

# **Karatzas Marine Advisors & Co.**

**International Maritime Consultancy, Shipping Finance Advisory & Ship-brokerage**


**“An Anemic State of Shipping,  
A Plethora of Opportunities”**

**MARE FORUM - Panama City, June 24<sup>th</sup>, 2016**

## “Safe Harbor” Statements

 There are some things you learn best in calm, and some in storm.

*Willa Cather*

 The pessimist complains about the wind; the optimist expects it to change; the realist adjusts the sails.

*William Arthur Ward*

 The cure for anything is saltwater — sweat, tears, or the sea.

*Isak Dinesen*

# Agenda

 **Karatzas Marine Advisors & Co.: Introduction**













 **Shipping Market Overview**

 **Shipping Finance Overview**

 **Investment Opportunities in Shipping**

 **Karatzas Marine Advisors & Co.: Contact Information**

# Company Introduction

-  Karatzas Marine Advisors & Co. is New York-based firm with worldwide footprint & strong, well-qualified management team
-  Active in shipping finance advisory, restructurings, maritime strategy, private placements, vessel valuations, ship brokerage and vessel management
-  Clients include:
  -  Financial institutions seeking shipping market expertise and advisory on shipping matters
  -  Financial institutions in need of origination of transactions in shipping
  -  Banks seeking to dispose of shipping assets and/or shipping loans
  -  Shipowners seeking advise to access the financial markets
  -  Shipowners seeking advisory and investors with existing 'legacy' concerns
  -  Shipowners seeking financial partners to benefit from present market trough
-  Dry bulk, tankers, containerships and offshore
-  International flag business primarily, but also Jones Act expertise
-  Proven track record of market outperformance and delivering value to clients

# Company Information

- Management team bears decades of diverse, proven shipping expertise, including port operations, chartering, ship brokerage and demolitions, vessel management, shipping finance and vessel valuations, co-placements and JVs
- Company established in 2011, corporate history back to 2008; presently six employees, on both full- and part-time basis
- Impeccable credentials & references (gladly provided upon request)
- Well-representative existing clientele base
  - ❑ Geographic Distribution – Americas, Europe (UK, Germany, Greece, Scandinavia), SE Asia (Singapore, Indonesia, Thailand), Far East (Hong Kong, Japan) China
  - ❑ Corollary Industry Functions – Shipowners, Charterers, Vessel Managers / Operators, Oil Companies (including National Oil Companies), Cargo Interests and Traders, Financial Owners & Lessors, Lenders & Creditors, Service Providers
  - ❑ Shipping-market Segmentation: Tankers (crude oil, products tankers, chemical tankers), Dry bulk vessels (capesize, panamax, supramax/handymax, handysize), Purpose-built vessels, Containerships (post-panamax to feedership vessels), Offshore & Drilling – Jones Act Assets
  - ❑ Capital-structure Segmentation: publicly-traded companies and privately-held companies, Fortune 10 companies and private independent owners, financially-oriented owners & lessors

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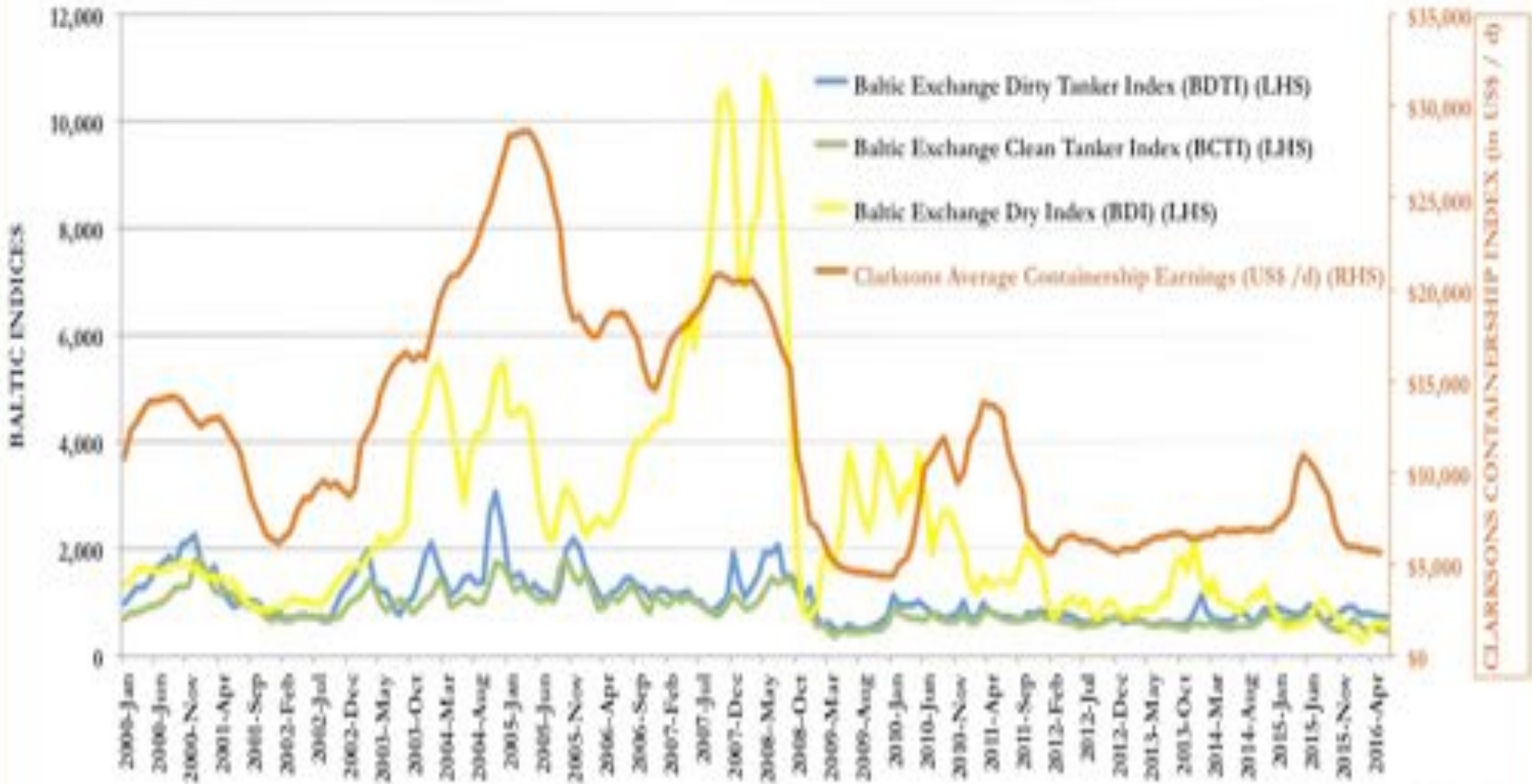
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 **Investment Opportunities in Shipping**

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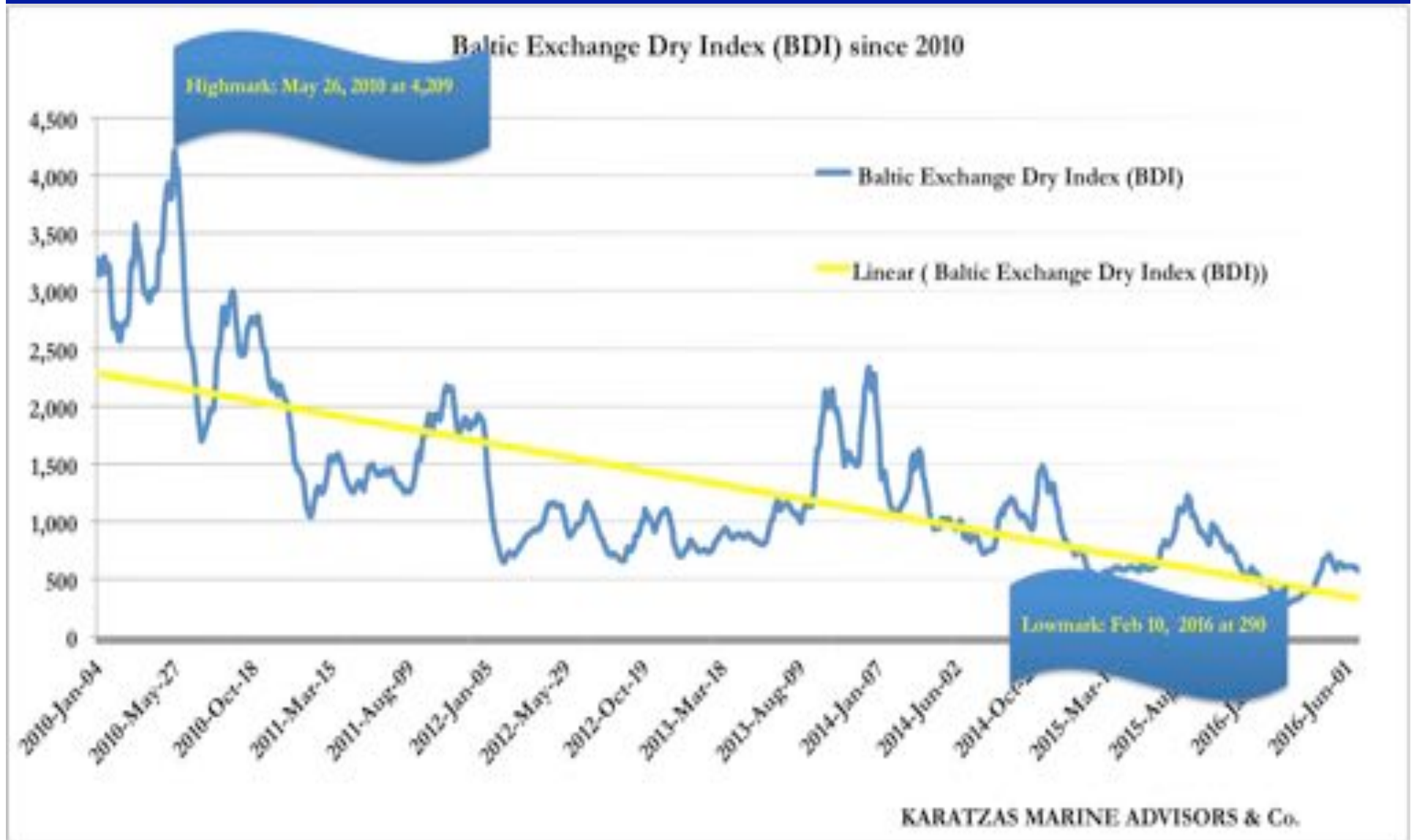
# Historical Freight Market Data

PERFORMANCE SINCE 2000 FOR DRY, TANKER & CONTAINERSHIP MARKETS



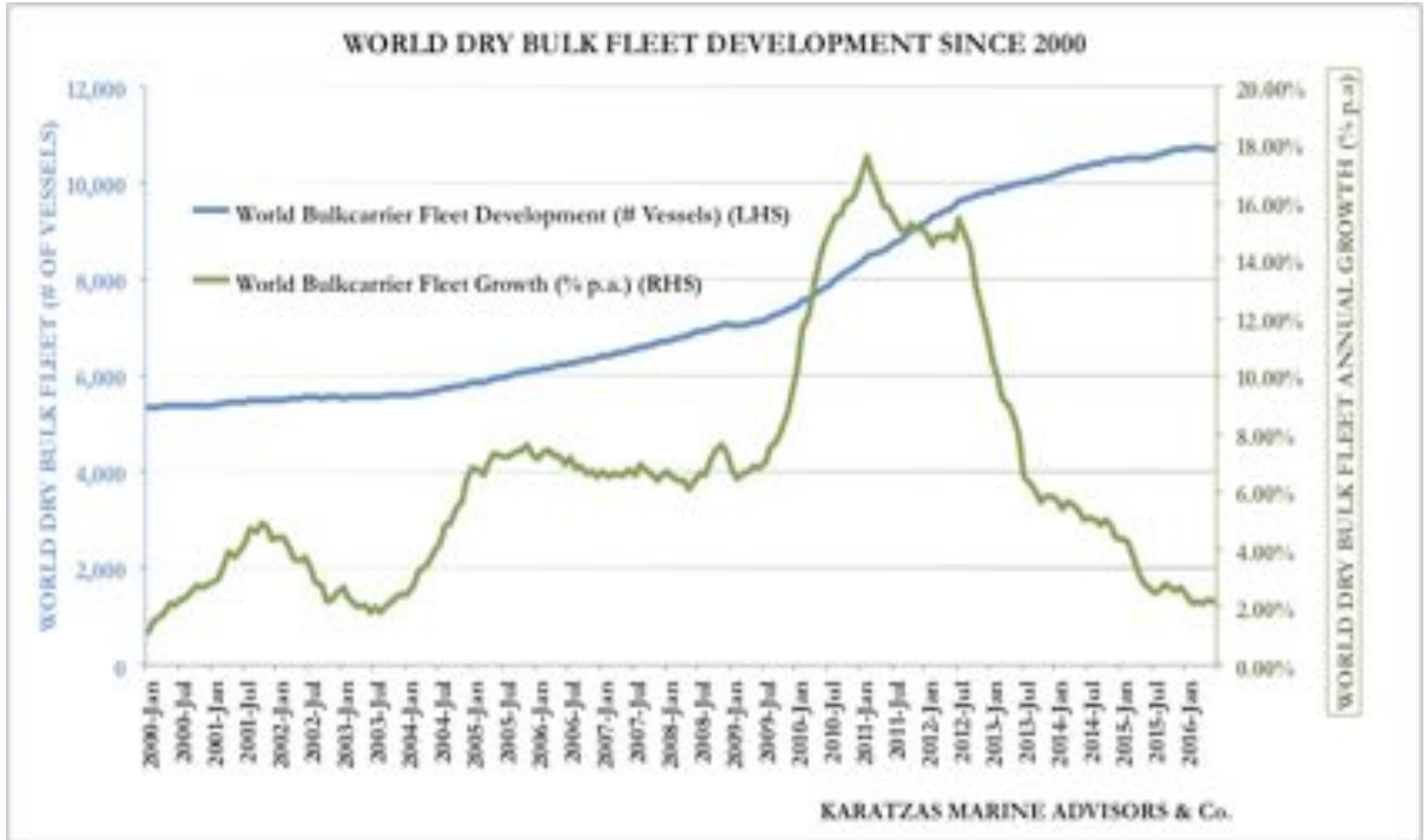
KARATZAS MARINE ADVISORS & Co.

# Dry Bulk Freight Market Overview since 2010





# Dry Bulk Fleet Overview since 2010



# Shipping Market Overview - Comments

- Historically weak freight markets
  - Weakening demand and economic growth - unpredictable China
  - Large, young, modern world fleet (tonnage oversupply)
  - Sizeable outstanding orderbook and further growth
- Tanker market trading well, but concerns on both tonnage oversupply and weaker demand
- Containerships, and now offshore, are also in bad shape
- Freight market expectations call for market recovery in 2018, at the earliest
- Shipping finance, an ever costlier exercise
- Concerns on regulatory regime about the industry
- Concerns about technological obsolescence of present technologies in shipping

**Bottom Line:** The shipping industry is facing structural challenges in an environment of macro-economic headwinds, making it an out-of-favor industry from several points of view. Pessimism may be reaching sufficient low levels to selectively allow for contrarian investments in the industry.

# Weak Freight Rates - Implications

- Negative cash flows: Vessel daily Operating Expenses > Freight Revenue
  - Example: Panamax bulker presently earning \$5,500 pd with \$6,500 pd OpEx, implying appr. \$350,000 operating loss per vessel *per annum*; for an owner of five such vessels, annual Operating loss of appr. \$1.8 mil, amount that has to be ‘covered’ with own equity
  - Rate of \$5,500 pd does not allow for interest or principal repayment
  - Rate of \$5,500 pd does not allow for drydock expense
  
- In a negative cash flow environment, shipping asset prices have collapsed
  - Modern Panamax bulker has depreciated in value by 50% in the last thirty (30) months (from appr. \$35 mil to appr. \$18 mil now)
    - **US\$ 17 MILLION VALUE DESTRUCTION FOR JUST ONE VESSEL –**
    - **A PUBLICLY LISTED COMPANY REALIZED MORE THAN \$500 MIL IN LOSSES BY SELLING 28 CAPE-SIZE VESSELS**
  - Declining asset prices create ‘moral hazard’ as borrowers are encouraged to default on loans
  - More shipping loan defaults cause greater problems to shipping banks that likely to trigger a pro-active response

**Bottom Line:** Shipping asset prices have collapsed; while timing the recovery of the freight market can be precarious, historically collapsed asset prices allow for opportunistic entry points, conservatively structured

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# Shipping Finance Historic *Status Quo*

-  Shipping banks have been shipping industry's traditional funding source
  -  More than US\$ 600 BILLION shipping loans outstanding in 2008
  -  Debt financing fairly easily accessible over business cycles to good shipowners
  -  'Name lending' and 'My Word, My Bond' sufficient at times to obtain a ship mortgage
  -  Loan covenant and terms could be flexible depending on counterparty
  -  Shipping bank loan officer and credit commit had leeway originating and approving shipping mortgages
  
-  Own Equity and 'Sweat Equity' provided 20-40% equity financing for independent shipping companies
  -  'Skin in the game'
  -  Shipowner / Vessel manager / Borrower typically same party, allowed for alignment of interests
  
-  Capital markets
  -  Shipping companies in niche markets (containerships, gas, offshore, etc) issue public equity
  -  Shipping bonds

# Current Shipping Finance Overview

- 🚢 Traditional shipping banks are leaving the industry
  - 🚢 Intensive banking regulatory environment and low interest rates have put pressure on banks to lend to well-established 'corporate' shipowners and ignore the rest of the market
- 🚢 Shipowners have little equity remaining
- 🚢 Institutional investors (private equity) have not had a successful sailing so far in shipping:
  - 🚢 Most investments 'underwater'
  - 🚢 Questions on how PEs will react: double-down? Cut their losses and run? 'Stick it out'?
  - 🚢 Have moved ever further to 'risk averse' camp
- 🚢 Capital markets available only to well-established shipowners with more than US\$ 1 billion EV
- 🚢 Bottom Line:
  - 🚢 A tremendous funding gap in shipping financing likely for the foreseeable future
  - 🚢 Shipowners at present willing to pay 10+% interest for conservatively structured ship mortgages

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# If Freight Rates so Weak, Why Deploy Capital in Shipping?

 Presently, environment of weak freight rates, tonnage oversupply, diminished expectations for a recovery, concerns of macro- and political events (i.e. Brexit, isolationism, protectionism, etc) would make, in theory, any deployment of capital in the industry a precarious proposition.

## **HOWEVER:**


 Funding gap creates tremendous opportunities

 Little competition for sourcing and funding projects

 Tight covenants and strict terms

 Shipping is not a uniform market; look for opportunities in niche markets


 Compellingly low asset prices minimize risk

 Possibilities to invest along the capital structure (equity, senior debt, mezz, preferred, convertible, etc) to suit financiers / lenders specific profile





# Opportunities to Deploy Capital in Shipping

## LENDING

 Banks still willing to provide ship mortgages can now lend with

 Tight, conservative covenants

 Low leverage

 Non-regulated lenders with solid understanding of the industry, can charge 6-8% annual interest rate, and generate 12+% IRR by providing shipping mortgages, mezzanine finance, second-lien finance, convertible

 Exploit the funding gap in the industry


 Earn preferential return even in a weak / average market

 Maintain market upside in the form of 'equity kickers' and convertible

 Favorable returns compared to a low interest rate environment

## EQUITY

 High quality dry bulk vessels are being sold at historically very low prices, at multiples of their salvage value

 Tempting investing proposition for contrarian, counter-cyclical investments

 Asymmetric investment profile where upside potential can be favorable against downside risk

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