Leadership
Dealmakers of the Year
The Art of the Deal – Shipping Style

The Dealmakers of the Year

Winners:  Ole Hjertaker – Ship Finance Limited
          Petros Pappas and Hamish Norton – Star Bulk Carriers

With apologies to the Chinese calendar, 2018 was the year of the deal. How do we count the ways? There were companies acquired, ships purchased, and even some capital markets transactions executed to finance them. It was the perfect storm for deal making with banks looking to reduce their portfolios and private equity seeking to exit from investments. Little or no cash was required as companies engaged in share for share mergers and sellers sold ships for shares. And if cash was needed, it was easily raised in sale-leaseback transactions.

It was impossible to choose a winner between the traditional Greek shipowner and the tonnage provider, whether in terms of numbers, quality or complexity of deals. They were evenly matched and therefore share the title of Dealmaker of the Year.

The Seadrill restructuring did not prove to be much of a handicap to Ole Hjertaker and Ship Finance International (“SFL”), who saw opportunity in the container sector and went on a buying binge acquiring 24 containerships of various sizes, nearly doubling its exposure to the sector. Back in March, the company acquired a fleet of 15 vintage containerships, ranging in size from 1,100 to 4,000 TEU, in combination with seven-year bareboat charters, with a purchase obligation, to a leading container line. The risk associated with older vessels was mitigated by a purchase price close to the vessels’ scrap value, the bareboat charters and the purchase obligation. The aggregate EBITDA contribution was projected to be approximately $20 million annually.

In May, SFL, continuing to flex its muscles, acquired four x 14,000 TEU modern, eco-design containerships built in 2014 in combination with long-term charters to Evergreen which expire in 2024. The EBITDA contribution from these vessels is estimated to be $60 million per year. While the purchase price was not disclosed, market sources suggest the sales price to be in the region of $460 million en bloc, inclusive of 4 million newly issued SFL shares, worth ~ $60 million, as non-cash consideration paid to the seller. The cash portion was financed from cash on the balance sheet and a non-amortizing, unsecured $320 million bridge loan from Mr. Fredriksen’s Hemen Holdings.

To renew and diversify a fleet requires divestitures as well as purchases. SFL saw an opportunity to sell three of its VLCCs, which had been in its fleet since inception in 2004, to ADS Crude Carriers (“ADS”), which raised $58 million from investors, who saw opportunity in trading low cost assets, which are to be upgraded with scrubbers to take advantage of IMO 2020 and the expected spreads in fuel prices. Net proceeds from the sale totaled $77.6 million including $10.1 million in the form of an interest-bearing note from Frontline. With cash in hand from the vessel sales, Ship Finance saw the new venture as an opportunistic financial investment and acquired a 17% interest in the company, believing there was limited downside to current recycling values, with significant upside potential with very low risk exposure at the tail end of these vessels’ commercial life. It also profitably sold the 2007-built jack-up rig Soehanah for gross proceeds of $84 million, generating a gain of $7.6 million.

In August, SFL again went large acquiring 3 x 10,600 TEU modern eco-design containerships built in 2015 in combination with time charters to Maersk Line with a minimum term of six-years with charterer’s option to extend up to ten years. The anticipated EBITDA contribution from these vessels is approximately $35.5 million annually. The vessels will be...
part financed with an intermediary bank financing of $200 million with the balance coming from cash on hand.

Working through the holiday season, the company made its last acquisition at year-end, acquiring 2 x 19,400 TEU containerships built in 2016, which are bareboat chartered to MSC until late 2033 (~15 years). The charters include a purchase obligation thereby eliminating residual risk. The charters increased the company’s fixed rate charter backlog by nearly $470 million.

There were also liabilities to be managed and financings to be arranged. In particular, the four 13,800 TEU containerships on charter to Evergreen and the three 10,500 TEU containerships on charter to Maersk were all intentionally financed with bridge loans and required permanent financing. Welcome to Japan! With the intervention of FPG AIM and a package of two very attractive transactions, SFL was able to complete its first JOLCO transaction raising in total $670 million in long-term financing. The tenors range from ~9 years for the Evergreen lease to more than 10 years in the case of the Maersk transaction with early buyout options when the respective charters expire. Market sources suggest that SFL achieved close to 100% leverage at a capital cost below 5%. Together the transactions free-up close to $150 million of investment capacity. Doumo arigatou.

For the most recent acquisition, the two 19,400 TEU containerships on charter to MSC, the company was able to source, again from Asia, non-recourse lease financing of ~$170 million with a tenure matching the terms of the charter. The company’s equity investment was limited to ~$15 million/vessel.

In between, there were visits to Wall Street and Oslo for more traditional capital raising exercises. In April, SFL successfully priced its offering of $150 million of Convertible Senior Notes its third convertible offering since 2013. The notes will pay interest quarterly at a rate of 4.875%, will mature on May 1, 2023 and carry a conversion premium of 27.5%. Proceeds of the offering will be used for general corporate purposes, including working capital. The transaction was led by Morgan Stanley, Jefferies and Citi. DNB Markets, Seaport Global, BTIG, ABN AMRO and ING were co-managers.

Lastly, there was a visit to Oslo, in August if one can believe it, for the successful placement of NOK 600 Million NIBOR+4.75% senior unsecured bonds due in September 2023. Proceeds were used for the refinancing of existing debt and general corporate purposes. While a small deal, it serves the purpose of keeping a market presence. Joint lead managers for the issuance were Danske Bank, DNB Markets, Nordea and SpareBank 1 Markets.

Waste not, want not. There was some activity on the sidelines as well. The company opportunistically repurchased convertible notes, with a ~$28 million nominal value, below par to generate a $1.5 million gain and recorded a $13 million gain in connection with the sale of its financial investment in Golden Close Maritime.

So, if we were keeping score we could tally:
• The acquisition of 24

Market sources suggest that SFL achieved close to 100% leverage at a capital cost below 5%. Together the transactions free-up close to $150 million of investment capacity. Doumo arigatou.

containerships. $1.2 billion of new investments
• The divestiture of 3 VLCCs, while retaining an economic interest to benefit from IMO 2020
• Increasing total fixed rate charter backlog for the year by ~$1.3 billion
• ~$670 million of JOLCO financing
• ~$230 million of capital markets transactions.

This is but a single year during which a series of transactions were executed. The year’s accomplishments require context both within history and performance to fully appreciate and understand what was accomplished. Mr. Hjertaker says it best: “The strength of SFL’s business model has been repeatedly proven over 60 consecutive quarters of profitability and dividends. This has been achieved over multiple shipping cycles, and we have been able to accomplish this by taking a very active approach to structuring our investments and managing our balance sheet. In the process, we have continuously renewed and grown our portfolio and diversified our charter revenue backlog across multiple segments and counterparties. SFL has transformed from a pure vessel leasing company, serving one related party, to a multi-faceted organization with ~$3.8 billion in contracted future revenues, the majority of which is from unre-
Star Bulk Carriers Corp. is a traditional Greek shipowner on steroids. Petros Pappas and Hamish Norton built a navy last year by hoovering up investor fleets wholesale, largely in share for ship transactions. In four transactions, it acquired 41 vessels, while simultaneously creating a viable exit for investors.

The deal splurge began in May with Star Bulk agreeing to acquire Songa Bulk’s 15 vessels, comprising 3 Capes, 10 Kamsarmax and two Ultramax bulk carriers, with an average age of 7 years, from Arne Blystad, for 13,725 million common shares of Star Bulk and $145 million in cash. Contemporaneously with the closing of the transaction, the company applied for a secondary listing of its common shares for trading on Oslo Børs. The cash portion of the consideration was financed through proceeds of a new five-year capital lease of $180.4 million with China Merchants Bank, which offers flexibility to the company, Star Bulk agreed to acquire from E.R. Capital Holding three firm operating dry bulk vessels (the “Step 1 Vessels”) within 2018 and four optional operating dry bulk vessels (the “Step 2 Vessels”) in 2019 (the “Step 2 Acquisition”).

The Step 1 Vessels will be acquired for approximately 1.34 million common shares of Star Bulk and $41.70 million in cash, which will be financed from the proceeds of a new five-year term loan of $41.0 million from a major European commercial bank. Following the consummation of the Step 1 Acquisition, E.R. will own approximately 1.45% of SBLK common shares.

With respect to the Step 2 Vessels, three 2010 built Capesize bulk carriers, E.R. Capital granted four call options to the Star Bulk for an aggregate exercise price of $115.39 million ($28.85 million/vessel), exercisable on April 1, 2019. Concurrently, Star Bulk has granted four put options to E.R. Capital with an exercise price of $105.39 million ($26.35 million/vessel) exercisable by E.R. Capital from April 2, 2019 to April 4, 2019, in the event that the company does not exercise the call options. The exercise price of either option is payable in either, 2/3 cash and 1/3 common shares of Star Bulk, or 100% cash, at the option of the company.

The company also engaged in a number of significant financing transactions. In June, taking advantage of a strong stock market, Star Bulk paved the way for a partial exit by Oaktree Capital Management by successfully closing a secondary

---

**Star Bulk Carriers Corp. is a traditional Greek shipowner on steroids. Petros Pappas and Hamish Norton built a navy last year by hoovering up investor fleets wholesale, largely in share for ship transactions.**

---

Oceanbulk Container Carriers LLC, an entity affiliated with Oaktree Capital Management and the family of Mr. Pappas. The final agreed consideration for the purchase was 3,304,735 million common shares of the company. The three (3) vessels are being constructed at Shanghai Waigaoqiao Shipbuilding Co. (“SWS”), with expected delivery at the end of 2018 and in the first half of 2019. CSSC (Hong Kong) Shipping Company Limited has agreed to provide $104.4m to finance the remaining $103.8m capital expenditure of the three vessels via a ten-year capital lease. Both SWS and CSSC are subsidiaries of the state-owned China State Shipbuilding Corporation one of the two largest shipbuilding conglomerates in China.

It was a busy summer with Star Bulk closing its second “elephant” sized purchase acquiring 16 dry bulk vessels in an all-share transaction from entities affiliated with Augusta Blystad, for 13.725 million common shares after closing, the company issued 10.3 million common shares, representing 11.3% of Star Bulk’s common shares after closing, and assumed existing debt and lease obligations of ~$309 million. Citi was the financial advisor to Star Bulk.

In a structured transaction, which offers flexibility to the company, Star Bulk agreed to acquire from E.R. Capital Holding three firm operating dry bulk vessels (the “Step 1 Vessels”) within 2018 and four optional operating dry bulk vessels (the “Step 2 Vessels”) in 2019 (the “Step 2 Acquisition”). The step one vessels included two Capesize and one Supramax bulk carriers, with the former employed on profitable time charters to major shipping companies, which expire in October 2019 and Jan 2020.
offering of 5 million of its common shares at a price of $13.10 generating gross proceeds to the seller of $65.5 million.

In October, the company entered into a $310 million term loan, which includes a $70 million tranche (the “Green Loan Tranche”) that will exclusively finance the procurement and retrofitting of scrubbers for up to ~50 vessels in Star Bulk’s fleet. The Green Loan Tranche has a margin of 280 basis points over LIBOR and an amortization profile of 4.5 years. The remaining balance of $240 million refinanced in full a group of 26 vessels, including 4 Newcastlemax, 4 Capesize, 2 Post-Panamax, 14 Kamsarmax and 2 Supramax vessels. DNB led the transaction and was joined by ABN AMRO, BNP Paribas, Danish Ship Finance and Skandinaviska Enskilda Banke as Mandated Lead Arrangers.

Later that month, Star Bulk was born again, becoming a customer in good-standing. The company repaid to its lenders all of the outstanding deferred debt amounts originating from the September 2016 restructuring of its finance agreements and was released from restrictions on vessel acquisitions, new debt and dividends from January 1, 2019 onwards. With the restriction lifted, the company refinanced existing loans of approximately $617 million with a new debt facility in excess of $625 million, which will finance 59 vessels of all types, ranging from Newcastlemax down to Supramax, with an average age of 10.2 years. With this transaction, Star Bulk expanded its banking group to include new European and Asian financial institutions and, with a 70-bps reduction in its weighted average interest margin, reduce its cost of debt.

The year began with the Star Bulk, the largest U.S. listed dry bulk operator, controlling a fleet of 72 vessels on the water, with an average age of 8.5 years and two newbuildings. By year end, the company owned a diversified fleet of 112 vessels, ranging from Supramax to Newcastlemax, with an average fleet age of 7.8 years. The growth was accretive and was financed in large part through the use of its shares as currency. And by the use of shares the company acquired three strategic shareholders: Songa, Augustea/York Capital and E.R. Capital.

How can the dynamic duo of Petros Pappas and Hamish Norton not share the Deal-maker of the year award when you look at what they accomplished?

- Enlarged the fleet by 41 vessels, while reducing its age.
- Exploited the shares for ships option to acquire vessels
- $1.26 billion of new financings
- Provided an opportunistic partial exit for main shareholder, Oaktree
- Committed to the scrubber solution for IMO 2020 and arranged a major “Green facility” to finance their purchase and installation
- Repaid in full the outstanding deferred amounts from it’s restructuring and became “free again”
- Added three strategic shareholders

As Frank Sinatra sang: “It was a very good year” for these dealmakers, who set an incredibly high standard for the future.