German M&A – Trends in consolidation of the shipping sector

Dr. Volker Land, White & Case
Current status of German shipping market

- 5 years continuous downturn in shipping sector
- More than 200 one-ship company insolvencies
- Collapse of KG-funds ship financing model
- German ship financing banks
  - are reducing shipping loan portfolios
  - show limited lending activity
- Until recently predominantly restructuring solutions
Current drivers for Consolidation

- **Access to financing resources**
- **Economies of scale/synergies**
  - Shipping companies/investors/lenders interested in larger/more profitable and more stable units
- **Balance sheet requirements**
  - Lenders under pressure to improve risk exposure
  - Specific reduction milestones for certain German players
- **Avoidance of insolvency proceedings**
  - Continously low rates still result in stress-scenarios
  - Lenders encourage companies to consolidate following prior restructuring efforts
Acquisition trends – gaining momentum

- **Joint Venture Solution**
  - Shipping insider teaming-up with private investor
  - Building larger units (e.g. MPC/Thien Heyenga/Ahrenkiel)
  - Acquisition of loan packages / indirect vessel acquisition via loan

- **M&A bidding process to find investor**
  - Continuation/going concern of target business
  - Financial contribution of investor
  - CPs: financing / restructuring opinion (IDW S6) / liability cut off

- **Platform/Warehousing**
  - Foundation of a NewCo as platform to acquire and pool vessels
  - Private investors may join
HSH / Navios

Banks and Investors go for owners‘ ships

- Innovative transaction structure
- Navios acquires distressed loans from HSH
  - Purchase of USD 130m of USD 300m (of which USD 120m are refinanced)
  - Remainder USD 170m are transferred to participating loan
- Portfolio comprises of 10 vessels
  - 5 tankers / 5 bulkers
  - Including 3 funds owned vessels
HSH / Navios (cont`d)

Rationale for involved parties

**Lenders**
- Reduced risk exposure
- Potential upside from participating loan

**Owners**
- Avoidance of potential ship / funds insolvency

**Investor**
- Acquisition opportunity through discount
Ahrenkiel Steamship

Prior to transaction

The Ahrenkiel Group

- MPC Steamship (19 vessels)
- Ahrenkiel Group (26 vessels)
- Thien & Heyenga (24 vessels)

New shipping group

Ahrenkiel Steamship (62 vessels)

- Disinvestment of owner
- Co-investment of investors to build combined mid-size unit
- Restructuring evolved into M&A process
- Steady involvement of lenders required
### Rationale for involved parties

<table>
<thead>
<tr>
<th><strong>Lenders</strong></th>
<th><strong>Owner</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduced risk exposure (market consolidation)</td>
<td>Liability cut-off</td>
</tr>
<tr>
<td>Unwinding of syndication</td>
<td>Continuation of Swiss based activities</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Investor</strong></th>
<th><strong>Company</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Combination of existing activities / synergies</td>
<td>Continuation / going concern</td>
</tr>
<tr>
<td>Access to existing business</td>
<td></td>
</tr>
</tbody>
</table>
Merger Hapag-Lloyd / CSAV

Prior to transaction

- Hapag-Lloyd Aktiengesellschaft (152 vessels)
- Compañía Sud Americana de Vapores CSAV (79 vessels)

After transaction

Ownership (approx. numbers) following transaction:
- CSAV (30%, later 34%)
- City of Hamburg approx. (25%)
- Kühne Maritime approx. (20%)
- TUI approx. (15%)
- Minorities (10%)
Merger Hapag-Lloyd / CSAV (cont`d)

Summary of transaction

- Two step merger of German‘s Hapag-Lloyd and Chilean listed CSAV
  - First capital increase EUR 370m (EUR 259m by CSAV by contribution of container business; remainder by current investors)
  - Second capital increase EUR 370m through IPO
  - Exit of former shareholder TUI
- Subject to merger approval
German Shipping M&A – Expertise required

- Restructuring / Insolvency
- Capital Markets / Corporate
- Finance
- Tax
- Regulatory / Funds

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Our Hamburg office – Shipping Hub

Volker Land
(Corporate/M&A)

- Advising the owner of the Ahrenkiel Group on the sale to MPC Steamship
- Advising the owners of HSH Nordbank on the bank restructuring and negotiations with the EU commission

Sven-Holger Undritz
(Insolvency/Restructuring)

- Advising state banks (Landesbanken) with regard to the financial restructuring of certain shipping loans, distressed shipping portfolios and release of debtor liabilities
- Appointed insolvency administrator for several vessels

Kai-Michael Hingst
(Finance)

- Advising both banks and borrowers on complex domestic and international financing and restructuring transactions with a focus on acquisition finance and asset finance (ships and aircrafts)
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Florian Degenhardt (Finance)

Florian Degenhardt advises banks, financial institutions, investors and companies on finance transactions (including refinancings) and their structuring and has extensive experience in asset finance (aircrafts or ships) and corporate financings.

Syliva Fiebig (Insolvency/Restructuring)

Sylvia Fiebig has many years of experience in the shipping industry and is regularly active within the scope of shipping insolvencies as well as the consultancy of ship-owners and shipping companies on pre-insolvencies.

Riaz Janjuah (Restructuring)

Focuses on complex financial restructuring and on insolvency law matters and has been involved in a large number of high-profile cross-border financial restructurings and in-court reorganizations of German and globally acting companies in the shipping sector.
Thank you