

The Multi-Billion Dollar US Naval and Commercial Market

Marine Marketing '98

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Market Size - How Big?

- \$27 billion construction backlog
- \$18 billion construction work remaining to be performed
- \$9.9 billion remaining material budget
- \$5.3 billion estimated 1998 construction total
- \$2.7 billion repair market

- Which Market is Relevant to You?

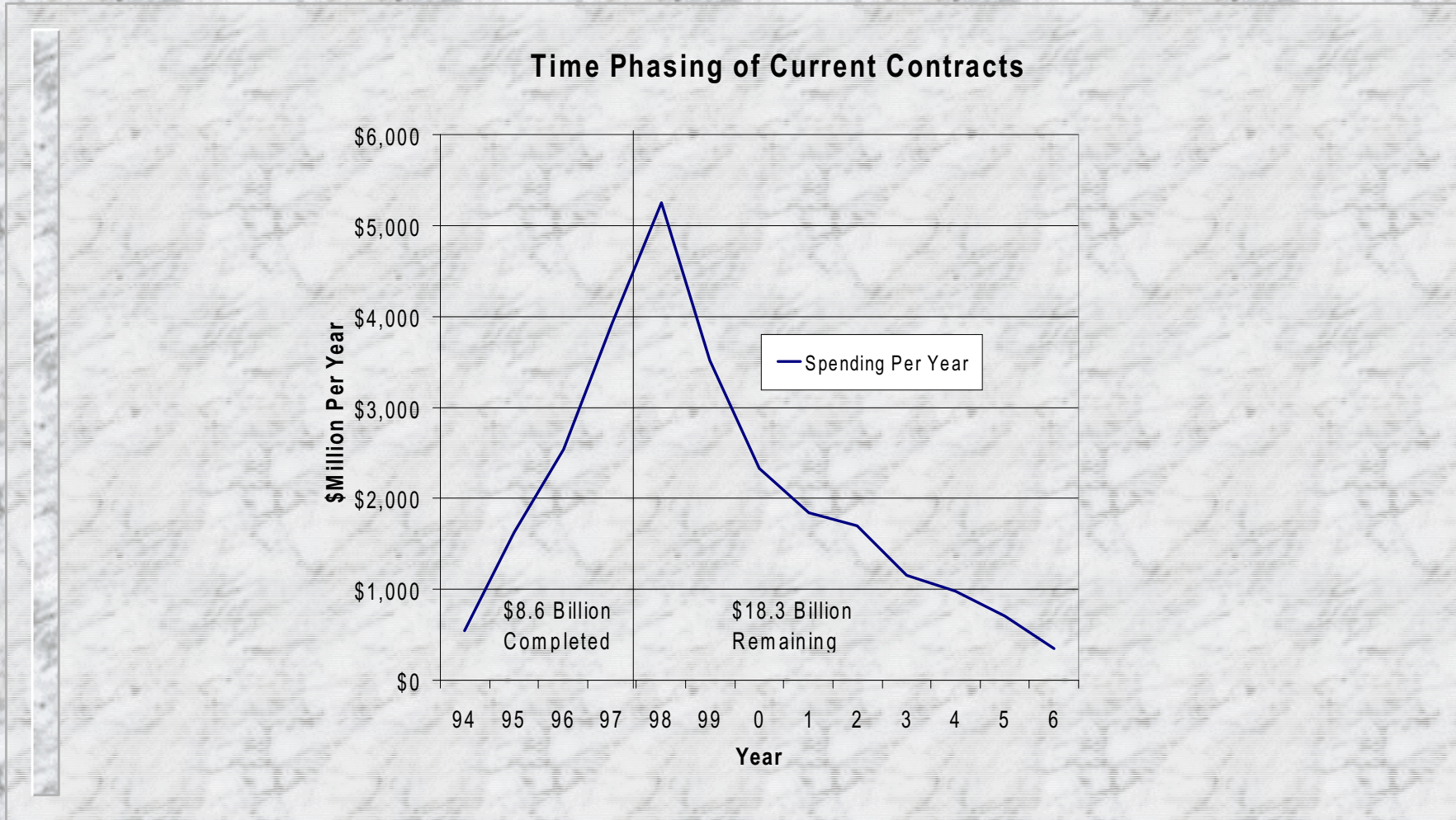
A \$27 Billion Construction Orderbook

Overview

Total Contracts As of January 1998

<i>Segment</i>	<i>Current Contracts \$Million</i>	<i>Pending Contracts \$Million</i>
US Navy	22,597	884
Other Government	603	853
Commercial Transport	1,122	3,157
Offshore	2,240	357
Foreign Sales	341	51
<i>TOTAL</i>	<i>\$26,903</i>	<i>\$5,302</i>

\$18.3 Billion Remains to Be Performed

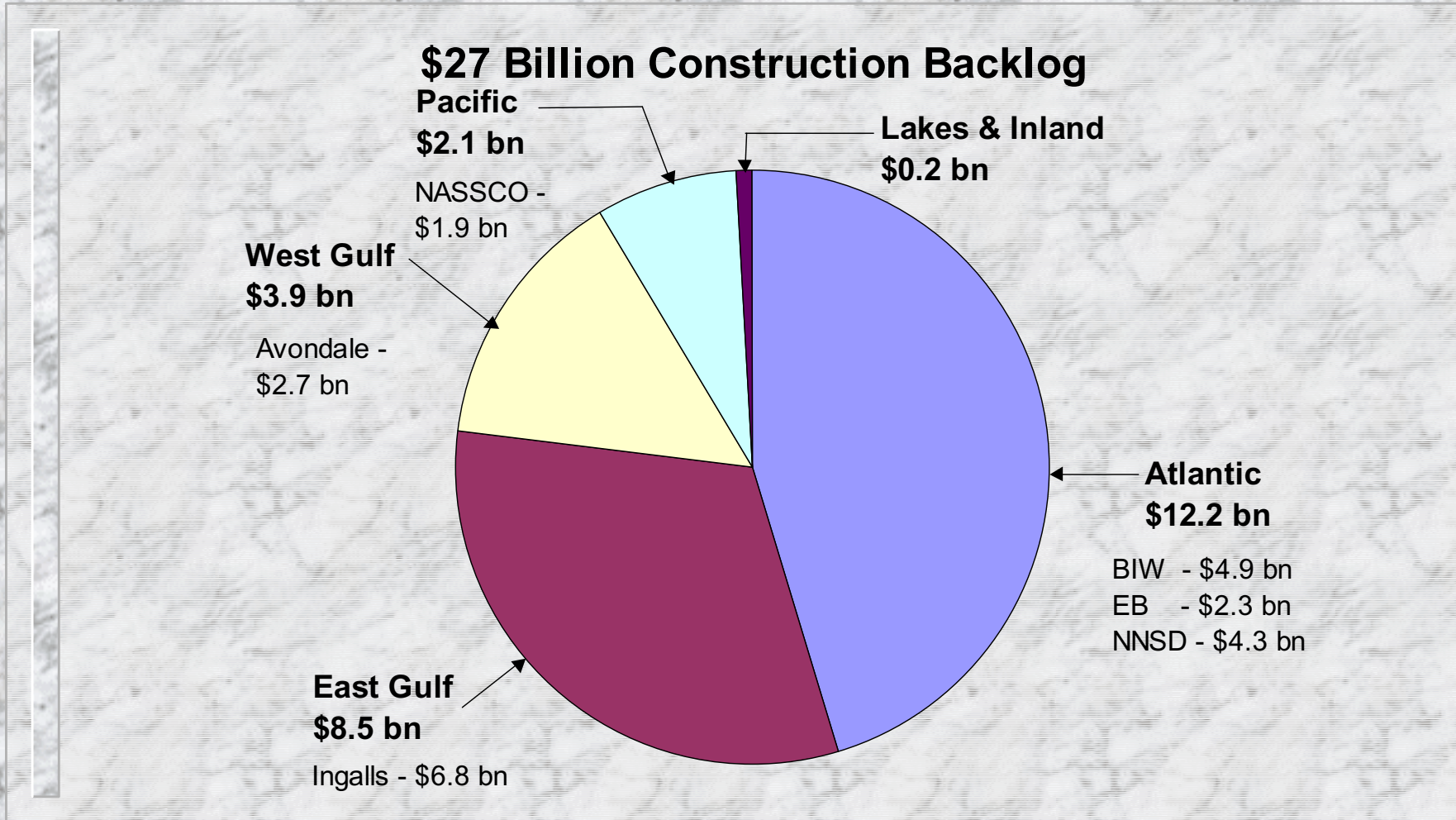


From Aircraft Carriers Down to Crew Boats

Overview

■ Aircraft Carrier	\$2.5 Billion	■ Jack-Up Rig	\$60 - 175 million
■ Attack Sub	\$1.75 Billion	■ TAPS Tanker	\$172 million
■ Amphib Ship	\$795 million	■ Semi Rig	\$80 - 137 million
■ AEGIS Destroyer	\$366 million	■ Alaska Ferry	\$85 million
■ Icebreaker	\$232 million	■ Prod. Tanker	\$27 - 49 million
■ Sealift Ship	\$218 million	■ AHTS	\$23- 37 million
■ Surveillance Ship	\$60 million	■ OSV	\$4 - 11 million
■ Minehunter	\$59 million	■ Tank Barge	\$10 million
■ Buoy Tender	\$12 million	■ Trailer Barge	\$6 million
■ Derrick Barge	\$11million	■ Liftboat	\$5 million
■ Dive Tender	\$5 million	■ Whale Watcher	\$3 million
■ Pusher Tug	\$3 million	■ Crew Boat	\$2 million

Work is Concentrated on Atlantic and Gulf Coasts



Ship Repair - A Stable Segment

- \$2.7 Billion Market (5 Year Average)
 - \$1.7 billion naval repair
 - \$1.0 billion commercial market
- Current strong commercial market led by:
 - Offshore industry
 - Cruise ship repairs
 - Performance improvements in US yards

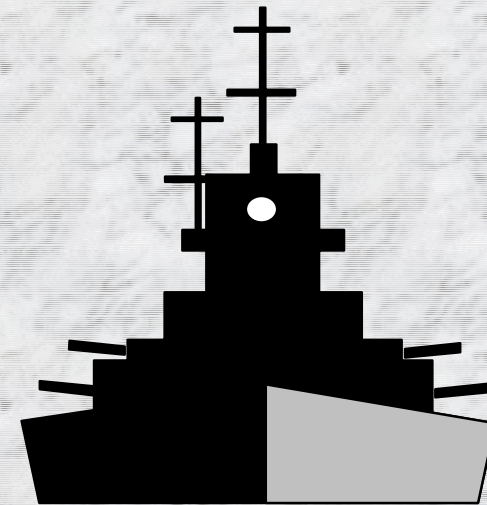
US Navy Construction

<i>Segment</i>	<i>Current Contracts, \$ million</i>	<i>Pending Contracts, \$ million</i>
Carriers	4350	
Submarines	2365	
Combatants	9815	
Aux./Amphib. Ships	2587	884
T-Ships	3352	145
Other	129	32
<i>TOTAL NAVY</i>	<i>\$22,597</i>	<i>\$1,061</i>

\$8.2 Billion in 1998 Authorizations

■ SSN-21 Continuation	\$ 153
■ New SSN	\$2315
■ New SSN (AP-CY)	\$ 285
■ CVN-77 (AP)	\$ 50
■ CVN Refueling	\$1615
■ CVN Refuelings (AP)	\$ 47
■ DDG-51 Program	\$3411
■ DDG-51 Program (AP)	\$ 158
■ LPD-17	\$ 100
■ TAG-65	\$ 16
■ LCAC SLEP	\$ 20
■ Miscellaneous	\$ 138

*Source: H.R. 2266, DOD
Appropriations Act, 1998
(Sent to President)*

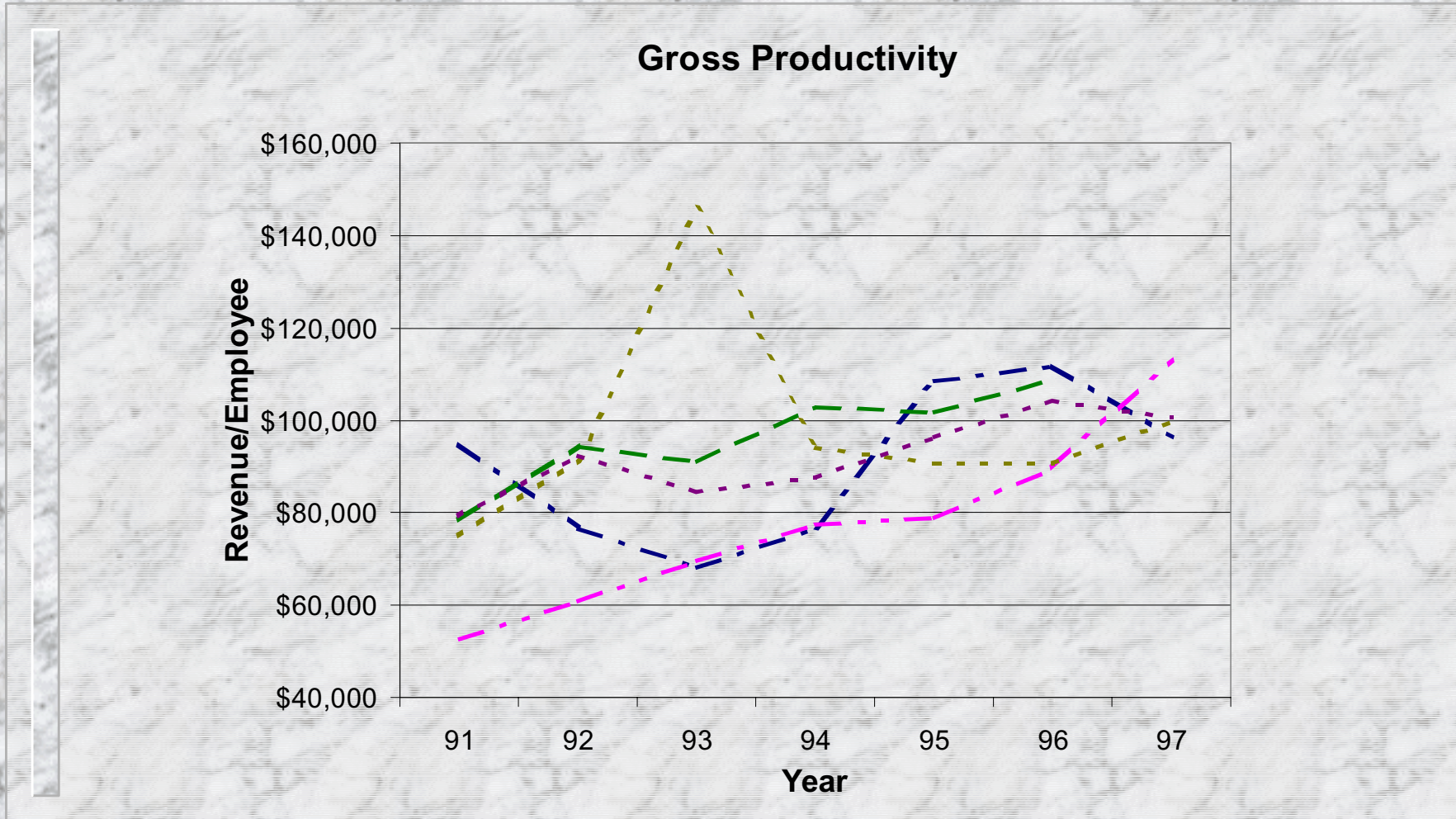


Future USN Programs

- CVX: Future Carrier Design
 - Clean sheet of paper
 - Affordability
 - Improved survivability, joint C4I, aircraft operations
- SC-21: 21st Century Combatant
 - Family of related ships with common architectures
 - Advanced capabilities with reduced life-cycle costs
- NSSN: New Attack Submarine
 - Innovative contract: four subs, two yards

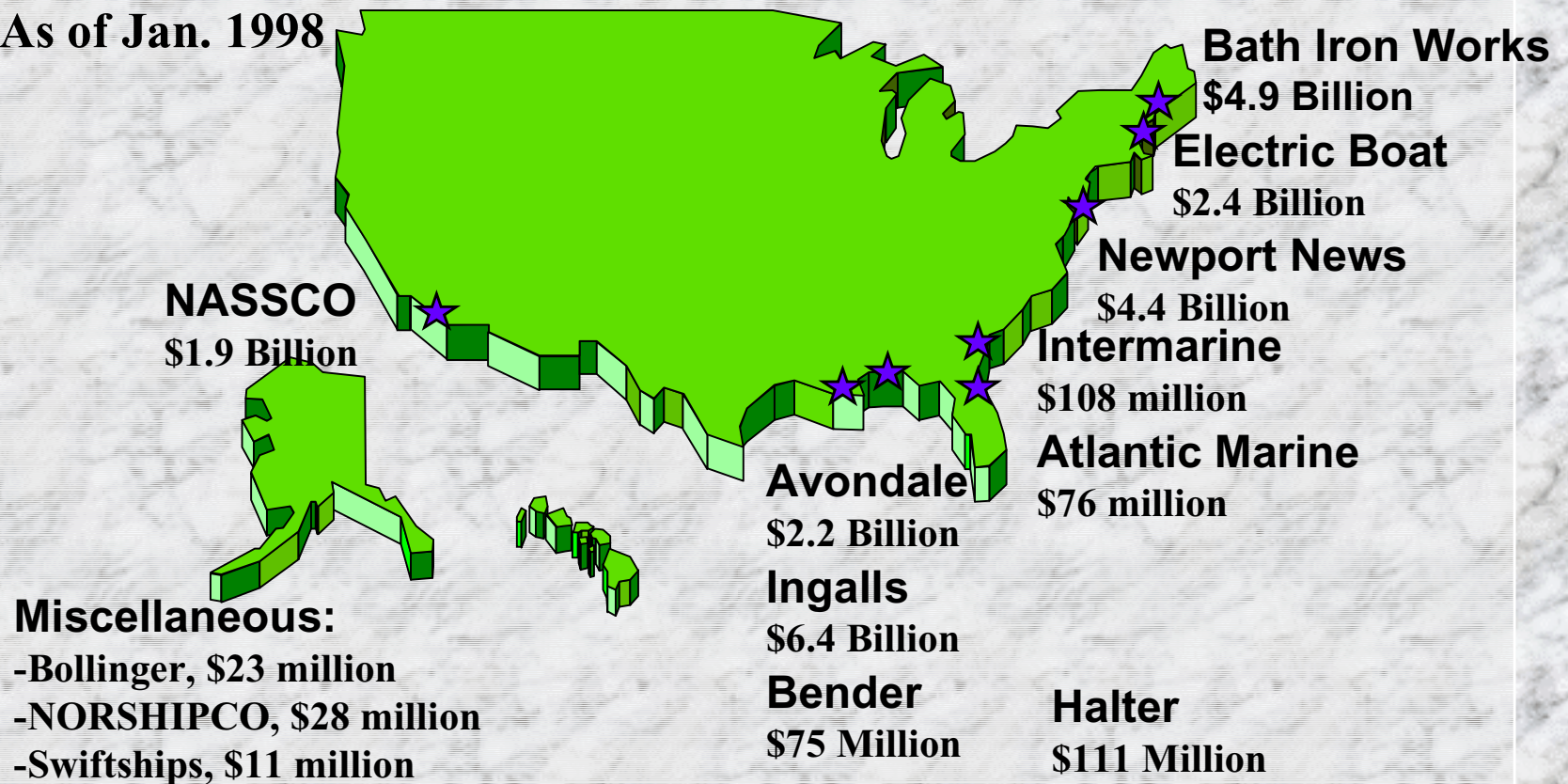
Source: Marine Log

Improved Productivity



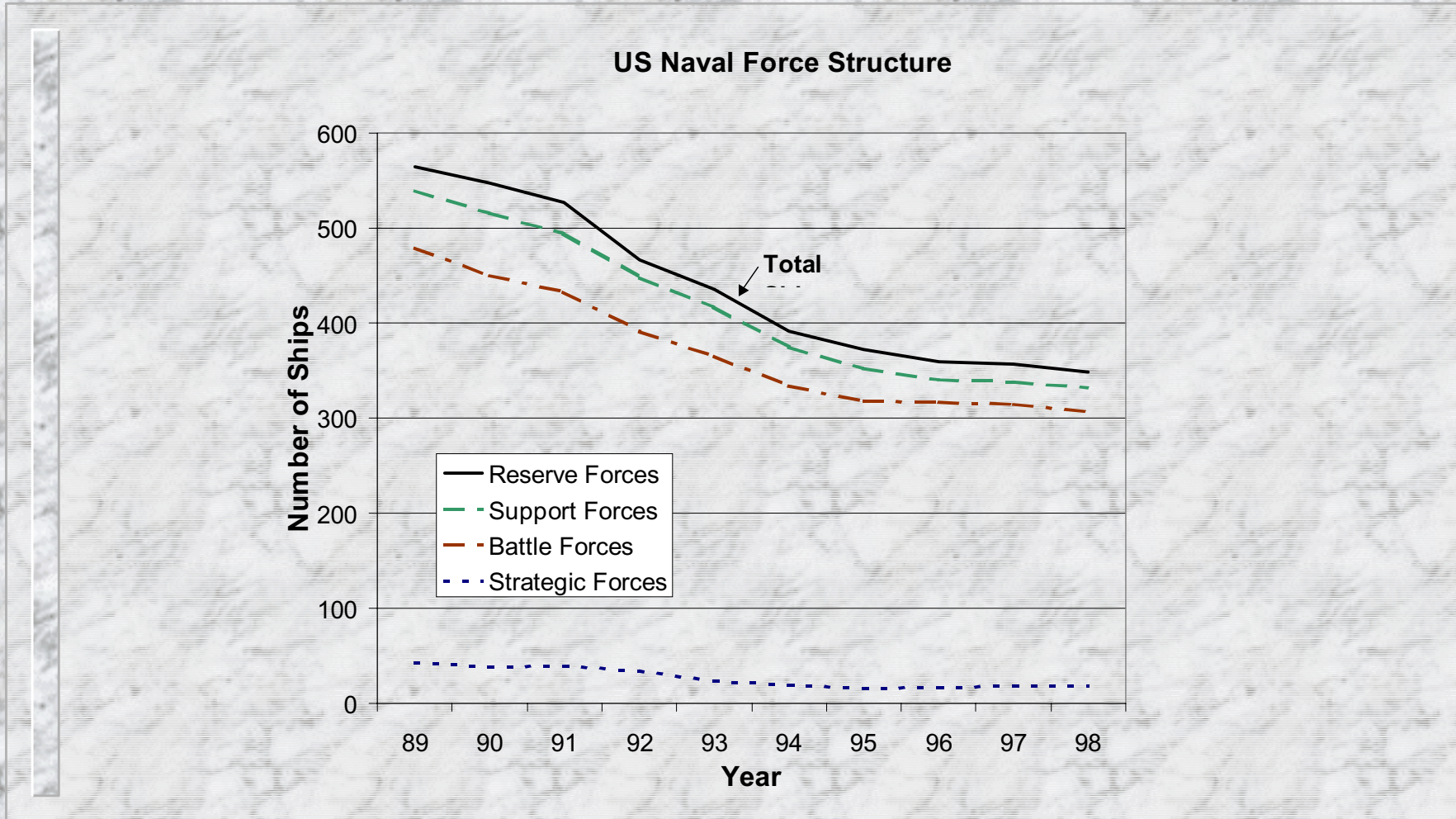
Concentration Among A Few

US Navy Backlog As of Jan. 1998



Smaller Navy = Lower Repair Expenditures

US Navy



How to Win in This Segment

Participation is already well-established:

Participant

Win: Maintain and grow sales

- Right Price
 - Communicate cost of switching
 - Share cost improvements
- Stay flexible
 - Respond to change
 - Extend product

New Entrant

Win: Capture share of any sub-segment

- Meet specifications
 - Full compliance
 - Low risk certifications
- Lower Price
 - Consider cost of switching
 - Consider advantages to prime contractor

Other Government Construction

<i>Segment</i>	<i>Current Contracts \$ Millions</i>	<i>Pending Contracts \$ Millions</i>
US Coast Guard	505	797
US Army	61	56
Other Fed. Agencies	6	
State & Local	31	
Total	\$603	\$853

Current Projects

- **USCG Buoy Boats**
 - Curtis Bay
 - \$35.5 million
- **USCG WPBs**
 - Bollinger
 - \$36.0 million
- **USCG Buoy Tenders**
 - Marinette
 - \$172 million
- **USCG Lifeboats**
 - Textron
 - \$30 million
- **US Army Derrick Barges**
 - Bollinger
 - \$40 million
- **US Army Pusher Tugs**
 - Orange Shipbuilding
 - \$16.8 million
- **New York Police Department**
 - Gladding Hearn
 - \$8 million
- **University of Connecticut**
 - Washburn & Doughty
 - \$20 million

Pending Contracts: Larger Than Current Backlog

■ **USCG Coastal Patrol Boats**

- 44 Boats
- Contract Options
- Bollinger Shipyards
- \$264 million

■ **USCG Motor Lifeboats**

- 100 Boats
- Contract Options
- Textron Marine
- \$121 million

■ **USCG Maritime Response Vessels**

- 10 Vessels, 250 ft length

■ **USCG Buoy Tenders**

- 11 Vessels, 2000 LT Displ.

■ **USCG Buoy Boats**

- 27 Boats, 150 ft length
- USCG Curtis Bay

■ **US Army Derrick Barges**

- 3 Barges
- Contract Options, \$33 million
- Bollinger Shipyards

■ **US Army Pusher Tugs**

- 6 Boats
- Contract Options, \$17 million
- Orange Shipbuilding

USCG Project Deepwater: A Long-Term Opportunity

- Long-term replacement of USCG vessels (WHEC and WMEC) and aircraft
- Objectives
 - Improved performance (better C4I, increased speed, increased boarding capability)
 - Reduce lifecycle costs (smaller crews, decreased maintenance costs, lower environmental compliance costs, ability to utilize other agencies' assets)
 - Increased availability of vessels
- Requirements
 - \$7.25 - \$15 Billion (FY 98 dollars)
 - Initial Operational Capability Date , 2002 - 2005
 - RFP issued for Phase 1

Source: USCG Mission Needs Statement, 3 May 1996

How to Win in This Segment

Focus on the Future -

Near Term

- **Gain share on pending programs**
 - Best price, including cost of switching
 - Best service to yards

Long Term

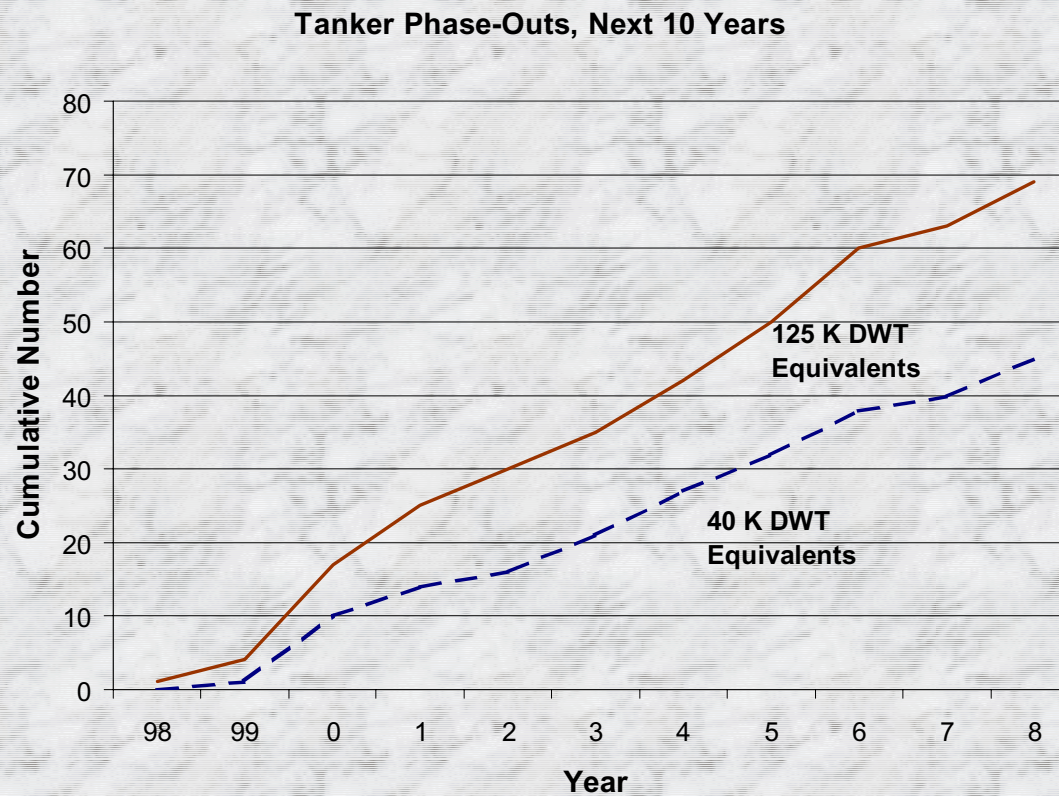
- **Participate in Project Deepwater from the start**
 - Learn about the program *now*
 - Establish contact with industry teams
 - Respond creatively

Commercial Transport

<i>Segment</i>	<i>Current Contracts \$ Millions</i>	<i>Pending Contracts \$ Millions</i>
Tankers	499	1555
Dry Cargo Ships		120
Ocean-Going Barges	35	138
Passenger Ships & Boats	377	1135
Workboats	110	209
Megayachts	100	
Total	\$1,121	\$3,157

Tanker Phase-Outs: More Replacements?

Commercial



Other Commercial Ships May Be In the Offing

■ Cruise Ships

- American Classic Voyages seeks 2 ships
- 1800 + passengers
- First ship by 2004

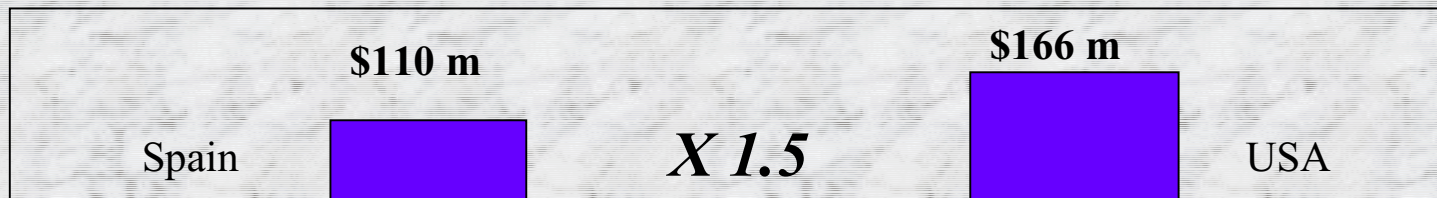
■ Container Ships and RO/ROs

- Focus of new Kvaerner-Philadelphia Yard
- Replacements for US Flag ships?

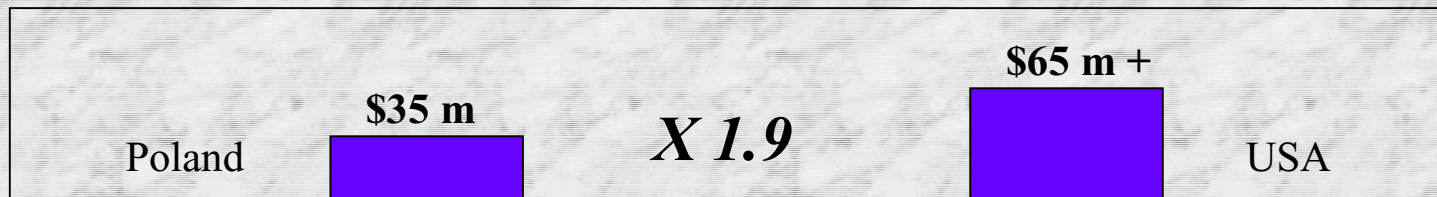
But We Still Can't Hit the Buyer's Price Point

Commercial

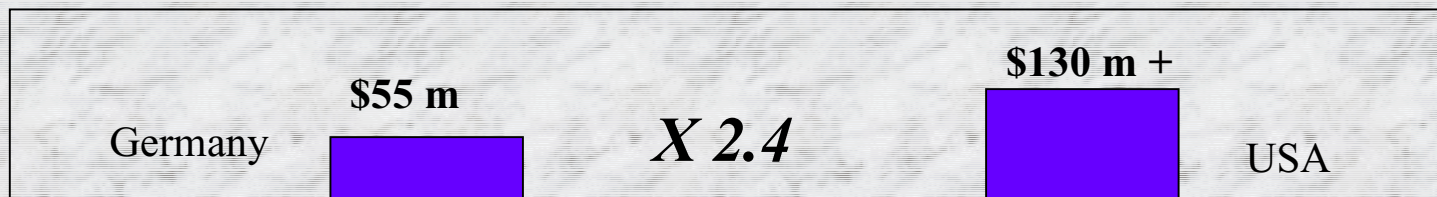
125,000 Dwt Crude Tanker



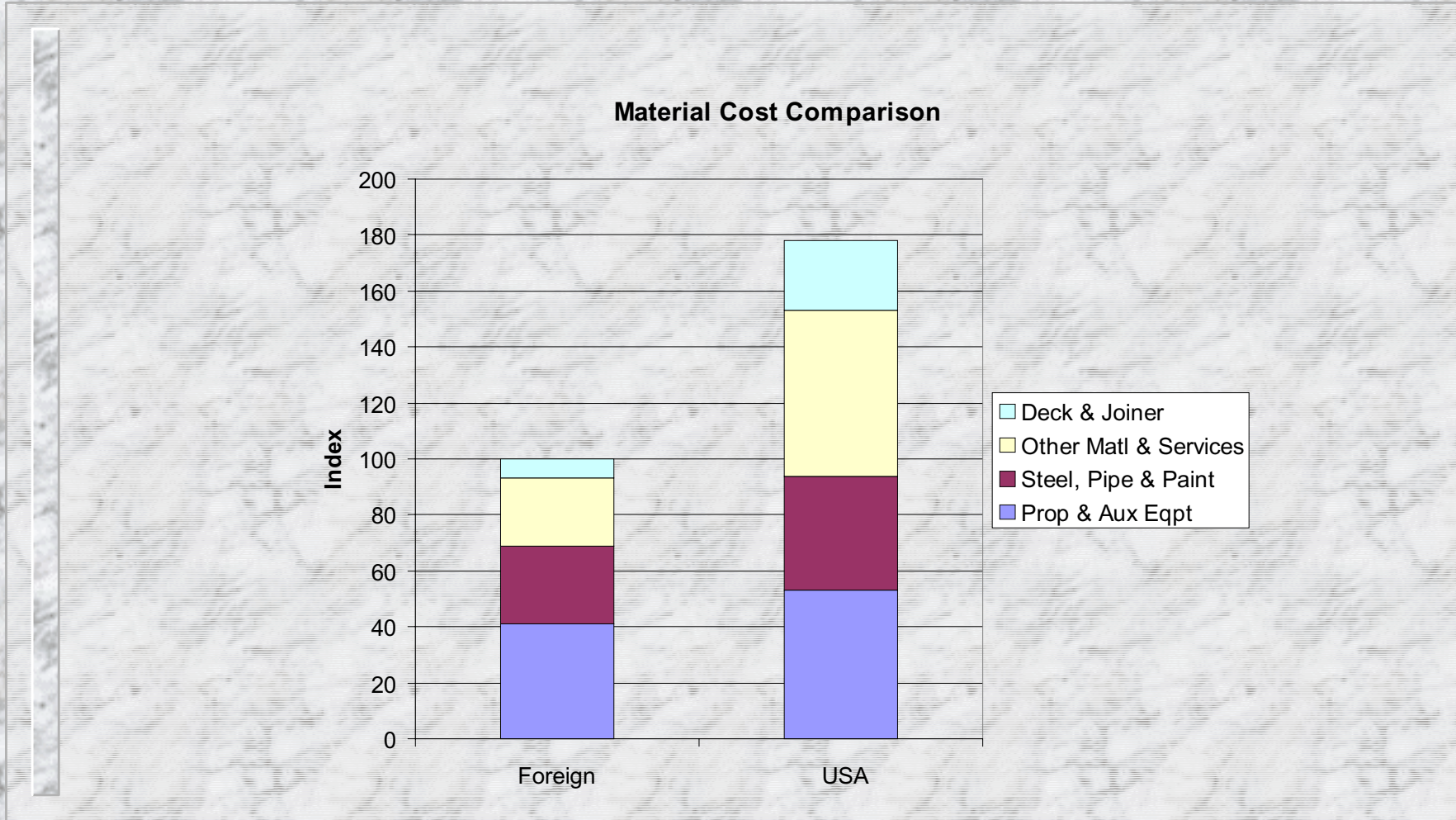
40,000 Dwt Products Tanker



2100 TEU Container Ship



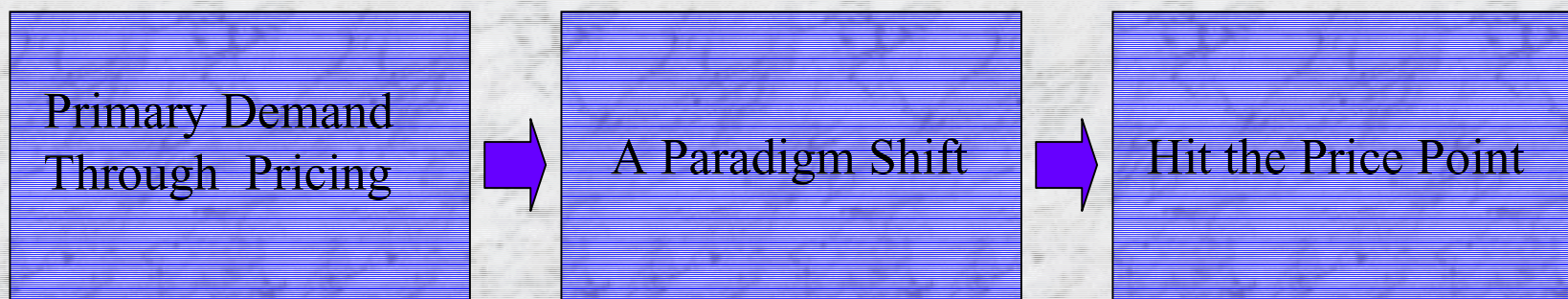
Material Cost Reductions are Required



How to Win in This Segment

A **Paradigm Shift** can move US yards into a more competitive position, and make a market for new ships:

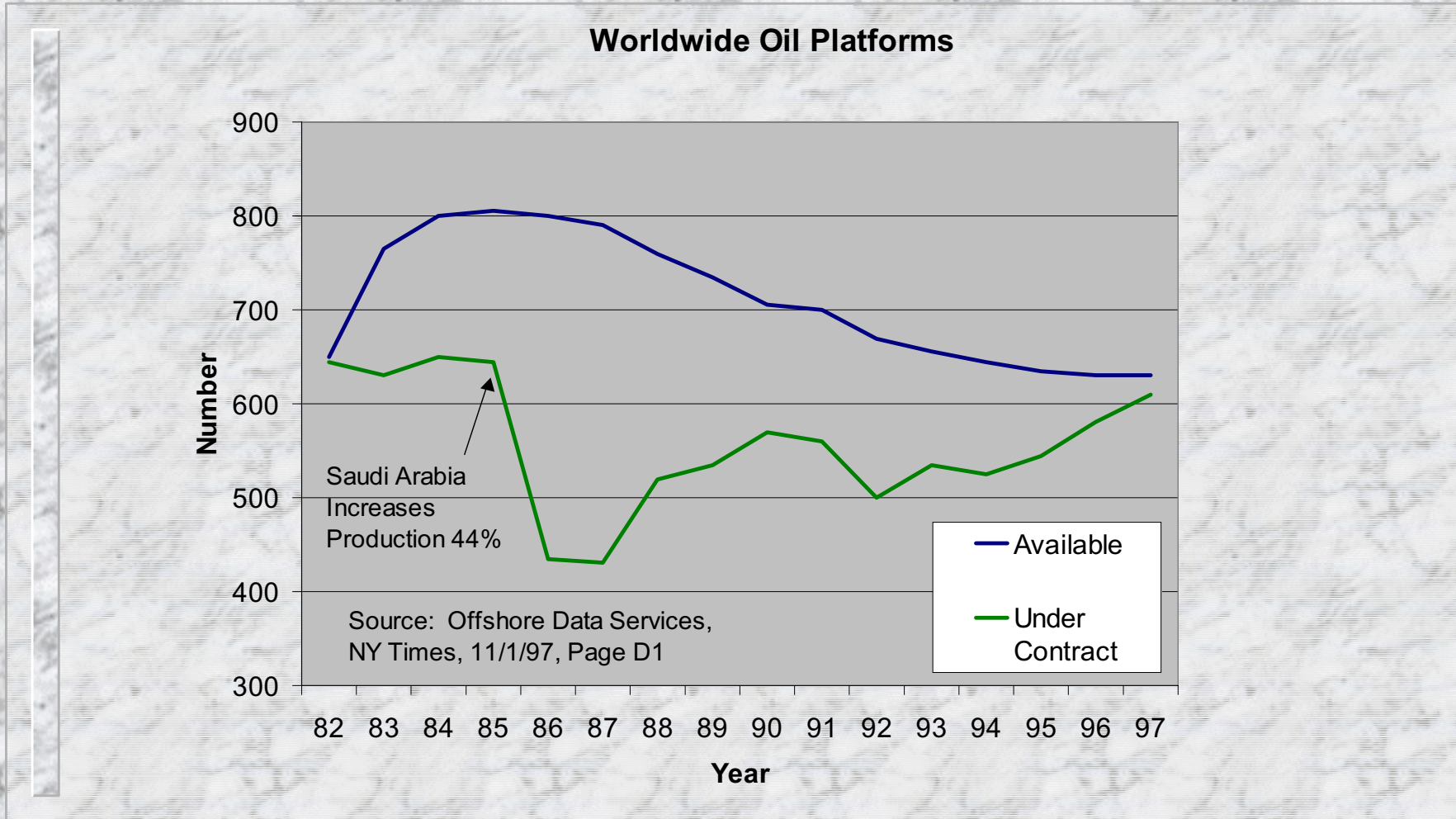
- Process Reengineering
- Organizational Redesign
- Technological Innovation
- Improved Material Definition and Sourcing



Offshore - The Most Robust Commercial Segment

<i>Segment</i>	<i>Current Contracts \$ Millions</i>	<i>Pending Contracts \$ Millions</i>
Jack-Up Rigs	903	
Semi-Submersibles & Drill Ships	724	
Supply & Support Boats	613	357
Total	\$2,240	\$357

Rigs: Strong Fundamentals



US Suppliers: Globally Competitive

■ Recent Semi-Submersible Contract

- Gulf Coast Yard
- Korean Yard
- Parity for construction to same design

■ Support Craft - Sophisticated AHTS

- Gulf Coast Yard
- North European Yard
- US Yard within 10% of European Yard

But China is now entering this segment

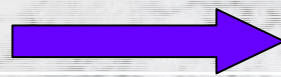
Current Offshore Projects

- **Jack-Up Rigs**
 - 3 rigs for Rowan Offshore
 - \$555 million
 - Le Torneau, Inc.
- **Jack-Up Rigs**
 - 4 rigs for Chiles Offshore
 - \$256 million
 - 2 by AMFELS
 - 2 by TDI Halter
- **Jack-Up Rigs**
 - 1 rig for Perfador
 - \$92 million
- **Semi-Submersibles**
 - 4 rigs for Noble Drilling
 - \$160 million
 - HAM Marine
- **Semi-Submersibles**
 - 3 rigs; different owners
 - \$334 million
 - HAM Marine
- **AHTS**
 - 5 on order
 - \$149.5 million
- **OSVs**
 - 51 on order

Source: Colton & Company

How to Win in This Market

- No fear - it's not all that different
- Normal competitive forces
 - Strength of suppliers
 - Strength of customers
 - Threat of substitute
 - Threat of new entrants
- Standard marketing tactics
 - Strategic pricing
 - Market-based products
 - Adequate promotions
 - Realistic positioning



Expand pie or win share

Foreign Sales

■ \$341 million current contracts

- Patrol Boats for Bahamas; \$26 million at Halter-Moss Point
- Frigates for Venezuela; \$315 million at Ingalls

■ \$51 million pending contracts

- Fast Patrol Craft for Sri Lanka; \$15 million at Halter - Equitable
- Options on 4 additional Patrol Boats for Bahamas; \$36 million at Halter-Moss Point

Tackling a Large, Diverse Market

- Take one step at a time:
Understand the market segments
- Keep your eye on the ball:
Identify the buyer and their needs
- Stay focused:
Maintain share or capture new share