



GCE BLUE MARITIME 2018

Klyngekonferansen 27. september 2018

Erik W. Jakobsen, Managing partner

- **The tide is turning – the cluster is set for growth**
 - Value added back at 2006/2007 level in 2017, but:
 - All segments expect increasing revenues in 2018
 - The total orderbook has grown from 8 to 14 months the last year
 - cluster companies expect to hire at least 1000 new colleagues in 2018 and 2019
 - Across all segments, the companies expect profitability to improve in 2018
- **Møre is well-positioned in key growth markets**
 - Most yards have taken important positions in the growing **ferry and exploration cruise** market
 - The **fishery and aquaculture** segment is thriving
 - High expectations for growth in **offshore wind**
 - **Offshore oil and gas** recovery
- **Some key questions:**
 - Ocean industry transformation – but at what price?
 - Low productivity – why?
 - Digital readiness?
 - High debt – financial strain
 - High oil price and booming offshore markets – but for how long?





13,9 bill NOK in value added



- 2,3 billion (-14 %)



13.300 employees



- 1322 people (-9%)



47 billion NOK in revenues



- 4,2 billion (-8%)



54,8 bill NOK in total revenues



+ 7,6 bill NOK (+16%)



14 months order book



Up from 8 months in 2017



Oil/gas market 35% of total revenues



Down from 50% in 2017

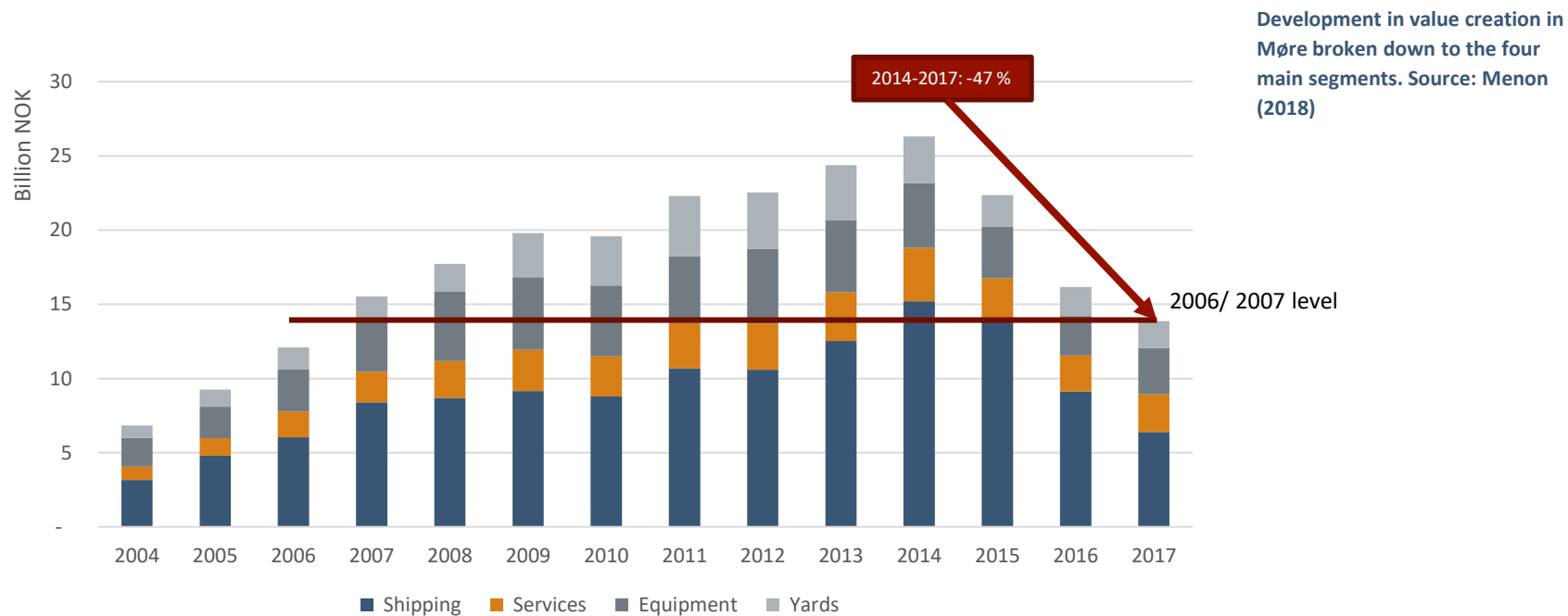


56% of total revenues

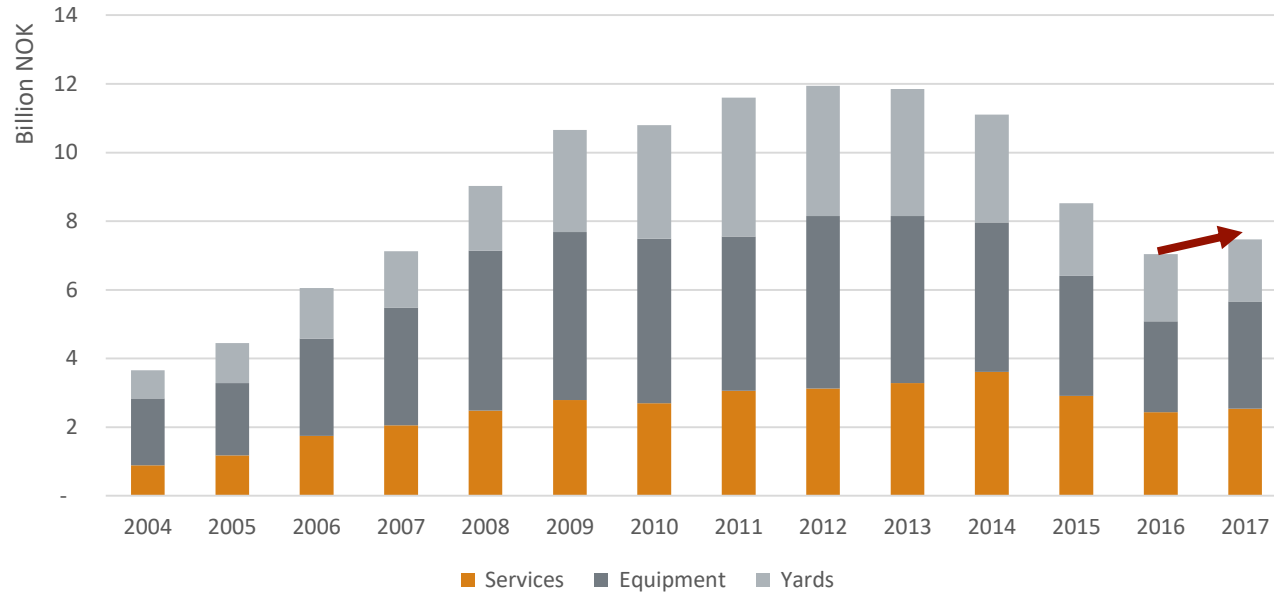


Up from 39% in 2017

Activity continues to fall – value added back to 2006-level



... but without shipping, value added increased in 2017



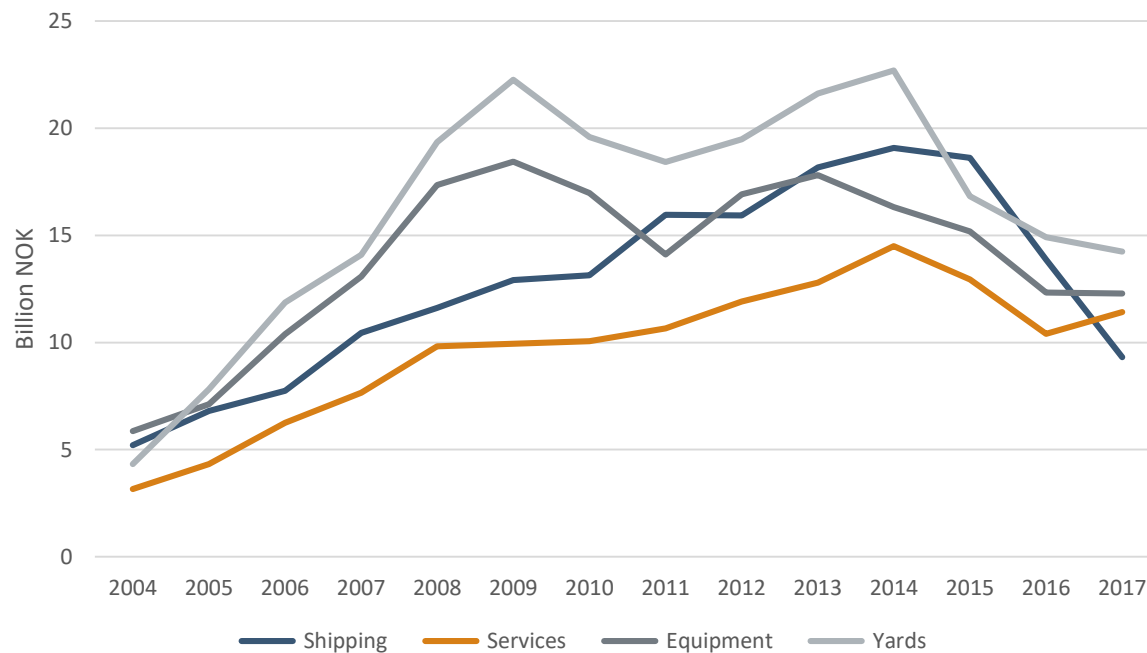
Development in value creation in Møre broken down to the four main segments. Source: Menon (2018)

The downturn in shipping makes equipment and services relative more important segments



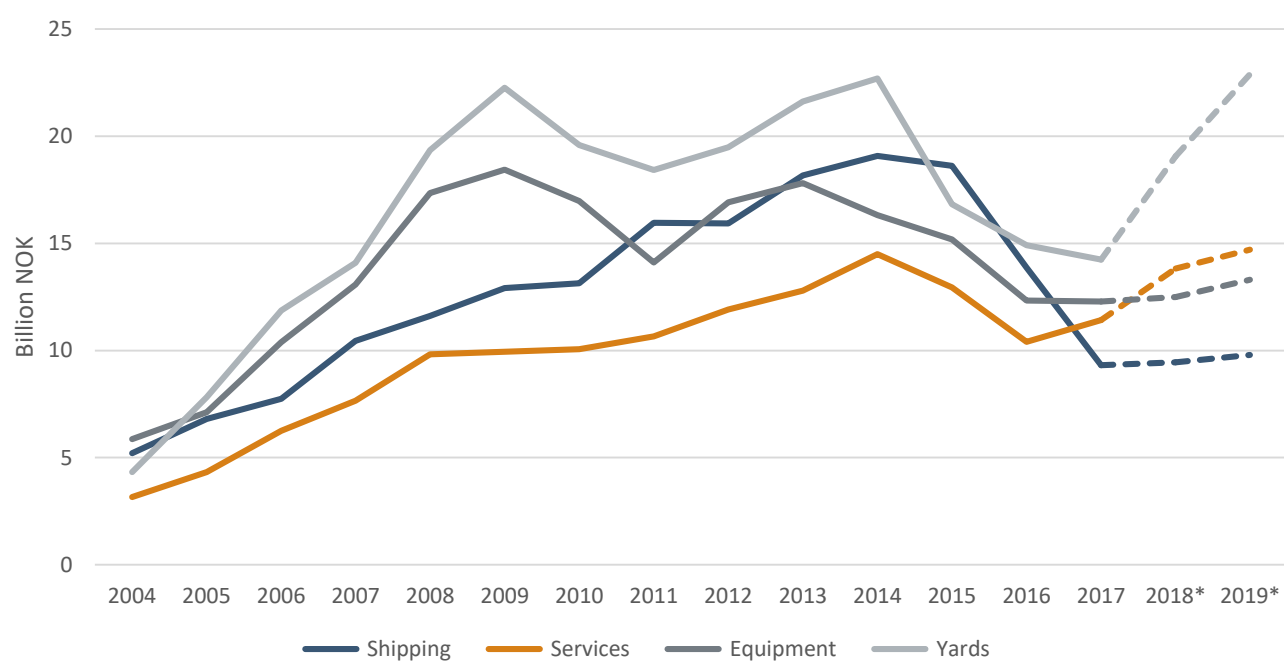
The four segments' share of the value creation in the Blue Maritime cluster in 2017
Source: Menon (2018)

The downturn is over – the cluster is positioning for growth



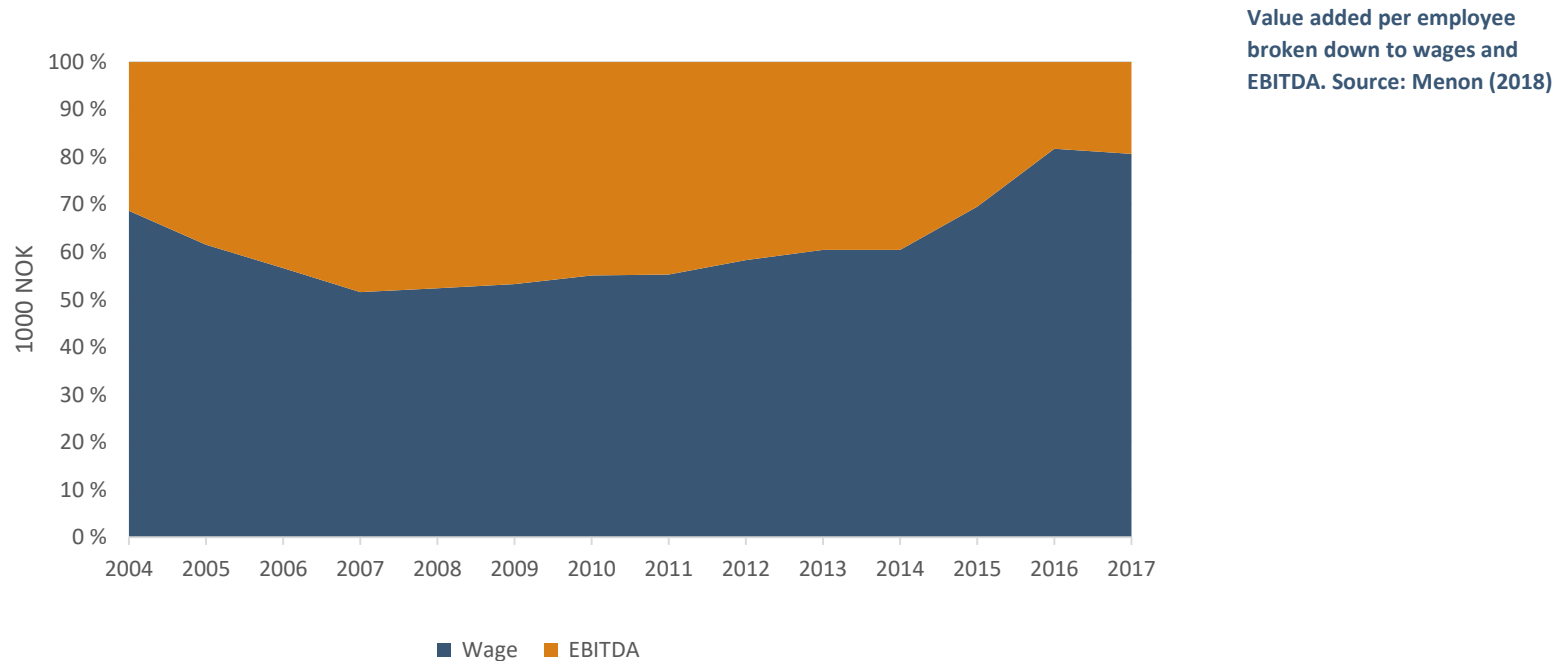
Development in revenues broken down on the four segments.
Source: Menon (2018)

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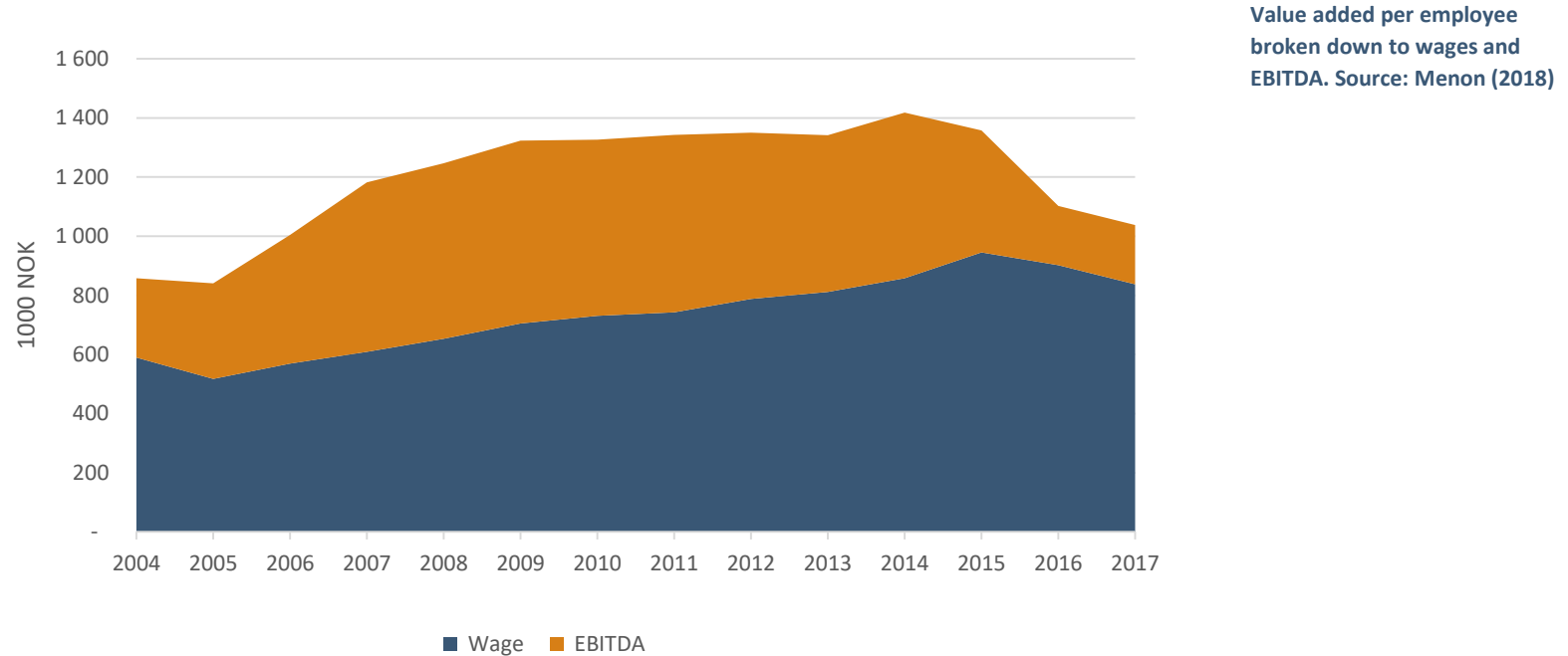


Development in revenues broken down on the four segments. Estimates 2018* and prognoses 2019* based on company information. Source: Menon (2018)

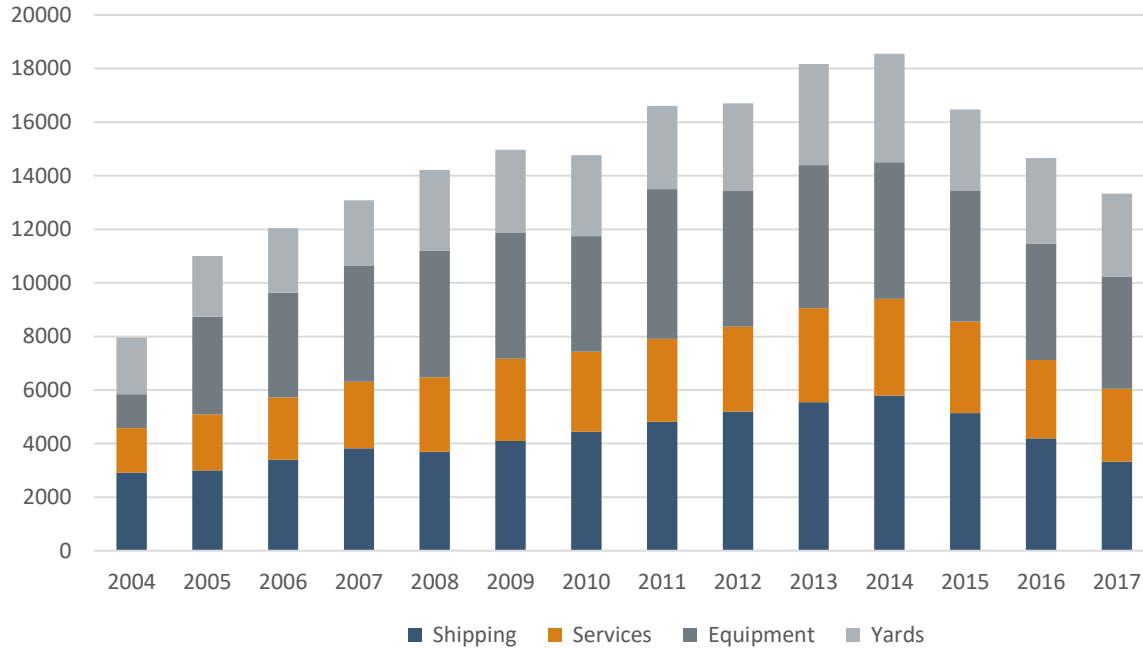
The cluster has taken measures to increase competitiveness by reducing cost



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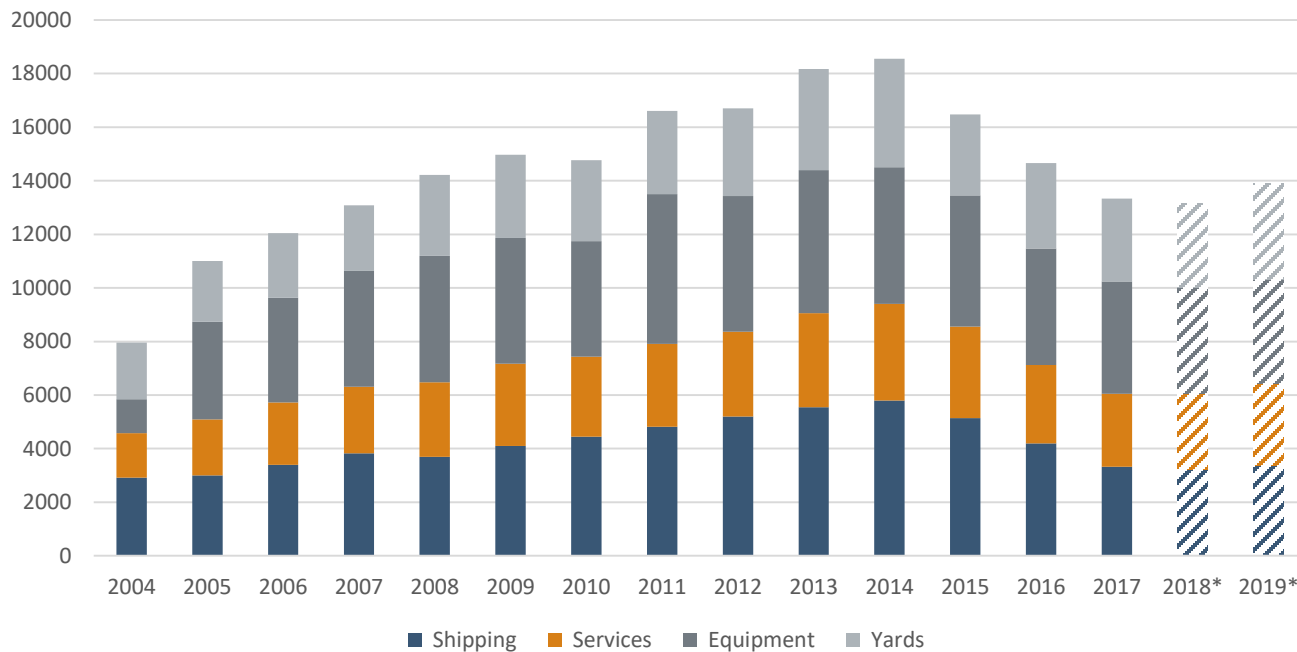


Almost thirty percent of the workforce has left the cluster since 2014



Development in employment in the Blue Maritime cluster broken down on the four segments.
Source: Menon (2018)

... but companies have started to recruit again

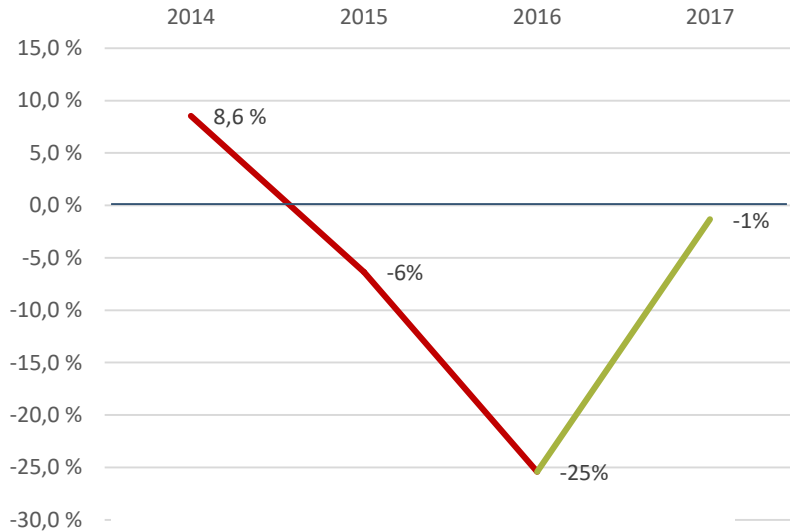


Development in employment in the Blue Maritime cluster broken down on the four segments.
Source: Menon (2018).

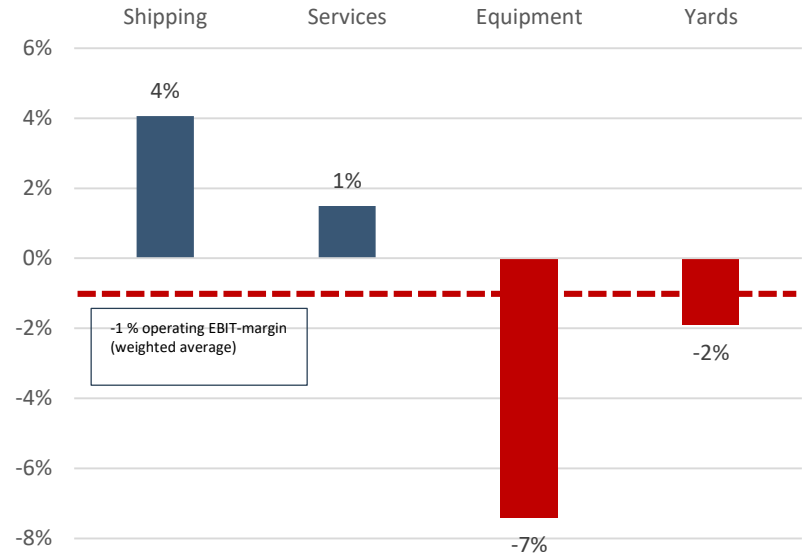
*2018 and 2019: Companies' estimates 1 January both years.

The cluster is still struggling low with negative profitability

Development in operating profitability (EBIT) from 2014 to 2017. Source: Menon (2018)

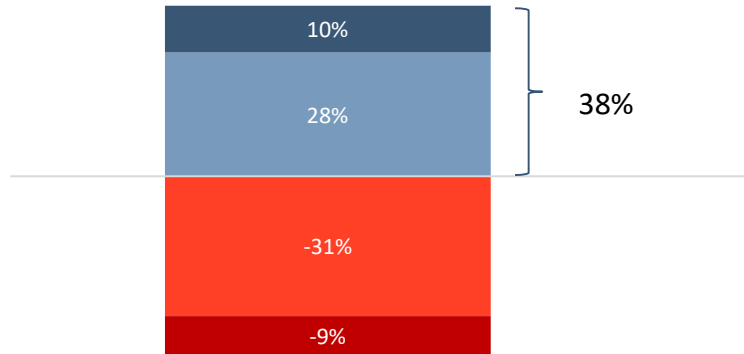


EBIT-margin in 2017 broken down to segments. Source: Menon (2018)



However, companies' profitability expectations have improved significantly since last year

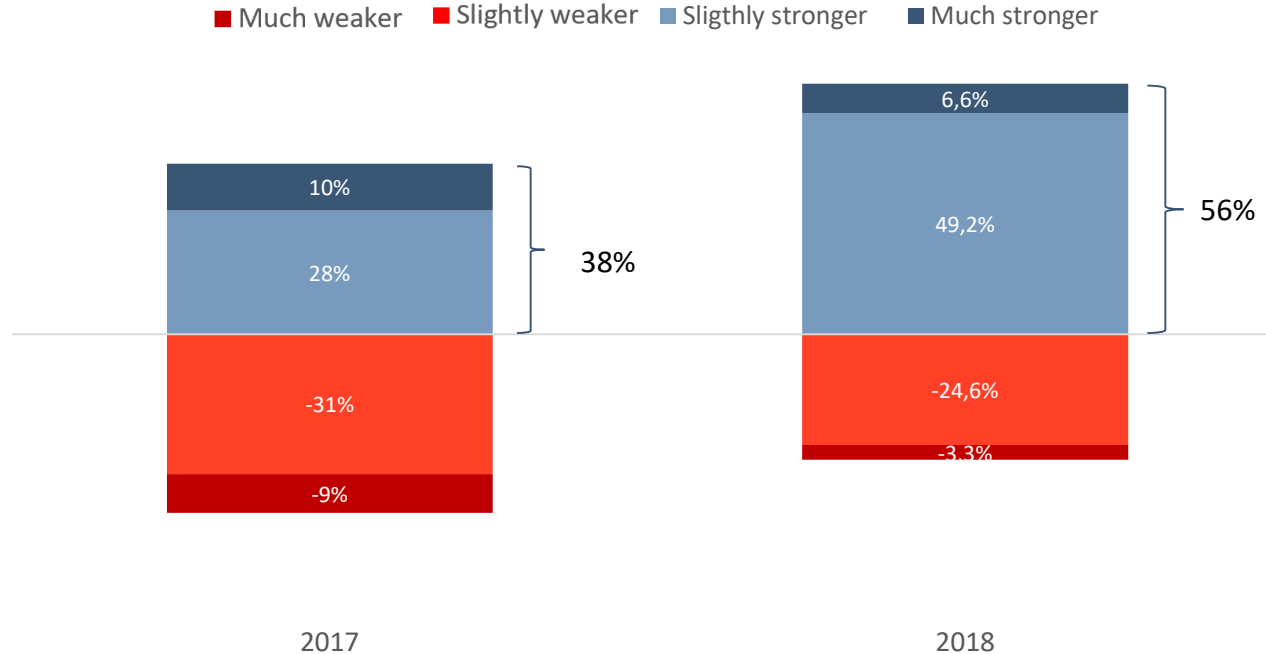
■ Much weaker
 ■ Slightly weaker
 ■ Slightly stronger
 ■ Much stronger



2017

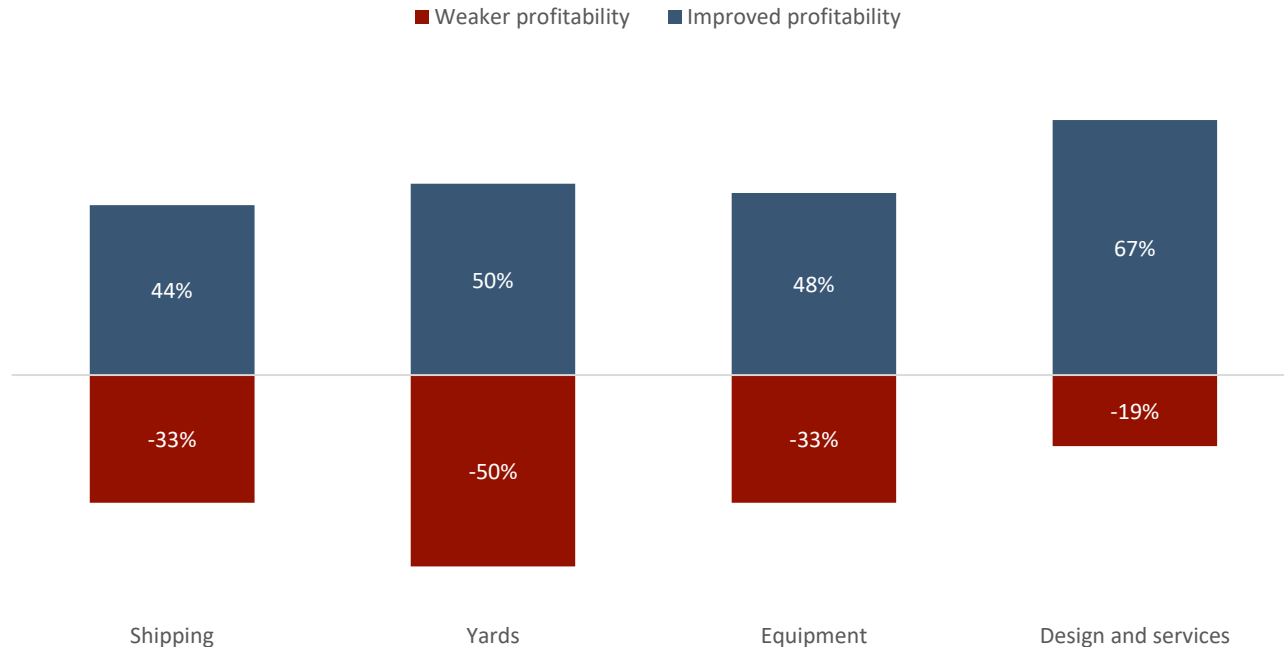
The cluster companies' profitability expectations :
How do you expect operating profits to develop this year compared to last year?
 Source: Menon Economics

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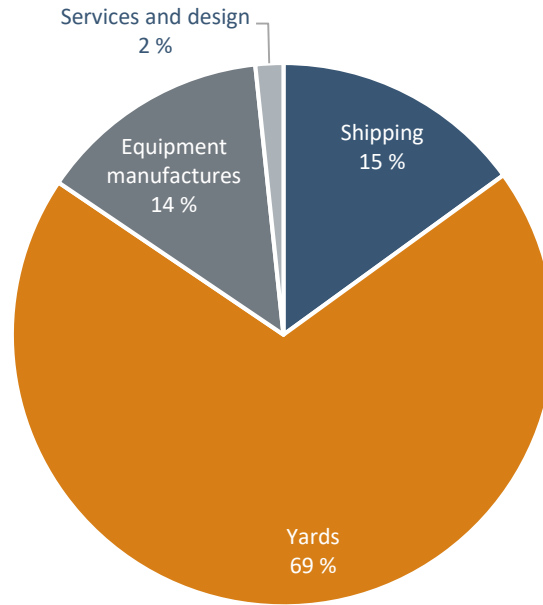
Two out of three service providers expect profitability to improve this year



The cluster companies' profitability expectations : **How do you expect operating profits to develop this year compared to last year?**

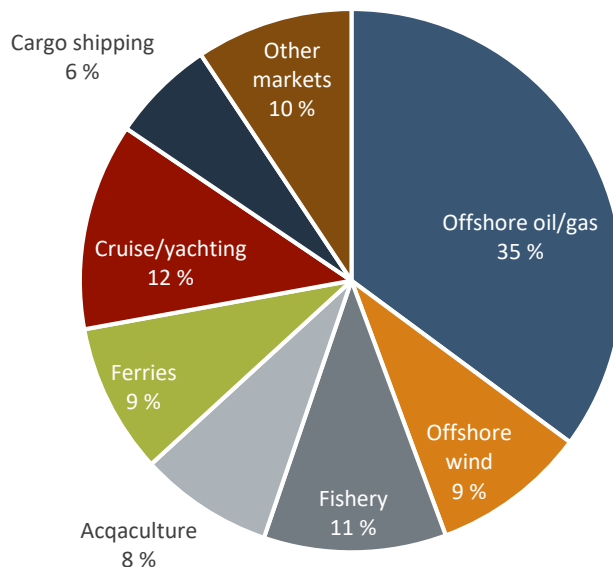
Source: Menon Economics

Significant growth in order books – total Cluster order reserve per August 2018 secures 14 month of operations



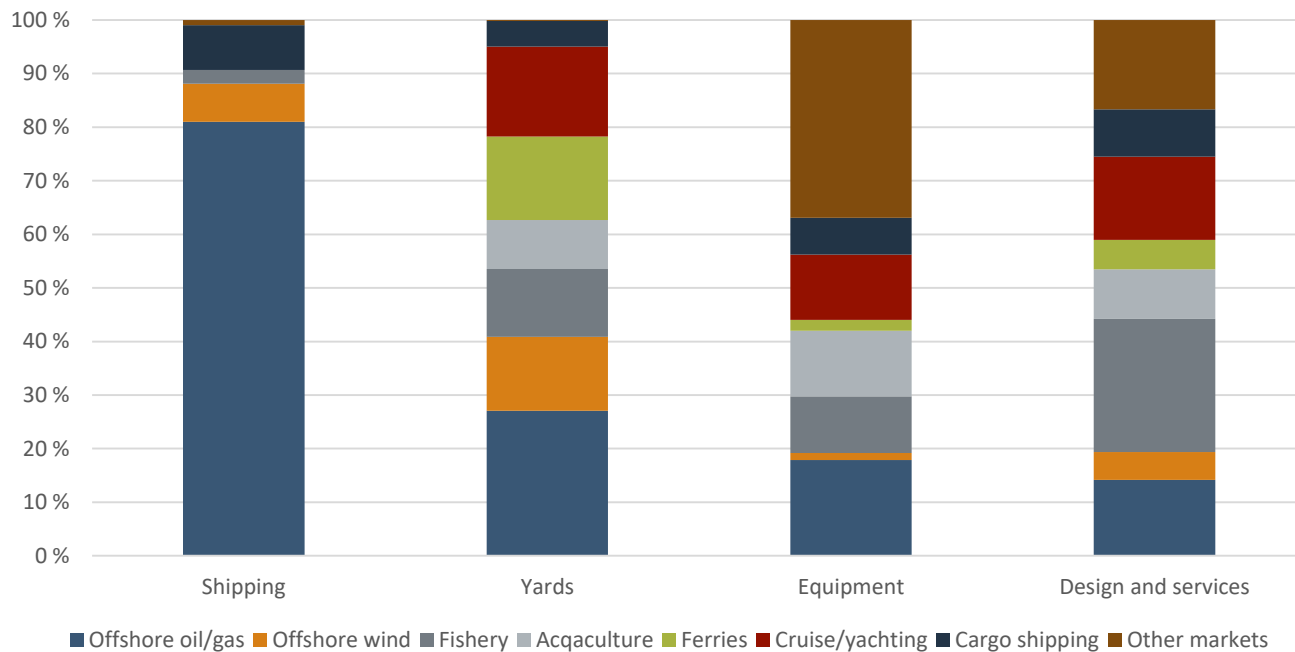
Order reserves in the Blue Maritime cluster in August 2018. Kilde: Menon

Offshore oil and gas constitutes only 35 percent of the clusters revenue in 2018 – down from 50% in 2016



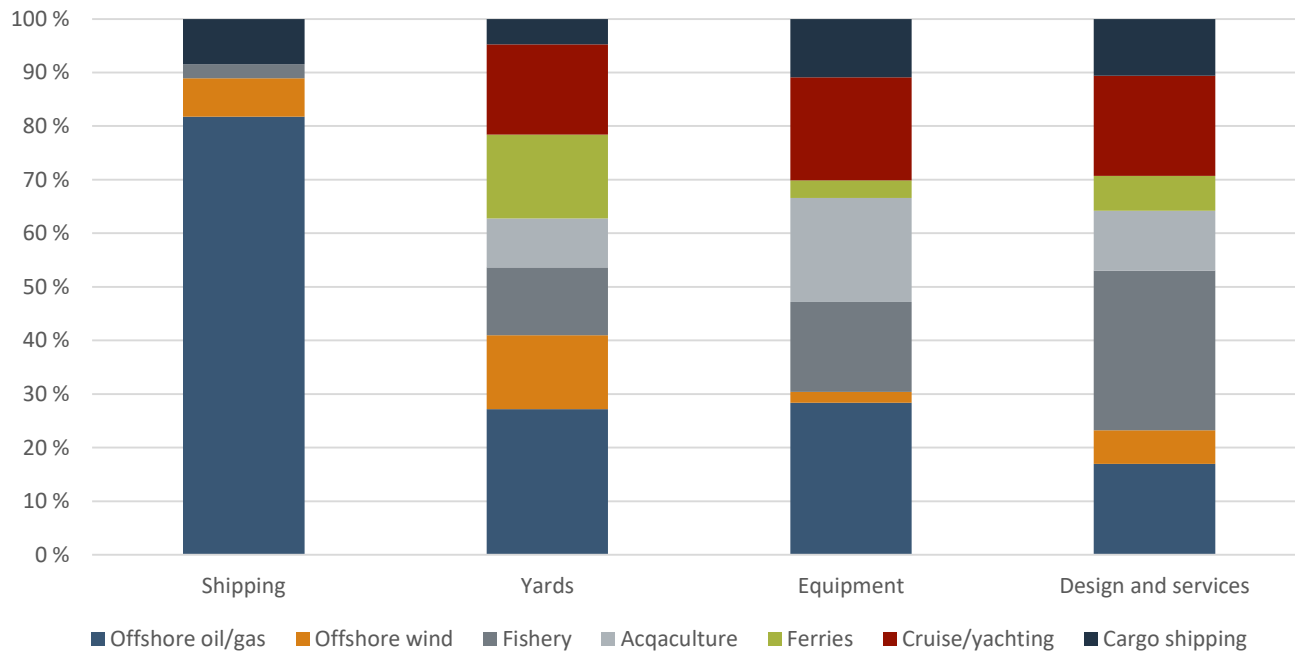
Distribution of the cluster's total revenues on different ocean and land-based markets. Source: Menon (2018)

Shipping companies operate almost exclusively in the oil/gas market, while the other industries have diversified to other ocean markets



Distribution of the clusters combined revenues on different ocean and land-based markets.
Source: Menon (2018)

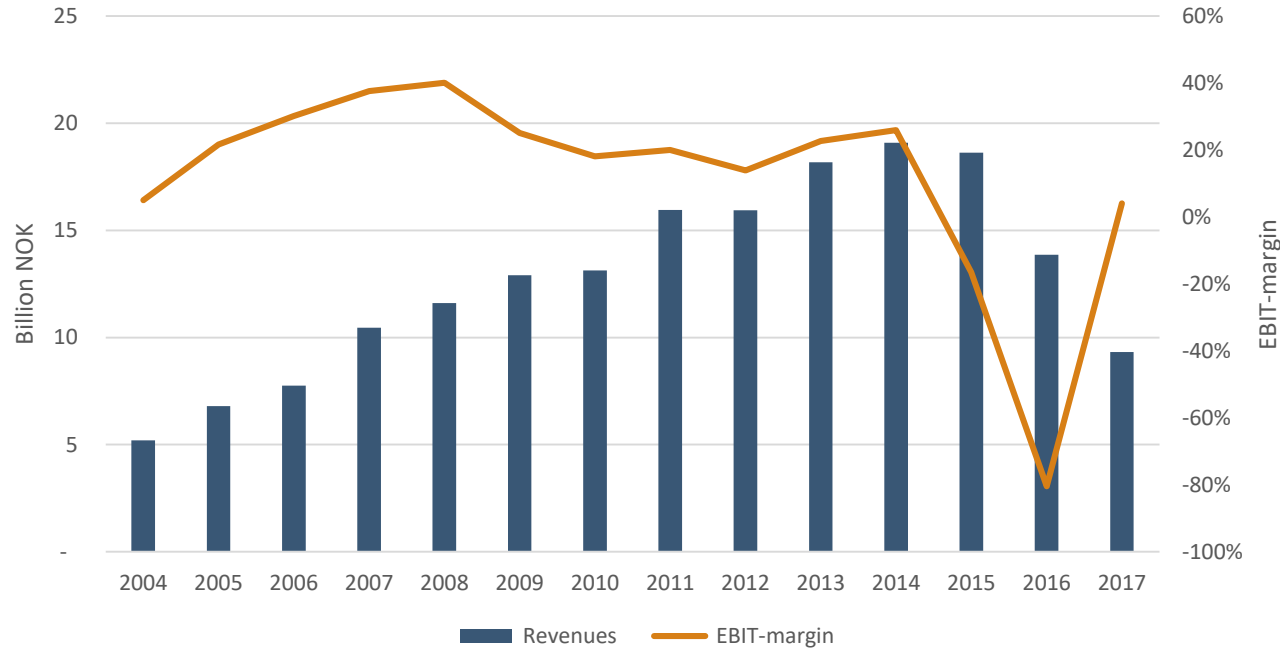
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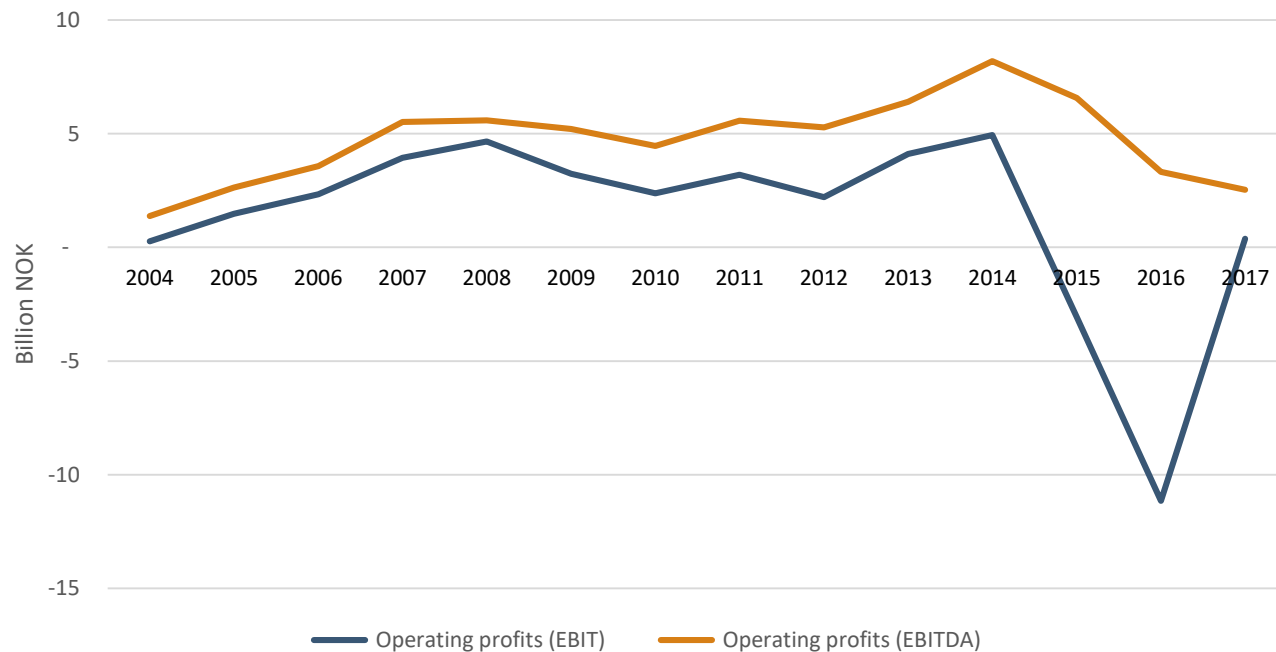
Shipping – offshore service

Shipping: Sharp decline in revenues – but recovery is on its way



Turnover and EBIT-margin for the shipping companies. Source: Menon (2018)

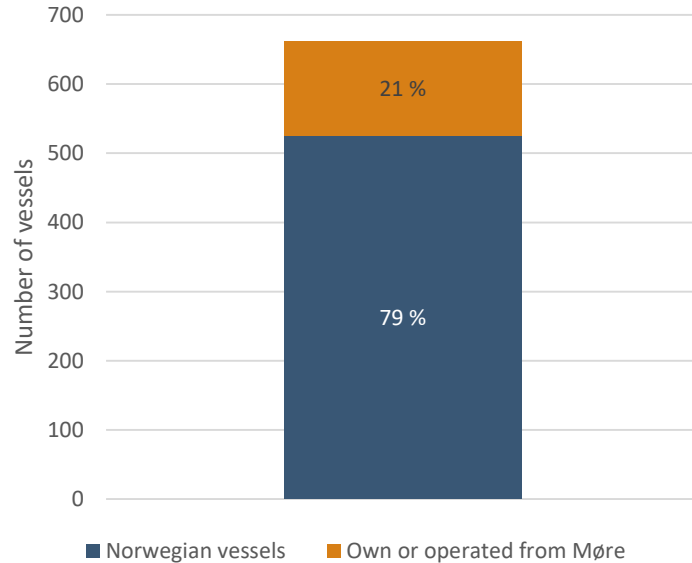
The losses are taken?



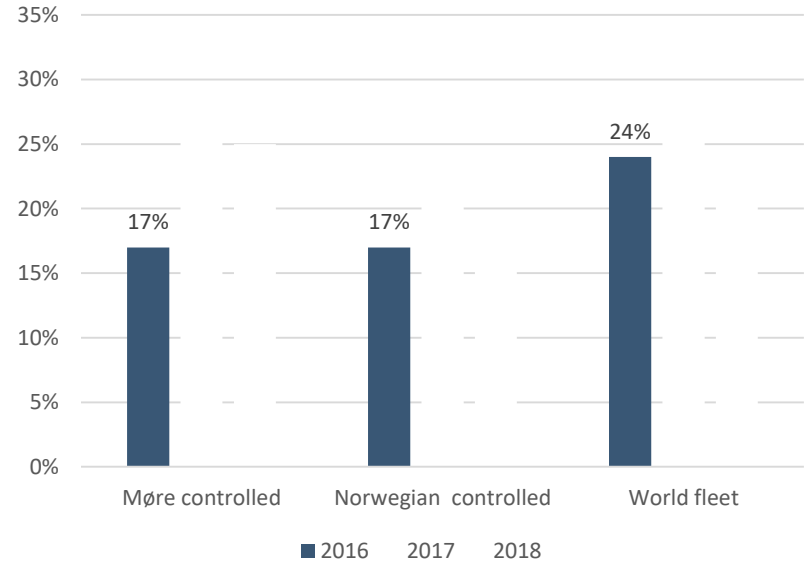
EBIT vs EBITDA within the shipping segment. Source: Menon (2018)

Offshore shipping companies struggle with a high share of laid up vessels

OSV vessels operated in Norway broken down by the vessels operating in Møre and the rest of Norway. Source: Clarkson/Menon (2018)

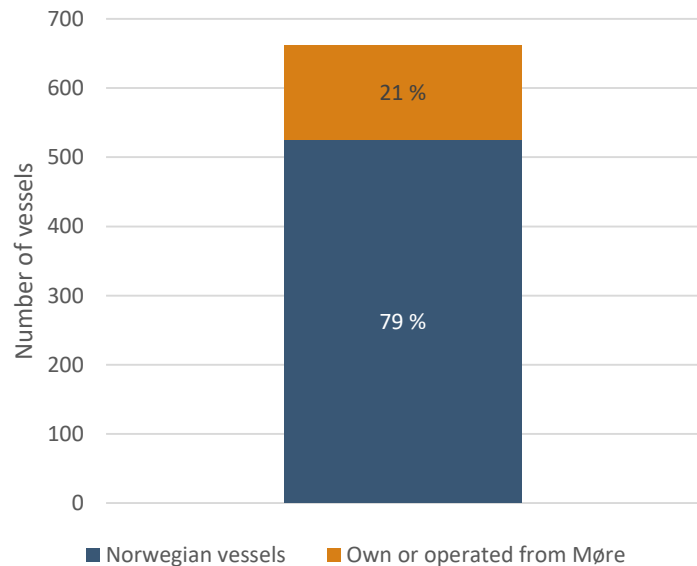


Share of the respective group's offshore fleet that is laid up. Source: Clarkson/Menon (2018)

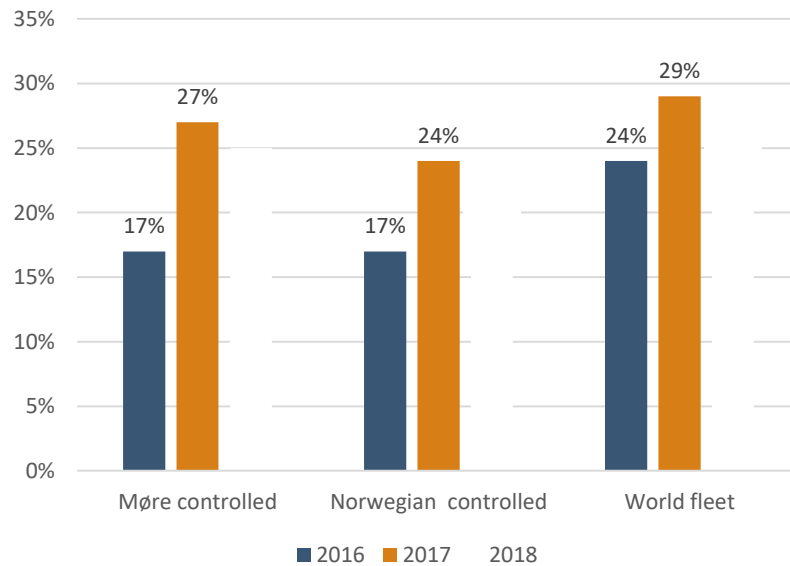


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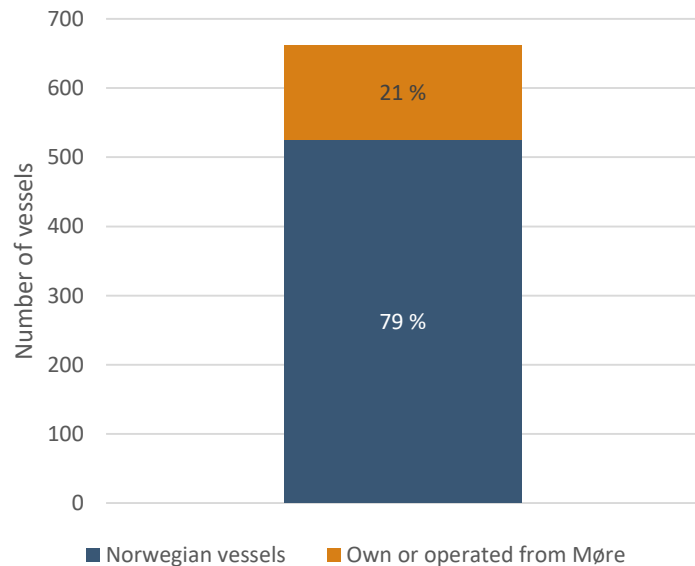


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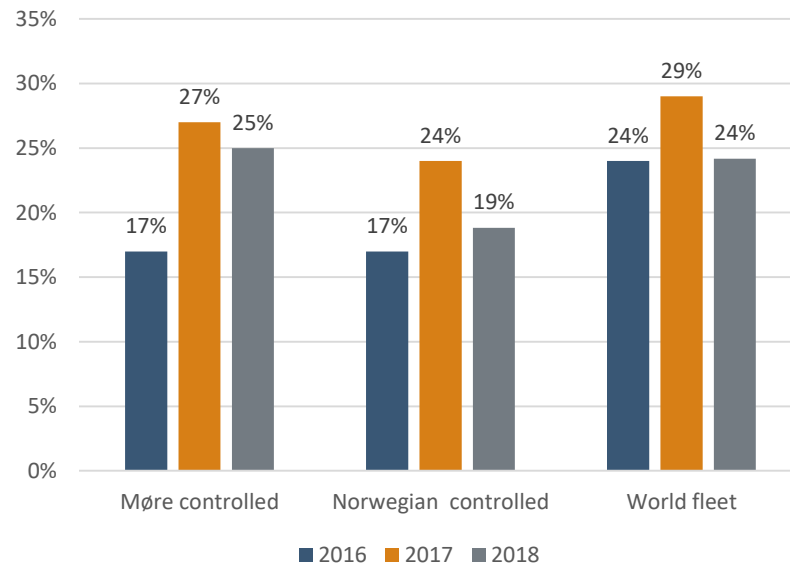


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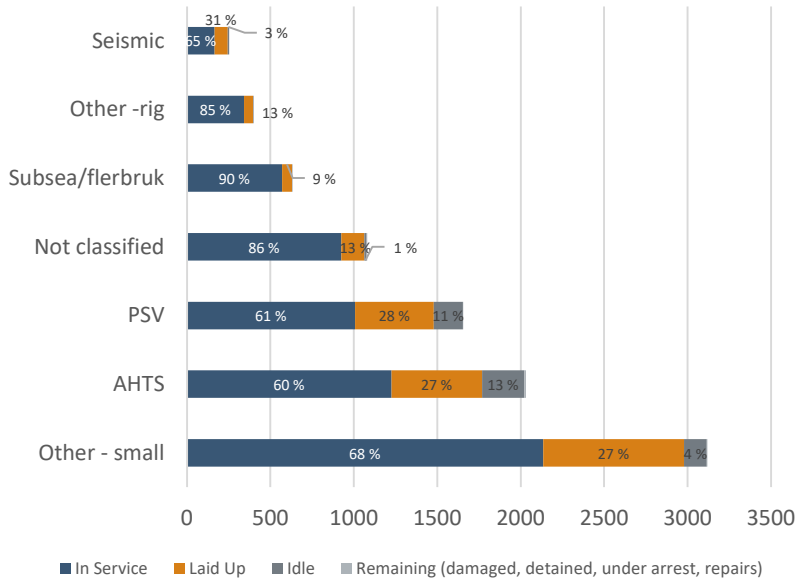


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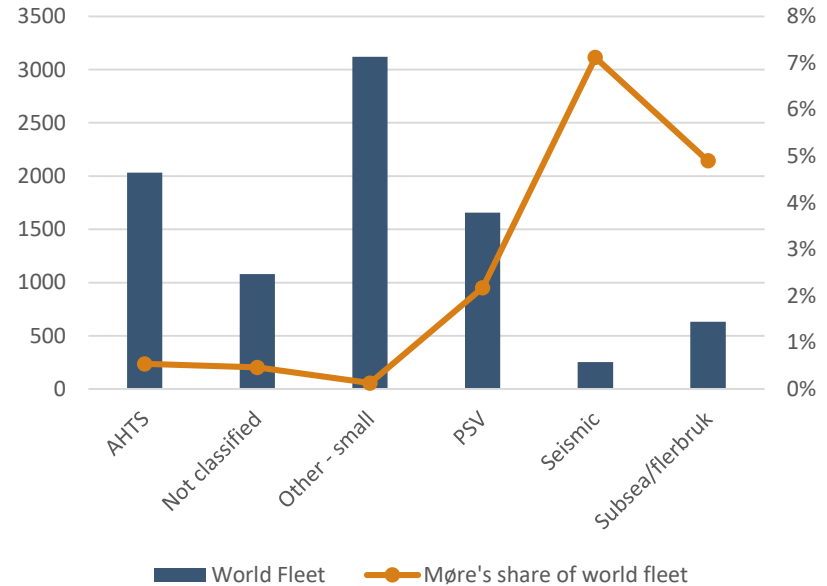


Offshore shipping companies struggle with a high share of laid up vessels

The world fleet broken down the vessels categories and according to their service status. Source: Clarkson/Menon (2018)

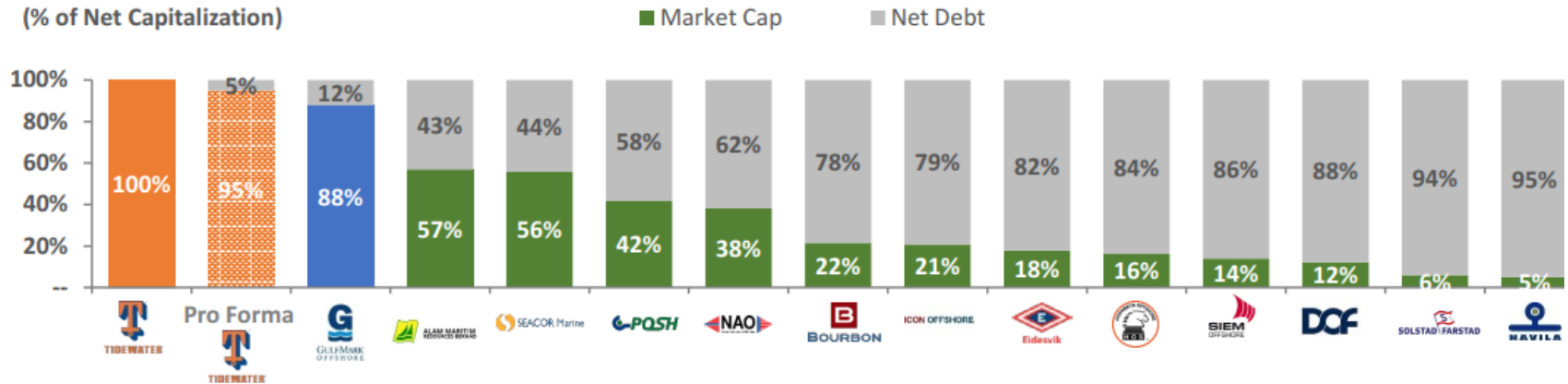


World fleet and Møre's share of world fleet by type. Source: Clarkson/Menon (2018)



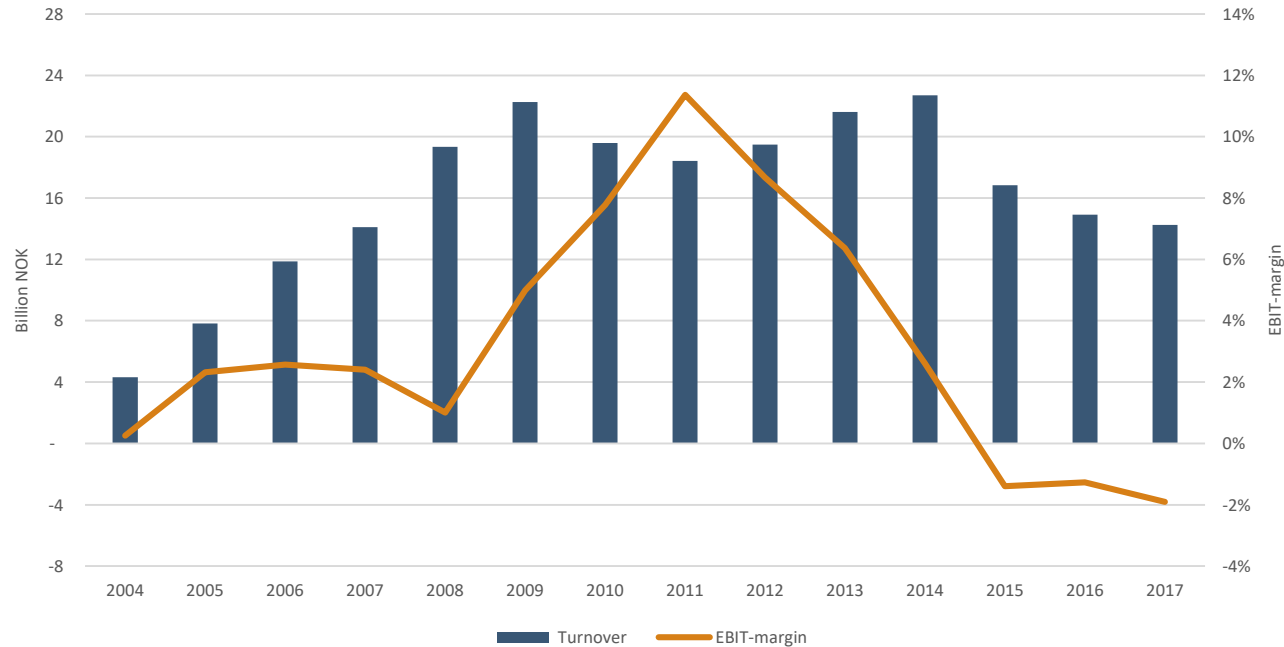
Norwegian ship owners are highly leveraged

Market value as share of Net Capitalization. Source: Tidewater



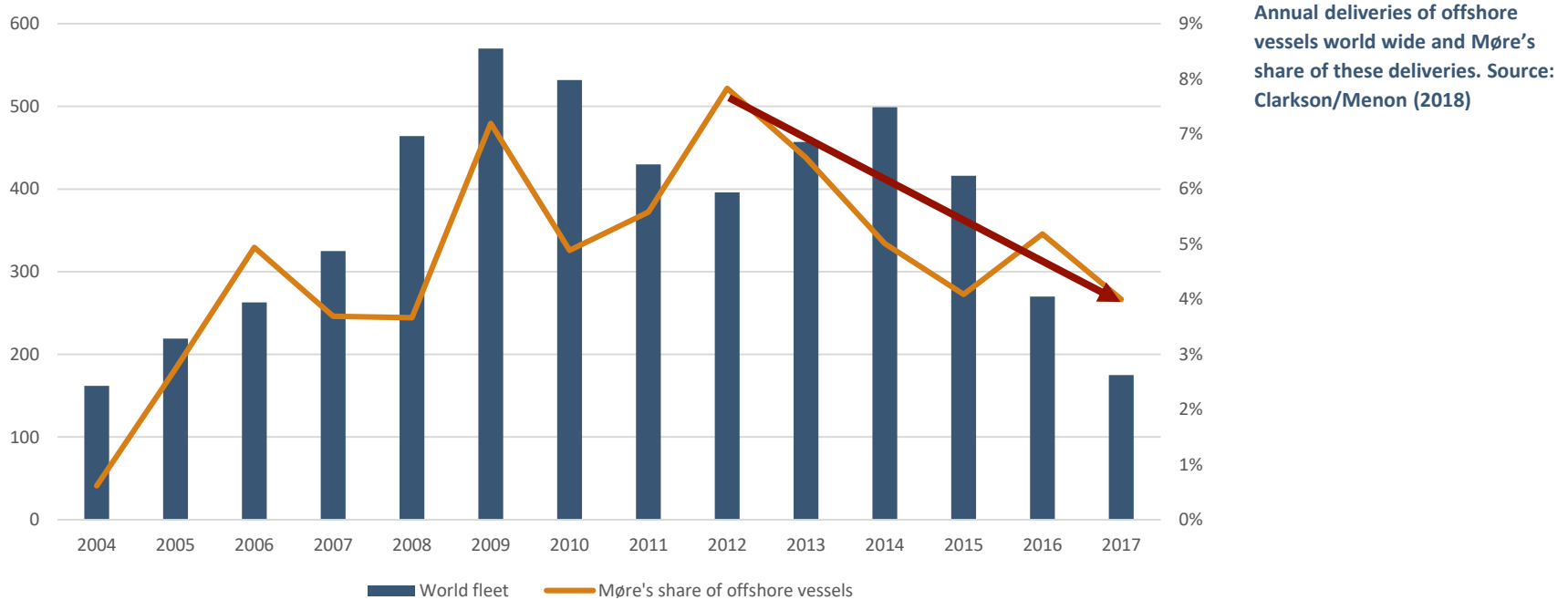
Yards

Crucial year ahead for the yards – can they be profitable?

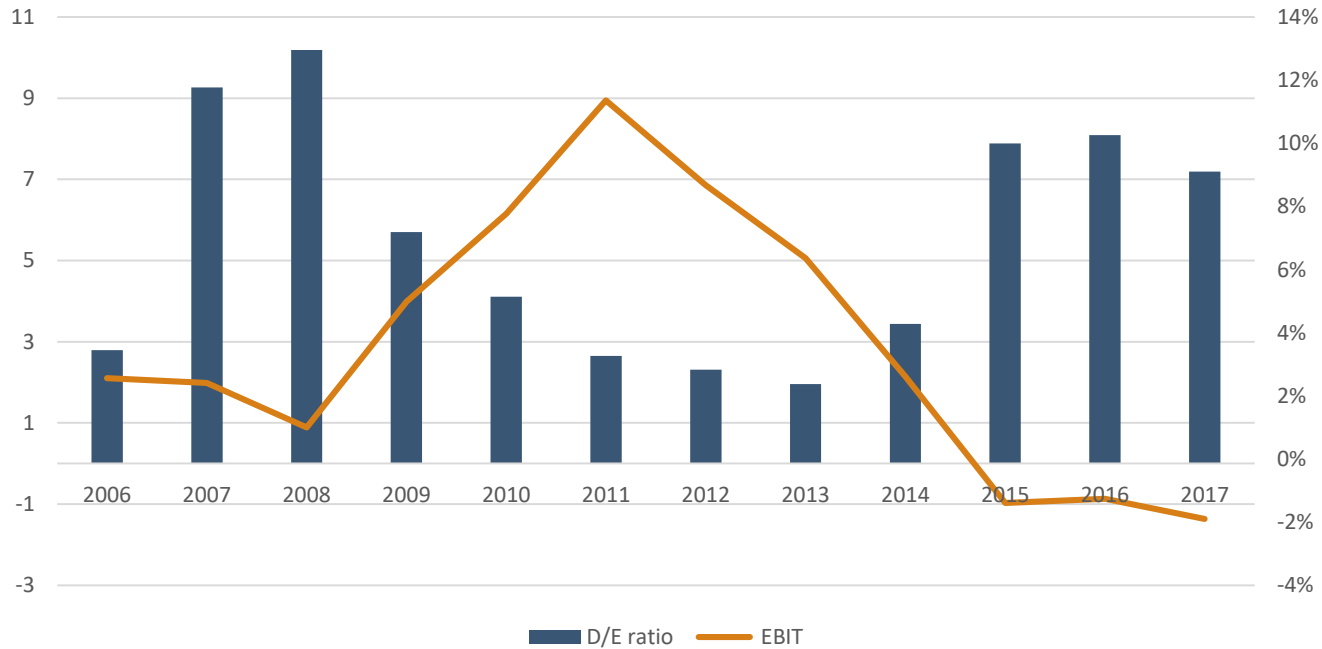


Development of turnover and EBIT-margin for the yards. Source: Menon (2018)

The Møre yards have lost market shares in the offshore vessel market

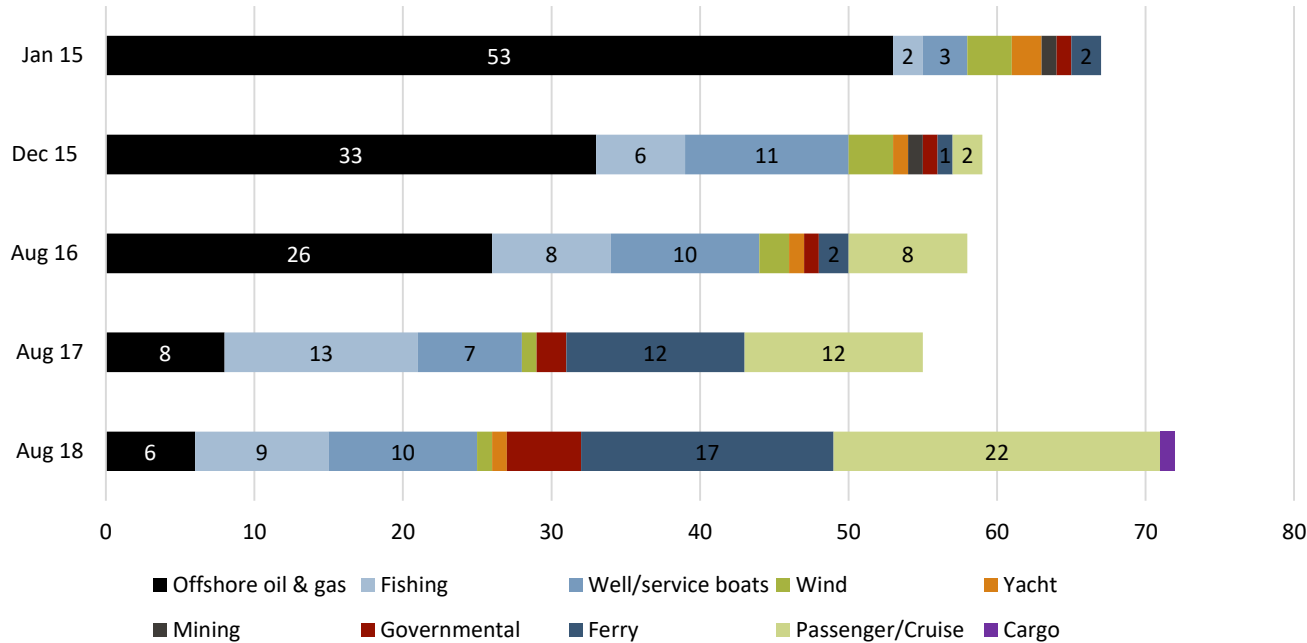


The yards are in large debt



Debt-to-equity ratio for the four biggest yards (left axis) and operating profits for the yards segment (right axis). Source: Menon (2018)

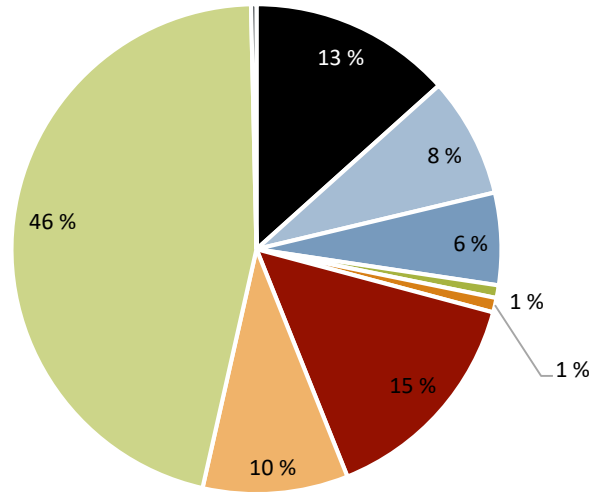
A story of restructuring capability – offshore’s share of the yard’s orderbook reduced from 80 to 8 percent in three years!



Number of vessels in Norwegian orderbook in August 2018 split by type of vessel. Source: Norsk Industri (2018)

Yards' orderbooks hit record-high value, 42 bill NOK– more diversified than ever

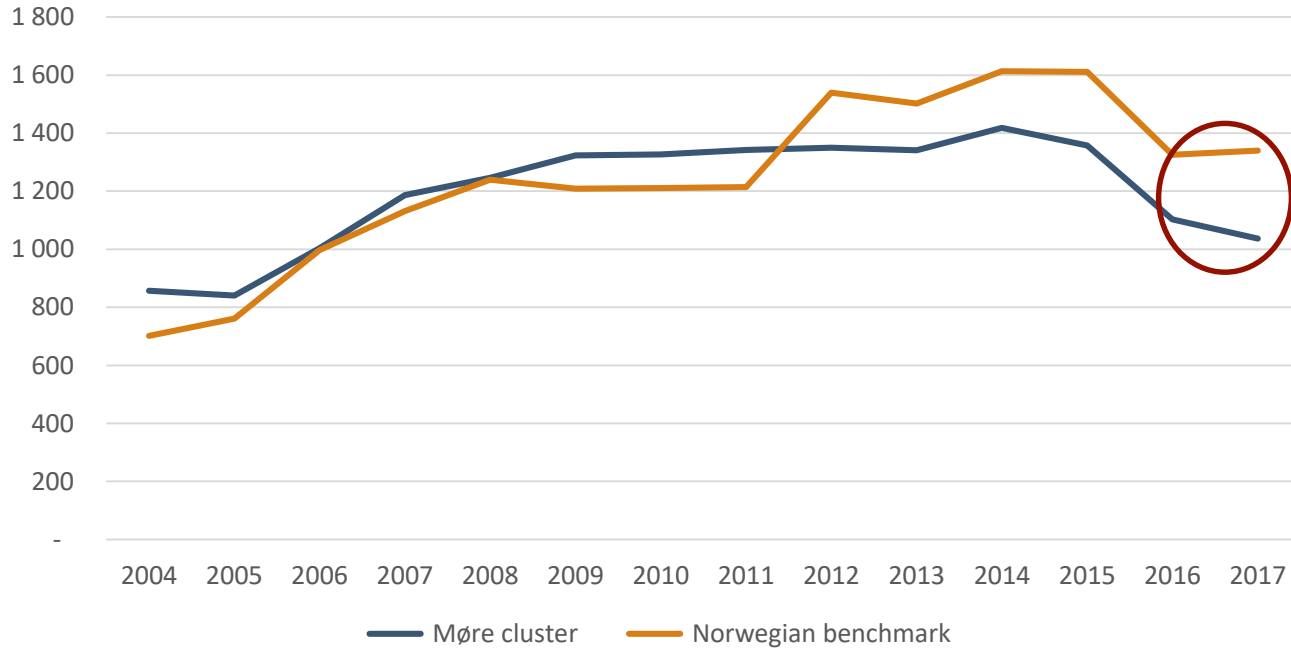
Value of Norwegian orderbook in August 2018 split by type of vessel. Source: Norsk Industri (2018)



Offshore oil & gas
 Fishing
 Well/service boats
 Wind
 Yacht
 Governmental
 Ferry
 Passenger/Cruise
 Cargo

Restructuring and productivity

The gap in productivity between Møre and the national benchmark increases



Development in productivity (value added per employee) between the cluster and the national benchmark. Weighted average based on the cluster's share of employment in each segment. Source: Menon (2018)

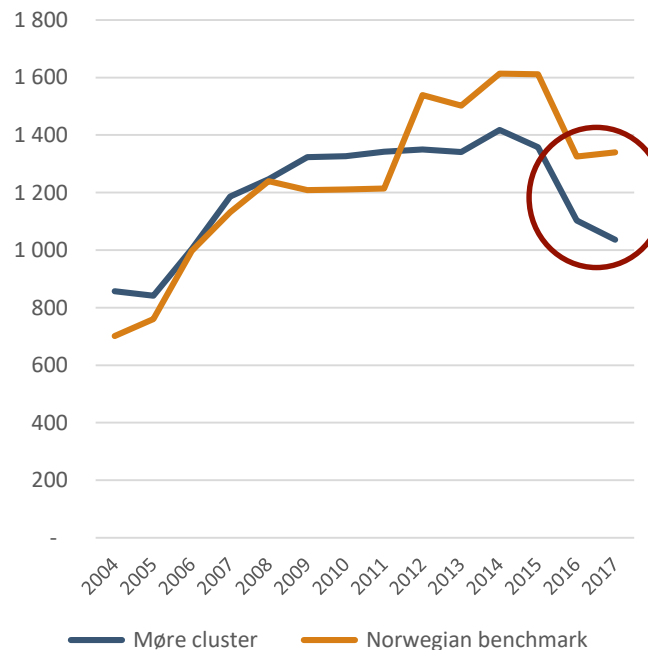
Why? Has restructuring caused a drop in productivity?

Cluster linkages are weakened

- Shipping firms have not ordered ships for years
- Customers outside the region have become more important
- Suppliers outside the region have become more important

Commonalities among firms restructuring

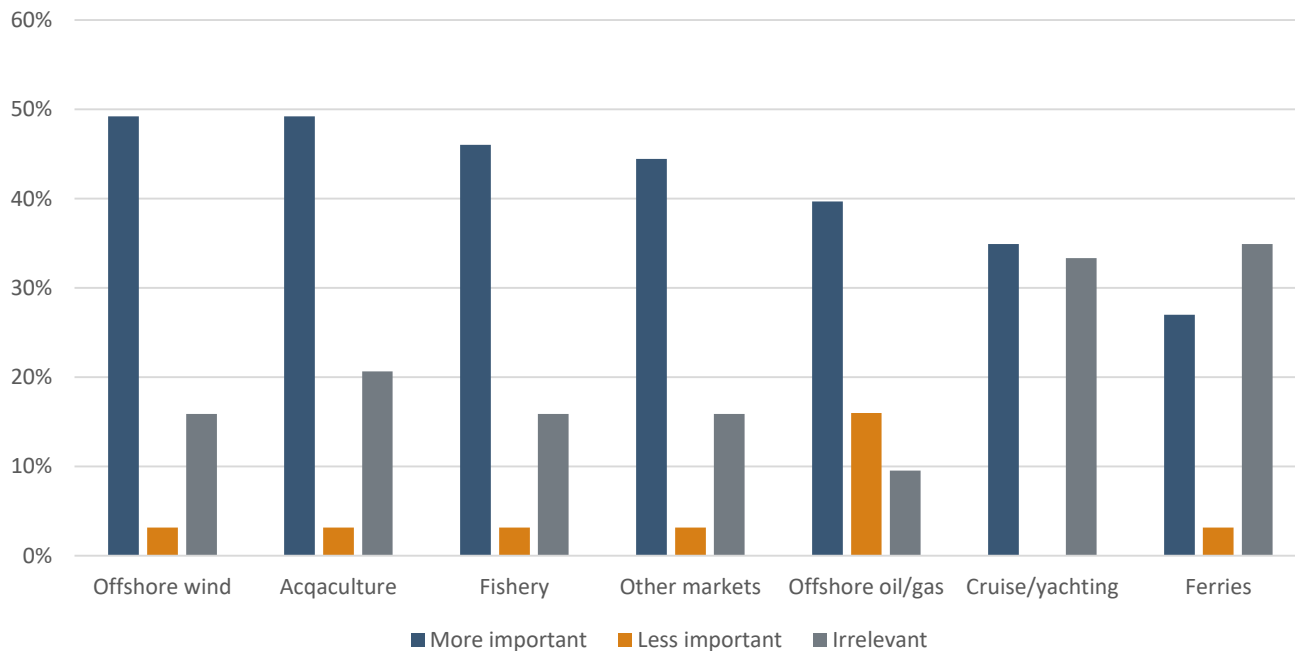
- Need of people with different competence
- Part of existing competence have become irrelevant
- Need of increased investments
- Customers often outside the region



Development in productivity (value added per employee) between the cluster and the national benchmark. Weighted average based on the cluster's share of employment in each segment. Source: Menon (2018)

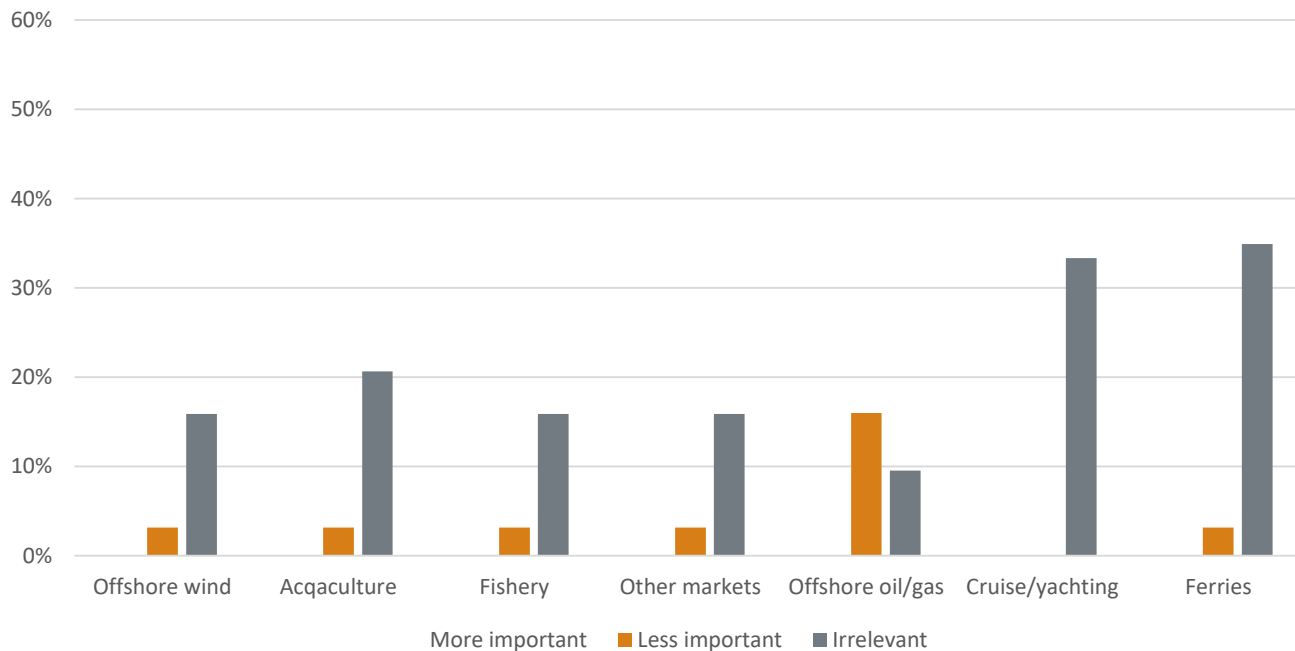
Market development

Offshore wind, fishery and aquaculture are growing in importance



Share of respondents in the cluster indicating that the different market segments will more or less important the next 3-5 years. Source: Menon

One third of the companies regard cruise and ferry market irrelevant



Share of respondents in the cluster indicating that the different market segments will more or less important the next 3-5 years. Source: Menon

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BUSINESS

It's a Bad Time to Build Ships—Unless They Are Cruise Ships

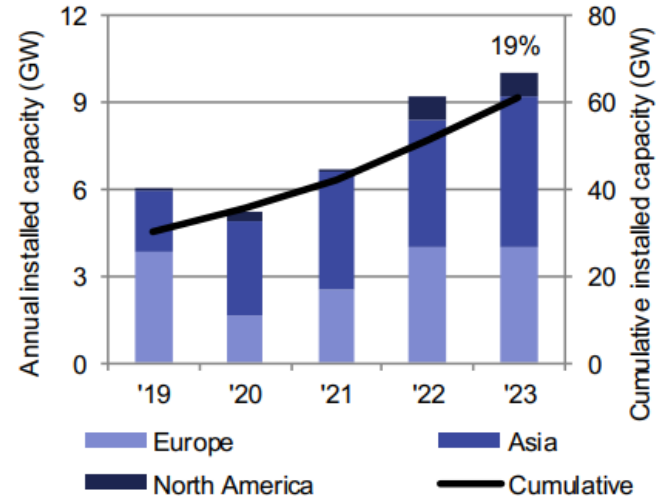


An employee looked a sea liner under construction, the RCCL Symphony of the Seas, at a shipyard in Saint-Nazaire, France, once owned by South Korea's STX Offshore and Shipbuilding Co. and now owned by Italy's Fincantieri, in September 2017. PHOTO: LOIC VENANCE/AGENCE FRANCE-PRESSE/GETTY IMAGES

By *Costas Paris*
Feb. 11, 2018 8:00 a.m. ET

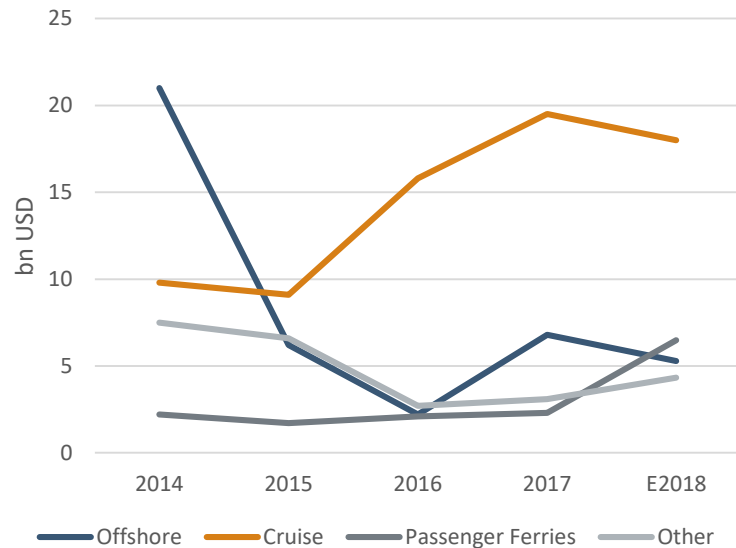
19 COMMENTS

Forecast for the global installed capacity in offshore wind 2019-23. Source: BVG Associates

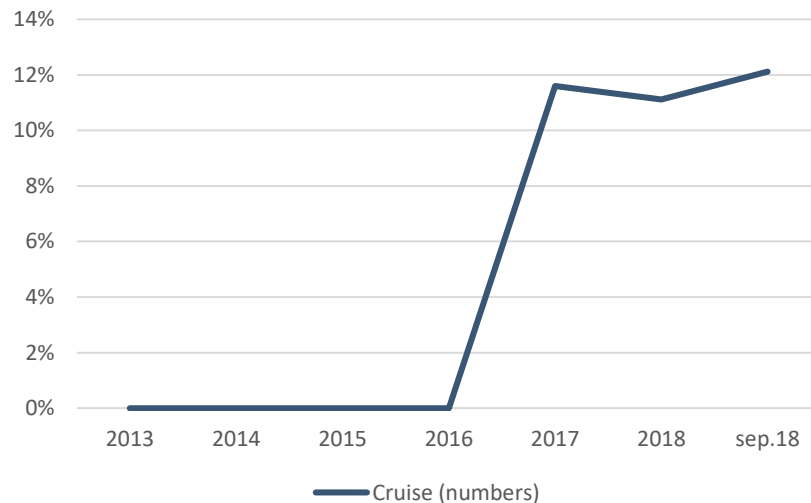


The Møre yards are well positioned in a growing cruise market

Investments in specialized vessels 2014-E2018.
Source: Clarkson (Shipyard monitor)/ Menon (2018)



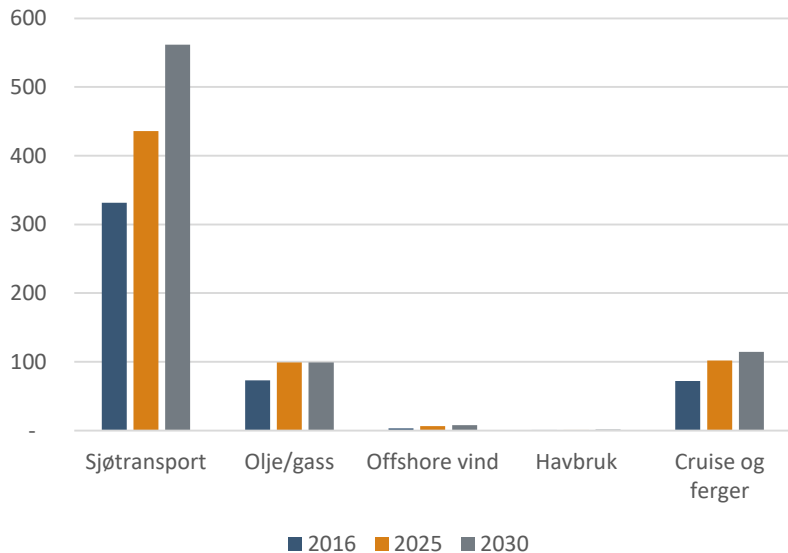
Møre yards share of the global orderbook for cruise ships.
Source: Clarkson/ Menon (2018)



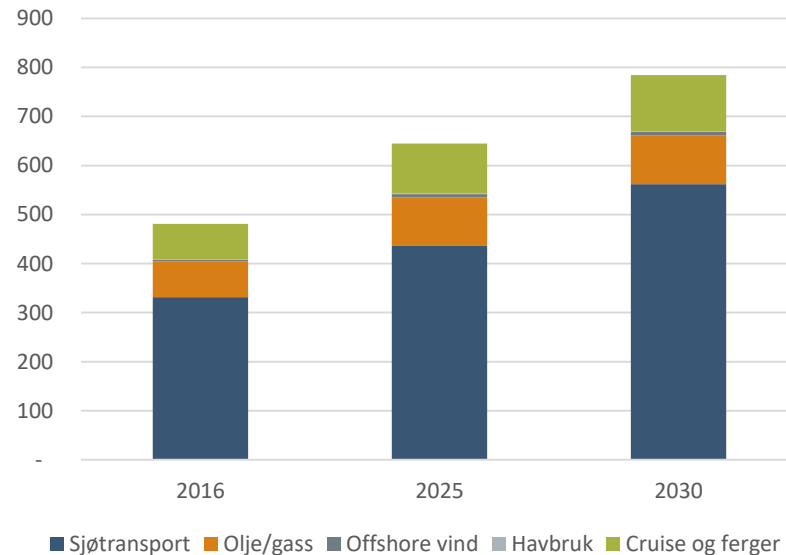
Cargo transport (deepsea and shortsea) is – and will remain – the largest market for shipping services

The world market for shipping services is expected to increase from 500 to 800 Billion USD in 2030

Anslag på verdensmarkedet for rederitjenester i 2016 og prognoser for 2025 og 2030. Kilde: Menon



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 - All segments expect increasing revenues in 2018
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 - In the coming two years, the cluster companies expect to hire 700 new colleagues.
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 - Most yards have taken important positions in the growing ferry and exploration cruise market
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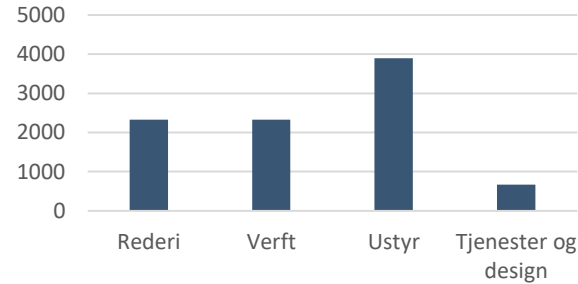


Takk for oppmerksomheten!

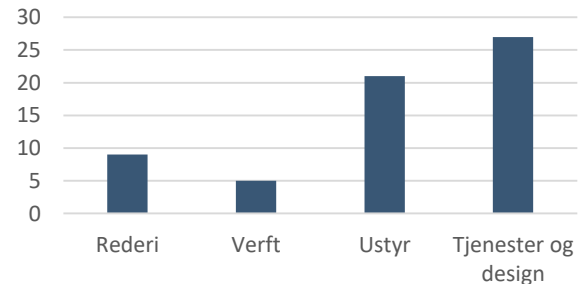
Appendix

Respondents in the survey

- The survey includes 65 companies, with in total 9 217 employees (01.01.2018) and total revenues of 28 millions NOK (2017). Measured in both turnover and number of employees, is the yard largest followed by shipping companies. Services are clearly smallest, with an average income of 25 million NOK.
- Measured in number of employees, the survey covers:
 - 75 % of shipping companies
 - 74 % of yards
 - 99 % of equipment manufacturers
 - 24 % of service provider
 - 71% of all employees in the cluster
- Measured in turnover, the survey covers:
 - 47 % of shipping companies
 - 82 % of yards
 - 82 % of equipment manufacturers
 - 10 % of service provider
 - 57 % of all employees in the cluster
- The share is higher measured in turnover than in employment, especially for equipment manufacturers. This could be caused by including respondents employed in subsidiary. Our estimation is still that the proportion are sufficiently high to be representative of the cluster.



Antall ansatte i bedriftene som har svart på undersøkelsen.
Kilde: Menon



Antall bedrifter som har svart på undersøkelsen.
Kilde: Menon