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## RESPONSES TO FY2023 AGM SHAREHOLDER QUESTIONS

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The Board of Directors (the “**Board**”) of the Grand Banks Yachts Limited (“Grand Banks” or the “Company”) refers to the Company’s FY2023 Annual Report and the Notice of Annual General Meeting (“AGM”) announced on SGXNet on 10 October 2023 and updated on 19 October 2023 and, in particular, requesting for shareholders to submit questions in advance of the AGM.

The Company would like to thank shareholders for submitting their questions in advance of our AGM. Please refer to the questions received from shareholders, and the Board and Management’s responses.

### **Question 1**

**Does the company have plans to grow the ancillary sales such as brokerage income, service income and trade-in boats? If yes, can the company share the plans to grow this segment of the company and provide a short-, and long-term goal for the segment.**

The Company’s core business is the design and manufacture of luxury pleasure motor yachts at its manufacturing facility in Pasir Gudang, Malaysia, and is supported by two facilities, one in Stuart, USA, and the other in Newport, Sydney, Australia, both of which provide after-sales services.

While ancillary businesses such as brokerage sales, service income and trade-in sales do add to revenue and complement the business, these are not core activities.

### **Question 2**

**The decision to double the dividend payout from the previous year is undoubtedly a positive step, reflecting the management's confidence in the long-term growth prospects of our company. I believe that the strengthening of cash reserves and fixed deposits also demonstrates prudent financial management and positions the company favourably for future opportunities. Grand Banks Yachts' current share price appears to be significantly undervalued relative to the company's intrinsic value. Will the board also consider a share buyback program?**

Boat building is a capital-intensive business. The Company takes a prudent approach to prioritise capital for business growth such as the ongoing expansion of the Pasir Gudang facility and to cater for sufficient working capital to weather potential disruptions that may arise from geopolitical or other uncertainties.

Shareholders should note that the Company’s cash balance includes customer deposits for the construction of yachts ordered by customers. Hence, there are no plans to implement a share buyback mandate.

### **Question 3**

**How is the manpower situation right now – has workers strength returned to pre-Covid levels? What is the average waiting duration now for a client placing a new order?**

The Company's headcount has risen to 880 in tandem with the increase in boat orders as marketing and operations gradually resumed following the disruptions caused by the pandemic. In fact, headcount has surpassed levels before the pandemic (FY2019: 818).

Depending on the size of the boat, the current average delivery time for an order placed can range between 17 to 20 months.

### **Question 4**

**Given that "short-term customer demand expected to soften amid growing economic uncertainty" as noted in the annual report, any risks to the planned expansion of the Malaysia facility if demand falls as expected?**

The Company had carefully assessed the risks before embarking on the expansion of the Malaysian facility.

The Company views the factory expansion as a long-term investment, in line with anticipated long-term business growth. The current level of the Company's order book has resulted in longer wait times, which could potentially deter prospective new customers.

Upon completion of the expansion of the factory (expected in August/September 2024), the Company is expected to reduce the order backlog in the short term. In the medium to long term, we will be able to highlight shorter delivery times so as to encourage new sales.

Meanwhile, the Group's healthy order book will help cushion short-term market challenges.

### **Question 5**

**Is management confident of sustained demand in the event of a recession?**

In recent months there has been a general slowdown across the entire luxury boating sector globally. However, based on the visitor attendance at the recent Cannes Yachting Festival in Europe and the Annapolis Powerboat Show in the USA, the Company remains cautiously optimistic even as it evaluates the potential impact of recent geopolitical events and global economic developments.

### **Question 6**

**GBY has built bigger and larger boat models, such as the recently debuted PB 85. Will management consider building even bigger models going forward – With an increasing number of models under its capacity, how will the company maintain its focus and reduce risks of non-performing models?**

By attending international boat shows, we remain in close touch with customers and potential customers. Our evolving product offerings are in line with market trends.

The Company constructs its bigger boat models on a built-to-order basis only. This minimises the risk of non-performance, and allows us to strike an optimal balance among factors such as product range, profit margins, and operational efficiency.

### **Question 7**

**Can management explain the rationale for building 25% more production capacity despite the weakening customer outlook as explained in your annual report?**

Please refer to the response to Question 4.

### **Question 8**

**While dividends have doubled to 1 cent last year, it nevertheless has not kept pace with the more than doubling in profits from \$4mln to \$10mln, implying a lower dividend payout ratio. Can management explain why dividend payment has not kept pace with the profit growth despite being in a net cash position of \$36 million? Can the good dividends be sustained going forward?**

The Board takes a prudent approach to conserve cash in order to i) fund its ongoing factory expansion; and ii) maintain sufficient working capital to sustain current operational requirements and swiftly respond to any changes in the operating environment.

The Company also wishes shareholders to note that the \$36 million cash position includes deposits and advance instalments from clients who have ordered boats. Hence, this cash position is not entirely “free” cash. (Please refer to the response to Question 11 below)

Management is focused on delivering good financial performance and takes a long-term view of delivering stable and sustainable dividends. The Company had declared dividends in the past 3 years, with the proposed dividend for FY2023 doubling to 1.0 Singapore cent from 0.5 Singapore cent for the previous year.

### **Question 9**

**The 2H performance was much better versus 1H of the last financial year. Can management explain the reasons for the significantly better performance in 2H of last financial year and can this strong performance be sustained going forward into the new financial year? is 1H or 2H more reflective of what can be expected going forward?**

Towards the end of the first quarter of FY2022, the Company made several tweaks to its manpower scheduling and overtime policies and the benefits have filtered into the current financial year. This led to more boat-building hours recorded in 2H FY2023.

The Company expects to sustain this trend of man-hour productivity going into FY2024.

### **Question 10**

**How will the increased production capacity be financed?**

As announced on 6 July 2023, the planned expansion of the Pasir Gudang facility will be funded by a combination of internal resources and a bank loan.

### **Question 11**

**Given the higher interest rate environment, how can GBY capitalize on our strong net cash position of \$36 million on the higher rate environment?**

As mentioned in Question 2, as boat building is a capital-intensive business, the Company prioritises capital for growth and to weather potential uncertainties in the market.

Our cash position includes customer deposits of S\$22.5 million (see Note 21 on Page 115 of FY2023 Annual Report), which are advance payments from clients that will be required to finance boat construction. As such, these monies must remain unencumbered.

Apart from these customer deposits, the Company places its surplus cash in short-term fixed deposits to optimize returns while ensuring a sufficient level of working capital for its business.

### **Question 12**

**How will our balance sheet look like in the year ahead, given that we have to finance the 25% increased production capacity?**

As announced on 6 July 2023, the expansion will cost approximately S\$9 million (RM 30 million) which will be financed via a bank loan and internal funds. The construction is expected to be completed by August/September 2024. Therefore, the Company expects that the balance sheet in the year ahead will factor in the loan drawn down to finance the expansion and the addition of new factory assets.

### **Question 13**

**It seems that our record sales, profitability and dividend performance has not been recognized or appreciated by the market as evidenced by the muted share price reaction and performance. Can management explain how they can help the market and investing public better appreciate our company's good efforts and performances especially as HK-listed peer Ferretti is trading at a much higher PE of 15x and price to book of 1.3x against our 5x PE & 0.8x book respectively.**

### **Investor Relations (IR) Activities**

The Company engages an external professional Public Relations/ Investor Relations firm to support its IR activities. These activities include drafting of press releases on corporate developments and voluntary quarterly updates on financial performance, media interviews, investor briefings, and analyst meetings. The Company updates shareholders on these activities in a regular and timely manner. The Company also organises factory tours for shareholders and analysts, with its most recent tour conducted in February 2023.

All material information has been communicated and disclosed openly and in a timely manner.

Grand Banks remains committed to proactive IR outreach to enhance transparency and communications with shareholders and the investment community. However, how the market ascribes value to its shares is beyond the Company's control.

### **Comparison**

There are many varying factors between Grand Banks Yachts Limited and the referred company, such as listing location, market capitalisation, revenue and net income comparisons amongst others. The listing jurisdictions in terms of liquidity and market values of similar companies traded on SGX and HKEX may also vary considerably. It is not a like-for-like comparison. Shareholders may also be aware of discussions in recent media reports about the challenges facing the Singapore equity market.

#### **Question 14**

**On the dividend payout ratio, given our strong net cash position of \$36 million that the current payout ratio is only 20% against the Singapore market's average payout ratio of 50% and also HK listed Ferretti's 30+% payout ratio, would management consider to improve our company's payout ratio moving forward, to close the gap with the market rate?**

[Please refer to responses to Question 8 on dividend payout and Question 13 for the comparison with HKEX.](#)

#### **Question 15**

**Would management consider some share buy backs given that our shares are relatively under-valued compared to our earnings, net assets and also the high earnings yield, especially as the company remains in a strong net cash position?**

[Please refer to the response to Question 2.](#)

#### **Question 16**

**Our peer HK-listed Ferretti made S\$10.5 million profit last year against our S\$10million profit. Yet they have 6 broker houses covering them, and they command a PE ratio of 15x. Given that our profit base of \$10 million is not too different from theirs, what are the proactive steps that management is taking to try to get more research coverage and also more publicity to help us achieve a valuation that can be closer to Ferretti's?**

[Please refer to the response to Question 13 for the comparison with HKEX.](#)

#### **Question 17**

**Considering Grand Banks' current strong financial position, characteried by a resilient balance sheet and stellar financial performance, our dividend payout ratio currently stands at just 18%. Over the past three years, this ratio has shown remarkable stability, fluctuating modestly within the range of 18% to 23%. Given the company's robust financial health, I'm inclined to believe that this ratio may be somewhat conservative.**

**In light of the Chairman's explicit commitment to enhancing shareholder returns, as mentioned on page 3 of the annual report, I am interested in understanding whether there are strategies or considerations in place to potentially elevate the dividend payout ratio beyond its current levels. Your valuable insights on this matter would be highly appreciated.**

[Please refer to the response to Question 8.](#)

## **Question 18**

**I would like to inquire about Grand Banks' existing executive compensation plan and employee share option/share plan. Could you please provide insights into the underlying basis of these plans, including the key performance metrics and benchmarks employed in determining executive compensation and employee share options?**

**Furthermore, I would like to propose the integration of return on capital metrics into these plans. By incorporating return on capital as a performance metric, we can promote intelligent capital management and align executive and employee incentives more effectively with long-term shareholder value.**

**In addition, I would like the company to explore the possibility of including elements in the executive compensation plan and employee share option/share plan that encourage long-term alignment, such as a component that assesses multi-year performance. Could you please share your thoughts on these suggestion, and let us know if the company is considering or has already implemented such measures?**

[Please refer to Principle 6 of the Corporate Governance Report \(Page 33 of FY2023 Annual Report\) which details the Procedures for determining Remuneration Procedures.](#)

[The Execution Compensation plan was developed in conjunction with an external HR consultant who benchmarked against executive compensation across the Singapore market and relevant industries.](#)

[The compensation plan ensures that the Company remunerates competitively, incentivises for performance and retains key executives for the short and long term.](#)

[As outlined in Principle 7 of the Corporate Governance Report \(Page 35 of the FY2023 Annual Report\), a significant proportion of executive directors' and key management's remuneration is linked to individual and corporate performance.](#)

[Further alignment with shareholders is achieved through the grant of share options to directors and key executives where the vesting period is over 3 years, as announced on 6 September 2023.](#)

[These incentive schemes to retain key staff align the interests of management with shareholders.](#)

[The Remuneration Committee and the Board thank the writer for his suggestions including return on capital metrics and will work with the external HR Consultant on future effective compensation exercises.](#)

## **Question 19**

I would like to reference a Bloomberg article from 2015 titled 'Is Investor Relations Responsible for the Share Price?' accessible via the following link: <https://www.bloomberg.com/professional/blog/is-investor-relations-responsible-for-the-share-price>. This article underscores the significance of Investor Relations in comprehending the company's investment proposition, effectively communicating future prospects, and ensuring the company's valuation aligns with its true potential, particularly through trust, reliability, and transparency. Moreover, the article suggests that Investor Relations should consistently analyze and identify factors that may hinder the shares from achieving fair value.

In the realm of Investor Relations at Grand Banks, we seek your insights on the following:

- a. **Could you provide an overview of the company's strategy for effectively communicating its investment proposition and future prospects to a broad range of potential investors?**

Please refer to the "IR Activities" portion of the Company's response to Question 13.

- b. **Within the company, who holds the responsibility and accountability for overseeing Investor Relations activities? Additionally, have any key performance indicators been established to assess the effectiveness of these activities?**

The Company's Board oversees Investor Relations as part of communications with shareholders and investors whereas management handles the day-to-day IR activities in coordination with the external IR firm.

While we maintain an active IR programme, we do not have any quantitative indicators to assess effectiveness.

- c. **Do we have the most effective strategy in place for our investor relations efforts? I would like to reference the investor tours of the Pasir Gudang yard. While I appreciate the emphasis on shareholders, it's worth questioning whether the current approach is the most efficient. I would like to suggest considering the invitation of research analysts and members of the media to these tours. They could help amplify our message to a broader market audience and, in turn, reach more shareholders. I understand the current emphasis on shareholders, but it's worth noting that the tour's timing, in the midst of the reporting season, may pose challenges for many analysts to attend. Additionally, it appears that no media reporters have been invited to date. Could you provide some insights into the rationale behind the current strategy, and whether there is room for adjustment to ensure our investor relations efforts are optimized?**

The Company would like to clarify that invitations to the yard tour were not exclusive to investors. Several research analysts from various brokerage firms accepted the invitations, attended the February 2023 yard tour, and engaged in a lively question-and-answer session with the Company's CEO. Arising from this visit, research reports from two different brokerages were released in February 2023.

We note the writer's suggestion regarding the timing in February, and will take that into account for future yard visits. The timing in February 2023 was to coincide with the CEO's presence at the Pasir Gudang yard.

- d. **After our recent announcement of outstanding financial results, I've observed a conspicuous lack of media and research coverage. Moreover, I have not come across any information about investor roadshows or analyst briefings being organized. I wish to express my concern to the board that our current level of visibility and engagement appears to be falling short of our potential. Are there opportunities for improvement in this regard?**

**I acknowledge the challenges presented by external market conditions and firmly believe that dedicated efforts can exert a significant and positive influence on optimizing our share value. I strongly disagree with, and will oppose, the notion that our efforts will be in vain due to challenging market conditions. It is imperative that the board ensures the allocation of sufficient effort in this regard. Your insights on these critical matters are of great importance to us.**

[At no time has the Company stated that IR efforts are in vain due to challenging conditions. Our active IR programme as outlined earlier would suggest otherwise.](#)

[Media and research firms are updated regularly on any press release or result announcement released by the Company; media and research coverage are subject to the discretion of editors and research houses.](#)

[If you have followed media coverage on Grand Banks, you would also have noted the publication of an in-depth interview with the CEO in the Business Times' Topline column as recent as 10 July 2023. Over past years, there had been similarly substantive media reports.](#)

#### **Question 20**

**I find it intriguing that our order book has surpassed \$150 million since the end of December 2022. This suggests that new orders received may only begin the yacht construction process in more than a year's time, which, when factoring in the time required to complete the yachts, implies that customers may have to wait approximately 2 years or longer to take delivery of their yachts.**

**I am curious whether the extended lead time has posed challenges to maintaining our current order book, which exceeds \$150 million. Could you please clarify if the decision to expand our Malaysian facility by more than 25% is partly aimed at addressing this extended lead time to safeguard against potential customer orders going to other yacht builders? Your insights on this matter are of great significance.**

[Please refer to the response to Question 4.](#)



### **Question 21**

**I would like to draw your attention to page 3 of the annual report, where it is mentioned, 'The post-pandemic environment remains volatile, with short-term customer demand expected to soften amid growing economic uncertainty.' Could CEO Mark Richards provide his perspective on whether the current soft demand is a broader industry-wide trend or if it has more specific implications for Grand Banks? Additionally, could we gain insights into whether our fellow yacht builders are encountering similar extended lead times in delivering new customer orders?**

**Furthermore, if there are any additional insights regarding this anticipated slowdown, we would appreciate hearing them. Mark has previously mentioned that Grand Banks doesn't need to build many yachts each year to perform well. Does he foresee this slowdown having a notable impact on Grand Banks and whether he is confident of navigating this anticipated slowdown? Your insights on these matters would be highly valued.**

The Company believes that overall demand has slowed due to the resumption of leisure travel amid the lifting of border restrictions following the pandemic. That said, judging by attendance statistics for two recent boat shows (refer to response to Question 5), the Company remains cautiously optimistic.

The lead times of other yacht builders are not shared publicly and we are not in a position to comment. In any event, yacht builders have different manufacturing processes and approaches to boat building, and it would not be a fair comparison.

The CEO is confident in the Company's current trajectory, buoyed by great products, excellent manufacturing facilities and an excellent team. Global uncertainties remain the biggest challenge. The Company will respond accordingly to market conditions.

### **Question 22**

**In 2021, the Chief Business Officer role was established. Could the board please provide an update on the current scope of this role and whether the intended objectives for this position have been successfully accomplished?**

The Chief Business Officer ("CBO") oversees the overall running of the Company's subsidiaries in Australia and USA. He also handles special projects such as the migration of the Company's legacy Enterprise Resource Planning and Financial Systems to a new platform.

The role supports the CEO and frees the CEO to focus on other critical areas such as the design and development of new boat models through engaging with customers.

### **Question 23**

Referring to page 180 of the annual report, I came across the inspiring story of Mr. Samuel Henry Compton III, a long-serving employee at Grand Banks. Mr. Compton's journey within the company, from joining as a Senior Executive in the MEP department to assuming the role of Managing Director of the Group, is truly remarkable.

I am curious about the decision for Mr. Compton to relocate back to Malaysia after a 4-year assignment in the USA. Could you please shed light on the reasons behind this decision and how it is expected to impact or benefit the company going forward?"

Movement or re-designation of senior executives is part of the process of developing key managers and providing career progression. Mr Compton has rotated in different roles in Australia, Malaysia and the USA, and has been given the opportunity to develop himself professionally. In the process, he continues to offer invaluable experience to the Group.

### **Question 24**

Referring to Mr. Jack LeFort's testimonial on page 191 of the annual report, it's clear that Grand Banks yachts are highly regarded for their meticulous attention to detail and exceptional performance. Mr. LeFort's experience with the Grand Banks 60 is truly remarkable.

I would appreciate hearing from CEO Mark Richards about what distinguishes Grand Banks yachts and makes them unique in the market. Furthermore, I'm interested in understanding how Grand Banks measures up against its competitors regarding the qualities and experiences that Mr. LeFort has praised in his testimonial.

The combination of hull design, new construction materials and our unique build philosophy has attracted boat connoisseurs such as Mr LeFort. The yachts' distinguishing features have been well articulated in the Company's press releases, announcements, annual reports, marketing materials and website.

### **Question 25**

On page 52 of the annual report, shareholders are encouraged to communicate with the Directors, officers of the Company, and its investor relations firm with questions and concerns. It's noted that the names and contact details of these key officers and the investor relations firm are available in the Corporate Information section of the annual reports. However, it appears that email addresses for these key officers and the investor relations firm are not provided.

To enhance accessibility and provide a convenient means for shareholders and investors to reach out, could the company consider including email contact information for these key officers and the investor relations firm?

For all the Company's Press Releases, the names and contacts of our CFO, and IR representative, including names and email addresses, are clearly stated. Our Company and IR representatives regularly field calls from shareholders, investors, analysts and the media. Most of them know our representatives or have easily located the contacts from the website and press releases. The Company routes all investment-related enquiries through our IR consultant to ensure effective management of IR activities and consistent messaging.

### **Question 26**

As more than nine years have passed since CEO Mark Richards assumed leadership, it would be valuable to hear from Mark about his perspective on the accomplishments that have significantly benefited the company during his tenure. Additionally, it would be insightful to understand any insights gained from actions or decisions that he considers less successful during this period.

Furthermore, can Mark share his confidence in the company's current trajectory and why he believes that everything is starting to come together after these nine years? Additionally, could he provide his vision for how the company is expected to evolve over the next five years, highlighting the anticipated differences and developments that he envisions?

Since Mark's appointment in 2014, he has modernised the Grand Banks product lines and incorporated new technologies to improve the performance and efficiency of each yacht. Through his efforts, the Company has recorded 8 consecutive profitable years.

As mentioned in the response to Question 21, Mark is confident in the Company's current trajectory, despite the rising economic uncertainty and post-pandemic issues such as geopolitical tensions, a high-interest rate environment and increases in operating costs.

Moving forward, the Company expects to further enhance its products, such as exploring new technologies, and equipment as well as eco-friendly materials.

### **Question 27**

On the outlook, demand has eased from its peak during the pandemic, when travel restrictions drove the surge in boating interest. The Group recorded 19 new boats and one trade-in orders in FY2023 (FY2022: 31 new orders).

Is this softening of demand industry wide or specific to Grand Banks? Do we expect demand to soften further and if so, will the expansion of the yard in Johor makes sense?

Please refer to responses to Questions 4 and 21.

### **Question 28**

Our S\$159.4 million net order book will cushion the softer customer sentiment. These buffers free us from short-term distractions and focus on the expansion of our manufacturing capacity, in anticipation of long-term growth potential of the yachting industry.

Our order book of \$159M translate to a lead time of 1.5 to 2 years for boats ordered. Has this long lead time led to lost of potential sales? If so, it this the reason for the expansion of the yard capacity? Quite we quantify the lost of potential sales? What is the industry lead time for new boats?

Please refer to response to Question 4.

Depending on the size of the boat delivery times can range from 0.5 years to 5 years.

### **Question 29**

**Revenue growth for Australia seems to have stalled compared to other regions. What is the likely reason? Was the closure of the yard in Australia a likely factor? Or is mgmt looking to focus on other key markets instead?**

Revenue contributed by primary geographical markets:

United States of America	69,964	44,765
Australia	30,792	29,372
Europe	11,787	531
Asia	1,628	509
	<b>114,171</b>	<b>75,177</b>

The Company's revenues are based on Percentage-Of-Completion in each year for pre-sold boats. Revenues are dependent on the geographical mix of orders. Some revenues recognised in a financial year may have been derived from boats ordered in a prior year.

A decrease in revenues from Australian boats in any particular reporting period does not necessarily reflect a slow-down in sales from this region; it is a reflection of geographical mix of boats being produced in any financial year.

### **Question 30**

**Our interest income of \$549K vs our cash position of \$40M suggest that there is further room to increase our cash yield. Can mgmt explain what has been done and what can be further done to enhance this?**

Please refer to response to Question 11.

### **Question 31**

**CEO Mark has no doubt been an asset to this company. May I ask what are the plans for succession planning?**

The CEO has been instrumental in navigating the Company through various challenges over the years. Under Mark's leadership, several leaders at the executive level now oversee key functions. They will ensure sustainability in leadership and reduce the risk of lost knowledge. These efforts have provided business continuity and improved efficiency, and the Company will continue to refine its procedures to strengthen the succession process.

The Board has discussed succession planning and will be looking into this area for the Board and key managers in the coming year.

### **Question 32**

**The top 10 shareholders hold 83% of the company. Any plans to improve the liquidity of the stock?**

The top 10 shareholders listed in the Annual Report include numerous nominee accounts. A large number of the beneficiaries in these nominee accounts are retail investors. The total public float (excluding substantial shareholders, Directors and Management) of the Company's shares is approximately 41%.

By Order of the Board  
**GRAND BANKS YACHTS LIMITED**

Ler Ching Chua  
Company Secretary

23 October 2023