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INSIDE

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The Week in Review

A Series of Unfortunate and Fortunate Events

A long, long time ago, when the shipping markets were last booming, capital for shipping investments was plentiful and indiscriminate, with investors and banks supplying the industry gleefully. With its favorable tax treatment and no shortage of KG arrangers, Germany was a special case attracting investments from wealthy individuals into KGs or private partnerships, which contracted newbuilding containerships allowing investors to take immediate tax write-offs. Once taken, German investors' interest waned leaving the ships to be delivered to ship managers who took on the responsibilities for construction supervision and technical and commercial management of the vessels upon delivery. The result was a massive newbuilding program which produced far more ships than were needed, creating a shipping crisis, which was exacerbated by the liner companies ordering large numbers of Very Large Containership (>10,000 TEUs) which added millions of TEUs of excess capacity, ultimately resulting in the collapse of the freight market.

During this period, HSH Nordbank financed a fleet of 34 containerships, including Post-Panamax, Panamax and Feedermax vessels, and one bulkcarrier, all managed by Norddeutsche Reederei H. Schuldt, a well-established commercial and technical manager for container and bulk vessels, which managed a fleet of approximately 50 vessels. Against the financed vessels, the bank had an outstanding loan exposure totaling ~$1.5 billion. Ultimately, the collapse in charter rates led to a restructuring in 2016 of the financings which included a debt waiver of $547 million against a debtor warrant, which would allow the bank to collect the amount if asset prices recovered.

Subsequent to the restructuring, it is understood from market sources that HSH Nordbank transferred the remaining loan of approximately $1.0 billion to hsh portfoliomanagement ("hsh pm"), which was recently rebranded as portfoliomanagement SCHLESWIG-HOLSTEIN · HAMBURG. Established by the federal states of Hamburg and Schleswig-Holstein, hsh pm was formed as a vehicle to downsize the shipping portfolio of the state-owned HSH Nordbank to prepare it for sale. To that end, a distressed portfolio of ~$4.7 billion comprising approximately 250 vessels was transferred with the expectation that hsh pm will recover or resolve the acquired risk exposures generating the maximum possible profit, while winding down the portfolio over a period of ten years.

The charter rate correction required immediate action. After years of neglect, the old school undisciplined approach to operating costs in the industry finally gave way to a laser like focus on costs. In this regard, Norddeutsche Reederei was successful in reducing operating costs to a competitive level. Still, in view of the current market situation, hsh pm, sought a more sustainable set-up going forward as well as further consolidation of the container shipping market with the goal of achieving full repayment of the loan. After the restructuring, a comprehensive M&A process for the sale of the company was commenced, resulting in a couple of interesting bids, with V. Group making the most attractive offer.

The rationale for consolidation is the belief that by bringing together different parties that on a standalone basis are already exceptional performers, further improvements in cost reductions and performance are possible. The goal was to find a perfect structure and the right parties to achieve the following goals, a process that eventually would take place over 18 months:

- Maximize repayment of the loans for taxpayers by
  - Reducing the OPEX
  - Maximize the charter income
  - Secure cash flow for capex
- New, strong partner for the ship management company.

The wheels were set in motion, when in December 2016, Advent International ("Advent") announced that it has agreed to acquire a majority ownership interest in V.Group Ltd., the world's leading marine and offshore vessel management and support services provider.

V.Group specializes in the technical management of maritime assets outsourced by ship owners, and the provision of a wide-range of high-value technical, personnel and advisory services. Operating out of 60 international offices, the company manages approximately 1,000 vessels on behalf of its customers across the commercial shipping, cruise, energy and defense sectors. V.Group employs more than 3,000 people onshore and 44,000 seafarers. In short, it brings scale and a huge network to the equation.

As an asset light business, growth knows no bounds. And, as a global market leader, V.Group is uniquely placed to leverage its scale and deep technical expertise to help clients maximize the long-term value of their assets. V.Group's growth strategy remains unchanged, as it continues to focus on further geographical expansion and deepening its range of services organically and through complementary acquisitions.

For V. Group, the container market was an untapped opportunity, ripe with interest for a highly growth orientated company, seeking to grow market share. In October 2018, V. Ships made an attractive long-term offer for the technical management of the Norddeutsche Reederei fleet, which not only fulfilled the requirements of the financiers and the owner of Norddeutsche Reederei, but also ensured the employment of the existing employees. Norddeutsche Reederei agreed to join V. Group, representing a major step in delivering consolidation of commercial and technical management in the container segment in Germany. For V. Group, the transaction underpinned its ambition to drive the transformation of the industry and to be the leading global provider of marine support services. Under the terms of the agreement, the existing Norddeutsche Reederei team will continue to manage the fleet out of Hamburg and will be joined by V.Group's existing Hamburg-based technical management team putting in place a center of excellence for the technical management of global container fleets in Hamburg. Concurrently with the merger, the combined company entered into a partnership for commercial management with Blue Net Chartering, a joint venture of Costamare Shipping Company and Peter Dohle Schiffahrts-KG.

As part of the transaction, it is understood that the 35 vessels previously owned by Norddeutsche Reederei were transferred, together with the loan which was tranched according to expected recoveries, to Northern Shipping Holding, a ring-fenced special purpose vehicle, which will warehouse the assets.

Bringing together the expertise of the world's largest technical manager, V.Group, the existing ship manager, and one of the largest chartering brokers in the world, Blue Net Chartering, the structure, established with the support of the financing institution should optimize the fleet's financial performance in this challenging market environment, while enhancing the bank's recovery and benefiting all the parties, not only with respect to the complex restructuring of the financing attached, but also, and perhaps more importantly for the global (container) shipping industry, by enhancing consolidation even further.

The Project Market is Open and Alive

With the backdrop of challenging equities market, the project market continued to prove itself worthy of our acclaim. We have always been believers, and, thanks to Fearnleys, we have numbers to affirm our view. In 2018, the project teams at **NRP, Clarksons Platou, Pareto** and **Fearnley** concluded 48 projects in shipping and offshore, which included an even greater number of vessels. Total project value was $1,142,839,000 of which $561,192,500 was equity with nearly the same amount in debt. The project market continued to be dominated by asset plays in the container and dry cargo segments but in 2018, these were joined by product tankers, as that sector strengthened. Today, these segments now provide double digit returns including cash yield enhanced by cheap assets and improving freight rates. While many criticize the lack of liquidity in the secondary trading of project shares, which in fact implies price stability, the underlying assets in the projects are liquid and purposed to be sold when timing is favourable, or the project reaches end of life. Although the performance of shipping equities has improved as of late, shares still trade at a discount to NAV, increasing the likelihood of a loss if sold. With hard assets the full value can be realized.

INSW ATM

Last week, **International Seaways** entered into an Equity Distribution Agreement with **Evercore Group** and **Jefferies**, as the sales agents, under which agreement, the company may offer and sell common shares having an aggregate offering price of up to $25,000,000 from time to time.

The net proceeds of this offering will be used for general corporate purposes, which may include, among other things, additions to working capital, repayment or refinancing of existing indebtedness or other corporate obligations, financing of capital expenditures (including the purchase of exhaust gas cleaning systems that reduce sulfur emissions to comply with upcoming implementation of new IMO standards) and acquisitions and investment in existing and future projects.

Each sales agent will earn a commission of 3.0% of the gross sales price of all common shares sold up to aggregate gross proceeds of $12,500,000, after which the commission will decline to 2.25% of the gross sales price in excess of gross proceeds of $12,500,000.

What's a Billion Between Friends?

On Wednesday, **Seaspan Corporation** announced the closing of the second tranche of the $1 billion aggregate investment commitment by **Fairfax Financial Holdings Limited** in Seaspan. As in the first instance, the second tranche was structured as a $250 million issuance of (i) 5.50% senior notes due 2026 and (ii) approximately 38.46 million warrants (the "2019 Warrants"). As agreed, Fairfax immediately exercised the 2019 Warrants at an exercise price of $6.50 per warrant, for additional equity proceeds to Seaspan of $250 million, bringing the total proceeds from the second Fairfax investment to $500 million and their total investment in Seaspan to $1 billion. The proceeds of these transactions will be used to fund future growth initiatives, repay debt and for general corporate purposes. With the latest closing, Fairfax's owns 76.9 million Class A common shares of Seaspan, representing approximately 36% of the shares outstanding. Fairfax also continues to hold the 25 million seven-year warrants, with an exercise price of $8.05, which were issued to it on July 16, 2018.

WINNERS AND LOSERS

VesselsValue

VesselsValue provide latest market intelligence as well as valuation, designed to help existing and potential shipping investors better quantify risk, improve reporting and identify opportunities. VesselsValue products are used by the world's leading commercial and investment banks, private equity, investment and hedge funds, ship owners and operators, traders, lawyers, accountants and brokers.

17/01/2019

THIS WEEKS WINNERS

Type (dwt)	Week Change $*	Year Change $*	Annual Volatility*	YoY Volatility Change*
Dry				
Cape (180k)	$0.00	$5.07	5.30%	-2.86%
Wet				
VLCC (310k)	$1.15	$8.52	2.69%	-0.78%
Aframax (110k)	$0.01	$5.16	4.74%	-2.88%
LR1 (75k)	$0.01	$2.05	5.84%	0.94%
Container				
P-Panamax (7,000)	$0.02	$2.63	6.73%	-26.89%
Panamax (4,250)	$0.02	$0.16	7.51%	-16.19%

THIS WEEKS LOSERS

Type (dwt)	Week Change $*	Year Change $*	Annual Volatility*	YoY Volatility Change*
Dry				
Supra (60k)	-$0.16	$0.63	3.87%	-4.82%
Panamax (80k)	-$0.10	$2.42	4.88%	-4.81%
Handy (30k)	-$0.05	$0.40	4.50%	-16.03%
Wet				
Suezmax (160k)	-$0.26	$6.97	2.99%	0.55%
MR2 (50k)	-$0.19	$2.20	5.54%	-1.53%
Container				
Sub Pmax (2,500)	-$0.01	-$0.08	5.61%	-5.79%
Handy (1,400)	-$0.01	-$0.10	6.05%	-5.34%
Feedermax (750)	-$0.00	-$0.01	9.29%	0.00%

*The $ change in value is for standard specification resale vessels from top quality yards over the previous week or year

** "Volatility" is calculated as the standard deviation of the changes in values across the rolling calendar year (expressed as a %)

*** "Volatility trend" is the change in volatility over the previous rolling calendar year

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