over next 12 months: Labour, energy, material costs

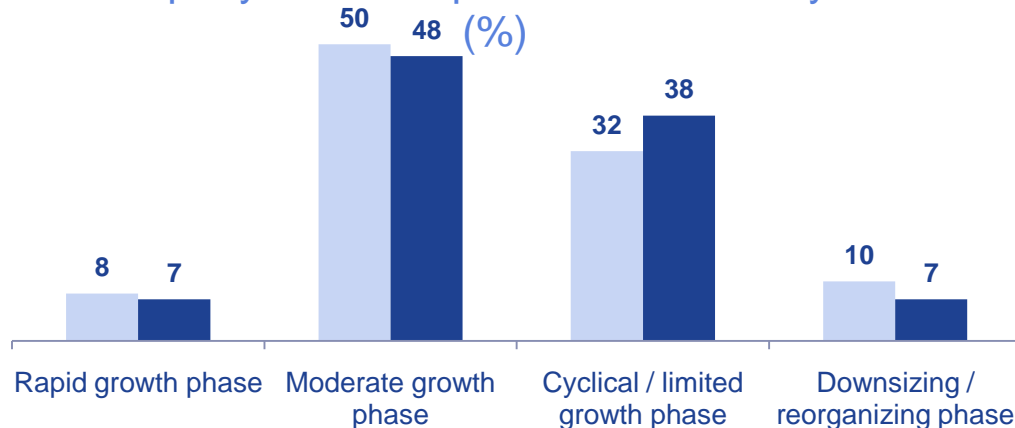
## Company performance outlook

- Majority expect businesses to see moderate growth phase
- Most CFOs expect increasing or stable profits in 2012
- Cost structures expected to increase
- New order pipelines remain the same
- Majority still see revenue growth opportunities
- More than half of CFOs plan to raise prices in 2012

Average rating on a scale of 1 to 10, where 1 is extremely weak and 10 is very strong



Company business phase for next 1-3 years



# Key learnings

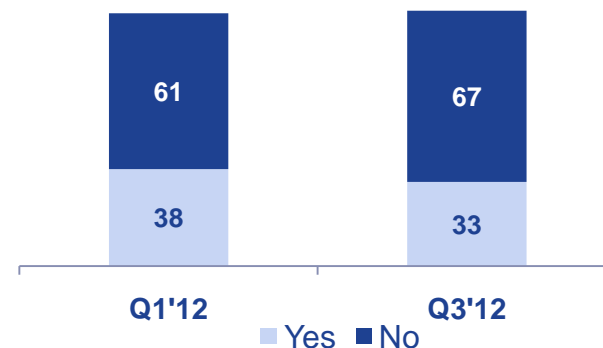
## Capital market conditions & financing needs

- Equipment is target of additional financing plans
- CFOs almost evenly divided on M&A outlook this year
- Financing needs somewhat stable; cost of capital expected to grow
- Credit availability stable

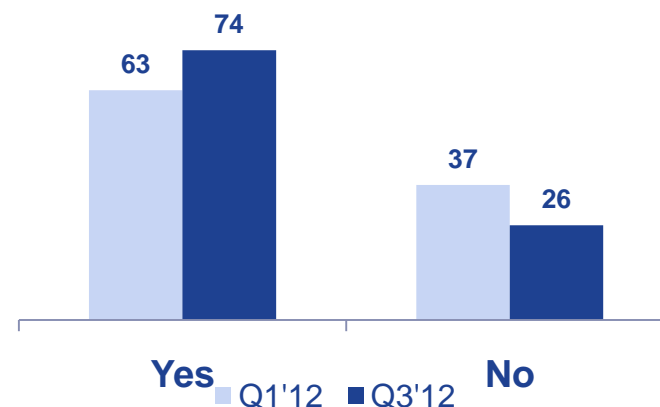
## Key confidence indicators

- Layoffs decreased over past year
- Strong hiring to continue over next 12 months
- Stable plans for capital expenditures

Companies conducting layoffs over past 12 months (%)



Companies that have been hiring this year (%)



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# Recreational Boating Market Profile in Canada



## GDP: TOTAL CONTRIBUTION

Canada's recreational boating had a **\$15 billion** impact on Canada's economy in 2011 - in jobs, sales, travel, repairs, taxes, tourism revenues and consumer spending.



## EMPLOYMENT: DIRECT CONTRIBUTION

373,606 jobs and 10% of Canada's tourist dollars come from recreational boating.



## RETAIL SALES

Sales of new and pre-owned recreational boats and new outboard engines totaled \$2.8 billion.



## RECREATION CONTRIBUTION

It is estimated that 38 percent of Canadian adults went boating at least once during 2011, which translates to 10.5 million boaters. ***50% of Canadian boaters' average household income totals less than \$80,000.***

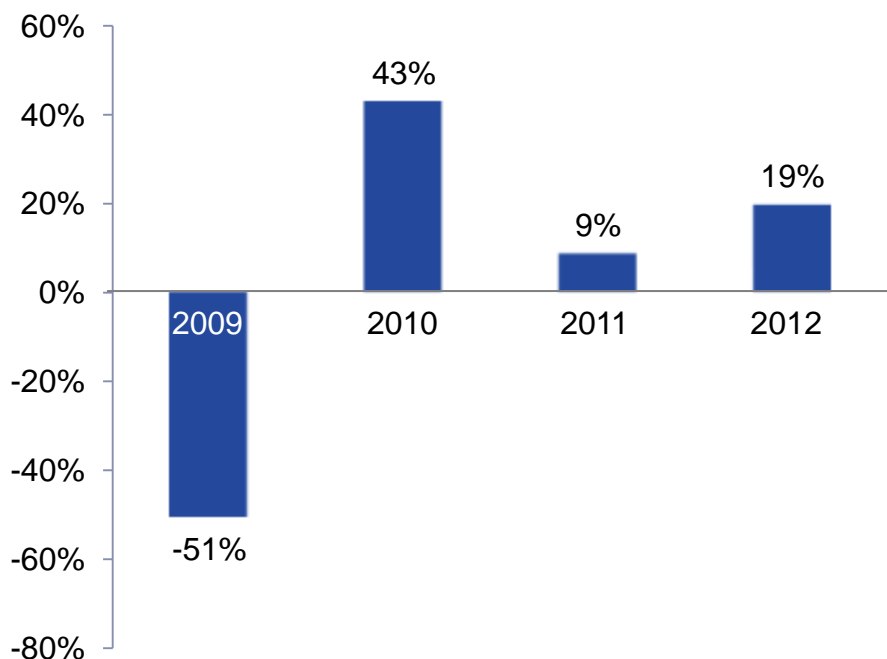




# Canadian Marine Industry

## Wholesale Volume

YOY Volume %Change (YTD @ Sep 30)



## Canadian Wholesale Orders

There has been a positive increase in orders by Canadian marine dealers.

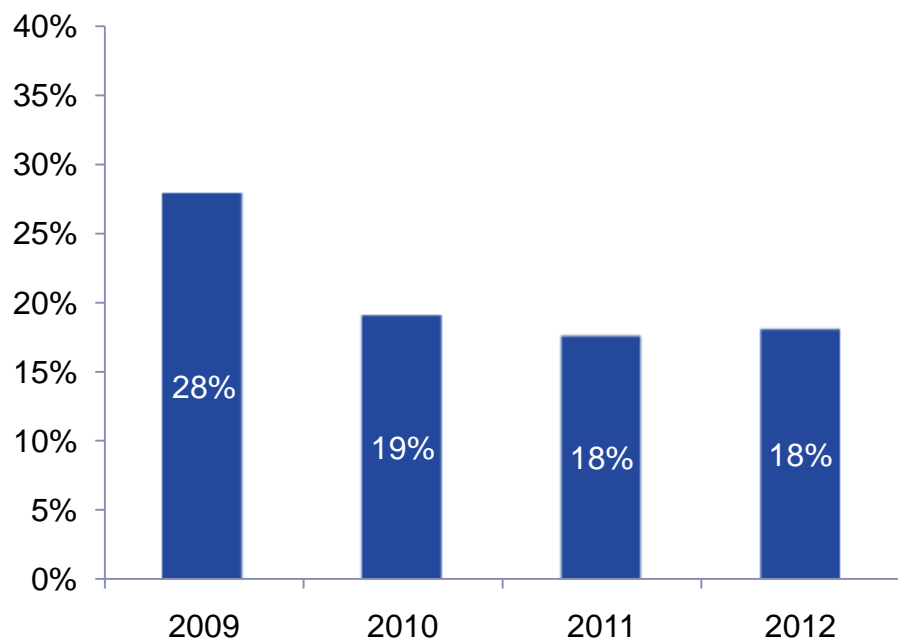
A strong 19% increase over last year's volumes is a sign that dealers have gained confidence and are ordering product.

Rebound in US Marine market has implication on OEM production capacity and order fulfillment

# Canadian Marine Industry

## Aged Inventory Levels

% Aged > 365 (YTD @ Sep 30)



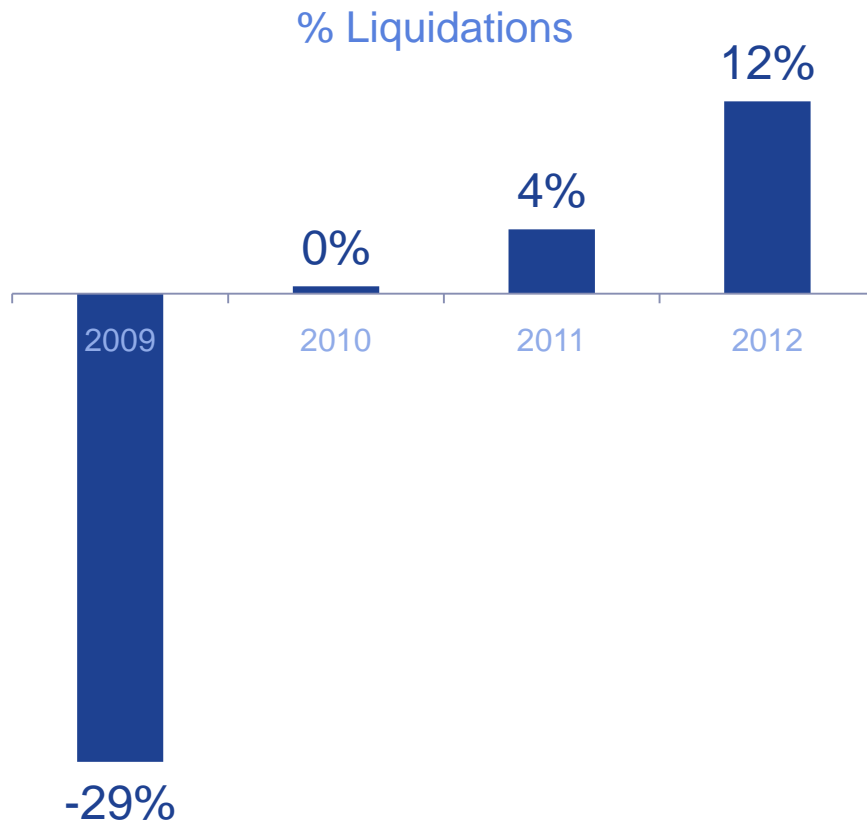
## Aged Inventory Levels

The national level of inventory aged over one year old or more remains the same at 18%.

The 3-year trend is now flat. CDF continues to work collaboratively with its customers to monitor any situations where the levels become more concerning.

# Canadian Marine Industry

## YTD Liquidations



## Liquidations

Between 2009 & 2011 dealer payments for sold inventory remained level with only a modest increase in 2011

In 2012 YTD payments are up 12% or \$56MM compared to 2011

Good early season sales coupled with good summer weather across most of Canada

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# Canadian Marine Industry

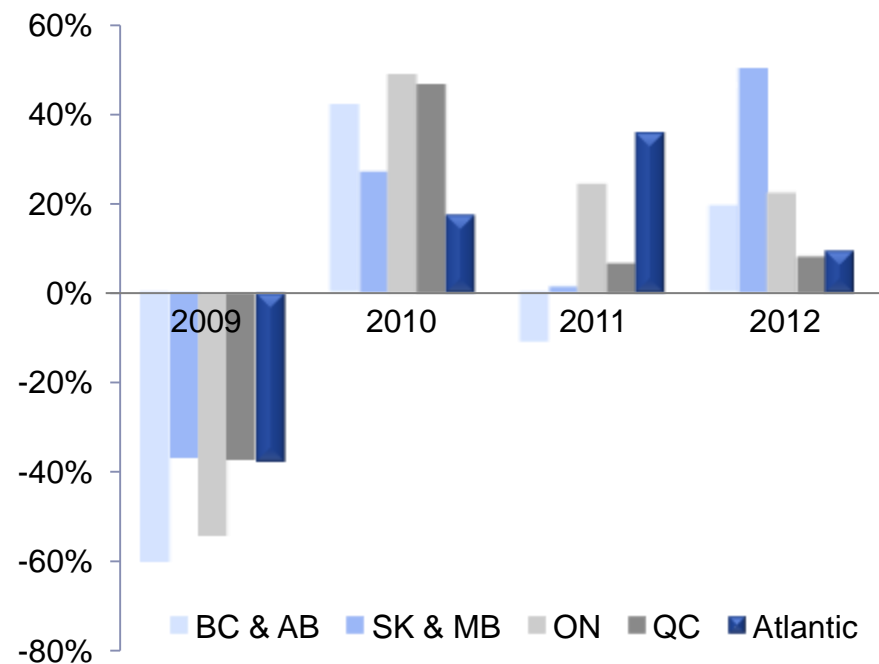
## Wholesale Volume

### Atlantic Canada Wholesale Orders

The regional view of the year-over-year comparison shows that Atlantic Canada Dealers increased their wholesale orders by a healthy 9%, maintaining the growth of 36% in 2011 over 2010.

Volume has grown across the country, but the 50% increase in Saskatchewan and Manitoba is the highest in the country.

Regional View



# Canadian Marine Industry

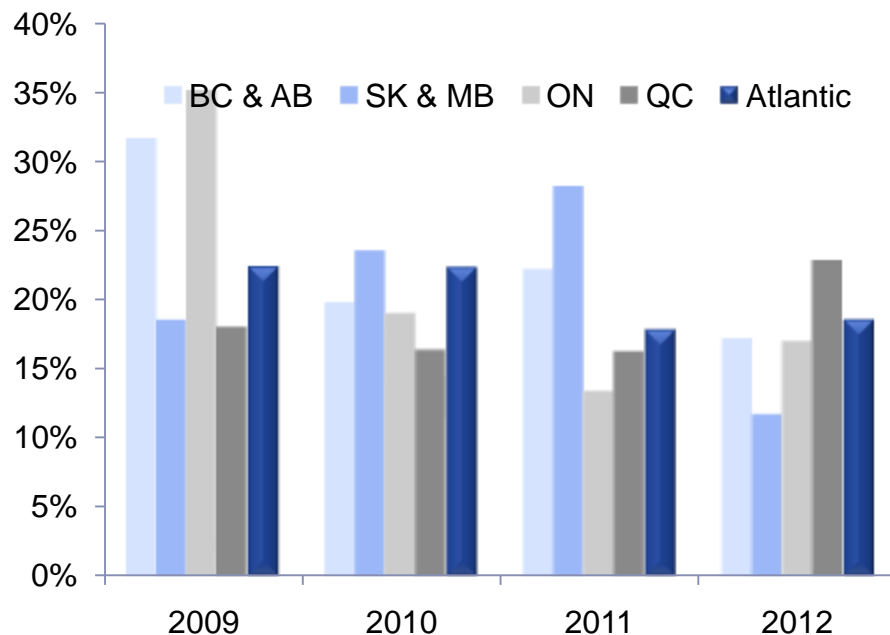
## Aged Inventory Levels

### Aged Inventory Levels

Regionally, the levels of aged inventory in Atlantic Canada has remained flat in 2012 relative to 2011 with 18%.

Good sell through of inventory in the West has brought their levels of inventory aged over one year in line and even below the rest of the country.

Regional View



Q/A