“FROM EACH ACCORDING TO HIS ABILITIES, TO EACH ACCORDING TO HIS NEED”.
THE PRIVATE EQUITY DEAL OF THE YEAR
By George Weltman

Transaction: $139 million facility to finance the acquisition of Hanseatic Ship Asset Management by a joint venture of Borealis Maritime and KKR managed funds.
Winners: Borealis Maritime, Kohlberg Kravis Roberts, Credit Agricole CIB, Credit Suisse and CIT

More often than we like, but it works too well, we have used the beginning quote to describe the formula for private equity’s success. Investable and readily available cash solves a liquidity need, while removing an albatross from the balance sheet to the benefit of capital ratios. It is the proverbial win-win.

The winning transaction contains many features which allowed it to be done in a challenging market environment including involvement of private equity, a very well connected and reputable anchor investor and a group of banks able to lend and to support its long-standing customers.

Crédit Agricole CIB Shipping Germany was mandated to structure the transaction. Embarcadero Maritime III LLC, the 3rd joint venture between various funds managed by Kohlberg Kravis Roberts & Co. LP (“KKR”) and London based Borealis Maritime Ltd. as Joint Bookrunner and Facility Agent to arrange and underwrite a $139m 6-year senior secured term loan facility for the part-financing of the acquisition of Commerzbank’s 2013 founded stand-alone restructuring vessel warehousing platform, Hanseatic Ship Asset Management GmbH (“HSAM”), together with Credit Suisse.

HSAM’s fleet consists of 13 container vessels between 2,500 and 4,255 TEU as well as 5 bulk carriers (1 Supramax and 4 Panamax), all aged between 2 and 12 years with an average age of 8 years.

Due to the combination of a strong depreciation of Euro against the Dollar and the firming prices in smaller container vessel sizes, Commerzbank decided to sell the HSAM portfolio earlier than its target divestment date by the end of 2016. The vessels are fully equity funded by Commerzbank and by selling now they will further be able to significantly reduce risks and costs on their balance sheet.

In July 2013 Borealis Maritime established the JV with KKR, called Embarcadero Maritime to jointly invest into shipping markets. The JV has now invested in more than 40 vessels, making up the vast majority of Borealis Maritime’s fleet. To better manage this latest acquisition, Borealis Maritime has opened an office in Hamburg, allowing it to operate vessels under the German tonnage tax scheme.

KKR is a leading global investment firm that manages investments across multiple asset classes including private equity, energy, infrastructure, real estate, credit and hedge funds. KKR aims to generate attractive investment returns by following a patient and disciplined investment approach, employing world-class people, and driving growth and value creation at the asset level. KKR invests its own capital alongside its partners’ capital and brings opportunities to others through its capital markets business.

The company highlighted the following as the reasons for deserving the award:
- Transaction complexity due...
to a share sale instead of an asset deal requiring extensive due diligence on tax and liabilities by an additional advisor, KPMG and more complex legal documentation,
• One-of-a-kind transaction in the German shipping market by size and structure,
• Very tight timeline between conclusion of share purchase agreement and financial closing with the added complexity of taking over and financing 18 vessels all with different managers,
• Private equity involvement in consolidation of the market

with a view on sustainable demand for second hand tonnage,
• As an active player in the

enabled Borealis/KKR to join well-established German family owned shipping companies Reederei Nord

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distressed second-hand market, Borealis Maritime attracted repeated commitments from one of the top global private equity players in KKR,
• The HSAM acquisition has

This transaction edged out the nomination of a Tufton Oceanic fund, which raised $800 million of commitments from three European pension funds to make 7-10 year unlevered investments in shipping. Over $550 million has already been invested in sub-Panamax containerships, chemical tankers, Suezmax tankers, and Supramax and Handysize bulk carriers, primarily in second-hand transactions. The size of the capital raise by a shipping specialist fund manager is significant as is the investment period which exceeds the more traditional three to five years.

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