

MEGA YACHT, ITALIAN LEADERSHIP AND FINANCIAL CRISIS. EMPIRICAL EVIDENCE ON HOW ITALIAN LEADING COMPANIES IN MEGA YACHT SECTOR OVERCOME THE CRISIS

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Abstract

The current financial crisis is one of the most studied topics, which attracts the attention of many academics seeking to analyze its causes and impacts. Nevertheless many studies on this issue, the crisis effects on specific industries is still unexplored. The present research seeks to study this topic by analyzing the mega yacht sector with particular emphasis on two world leaders, i.e. Azimut-Benetti and Ferretti. The purpose of this study is to assess if they succeed to tackle the financial crisis, keeping a satisfactory level of profitability associated to a good financial health in spite of the financial crisis. Furthermore, we analyze the strategies those shipyards implement to survive the crisis. The concern of this research is both qualitative and quantitative. Hence, we calculate a complete set of financial ratios adopting a specific methodology for financial statement analysis, taking into account 2006-2013 financial years. That data is integrated with other information retrieved from companies annual report (i.e. the notes to the accounts, management reports and supervisory board reports). This study finds out that both companies suffer financial health and they do not register a satisfactory level of profitability, as well as a low rate of liquidity because of an excessive reliance on current liabilities. However, the key strategies to succeed are ongoing investments in state-of-the-art plant and machinery, an increasing use of equity (even though it is eroded by losses), along with steadily investments in R&D, trademarks, licenses and international nautical fairs.

Keywords: Financial crisis, Mega Yachts, Azimut-Benetti, Ferretti, Financial Statements Analysis

Introduction

The global financial crisis which is compared with Great Depression of the 1929 has produced several and sudden change in the country economic policy (Hodson & Mabbett, 2009), financial institutions collapsed, causing the so-called credit crunch (Erkens, Hung & Matos, 2012) as well as macroeconomic consequences (Taylor, 2009), causing defaults in all industries. For this reason, the crisis has been deeply analyzed by many scholars who have tried to better understand causes, consequences, future crisis development and strategies to overcome it. In particular, many academics focus on how the crisis rose and how it spread worldwide, and the role of accounting in this process (Arnold, 2009). Other scholars focus the effects of the financial crisis in specific countries; others investigated the impacts on different sectors, especially on financial one. However, little research is carried out on other industries.

The present research seeks to tackle this issue studying a specific economic sector, i.e. mega yacht which has not attracted a significant level of interest in literature, yet. Mega yacht sector is a very interesting issue to study, because it is characterized by '*notable anti cyclical nature*' (Cazzaniga Francesetti, 2005: 125; Deidda Gagliardo, 2008: 149; Quagli, 2008: 9; Bruni & Carcano, 2009: 332; Nastasi, 2005: 1). According to literature, the shipyards producing mega yachts are not affected by the negative effects of the global recession. Indeed, the development of the luxury nautical market is strongly tied to the number and the wealth of millionaires known as Ultra High Net Worth Individual (UHNWI), i.e. those with US\$30 million or more in investible assets. Furthermore, in 2000 Italy became the world leader among Luxury Yacht producing countries, for the number and the length of vessels produced. Italians shipyards stay leaders in the world, even though they have recently loosed their grip on the market.

The present work focuses on two worldwide mega yacht leaders, Azimut-Benetti Group and Ferretti Group which stay first in the global ranking since 2000. The objective is to assess if they have been successful in tackling the crisis, keeping a satisfactory level of profitability besides a good financial health despite ongoing difficulties. Furthermore, we want to analyze strategies the firms employed to survive the crisis.

In order to achieve this objective, a quantitative and qualitative approach was used. We employ a specific research methodology dealing with financial statements analysis which was conceived for studying Italian companies (Caramiello, Di Lazzaro & Fiori, 2003); through this methodology a set of financial and economic ratios have been calculated. Furthermore, other data retrieved from annual reports and management reports of the firms has been studied.

The paper is organized as follows. The following parts after a literature review focusing on the financial crisis deal with the methodology we used to achieve the research objective. Then, after an analysis of Italian context and the mega yacht sector, the results of financial statements analysis of Azimut-Benetti and Ferretti are shown, highlighting if the companies succeeded in overcoming the financial crisis and which strategies they implemented to face global recession. The study ends with some concluding remarks, limitations of the study and future research.

Literature review

Many studies try to analyze financial crisis causes, effects on economy and possible solutions from different perspectives, for instance global, industries, countries one. It is noteworthy to highlight the rapid expansion of financial crisis since the late of summer 2008, because mortgage-related securities which had spread through USA and then world slumped in valued. Acharya & Richardson (2009) explain how the housing bubble led to the crisis of the global financial system through the evasion by banks of regulatory capital requirements. Crotty (2009) argues that one of the main causes of the financial crisis is to be found not just in the US subprime mortgage market but in the *'flawed institutions and practices of the current financial regimes, often referred to as the New Financial Architecture(NFA)'* (Crotty, 2009: 564). The latter stands for financial market integration or globalization, i.e. *'enormous sums of private capital flow around the world quite freely on a twenty-four-hour basis'*.(Ravenhill, 2011: 223-224). In this regard, Beachy (2012) shows the remarkable speed of the crisis of housing and financial sectors which spread to a global economy recession. That confirms the thesis that a complex structure of economic and financial systems, globally interrelated and composed of a variety of interacting institutions, organizations, rules at national and international levels exists (Carolillo, Mastroberardino&Nigro,2013; Ravenhill, 2011).Gros&Alcidi (2010) claim that the financial crisis has become global for two main reasons, firstly the rise in risk aversion affected the globe because financial markets are strongly integrated; secondly the drop in demand (for instance, for capital intensive goods) impacted very quickly along the global supply chain. It follows that the financial crisis affected all countries highly integrated among others, notwithstanding they had not shown any bubble sign. For instance, EU European Union experience the need of unity and more integration in order to face the threats and turbulence of markets (Pirlac&Leuciuc, 2011; Posta &Talani, 2011).

Other scholars (Kumar, 2013; Hadjimichalis, 2014) analyze the crisis effect on the so-called PIIGS countries (Portugal, Ireland, Italy, Greek and Spain) and their inability to face the crisis and to implement efficient

strategies and policies to find out solutions which should improve country performance. Paniagua, Sapena & Tamarit (2014) argue that PIIGS countries would have given more importance to ‘interest spending accommodation’ rather than to lagged debt.

The effects of the financial crisis are studied also analyzing the single country, research often focuses on banking sector. In this vein, Ardie & Howarth (2009) find out that study the trading of risk in German banking systems is higher than French one. Hodson & Mabbett (2009) study the significance of policy changes in UK, showing that surprisingly that country has not yet experienced a reordering of institutions, instruments and goals of economic policy. In the UK some banks are nationalized in late 2008 and then partially sold (University of Liverpool, 2012). Greece is undoubtedly an interesting case study with respect to financial crisis. It joined the euro area in 2001 providing Greece with the opportunity to benefit from the credibility of the monetary policy of the European Central Bank (Gibson, Hall & Tavlas, 2012). However, it lost its credibility, due to misrepresentation of official Greek national statistics, falsification of public account, unwillingness to cut expenditure, and public spending, the endemic phenomenon of tax evasion (Katsimi & Moutos, 2010). The financial crisis sharply affected the Eastern European Union countries, thus the new members such as Czech Republic, Estonia, Latvia, Lithuania, Romania, etc. In general terms, those economies collapsed along with a decrease in import, and a growing unemployment rate (Terazi & Senel, 2011). They face sudden and dramatic downturn and projected economic slowdown becomes a heavy decline (Racickas & Vasiliauskaite, 2010; Hoen, 2011). The financial crisis entails economic consequences of inflation, unemployment, collapse in purchasing power, growth of public debt (European Bank Report, 2009).

Scholars have studied not only the financial crisis effects on whole countries but also on specific sectors or typologies of companies. Eling & Schmeiser (2010) analyse the impact of global financial crisis on the insurance industry, showing that the latter is less affected by the crisis than the banking industry. However, some insurance companies (e.g. AIG, MBIA, Ambac) have received ratings downgrades when mortgage defaults foster their potential exposure to credit-default swap (Baranoff & Sager, 2009). A crucial sector for each country is health system, indeed much work has been done to analyze how the financial crisis affect the latter. Some countries (such as Cyprus, Greece, Ireland, and Lithuania) have reduced or locked (such as UK, Slovenia) health professional wages, others (such as Denmark) have reduced the salary increase rate (Mladovsky, Srivastava & Cylus, 2012), and many others cut costs notably in the hospital and pharmaceutical sectors (Karanikolou *et al.*, 2013). Moreover, the

manufacturing sector and property markets (Aldair, Berry, Haran, Lloyd & McGreal, 2009) have been deeply affected by the financial crisis, with a drop in sales, then a strong decrease in workforce and in production. The crisis affects also on the tourism industry, indeed the demand reduction for travel in all customer segments menaces growth perspective of companies (D Little, 2009). However, tourism benefits from the development of cheaper means of transport (e.g. low-cost airplane companies), of booking (e.g. the so-called e-tourism).

The financial crisis has been analysed from several perspectives; however, nonetheless qualitative and quantitative research is very fecund in this regard, there is scope for further study. Notably the effects of the financial crisis on niche sectors, i.e. Mega Yacht. Moreover, some studies do not focus on strategies implemented by companies in order to tackle the crisis. Hence, the following sections deal with the Mega Yacht sector which has not particularly attracted the attention of scholars, yet; and how the Italian worldwide leaders, Azimut-Benetti and Ferretti, sought to survive the crisis.

Methodology and Methods

In order to fulfill the purpose of this research, a case study research is carried out (Yin, 1984), analyzing the financial statements of the two leading companies in Mega Yacht sector, i.e. Azimut-Benetti and Ferretti over the period 2006-2013. We employ a qualitative and quantitative examination; in particular, we analyze a set of financial ratios that are integrated by a qualitative study of the annual reports of those groups of companies. We use a specific methodology for financial statement analysis (Facchinetti, 2008; Fazzini, 2011).

The research is composed by five methodological phases (Mella, 1996, Caramiello, Di Lazzaro & Fiori, 2003; Bigoni & Deidda Gagliardo, 2013). The *first phase* seeks to analyze the economic context in which companies operate, in order to better understand threats and opportunities of the competitive setting and to their performance. Hence, we study the Mega Yacht sector in terms of economic trend. The *second phase* deals with collecting financial statements of Azimut-Benetti and Ferretti from the Italian Chamber of Commerce. We analysed annual reports from 2006 to 2013 (being 2013 the last available financial statement to date) in order to study the economic and financial changes before and during the current global crisis, and their performance and strategies that have been implemented to improve the former. Thus, the *third phase* deals with the reclassification of both balance sheets and income statements to overcome the limits of financial statement based on Italian Law (Sostero & Ferrarese, 2000). In particular, on the one hand balance sheet entries are reclassified in

non-current and current assets, and in equity, non-current and current liabilities. On the other hand, costs and revenues are distinguished according to their source, i.e. the company core business, finance, non-operating activities and discontinued operations. Then, the results of those economic areas are calculated. The core business area is one of the most important areas of the reclassified income statements; indeed, we distinguish in analytical way operating costs and revenues in order to calculate key margins, namely value added, earnings before interest, taxed, depreciation and amortization, and operating profit. Reclassified financial statements are the starting point for calculating financial and economic ratios. The present research deals with a set of ratios, which provide valuable information about economic and financial health, and profitability of firms. Hence, on the *fourth phase* we calculate ratios in order to better understand companies' wealth and compare them under economic and financial lens, for both a vertical and horizontal analysis of financial statements. As regarding vertical analysis, it studies the formation of firm's assets, equity and liabilities, comparing each category to its total. In particular, on the asset's side, two ratios may be calculated and on the equity and liabilities side, four different ratios may be studied. As far as asset side is concerned, we focus on *rigidity ratio* (computed as non-currents assets to total assets) and *elasticity ratio* (computed as current assets to total assets). It follows that the lower the elasticity ratio or the higher the rigidity ratio, the greater the risk connected with the difficulty of changing company productive structure when required by market. As far as equity and liabilities prospect is concerned, we study four ratios associated with the company ability to face funding problems. The *financing autonomy ratio* (computed as equity to total equity and liabilities) and the *financing dependence ratio* (computed as liabilities to total equity and liabilities) show whether firm is autonomous in its financing decisions, i.e. they unveil if company is self-financing or contracts debts with banks or other financial institutions. In order to better understand the financial analysis, it is necessary to introduce other two ratios, namely the *long-term liabilities ratio* (computed as non-current liabilities to total equity and liabilities) and the *short-term liabilities ratio* (computed as current liabilities to total equity and liabilities). The latter two ratios unearth how debts should be paid beyond or within a year; hence, the lowest the short-term liabilities ratio, the lowest the need of liquidity to timely pay off debts. As regarding horizontal analysis, it aims at studying solidity, solvency and liquidity of companies. Solidity is measured through *equity to fixed assets ratio* and *equity plus non-current liabilities to fixed asset ratio* which respectively explain if equity and equity plus non-current liabilities could finance fixed assets, hence securing long-term stability to the firm. Solvency is evaluated through *current ratio* (computed as current assets to current

liabilities) which shows if firm possesses enough current resources to pay off its current liabilities over the year. It is worthy to highlight that that ratio considers also inventories, thus it is likely to not avoid possible financial stress, as inventories conversion in cash in short run cannot be taken for granted. It follows that we should consider another ratio in order to better analyze the company ability to meet its short-term obligations. Hence, we study the *quick ratio* (computed as current assets less inventories to current liabilities) which takes into account liquid or near cash assets. The fourth phase regards also the economic analysis, i.e. the study of firm profitability. We deal with four ratios, *Return On Investment* – ROI – (computed as operating profit to total assets) which evaluates the efficiency of an investment or compares the efficiency of a number of different investments; *Return On Sales* – ROS – (computed as operating profit to net sales) and *assets productivity ratio* (computed as net sales to total assets) which show sales strategy of companies, i.e. the latter could achieve huge differential between revenues and cost of production (for instance, through high prices) or a large amount of sales (through low prices) in order to increase their operating profit; *Return On Equity* – ROE – (computed as net income after taxes to equity) which ROE is a profitability-based measure of firm performance. The *fifth phase* regards the evaluation of the financial health and profitability of Azimut-Benetti and Ferretti, analyzing the set of ratios above mentioned as well as information contained in the financial statements (notes to the accounts, management reports and supervisory report) from a comparative perspective, and studying strategies they carry out to face the financial crisis.

Crisis and Mega Yacht sector

In 2013 and 2014 global economic growth has remained below levels of pre-crisis. According to International Monetary Fund, global GDP has increased by 3% in 2013 with a slight decrease compared to 3.2% in 2012. Italy is heavily suffering because of the financial crisis, as clearly explained by the Italian National Institute of Statistics in its 2014 report (Istituto Nazionale di Statistica, 2014). During the past few years, Italian economic has registered a strong shrinking in consumption and investments (-2.2% and -4.77% in 2013, respectively). Furthermore, Italy's inflation rate felt heavily down. The growth rate of the national consumer price index has plummeted from 3% in 2012 to 1.2%. This alarming trend continues during the first part of 2014. On the other hand, this disinflation could protect purchasing power of consumers and in the meanwhile aid companies competitiveness. Even though low inflation rate during 2013 and 2014 is slower and in line with the Economic and Monetary Union countries, it remains a dangerous scenario. Furthermore, the annual report 2014 highlights the difficult access to credit

for individuals as well as companies. This uncertainty and difficulty have negative effects on household consumption behavior and companies' production and investment. Furthermore, the contraction of public spending has been occurring, affecting families' consumption behavior; this negative trend is significantly fostered by uncertainty in the labor market where employment rate has been dramatically decreasing (Istituto Nazionale di Statistica, 2014). Moreover, the whole Italian industry has been strongly hit. Indeed, between 2008 and 2009 25% of industrial production was lost and another heavy drop has balanced the slight increase of 2010 in 2012.

As far as Mega Yacht sector is concerned, it is noteworthy to notice that for the first time after the starting of the financial crisis and the record year of 2009 (when 1,008 new orders were registered), the number of new projects increases in 2014 with respect to 2013. Indeed, according to Global Order book 2014 new orders increase of 6.2 percent over the projects in 2013.

The large super yacht market registered 270 yachts in 2008, where the financial crisis exploded (+20% with respect to 2007) for a total of 10.8 thousand feet of length in total. The principal buyers are in USA and in Europe, while the Middle East and Eastern Europe are those geographic areas which have the highest growth rate. The year 2009, due to the recession recorded a decline in the number of orders of 15%; the deliveries refer to the orders received in the course of 2007 and in 2009. In 2010, in contrast, the number of orders for Mega Yachts with lengths exceeding that of 200 feet increase with respect to that of 2009. In the last four years, (2011-2014) the most significant loss is registered in the smaller size sector. On the other hand, in the period 2003-2014 the growth in orders of Mega Yacht (with dimensions exceeding 250 feet) is constant, with the exception of 2009 where a slight decrease occurred. However, in 2013 and notably in 2014, an increase in the number of Mega Yacht with dimensions exceeding 250 feet occurred (Table 1).

Table 1 Number of projects by length 2003 - 2014

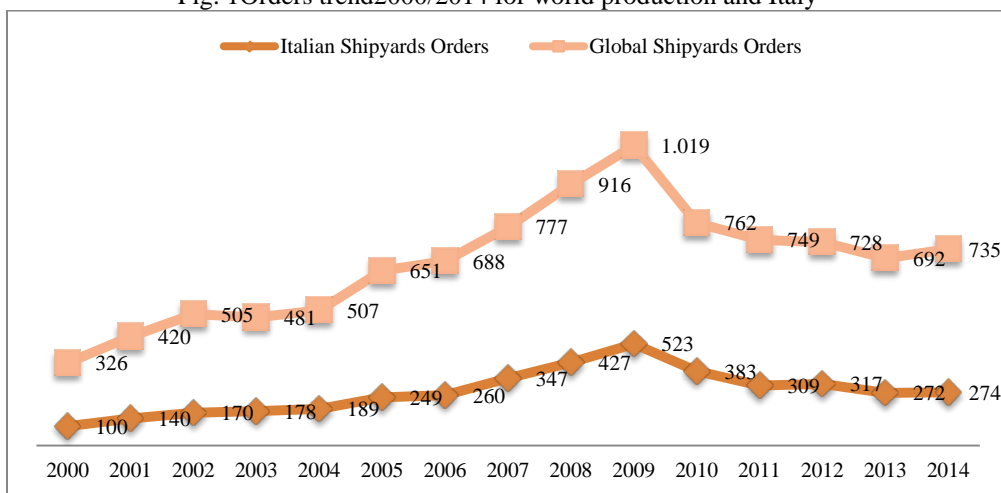
Length (in feet)	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
80-89	132	140	207	216	207	253	286	187	158	178	119	164
90-99	54	67	71	86	109	114	117	89	78	70	94	82
100-119	114	112	145	146	155	179	190	144	151	151	142	151
120-149	84	83	115	110	152	175	193	150	155	150	151	149
150-199	72	68	84	90	108	125	145	112	132	109	100	113
200-249	16	22	21	28	28	47	40	41	45	43	47	36
250+	10	15	9	12	18	23	21	30	30	27	39	40
Total	482	507	652	688	777	916	992¹	753²	749	728	692	735

¹ It does not include 16 builds from Lurssen and Amels (not identified by length).

² It does not include 10 projects from Amels.

Italy has been defined by the Global Order Book ‘the world’s leading yacht-production country’ (Brobow, 2010: 63). Indeed, Italy is at the top of the ranking since 2001. In 2014, Italy registered 274 orders out of a total of 735, almost 40% or the total number of orders worldwide (Fig. 1). The Netherlands and Turkey consolidate their, respectively second and third place. The US covers fourth place considering the projects length; however, UK shipyards which are at the fifth place have grown remarkably in the last two years and in 2014, they have eight more new builds than their US competitors (Global Order Book, 2014). The Turkish and Asian builders have also made their appearance in the world ranking in recent years thanks to low labor costs and a specialized and skilled workforce.

Fig. 1 Orders trend 2000/2014 for world production and Italy³



As far the type of boats built is concerned, the number of express cruisers (i.e. open yacht) has decreased during the financial crisis, probably due to high fuel and operation costs; however they have rebounded in 2014 even though far from 2009 high mark. Indeed, shipyards built 51 new express cruisers in 2014 versus 103 models in 2009. Sailing yacht and expedition-type vessels have increased their market share since 2009; the former have recorded a new high with 95 new mega yachts, i.e. 11.8 percent more than 2013. Motor yacht remains the most vessels produced over the total boat.

One of the most striking feature of Mega Yacht sector is its ‘*notable anti cyclical nature*’ (Cazzaniga Francesetti, 2005: 125; Deidda Gagliardo, 2008: 149; Quagli, 2008: 9; Bruni and Carcano, 2009: 332; Nastasi, 2005: 1). The shipyards producing luxury ships are immune from the negative effects of global crises. Indeed, the development of the luxury nautical

³ Source: our elaboration from Global Order Book, 2014.

market is strongly tied to the number and the wealth of millionaires known as High Net Worth Individual (HNWI)⁴.

Despite the financial crisis, economic uncertainty in many countries, the number of UHNWIs across the world has increased by 3 percent, i.e. about new 5,000 people became Ultra-wealthy individuals (with US\$ 30 million or more) in net assets (The Wealth Report, 2014). The number of UHNWI across the globe has risen by 59 percent since 2003, notably in the Middle East, Latin America, Australia and Africa. Furthermore, the number of those with US\$ 100 million in net assets has ballooned by 62%. UHNWI numbers in North America and Europe are slightly below the levels recorded in 2007; however, those areas registered the strongest rates of growth last year. It is worthy to note that the largest forecast uplift in UHNWIs are emerging market leaders, i.e. San Paulo, Istanbul and Shanghai. As regarding the areas of luxury spending are concerned, it is interested to notice that collectable items (such as art and classic cars) have become one of the most invested sectors. UHNWIs prefer ‘investments of passion’ – in the wake of the credit crunch – as alternative to asset sectors (i.e. equities, bonds). Jeweler has also become one of the best class of investments, notably diamonds, colored and untreated stones. Thus, UHNWIs prefer invest money in collectable items rather than purchasing Mega Yacht, probably because the former is considered more durable and less ostentatious than the former, particularly during the years of the financial crisis and global recession.

National and international research, limited in the luxury shipbuilding, has concentrated mainly on the principal characteristics of the mega yacht sector and on analysis of the luxury yacht as a complex and symbolic product (Bruni & Carcano, 2009). Little research analyses business and accounting aspects of companies which play in the mega yacht sector. This research aims at contributing towards the study of the Mega Yacht Sector with respect to an accounting and business profile, taking into consideration two world leaders, i.e. Azimut-Benetti and Ferretti.

Azimut-Benetti and the crisis

Azimut-Benetti, as shown by Table 2, from 2006-2011 experiences an increase in its assets that results in an increase of the rigidity ratio (from 20.8% to 34.9%) and in a decrease of the elasticity ratio (from 79.2% to

⁴ HNWIs possess US\$1 million or more for investing; the value of personal assets and property such as primary residences, collectibles, consumables, and consumer durables are not included. HNWIs could be divided into three wealth categories: those with US\$1 million to US\$5 million in investable assets (so -called “millionaires next door”); those with US\$5 million to US\$30 million (so-called “mid-tier millionaires” or “Very -HNWIs”) and those with US\$30 million or more (“Ultra-HNWIs”) (Capgemini & Merrill Lynch, 2012; Tartaglia & Marinozzi, 2006: 64).

65.1%). Otherwise, in the last two years Azimut-Benetti registers a drop in its assets, as proved by rigidity ratio (from 26.4% to 23.4%) and consequentially an increase in elasticity ratio (from 73.6% to 76.6%). Both non-current and current assets grow and the former's increase is less high than the latter. This could be meaning a first signal of crisis, due to the difficulties in selling products, collecting credits and thus converting assets into cash. However, this could be a strategy for Azimut-Benetti. Indeed, during the eight years analysed Azimut-Benetti constantly invested money in improving its plant and machinery. It follows that the strategic purpose is to get state-of-the-art plant and machinery to cut inefficiencies and increase productivity. Indeed, new tangible and intangible assets have been produced within Azimut-Benetti Group by both a specific division, Business Line Yachtique, and collaboration with University. This strategy allows Azimut-Benetti to get timely machines, plants and equipments to built custom and in series Mega Yachts without incurring in high purchasing costs. Hence, Azimut-Benetti reinforces its production lines in all its shipyards located around the world, e.g. Italy, Brazil, and Turkey.

Furthermore, Azimut-Benetti makes important investments and research in order to design new Mega Yachts models, new propulsion systems. Indeed, the company is focusing on alternative energy sources in order to improve its international reputation and reduce energy costs. Azimut-Benetti is investing in electronic propulsion which has some advantages, a reduction in vibration, more comfort, and maneuverability, even though it results an increase in complexity due to more equipment needed. Indeed, Azimut-Benetti mega yachts are also known for their stunning lines, luxurious appointments and dockside elegance, thanks to investments and research. However, it is important to note that rigidity ratio decreases in the last two years, mostly due to the sale of strategic financial assets (i.e. the Turkish company) and some joint ventures are dissolved. Intangible assets are not very high, they represent about 1.3% of the total assets and they decreased by 33% from 2006 to 2013, even though Azimut-Benetti continues on invest in new mega yachts models, licenses and patents. The company should decrease financial and tangible assets probably due to the financial crisis, thus it is likely to need cash in order to pay off trade payables and financial liabilities. Furthermore, Azimut-Benetti invests its resources on core business activities, it does not pursue any investment in non-core business asset.

Table 2 – Azimut-Benetti ratios⁵

Ratio	2006	2007	2008	2009	2010	2011	2012	2013
Vertical Analysis								
Rigidity ratio	20.8%	17.7%	24.9%	29.7%	32.0%	34.9%	26.4%	23.4%
Elasticity ratio	79.2%	82.3%	75.1%	70.3%	68.0%	65.1%	73.6%	76.6%
Financing autonomy ratio	34.4%	29.4%	30.1%	32.6%	34.4%	38.1%	30.1%	25.1%
Financing dependence ratio	65.6%	70.6%	69.9%	67.4%	65.6%	61.9%	69.9%	74.9%
Long-term liabilities ratio	5.1%	4.2%	3.9%	5.1%	5.8%	8.2%	6.4%	4.8%
Short-term liabilities ratio	60.5%	66.4%	66.0%	62.3%	59.9%	53.7%	63.5%	70.1%
Horizontal Analysis								
Equity to fixed asset ratio	1.66	1.66	1.21	1.10	1.07	1.09	1.14	1.07
Equity plus non-current liabilities to fixed assets ratio	1.90	1.90	1.37	1.27	1.25	1.33	1.39	1.27
Current ratio	1.31	1.24	1.14	1.13	1.14	1.21	1.16	1.09
Quick ratio	0.54	0.42	0.30	0.20	0.23	0.36	0.22	0.22
Profitability Analysis								
ROI	12.5%	6.1%	9.4%	0.9%	1.3%	1.4%	-1.7%	-2.2%
ROS	10.8%	7.5%	10.3%	1.2%	2.3%	1.4%	-3.5%	-4.5%
Asset productivity ratio	1.16	0.81	0.91	0.73	0.57	1.01	0.48	0.50
ROE	19.4%	10.9%	15.6%	-3.5%	-0.9%	-1.1%	-0.8%	-11.6%

As above mentioned, current assets are increasing. Inventories play a pivotal role, because Azimut-Benetti needs a large stock of supplies to fuel its increasing production and meet orders. The increasing value of inventories is due to three main factors. Firstly, one of the highest items is *construction contracts*, i.e. formal agreement for building custom yachts and mega yachts; the other fundamental item is *work in process*, i.e. yachts and mega yachts under construction without a formal agreement with customers. Secondly, inventories have increased during the last two years, because Azimut-Benetti changed the valuation method of ‘construction contracts’, now it is adopting *stage of completion* method. It follows that it registers a more value in ‘construction contracts’ resulting in increasing in elasticity ratio. Last but not least, in 2013 Azimut-Benetti sold a shipyard located in Brazil which value is reclassified in inventories. An interesting and positive matter is the increasing in trade receivables with a rise of 66% from 2009 to 2013, and growing operations among companies of the Azimut-Benetti group that led to an increase of intercompany credits. It is relevant to point out that 2009 is considered like *annus horribilis* for that sector, indeed, from 2006 to 2008, trade receivables was 60% higher than the year 2009. Azimut-Benetti has huge tax credit which the Italian Inland Revenue should pay off

⁵Source: author’s own elaboration from Azimut-Benetti financial statements for the years 2006-2013 retrieved by Chamber of Commerce

in the short-term. Lastly, a decrease of cash and cash equivalents has to be registered with the firm reducing the amount of bank deposits to increase investments and to pay off debts.

As Table 2 shows, Azimut-Benetti decreases its autonomy from 2006 to 2013 with a drop of 10% which is mainly due to the losses. Indeed, the company has registered negative results since 2009 due to financial crisis which hit yacht and mega yacht demands. It is noteworthy to point out that mega yachts customers are UHNWIs who are increasing in value and their financial resources. It follows that losses are registered because those individuals prefer to invest their huge resources in other goods, such as classical cars, jewelers and art. Thus, the company has experienced a net loss from 2009, this reduce total equity when the year's losses are transferred from the income statement to the balance sheet. Furthermore, during the period 2006-2013 Azimut-Benetti has never issued new shares of stock in order to increase equity; nor did it demand a capital contribution to shareholders. This strategy let to an increase in short-term liabilities ratio which is extremely high; whereas the long-term liabilities ratio remains steady and low during the period 2006-2013. An interesting matter is the drop in the long-term provision for employee severance indemnities in 2012-2013, it means that Azimut-Benetti is likely to fire employees, probably due to drop in sales revenues, then in cash and equivalents and it is no more able to pay employees' remuneration. As noted earlier, current liabilities have increased. Azimut-Benetti has always heavily relied on current account overdraft to its production. Thus, Azimut-Benetti does not seem to reduce its dependence on external funding. Trade payables are another important constituent of current liabilities, with an increase of 10% from 2006 to 2013 which testifies the rise of trade receivables. Part of current liabilities is composed by *provisions* i.e. liabilities of uncertain timing and amount and *contingent liability*, i.e. a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence of uncertain future events not wholly within the company control (IAS 37). Thus, Azimut-Benetti estimates an outflow of resources embodying economic profits which are necessary to settle obligation. They mainly regard risk for possible customers' trial, product warranty and risks connected with dissolution and termination of Turkish joint venture. Another fundamental constituent of non-current liabilities are advance payments from customers for mega yachts and yachts which will be completed by the next year. Advance payments from customers increase in 127% from 2006 to 2013; it means that Azimut-Benetti is continuing to build luxury boat even though the financial crisis. Indeed, Azimut Benetti Group is the largest mega yacht manufacturer in the world and the world's leading private group in the luxury boating sector (Cohen, 2012).

The changes in assets and equity and liability can be used also to assess Azimut-Benetti's solidity, solvency and liquidity. Azimut-Benetti's solidity is compromised by a proportional decrease in equity and assets, with a progressive fall in both equity to fixed assets ratio and equity plus non-current liabilities to fixed asset ratio. Furthermore, thanks to the proportional drop in fixed assets and equity, those ratios are decreasing but over the unit. Even solvency registers a borderline value with a proportional increase in current liabilities and current assets; however, the former has increased more than the latter, this is the reason why current ratio is approximately 1. Moreover, part of all current liabilities is made up of advances paid by parent companies and customers, thus they will not lead to any cash outflows. Liquidity is probably the most serious problem of Azimut-Benetti; given the relevance of inventories, current assets less inventories account only 50% of current liabilities. However, it seems to be a structural characteristic of the company, i.e. even though quick ratio has always been rather low (under the unit), the company has never experienced financial stress, nor in the flourish years, i.e. before 2009, thanks to a good planning of cash inflows and outflows, but also probably incurring debts to pay off other debts.

Azimut-Benetti's profitability is not so satisfying. ROI decreases and becomes negative in 2012-2013, with a strong reduction in operating income. Furthermore, notwithstanding the financial crisis spread worldwide, sales revenues increase in the period analysed, thanks to the construction of Mega Yacht but also to constant innovation with new lines of yachts or mega yachts. Other income comes from the sale of used yachts. Mega Yacht is an important market for Italy; however, an increasing share of revenues comes from above all South America, USA and then Asia. Domestic sales are decreasing in volume and value (-88%), whereas international sales are heavily increasing thanks to exports to America and Asia (+40% and +1%, respectively). Costs, especially for raw materials, services and personnel increased up to 2012, whereas from 2013 all costs just mentioned register a slightly drop. Raw materials are the most relevant cost for Azimut-Benetti (nearly 35% of total operating costs). However, thanks to ongoing investments in state-of-the-art plant, machinery and equipment, the company is able to process raw material more efficiently. Furthermore, raw materials register a fall in 2013 for two main reasons, because Azimut-Benetti has increased the sale of used boat and it has increased the so-called 'contracts', it follows that the company does not need the same quantity of raw materials than before. Costs of services are also fundamental for Azimut-Benetti, they are nearly 45% of total operating costs and represent consulting costs, industrial costs, 'contracts', outsourcing and other costs related to international nautical fairs. The company tries to reduce them, notwithstanding an increasing production, due to the crisis that strongly

affected its most relevant market. It is interesting to notice that remuneration of board members has decreased during the year analysed probably due to the losses that company has been registering. Another pivotal item is cost related to leasing which according to Italian GAAP leases are recognized like costs for lessee. Employee benefit expenses constantly increased from 2006 to 2012 as they grew by 19 million Euros, even if Italian economy is characterized by a growing unemployment rate during the crisis. The increase is likely to be due to a rise in number of employees and employers both in Italian and foreign companies belonging to Azimut-Benetti Group (+15% from 2006 to 2013). However, employee benefit expenses decrease in 2013 by 2.5% than 2012. Furthermore, ROI relies on ROS rather than on assets turnover productivity. This is very common in shipyards producing Mega Yachts, because they focus on quality rather than quantity of ships. Azimut-Benetti's ROE is constantly decreasing, this trend is due to losses, especially in 2013. Notably, the cause of this negative trend is also due to the increasing in financial costs in the last years, especially in 2012 and 2013. Indeed, the company has to pay high interests on short-term debts, and the situation is even worsened by losses due also to high credit deterioration and losses. Last but not least, net income has been heavily reduced by debilitating taxes which are one of the key characteristic of Italian industry.

Ferretti and the crisis

Unlike Azimut-Benetti, Ferretti especially from 2011 to 2013 has invested in state-of-the-art plant and machinery to make its manufacturing process more efficient. Ferretti perfectly balances current and non-current assets, with a rigidity ratio of 49.5%. Thus, it has grown in dimension since 2012, thanks to the new acquisition, i.e. new main shareholder, a Chinese group called Weichai Group. Indeed, before this extraordinary operation, elasticity ratio has been low since 2006. It is relevant to notice that elasticity ratio has been especially increasing because of slightly reducing in property, plant and equipment, and rising in non-current assets. Property, plant and equipment represent a small share of total non-current asset (10%). Indeed, intangible assets halved in 2012 and 2013 compared with 2006, because goodwill has decreased during these years; however, investment in trademarks, licenses and intellectual properties increase from 2007 to 2013, showing both a tension towards innovation and the need to consolidate its position of world leadership in Mega Yacht sector. One of the most relevant investment have been made since 2011 is 'Sinergy' which aims at implementing new informative system models, necessary to make them consistent with review of business model began in 2011. Financial assets become slightly relevant from 2011 because of tax credit and long-term credits from subsidiaries. It is relevant to highlight that unlike Azimut-

Benetti, Ferretti holds shares of other companies which do not deal with its core business. It represents just a small part of its financial assets, i.e. 0.03%.

Table 3 – Ferretti ratios⁶

Ratio	2006	2007	2008	2009	2010	2011	2012	2012⁷	2013
Vertical Analysis									
Rigidity ratio	64.9%	76.2%	73.7%	63.5%	69.4 %	45.2%	50.4%	44.9 %	49.5 %
Elasticity ratio	35.1%	23.8%	26.3%	35.3%	30.6 %	54.8%	49.6%	55.1 %	50.5 %
Financing autonomy ratio	18.4%	13.9%	14.1%	12.6%	9.2%	- 40.1%	29.4%	23.1 %	13.4 %
Financing dependence ratio	81.6%	86.1%	85.9%	87.4%	90.8 %	140.1 %	70.6%	76.9 %	86.6 %
Long-term liabilities ratio	42.1%	61.6%	59.4%	53.2%	55.6 %	12.1%	26.5%	23.9 %	26.7 %
Short-term liabilities ratio	39.5%	24.4%	26.5%	34.2%	35.2 %	128.0 %	44.1%	53.0 %	59.9 %
Horizontal Analysis									
Equity to fixed asset ratio	0.28	0.18	0.19	0.20	0.13	-0.89	0.58	0.51	0.27
Equity plus non-current liabilities to fixed assets ratio	0.93	0.99	1.00	1.04	0.93	-0.62	1.11	1.05	0.81
Current ratio	0.89	0.98	0.99	1.07	0.87	0.43	1.12	1.04	0.84
Quick ratio	0.64	0.75	0.62	0.49	0.56	0.27	0.67	0.69	0.53
Profitability Analysis									
ROI	8.2%	3.5%	4.3%	- 69.5%	- 1.3%	- 69.7%	- 12.6%	- 3.2%	- 7.1%
ROS	14.1%	13.9%	13.1%	142.2 %	- 3.7%	130.2 %	- 27.1%	77.9 %	12.5 %
Asset productivity ratio	0.58	0.25	0.33	0.49	0.36	0.54	0.47	0.04	0.57
ROE	11.8%	3.4%	5.3%	592.0 %	49.6 %	N/A ⁸	- 45.8%	17.3 %	92.5 %

⁶Source: author's own elaboration from Ferretti financial statements for the years 2006-2013 retrieved by Chamber of Commerce

⁷Note that 2012 financial year has two columns, because Shareholders' meeting has decided since 2012 to close the financial year on December 31st rather than August 31st. Thus, for 2012 financial years two consolidated financial statements exist, one closing on August 31st and the other one on December 31st, being 2012 a transition year. More precisely, in 2012 one financial statement starts on September 1st 2011 and closes on August 31st 2012; the other consolidated financial statement starts on September 1st 2012 and closes on December 31st 2012 (four months) in order to align values with those of Holding, Ferretti International S.p.A., and the main indirect shareholder, Weichai Group. Source: Management Report 2012.

⁸2011's ROE is not available and feasible because both the numerator (i.e. equity) and the denominator (profit) are negative; thus, the result (i.e. ROE) will become positive, and this will be biased.

Inventories are relevant, but, like Azimut-Benetti, they represent 20% of current assets, and are made up mostly by finished goods and used yachts, in order to timely meet orders. It seems that Ferretti prefers to build standardize or semi-custom yachts rather than custom ones. It seeks to take advantage of used yachts in order to address to customs who are more scared by crisis. As mentioned above, customers of mega yachts are UHNWIs, people who are growing in number and in wealth. It is likely they to not buy yachts and used one, they prefer new and custom mega yachts. Raw materials are less relevant that it happened in Azimut-Benetti, probably because Ferretti prefers to outsource its production and because of the decreasing in sales. Indeed, potential customers of yachts are more affected by crisis, thus they prefer to save money rather than to invest in yacht. On the other hand, mega yachts potential customers prefer to invest money in other kind of goods, such as jewelry, art and vintage cars. Furthermore, current assets are mostly made up of trade receivables (47% in average) showing a quite good financial health above all in the last years after agreement of corporate reconstructing. Trade receivables constantly increase from 2006 to 2008, then they begin to decrease up to 2011, finally in the last years of analysis they increase with respect to the previous years. It is noteworthy to highlight that some trade receivables are from subsidiaries because of cash pooling policy adopted by the group. The centralized treasury allows the group to effectively tackle problems arising from dispersed bank accounts at different banks, in different currencies and in different time zones, funding cash deficits within the group, hence decreasing the need for external funding and cost of borrowings, and investing surpluses in the money market (Polák & Klusáček, 2010). Furthermore, among non-current assets a particular item has a fundamental role, i.e. construction contracts which refer to custom yachts and mega yachts which are going to be completed by the next financial years. As noted above, they are not particularly high, above all from 2009. Now their value is going to increase but it has not reached the same amount of pre-crisis period, yet. Thus, it signals some difficulties in selling new and used yachts and mega yachts. Cash and cash equivalent decrease from 2008; in 2011 the group register the lowest value, just 0.02% of total non-current assets. After that year, new corporate reconstruction the situation seems to slightly improve.

Equity is not the relevant source of funding for Ferretti Group, as the financing autonomy ratio is very low (13.4%) and constantly decreasing up to 2011, when it becomes negative. Indeed, the next year Ferretti decides to take out a new acquisition and new Chinese shareholder joins the company ownership. From 2012, the financing autonomy ratio starts to increase, thanks to the new equity provided by the new owner. In 2012 Holding

Ferretti S.p.A. has implemented a new agreement for debt reconstructing and in the meanwhile a new shareholder owned the company providing new equity and converting his own financial credit in equity. Indeed, in Italian context self-financing is rather uncommon, companies prefer to take out loans rather than providing equity. Furthermore, due to high level of losses, equity was eroded by the former, this is another reason which explains why this ratio is so low. Thus, company cannot allocate profit and distribute any dividends, because of losses. On the other hand, liabilities have significantly increased especially since 2009. In the 2011, Ferretti registers the highest value of financing dependence ratio, i.e. 140%; it means that it needs banks to finance its production. In particular, the Ferretti Group registers a high level of debt due to a series of ongoing, extraordinary operations carried out. The confirmation of an excessive financial burden can be evidenced by the fact that in 2012 75% of the company is sold off to a Chinese company from Shandog Shig-Weichai. The remaining 25% of the Ferretti shares are held by the two greatest creditors of the Royal Bank of Scotland and the American Funds Strategic Values Partners. In 2012 previous bank debts are written off and new financing are now obtained. It follows that the capital structure of the Group is renewed thanks to the assets and equity increase, now its business can account for more solid financial structure, which is able to support long-term development programs in order to face in the best way yacht, and mega yacht sectors which are, especially the former, scared by financial crisis. Furthermore, the new shareholder, Weichai Group is one of the most competitive manufacturing groups in China. The latter has growth rate between 8% and 9% and its mega yacht sector is going to rapidly develop with a great potential growth for the next 5-10 years. In the last years, the financial position of the group has been changing thanks to the new shareholder and to the fact that previous banks loans are written off. Indeed, in the last years Ferretti Group with Weichai Group support has been implementing new operations to strengthen its financial position: Holding provides another revolving thanks to a foreign bank and the main shareholder (i.e. Weichai Group) commits to fund the Ferretti Group for the next years. Non-current liabilities are made mostly made up of long-term loans (50% of total non-current liabilities) and tax debts which constitute 37% of total non-current liabilities. Current liabilities, which increase by 20.4% from 2006 to 2013, are mostly made up of short-term financial debts and trade payables. The latter in turn halves in the last year to the value they had in 2007-2008, due to sales decreasing and then raw material needs diminishing. Another important item belonging to current liabilities is advances for customers for yachts whose production has not started yet but it will be finished next year. Those advances from customer are not included in construction contracts, because the former are not linked with job-order work

in progress or they refer to future orders not yet included into production process. In 2011 Ferretti Group signs with trade unions, Ministry of Work and Pensions, the 'redundancy fund' or 'layoffs' for at least two years, which is unemployment benefits guaranteed by Italian Constitution in case of industrial reorganizations, technological employment, crisis of the sector, etc. It follows that Ferretti Group is strongly affected by financial crisis and it is seeking to re-establish the *status quo* through corporate reorganization in terms of shareholders, financial position and production.

Unlike Azimut-Benetti which has a quite good financial health, Ferretti Group could experience some problems and threats. Indeed, all ratios we used for horizontal analysis are decreasing especially up to 2011. Thus, the company is not solid at least up to 2011; indeed, in that year it decides to reorganize completely its business and corporate. Equity covers 0.27 times the value of fixed assets, thus it is suffering from low capitalization. Equity with non-current liabilities are able to cover one time fixed assets value, especially in the last few years, thanks to new financial support provided by holding and new shareholders. Solvency should be a fundamental concern for the company due to notable amount of trade receivables and scarce value of cash and cash equivalents, with current assets growing less than current liabilities. The weight of inventories is remarkable, as shown by current and quick ratios; indeed, as Azimut-Benetti liquidity is one of the most serious problems of Ferretti, given the relevance of inventories, current assets less inventories account only for 50%. However, whether we do not consider 2009, 2010 and 2011 (probably the worst years of the Group), Ferretti Group registers a trend in constant, although slow, growth due to a progressive increase proportionally much greater than the deferred and immediate liquid assets. This is due to a positive management of the financial sector which has generated the necessary liquidity to cover about 60% of the debts in the short term. As noticed early, the Ferretti group adopts a strategy of centralizing liquidity for the whole company group; the so-called *cash pooling* (i.e. it combines their credit and debit positions in various accounts into one account).

Profitability should be one of the most serious concerns of the Ferretti Group. Indeed, the crisis has undermined company's financial health and its performance. ROI significantly decreases from 2006 to 2013 (from 8.2% to -7.1%); however if we consider 2009 and 2011, the Ferretti Group registers a heavily, worrying and alarming negative ROI, respectively -69.5% and -69.7%. The decreasing ROI is the effect of at least two combined causes: the decrease in operating income, which has occurred since 2009, and the ongoing rise of total assets. Revenues increase from 2006 to 2009 while start to decrease since 2010 with a significant fall in 2011 which is one of the worst year for Italian economy during the crisis, when the reduction of

purchasing power along with the growth of unemployment led people to cut unnecessary expenses, such as yachts. The purchasing power of UHNWIs is not affected by the financial crisis, indeed the mega yachts sales are decreased because of the changes in purchased of luxury goods, from luxury boats to jewelry, arts, and vintage cars. The effects of these problems on the Ferretti Group have been severe, also because the negative generalized effects of the financial crisis. Another hint of the difficulties faced by the company is the rise of inventories of finished goods which can be a sign of a slowdown in sales. Nevertheless this slowdown in sales, the Ferretti Group is focused on launching new models of both yachts and mega yachts in order to maintain its leadership position. It is noteworthy to point out that non-cash revenues are also due to work in progress, related to custom and semi-custom yachts and mega yachts. Indeed, like Azimut-Benetti and all shipyards building, those kinds of boats are characterized by high share of construction contracts and work in progress, because companies usually take two or more years to build them. Raw materials are the main cost of the Ferretti group, like Azimut-Benetti, thus it seems that despite the decreasing in sale revenues, the former keeps purchasing raw materials to built yachts and mega yachts, however the cost of raw materials followed the same trend of revenues: the Ferretti Group is likely to try to reduce the amount of purchased raw materials in correspondence to decreasing sales. Another relevant cost for the group is the cost of services. The great majority of services costs, which rise by 50% from 2006 to 2008 but with a significant decrease from 2010, is connected with i) cost for external services (e.g. consulting), ii) board of directors and supervisor board directors payment; iii) the attending of international fairs, iv) lease payment⁹ v) provision for credit losses. The latter is likely to be a sign of a prudential behavior of the company dealing with future unpaid credits. Energy costs are also increasing, as it happens to Azimut-Benetti, even if the rise of energy costs of Ferretti is less significantly than the latter, because the former seems to take out more leasing contracts, saving in such way energy costs. The cost of personnel is significantly rising (35%) from 2006 to 2009, even though it is decreasing from 2010, probably due to financial and economic instability that Fetti Group suffered, the use of national redundancy found is a clear example of that situation.

Indeed, the Ferretti Group, like Azimut-Benetti, have registered a slight worsening since 2010 caused by the drastic fall in sales of yachts and ships. Both yards reorganize their costs management structure in response to

⁹ Italian GAAP classifies lease payments among costs of lessee's income statement, whereas property owner records lessee's lease payments among revenues.

the reduction in sales and the consequent fall in revenue, Ferretti registers a slight improvement in 2010, as a result of having aimed at the sale of stock accumulated in the previous operating period.

The decrease of ROI is due both to a fall of ROS and asset productivity ratio. In particular, the reduction of sales in volume has not been balanced by increases in prices which could have resulted in further decrease of sales.

The reduction of ROE does not come as a surprise, as net profit is tightly tied to operating profit, non-operating area has an unremarkable weight on it. Furthermore, due to the high financial debts that the Ferretti Group has taken off during the previous years, the financial area of the income statement is strongly negative, financial revenues are not high enough to cover the financial expenses which are excessively high. Indeed, the case of Ferretti is exemplary; it registers a strongly negative ROE in 2011. This can be attributed in part to a drastic fall in sales proportionally greater than the decrease of equity (eroded by losses) and in part to the excessive burden of financial charges. The year 2011 is a particularly bad year for the big players in the luxury nautical sector who are affected by the significant fall in profits for the year. It follows that in 2012 the corporate reorganization was done in order to re-establish the *status quo*. Finally, it is noteworthy to note that the reduction of ROE in the last period under investigation is partially linked with the rise of equity thanks to the new shareholder, Weichai Group.

Discussion and conclusion

One of the positive aspects of the financial crisis is that it fosters research on the impact of recession in specific industries and countries. Although some studies focus on the effect of financial crisis on some industries, mega yacht sector has remained rather unexplored. The present research seeks to study this topic by analyzing the world leaders in Mega Yachts, Azimut-Benetti and Ferretti. The approach used is both quantitative and qualitative, because we analysed companies' balance sheets and income statements for the years 2006-2013 along with relevant data retrieved from their annual reports. The objective of this study is to understand if Azimut-Benetti and Ferretti manage to survive the crisis and which strategies they employed to tackle the financial crisis. The analysis finds out that both firms are facing problems to overcome the recession. The Mega Yacht sector constitutes a fundamental area of specialization in the Italian economy and is a sector which has, in the course of time developed strong ties with other important industries (technology, manufacturing, services, etc). At an international level the nautical sector in Italy is associated with the Mega

Yacht or luxury yacht sector, a market sector in which Italy is the indisputable leader since 2000 (Deidda Gagliardo, 2008).

Despite the financial crisis, Italy has been able to maintain its leadership in this sector; in fact literature reckons that the Mega Yacht sector is characterized by a anti cyclical nature. The shipyards producing luxury ships are immune from the negative effects of the global recession which pervaded the world economy in 2008. However, some scholars (Merendino, 2013) find out that the anti-cyclic nature of mega yacht does not emerge from economic-financial analysis of the major shipyards in the world. It is not due not a decline in the wealth of the super-rich (i.e. UHNWI), but it is due to *a sense of lack of trust* in the markets and a sense of guilt in this type of investment, and the changes in investment made by those people.

The present research finds out that both shipyards are facing some problem to overcome the crisis, presenting not so good financial health and a satisfactory level of profitability. Both companies have the same level of liquidity, but Ferretti experienced a worst financial position in 2011 with a high financial burden and very low equity. The Ferretti's state has been reversed since 2011 and 2012, when a new shareholder provided equity and when the company wrote previous loans off. Ferretti is more rigid and could suffer from liquidity problem, even though its good planning of cash inflows and outflows, as well as the ability of collection funds. On the other hand, Ferretti's profitability is decreasing even though in the last years faint signs of improvement can be seen. Azimut-Benetti and Ferretti are also experiencing a slowdown in sales which forced the firm to cut costs, the redundancy fund is a clear example.

Both companies invest in state-the-art plant and machinery to improve their manufacturing process, and they also invest in intangibles, trademarks, licenses, software, in order to implement new models of luxury yachts according to market demand. Both companies invest also in international nautical fairs, fundamental meetings where they can show their technological and state-of-the-art yachts and mega yachts. In order to reduce dangerous short-term liabilities, Ferretti and Azimut-Benetti are increasingly relying on intercompany borrowings and the former obtained new equity by Weichai Group. Both companies are focusing on abroad markets, such as South America (Azimut-Benetti) and Asia (Ferretti), the reason lies on the fact that in those countries UHNWIs are steadily increasing; thus, they are very powerful market with high potential for the future.

Moreover, despite the decreasing in revenue sales and increasing in losses, both shipyards keep to invest in intangibles, especially in R&D, trademarks, licenses in order to maintain their consolidated leadership. This is due because both groups understand the importance of producing and launching constantly new models to attract the attention of consumers.

Hence, they firmly invest in research and advertising, such as participating at international nautical fairs. Both companies have registered a strong slowdown in yacht sales, whereas mega yacht markets, above all in foreign countries, constitute a “jewel in the crown” for Azimut-Benetti and Ferretti.

The present research adds the literature on crisis focusing on a specific industry (i.e. mega yachts) which has not attracted a significant level of interest, yet. Furthermore, it analyses leader firms in order to highlight strategies that could be implemented by other companies belonging to mega yachts sector. It is noteworthy to underline that the methodology used has the potential to produce valuable and useful information to assess financial health and profitability of a firm without requiring complex and time-consuming calculation. However, this methodology suffers for some limitations, it relies on experience and skills of the external analyst who can just consider and analyze data provided by company's financial statements (Teodori, 2000). Finally, a future research study may analyze other successful companies in mega yachts sectors and compare among each other to find out similarities and differences, and to build an empirical model based on companies' experience, able to overcome crisis effects.

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