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# Accessing Private Equity Through Leasing Structures

Marine Money Hamburg:  
Private Equity Workshop

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Presenter:

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# SSY Capital LLC

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- Arranger of lease and highly leveraged debt financings (90 - 100% financings)
- Volume of more than \$250 million in 2007
- Current mandates exceed \$350 million
- Operate from New York, London and Singapore
- Wholly-owned subsidiary of Simpson, Spence & Young (“SSY”)

## Our Parent, SSY

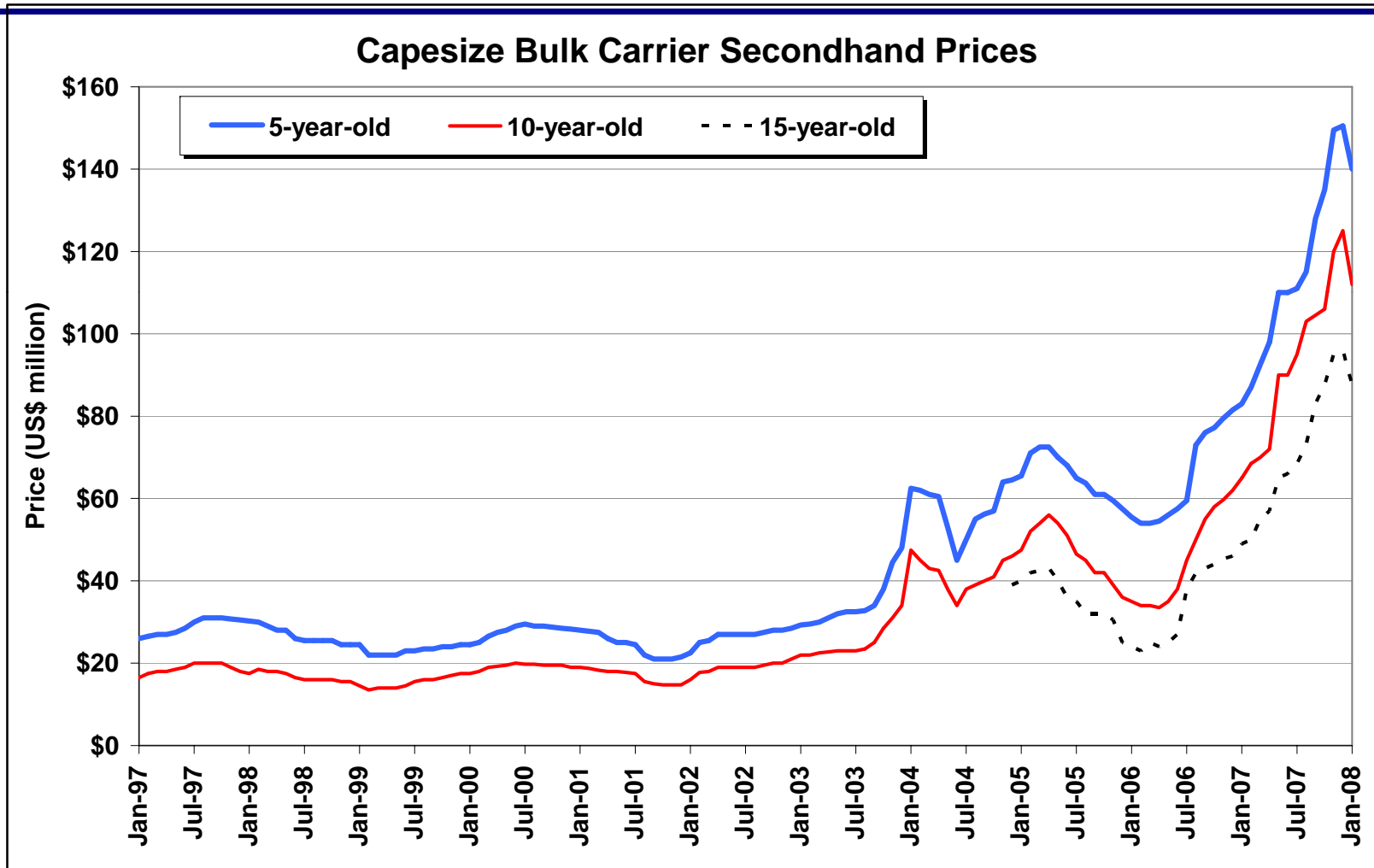
- World’s largest independent ship broking firm (est. 1880)
- 15 offices worldwide; 350+ employees
- Sale and Purchase; Chartering; FFAs; Research

# Economics of Vessel Leasing

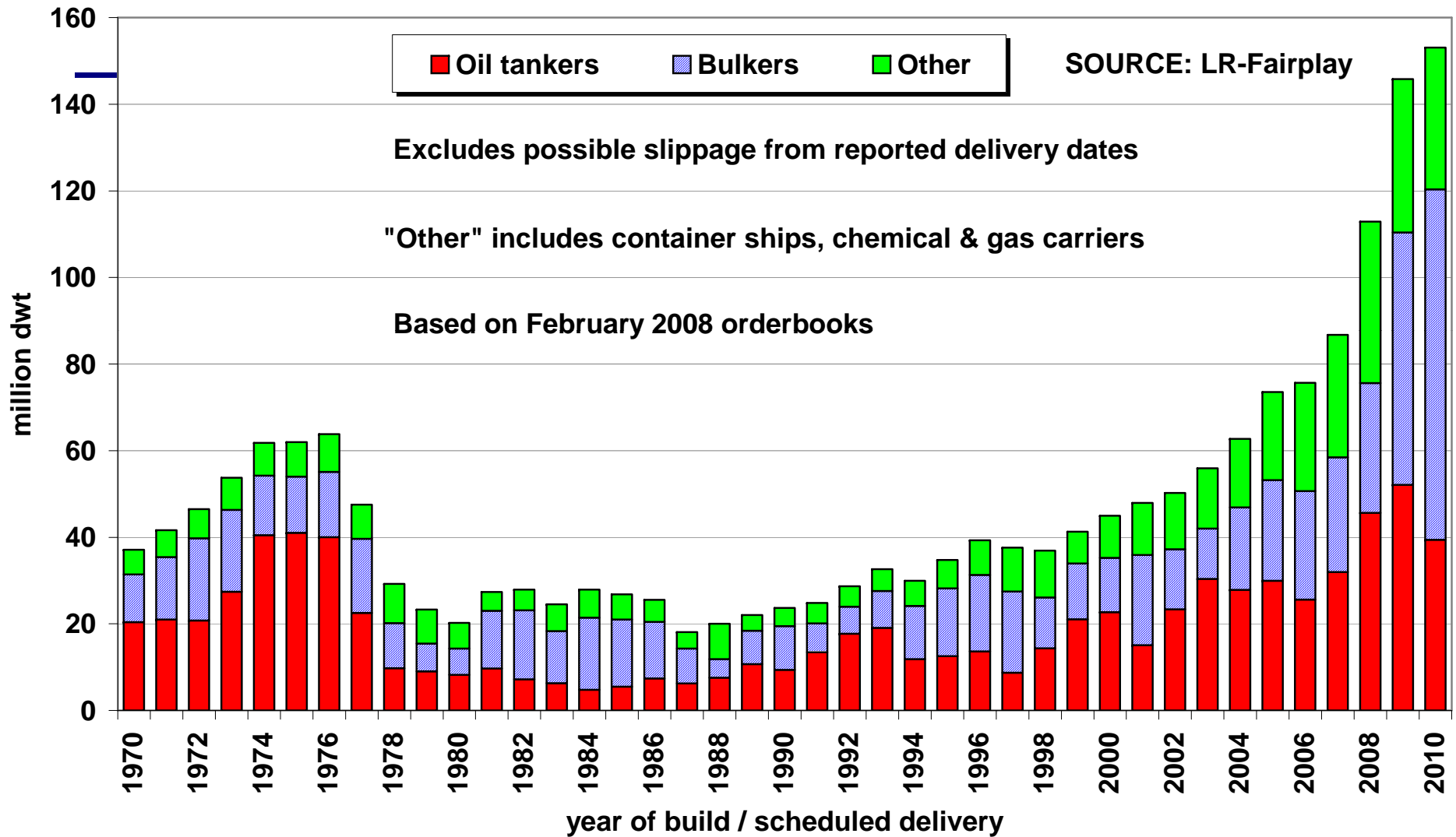
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- 90 – 100% financing through the combination of traditional ship mortgage loan (65 – 80%) with lease equity (10 – 35%)
- Senior loan will bear an interest rate between 5.25% p.a. and 6.25% p.a. (based on fixed LIBOR of 4.50% p.a.)
- Lease equity expects returns from 12% p.a. to 20% p.a., including expected lease-end residual value (“current” returns exceed 10% p.a.)
- For 100% lease financings, the blended rate to the shipowner should range from 7.0% p.a. (L+250) to over 10% p.a.

# The Demand for Lease Equity



## Ship Completions by Year



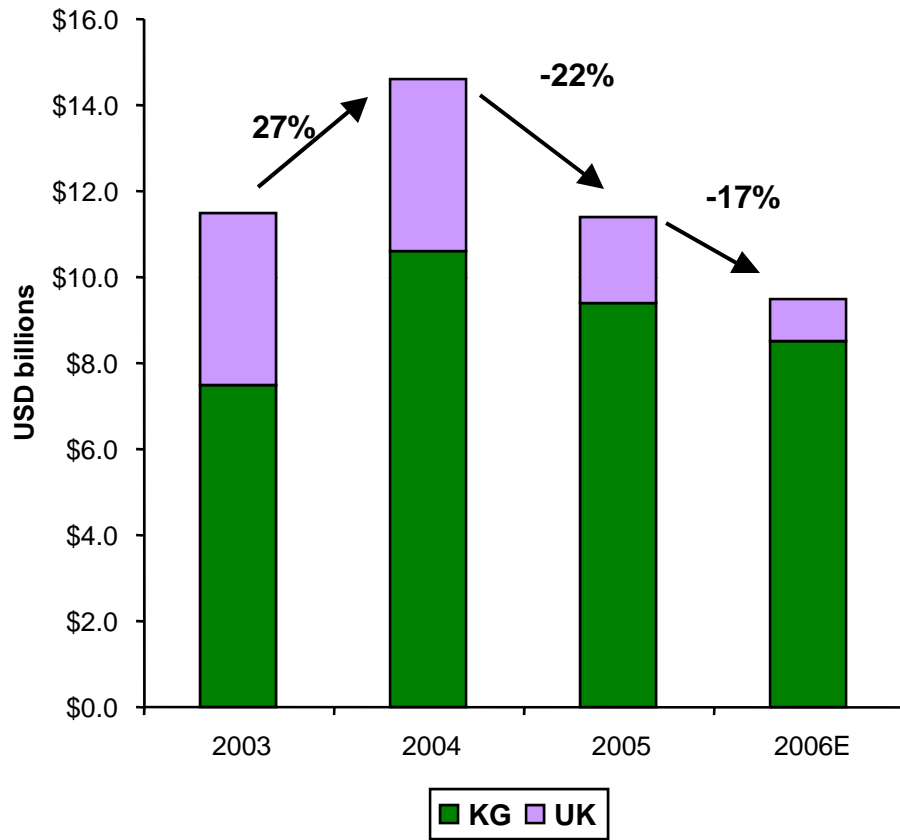
# The Supply of Lease Equity

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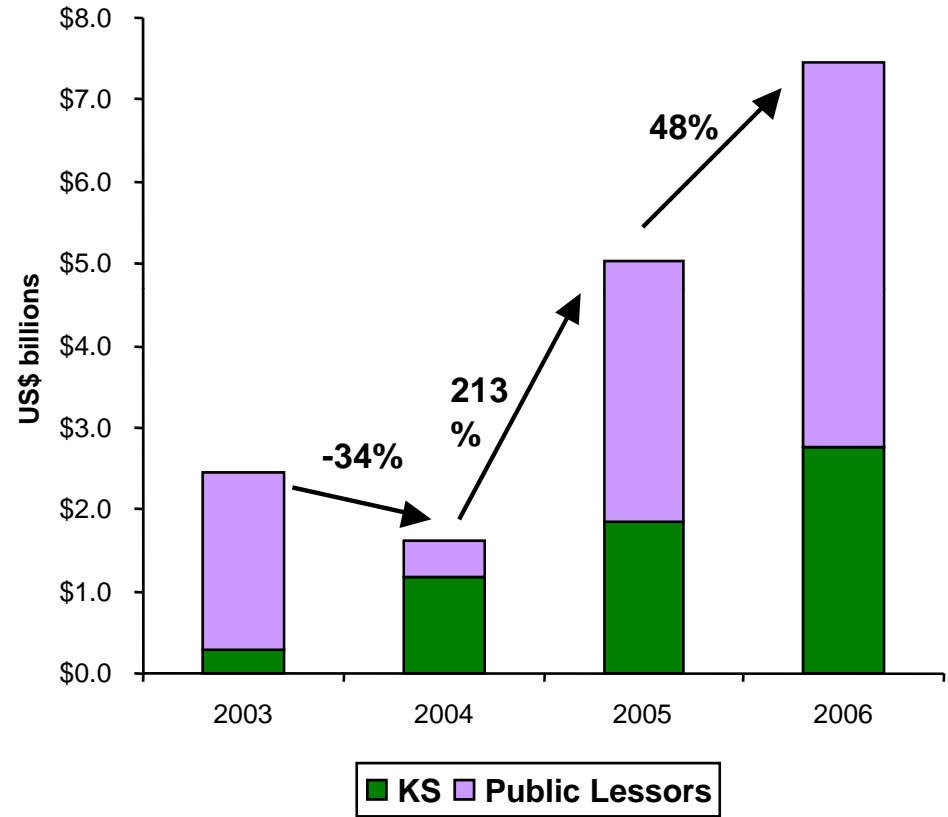
## Lease Equity Providers

- German KG Funds
- Norwegian KS Funds
- US Hedge Funds
- Korean SIC Funds
- Ship-owners, both publicly-listed and private
- Commercial Finance Companies
- Boutique Shipping Funds
- Islamic Funds (leases are adaptable into Sharia-compliant investments)

# Tax Leasing



# Non-Tax Leasing



Source: Marine Money

# The Search for Yield

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**New entrants have created intense competition for “good” (measured by strong credit, collateral and employment) transactions, forcing equity providers to assume more risk in order to achieve their yield requirements:**

- Weaker credits (more difficult post-credit crunch)
- Older vessels (even dry bulk carriers built in the mid-1980s)
- Specialized vessels (even highly illiquid vessels such as livestock carriers)
- Newbuildings (even deliveries as late as 2011)
- Equity providers seeking out market risk

# Innovative Lease Structures: Lessors Assume Market Risk

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## **Tufton / Oldendorff – Sale/Leaseback of 8 Handysize Bulkers**

- Variable bareboat rate allows Tufton to participate in market upswings
- Oldendorff monetizes equity in vessels while retaining control

## **Fortress / Clipper – JV for Handysize Bulker Fleet**

- Clipper sells vessels to new 50-50 joint venture company and retains management of the vessels
- Mixed employment strategy provides JV partners with spot market exposure while limiting downside risk

# Innovative Lease Structures: Newbuildings

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## Case Study: Newbuildings delivering 2010/2011

- 95% financing --- lessee contributes 5% of vessel contract price on first payment date to shipyard; investors fund remaining 95%
- No additional payments by lessee until delivery of vessel
- 7 to 10-year bareboat charter commences upon delivery
- Fixed-price purchase options for lessee beginning 5 years from delivery
- Requires vessels to be “fixed-forward”

# Leasing vs. Traditional Private Equity

	<u>Private Equity</u>	<u>Leasing</u>
Percent Financing	100%	100%
Corporate Structure	Challenging	Easy
Valuation	Challenging	Easy
Arrangement Fees	High	Low
Management Fees	Challenging	Included
“Carried Interest”	Challenging	None
Operational Risk	Challenging	None
Timing/ Funding	Challenging	Manageable
Identification of Assets	Challenging	Manageable
Control	Challenging	Easy
Buy-Sell Issues	Challenging	None
Decision Making	Challenging	Easy
Exit Strategy	Challenging	Defined

Source: Marine Money



# Effects of the Credit Crunch

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- Jan 17, 2008 – FSL raises acquisition target for 2008 by 50% from \$200 million to \$300 million citing “benefits” to FSL of global credit crunch
- Demand for lease financing should increase as some owners struggle to raise conventional debt finance (i.e. the cost of capital advantage of large owners/lessors becomes more pronounced)
- Despite the impressive growth of vessel lease financing over the past 5 years, there is still plenty of room for additional growth --- leasing is far more prevalent in other industries (accounts for 50% of the worldwide fleet of aircraft)

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