DESPERATE TIMES BRING RESULTS
THE M&A DEALS OF THE YEAR

**Transaction:** CMA-CGM's Acquisition of NOL  
**Winners:** Advisor to NOL Citigroup  
Advisors to CMA-CGM BNP Paribas, HSBC, J.P. Morgan and Messier Maris

**Transaction:** Hapag-Lloyd's Merger with UASC  
**Winner:** Citi advisor to Hapag-Lloyd

Consolidation is one of those often discussed conference topics which, for a variety of reasons, some commercial and some personality driven remain just that — more frequently talked about than completed. 2016 is an exception. Marine Money acknowledges three deals, each worthy of note that were closed, each of which has the ability to alter the landscape of its sector.

While it did not win M&A Deal of the Year, the Stolt-Nielsen acquisition of JO Tankers deserves mention up front and, in fact, does win in another category. The acquisition by Stolt, valuing the target at $575 million, significantly expands Stolt's services to its customers. Marine Money acknowledges the fine work by Danske Bank as agent, and the contributions of DNB and Nordea.

While a very significant deal in the chemical sector, the size and strategic nature of the two container sector transactions — which are Marine Money's M&A Deals of the Year, in fact — transform the entire container sector. The two transactions have successfully pushed the industry to consolidate in other ways such that, in January 2016, the top ten players had 63% of available capacity and, as we start 2017, the top ten players now control 84% of available capacity.

The four companies in the two deals have reshaped the face of an entire industry, accelerating the reshuffling of every alliance, something that will continue to play out throughout 2017. The CMA-CGM combined entity has the third largest TEU capacity globally, while the combined Hapag-Lloyd UASC entity has the fifth largest TEU capacity globally! More specifically, the top five companies now control 82%, 78%, 70%, 54% and 51% respectively of the Transatlantic, Latin America, Far East, Transpacific and Middle East capacity, with Hapag-Lloyd having the dominant share of the Transatlantic.

Deals of the Year are about execution, creativity, teamwork and, of course, weaving together the finance which facilitates a massive cross border transaction for clients and, in both winning transactions, advisors, shareholders, lenders and managements made sure the sometimes competing interests kept the finish line in sight. The deals contained substantial financial underwriting and, therefore, a close alignment of M&A and financing processes was critical to ensure the smooth execution.

In the CMA-CGM transaction, BNP Paribas (BNPP) had developed a strong relationship with CMA-CGM through good times and bad. This enabled BNPP to become both Corporate Advisor to the company, along with HSBC and JP Morgan on the NOL acquisition. BNPP was also the structuring Bank, Joint Book runner and Underwriter of the $1.652 corporate acquisition facility.

To partially fund its acquisition of Neptune Orient Lines, CMA-CGM arranged an acquisition facility of $1.652 billion, which matured in December with early repayment conditions based upon the realization of certain transactions. Desirous of paying the facility off early, despite options to extend the maturity, the company raised proceeds of $542.9 million on September 30th from the sale and lease-back of NOL's container fleet. In October and early November, the company utilized proceeds in the amount of $290 million from its new freight securitization program to partially pre-pay the facility and, as the last step in the refinancing, in mid-November, the company closed the refinancing of 11 vessels through seven-year operating leases, generating total proceeds of $881 million. Mission accomplished in a difficult financial environment. With limited access to banks and the debt (downgraded to B by S&P) and equity capital markets, the facility was,
On a broader level, consolidation is being furthered as the alliances re-arrange themselves from four major alliances to three and, given current challenges, this is a major accomplishment.

Citi achieved many of the same objectives with Hapag-Lloyd’s merger with UASC. Following the integration, the new Hapag-Lloyd, owned 72% by Hapag-Lloyd and 28% by UASC, operates 237 vessels with a total transport capacity of around 1.6 million TEU, an annual transport volume of 10 million TEU, and a combined turnover of approximately $12 billion. The combined company remains a registered and stock listed company in Germany, with its head office in Hamburg. CSAV, HGV (City of Hamburg) and Kühne Maritime remain controlling shareholders of Hapag-Lloyd. The majority shareholders of UASC — Qatar Holding LLC (“QH”) and The Public Investment Fund of the Kingdom of Saudi Arabia (“PIF”) — have become new key shareholders of the new Hapag-Lloyd, holding 14% and 10% respectively. As part of the merger agreement, CSAV, Kühne, QH and PIF agreed to backstop a cash capital increase of $400 million to be raised through a rights issue within six months.

From a strategic perspective, the transaction touches all the bases. The combination also brings together the right assets, creating one of the youngest and most efficient fleets in the industry. With an average age of 6.6 years, weighted by capacity, the fleet of 237 vessels on the water is 62% owned and 38% chartered. The company also has nine vessels on order, representing a total capacity of 101,453 DWT, eight of which are in excess of 10,000 TEU, today’s preferred size. Here the benefits of the combination were most evident with the new company benefiting from UASC’s recent order for 17 fuel-efficient very large containerships, including 6x18,000 TEU and 11x15,000 TEU vessels, the bulk of which delivered last year and this year. In effect, vessel expenditures that were required were “pulled forward” obviating the need for future investment, thereby allowing the company to focus on maximizing free cash flow to deleverage. When the newbuildings are delivered, the total vessels in excess of 10,000 TEU will increase to 43, representing 17.5% of the operating fleet. For a competitive perspective, Hapag-Lloyd’s average vessel size is 6,543 TEU, which is larger than those in the Top 20 (5,406 TEU) and the World Fleet (3,362 TEU).

The most pronounced measure of the benefits of a merger is the synergies that will result, which is simply a fancy name for the value of the costs that can be taken out due to duplication. Highlighting its successful track record in its mergers with CP Ships and CSAV, Hapag-Lloyd is projecting significant value creation resulting from expected run rate synergies of a minimum of $400 million annually through network and overhead savings. The reductions will be derived from the optimized new vessel deployment within its network and the consolidation of its various headquarters and country organizations. Lastly, savings will be generated from lower container handling rates, a reduction in equipment imbalances, the optimization of leasing costs and the sharing of best practices.

Meanwhile, Citi achieved an elegant price premium to NOL’s trading peers and a firm equity value of $2,410 mm, which was a significant premium for shareholders, the largest of which was Singapore-based Temasek. The deal also required anti-trust clearance from the US, EU and China, which was secured. The result: scale to succeed in the current environment; broader and deeper services through the two entities’ complementary strengths; operating synergies; enhancement of Singapore’s position as a key maritime hub; and the ability for NOL to make significant capital investments in its future competitiveness.

The combined company’s balance sheet is also much improved, with the equity base increasing 1.4x from $5.4 billion to $7.4 billion, without giving effect to the planned capital increase. Similarly, liquidity, including cash and credit lines, increases from $904 million to $1,542 million also exclusive of the equity raise. Unfortunately, liabilities are also combined with the standalone net debt rising from $3.7 billion to $7.1 billion, largely on the back of the delivery of the newbuildings. Clearly, the company’s focus will be on deleveraging and maintaining an adequate liquidity reserve.

On a broader level, consolidation is being furthered as the alliances re-arrange themselves from four major alliances to three and, given current challenges, this is a major accomplishment.

So moving from the floors of conference rooms around the worlds to corporate headquarters and the ports of the world, M&A in 2016 was a reality and, while we celebrate CMA-CGM and NOL along with Hapag-Lloyd and UASC, we also acknowledge the extraordinary work of all the banks, bankers, law firms, lawyers and the teams within each company for their vision and execution. Thus, they are our M&A Deals of the Year.