Leadership
Dealmakers of the Year
“...DOUBLE THE SIZE OF GSL’S FLEET, EXPAND THE CHARTER BASE, REDUCE THE EXPOSURE TO CMA CGM, LOWER THE AGE PROFILE OF THE FLEET, REDUCE LEVERAGE AND INCREASE THE BACKLOG”¹

THE M&A DEAL OF THE YEAR

Transaction: The Merger Between Global Ship Lease and Poseidon Containers
Winners: Credit Agricole, Evercore

Choosing a winner between the merger between Global Ship Lease and Poseidon Containers and the acquisition by Seaspan Corporation of Greater China Intermodal (“GCI”) was incredibly difficult. Both deals were blockbusters, but only one, in our view, was truly transformative.

The winning transaction had humble beginnings. Global Ship Lease, Inc. (“GSL”) was formed by French liner company CMA CGM when they sold its $1 billion portfolio of containerships to a SPAC in 2008, creating a NYSE-listed containership owner and lessor of mid-size and small vessels to shipping liner companies under long term charters. From its beginnings, the company was handicapped by its relationship with CMA CGM, who was its majority owner and major and almost only customer.

In January 2018, GSL announced its intention explore various capital market and strategic opportunities that would benefit its business, market position and shareholders. At that time, Global Ship Lease owned 19 vessels with a total capacity of 85,136 TEU and an average age, weighted by TEU capacity, of 13.7 years. All 19 vessels are fixed on time charters with an average remaining term of approximately 2.5 years.

After conducting a broad marketing process as part of the strategic alternatives assessment in October 2018, Global Ship Lease agreed to an all-stock acquisition of Poseidon Containers Holding LLC and K&T Marine LLC (together, “PCON”) for 24.045 million shares of Class A common stock and 0.250 million shares of Series C perpetual preferred stock, which are convertible into an aggregate of 103.642 million shares of Class A common stock. The shares were issued at $1.7825, a share price premium of 105% to GSL’s closing price on October 26, 2018 and 83% to the 30-day VWAP. Global Ship Lease’s offer represented an implied transaction value of over $780 million on an asset value basis.

Giving pro forma effect for the completion of the merger, PCON’s shareholders will represent 69.5% of the economic interest, on an as-converted basis, of the combined entity. Key shareholders include Kelso (56.4%), CMA CGM (13.3%) and George Youroukos (8.6%).

As a result of this transformative strategic transaction, the combined company will have a fleet of 38 vessels with a total capacity of 198,793 TEU, an average fleet age, weighted by TEU, of 10.7 years, contracted revenue of $528 million as of September 30, 2018 and an asset base of more than $1.2 billion.

¹ Nicholas Gower, Global Ship Lease – Poseidon Merger Update, Clarkson Platou Securities
While there are many benefits to the business combination, the most obvious is the joining of the highly complementary fleets to create a larger, diversified and modern fleet in the attractive mid-size and smaller segments. GSL will contribute its 19 vessels together with ~$390 million of contracted revenues, which provide stable cash flow and forward visibility. In contrast, Poseidon’s 19 vessels of 113,657 TEU are younger, more modern and offer greater operating leverage with 16 vessels on short-term and spot charters. Combined, the 38 on-the-water vessels offer greater scale and diversity to its liner customers, while the company enjoys a larger younger fleet with a diverse counterparty portfolio and an attractive combination of fixed contracted revenue and exposure to upside in a rising market. On a charter-adjusted valuation, the fleet is worth in excess of $1.2 billion increasing the enterprise value by more than 2.5x.

The company will also immediately benefit from access to the extensive operational and commercial capabilities that Poseidon’s CEO, George Youroukos, has separately established. These include Technomar, an industry leading ship management company, which will keep pressure on run-rate vessel OPEX with a proven track record of reliability and controlling vessel operating costs, and ConChart, which will enhance the company’s commercial coverage. In addition, there will be up to $5.0 million in annualized cost synergies through lower OPEX, lower drydocking CAPEX and lower S, G & A.

Having previously been dominated by a single major charterer, CMA CGM, counterparties now include the major shipping lines: CMA CGM, OOCL, Maersk, MSC, Hapag Lloyd, COSCO, Wan Hai, ONE and ZIM. It will no longer be a one-trick pony. And, lest we forget the balance sheet benefits from the injection of equity with leverage on a loan-to-value basis reduced from 69% to 61%, net of cash.

The sum of all these leaves a company positioned to grow and become a market leader in mid-size and smaller containerships at an optimal point in the cycle, as asset prices remain near cyclical lows offering an attractive buying opportunity.

The runner-up transaction, the purchase by Seaspan of the remaining 89% interest of GCI it did not own was pre-ordained as a likely exit for The Carlyle Group, the company’s main shareholder. This was a big gets bigger transaction, which solidified Seaspan’s industry-leading position as the world’s largest independent containership owner-operator.

This transaction was simply the formal acquisition of GCI’s fleet of 18 modern containerships, which have been technically and commercially operated by Seaspan since delivery. The fleet, all sister ships to SeaSpan’s current fleet, consist of 10,000 TEU (13) and 14,000 TEU (5) eco-class vessels, representing a total of 204,000 TEU. The fleet was constructed in high quality Korean and Chinese shipyards with an average age of 2.6 years and is chartered to leading liner companies (Yang Ming, MOL, CMA CGM, Hapag-Lloyd and Maersk), with average remaining term of 5.4 years. On a combined basis, Seapson’s fleet consists of 112 vessels, with a carrying capacity of 905,900 TEU, an average vessel size of 8,100 TEU, a TEU-weighted remaining charter period of 5.2 years, future contracted revenue of $5.6 billion and a TEU-weighted average vessel age of 5.4 years.

The implied enterprise value of GCI is approximately $1.6 billion, including assumed third party net debt of approximately $1.0 billion and $140 million of future vessel payments. As consideration, the selling shareholders will receive cash of approximately $330 million and ~$50 million of Seaspan Series D preferred shares. The cash consideration was sourced from cash on its balance sheet and a $16 million reinvestment by the Washington family in Seapson common equity. Seapson has also closed on a $100 million secured credit facility from Citi.

It was never a question of if, only a matter of when. The strategic rationale was compelling:

- Solidifies the company’s position as the largest containership lessor, while leveraging the scale of its operating platform
- Fleet composition is improved through a reduction in the average vessel age and the addition of newbuildings, while increasing exposure to the desirable 10,000 and 14,000 TEU eco-class vessels
- The financial position is improved through top-line growth, and long-term contracted future revenue through an enhanced time-charter profile
- The platform benefits from the deepening of existing relationships along with increasing diversification, including increased exposure to customers with historically lower concentrations.

Citi acted as financial advisor to Seapson. Deutsche Bank served as financial adviser to GCI.