

# “WADDYA SAY? DEAL OF THE CENTURY?” – MERGERS & ACQUISITION AWARD

By George Weltman

**I**n nominating Navios Maritime Acquisition for a deal of the year award, one of our favorite investment bankers wrote, “At the beginning of 2010, NNA had cash and gumption. At the end of 2010, the company had a fleet of 22 tanker vessels. Waddya say? Deal of the century?” While we think the deal is a winner, we would, however, not go quite so far as it is both early in the century and the client has yet to reach her prime. We would however concede that it was an encore performance by the 2009 Dealmaker of the Year, Angeliki Frangou and her team at Navios.

The transaction had its beginnings in 2008, when Navios Maritime Holdings formed Navios Maritime Acquisition Corporation (“NNA”), a SPAC, to pursue opportunities in the shipping industry at an attractive point in the cycle. Subsequently the company raised \$253 million in gross proceeds in an IPO for a war chest and began to hunt for the right deal. Then, the company went radio silent.

We fast forward to April 2010.

The company announced that it had agreed to acquire 11 product tankers and two chemical tankers for \$457.7 million. In addition, it obtained options to purchase two additional LR1s for \$40.5 million each. The deal was struck in partnership with a bank and a shipyard to salvage a fleet, where the owner had defaulted. In her inimitable style, Ms. Frangou was able to raise \$343 million in bank financing, reducing the cash need to \$123.4 million. The financing contained highly favorable terms including high gearing (73% of purchase price), favorable amortization to a large balloon and spreads of 250-275 bps. In addition the covenant package was relatively light and permitted the payment of up to 50% of profits as a dividend.

Evidencing their commitment to the deal, Navios and Ms. Frangou agreed to purchase \$45 million and \$15 million respectively of shares in the company. In addition, the company, agreed to exercise the purchase for its own account, if the shareholders did not approve the transaction.

Having secured the fleet of newbuildings, the company then had to obtain the approval of its shareholders. Given the well-structured deal, the company’s track record and its commitment, this should have been a no brainer. However, once again the gods intervened and it was no easy matter. To approve the transaction, two conditions had to be met: a majority must approve it and no more than 39% can vote to cash out. Unfortunately, the vote was set for the end of May, a month of extreme volatility in the markets due to the sovereign debt crisis. Fear and greed consumed the marketplace and investors wanted to be in cash and NNA offered a unique investment opportunity – a source of cash and profit. Cash-because investors could vote to “cash out” without suffering a liquidity discount; profit because the warrants were money good. While feedback from the roadshow was good, self-interest motivated the investors, who were inclined to vote no, letting the other investors approve it. On the dark side, there were also investors who attempted to greenmail the company

through positions it had accumulated. After a timely preliminary vote showing the deal would be rejected, the forces of good won out and the deal was approved.

After a two month respite, NNA seized the opportunity to acquire a fleet of seven VLCCs from Fred Cheng’s Shinyo International Group Limited for an aggregate purchase price of \$587 million. The company believed that it acquired the fleet at a discount to intrinsic value because it was one of the few players who could marshal the banks to finance the transaction. Here again the company demonstrated its financial strength by minimizing its equity investment by arranging a bank loan of \$453 million (78% of the purchase price) and paying a portion of the purchase price in NNA shares. S. Goldman Advisors was the sole financial advisor to Navios on this transaction.

While the initial transaction of the newbuilding fleet was the formative transaction, the VLCC acquisition, in our view, was a game changer. While waiting for its eleven product

carriers to deliver over the next 3 years, the company now had 6 VLCCs on the water all of which are fixed on long-term charters to strong counterparties giving it long-term contracted revenues. When combined with the 2 LR1s and the chemical tanker, the cash flow from the existing on the water fleet of nine vessels is sufficient to cover the operating expenses and debt service of the entire 22 vessel fleet. And the hope is the new vessels deliver into an improving market.

After acquiring the VLCCs, Ms Frangou continued to practice her financial legerdemain. First, she successfully concluded in September a warrant program in which the exercise of warrants raised \$76.8 million and simplified the equity capital structure. In October, the company issued \$400 million of 7-year First Priority Ship Mortgage Notes to refinance the assumed debt on the VLCCs. The company then purchased two LR1 product tankers for \$43.5 million each, which were financed with two new credit facilities of \$104.2 million, which also wrapped-in the existing two LR1s. As part of the purchase price the shipyard agreed to accept as partial payment \$5.4 million of Mandatorily Convertible Preferred Shares. And last but not least, there was a follow-on offering of 6.5 million shares which raised \$35.8 million of gross proceeds. Thankfully, for us, the year ended allowing us to catch our breath after two acquisitions, and multiple financings.

There was no shortage of activity in this category, with many of them being standouts, which made the decision even more difficult. Through the intervention of Lazard, Sungas Holdings Ltd and Stolt-Nielsen merged their gas carrier businesses in a new joint venture, which ranks the new company in the top five of VLGC operators. The company is now also positioned to participate in the continuing consolidation in the industry. Another deserving deal in our estimation was BW Offshore's ("BWO") public takeover of Prosafe, which evolved from hostile to a mutually agreed transaction. The advisors on that transaction were Carnegie and HSBC.

While the competition was worthy, there was no doubt in our mind that NNA deserves the M&A award for this year.

As a side note, the refinancing of the bank debt by the ship mortgage notes did trigger a bit of seller's remorse on the part of Fred Cheng, who wanted to nominate one of his loans, which was subsequently repaid by the proceeds. During the year, Mr. Cheng had obtained a \$90 million bilateral loan from a single Chinese bank for a newbuilding VLCC. The Shinyo Saowalak delivered from DSIC in June and was financed in its entirety by China Merchants Bank. Mr. Cheng believes it was the largest loan advanced by a single Chinese bank to a foreign owner and the amount was impressive as well, representing almost 100% of the charter-free value of a newbuilding VLCC at the time.



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## Selected 2010 Shipping M&A Transactions

Acquirer, New Partners, Parent Seller, or JV	Advisors	Amount (US\$ M)	Target / New Company or Partners	Comments	Month
U-Sea Bulk Shipping		-	Joint Venture	U-Sea established a j/v with a Japanese partner which will be domiciled in Spore and will invest in Pmax and Supramax tonnage. First acquisition is a Pmax scheduled to be delivered from Japan in 1Q11, which was originally to be chartered by U-Sea.	Dec-10
Hoe Leong Corporation		\$15	Aries Offshore Singapore	Acquired a 51% stake in the shipowning entity that owns 4 AHTS vessels	Dec-10
CLSA Capital Partners, Pacific Transportation Fund		\$100	OSL Holdings	Acquired a majority equity stake in Hong Kong based dry bulk shipper OSL Holdings	Dec-10
Aegean Marine Petroleum Network Inc.		-	Joint Venture	ANW to commence physical supply operations in Cape Verde based upon its strategic co-operation with Enacol, a local energy company. The company will use its modern delivery fleet to provide bunkering services while Enacol provides storage. Location will serve cross-Atlantic as well as Europe to Asia via the Cape of Good Hope.	Dec-10
Stolt-Nielsen Gas Ltd.	Lazard	-	J/V with Sungas Holdings Ltd.	SNGL and Sungas have agreed that in exchange for the transfer of three 2008 blt VLGCs, Sungas will receive a 50% stake in Avance Gas plus cash. Shareholders will provide financing until external bank debt can be arranged. Fleet will consist of 6 VLGCs of which 4 are owned.	Nov-10
Sovcomflot (SCF) Group		-	JV with Glencore International AG	Provides for the acquisition and commercial management of five LR1 product tankers. Technical management by Sovcomflot subsidiary, Unicom. First vessel delivered this month with the balance during 2011.	Nov-10
Sovcomflot (SCF) Group		-	J/V with CNPC	Sovcomflot and the Chinese National Oil and Gas Corporation signed a strategic long-term cooperation agreement. Have agreed to utilize the potential of the North Sea route for the transportation of hydrocarbons. Will also cooperate to enhance the quality and safety standards for the shipment of hydrocarbons.	Nov-10
Teekay Tankers Ltd.		\$98		TNK & Wah Kwong formed a 50/50 JV to acquire newbuilding VLCC from China for \$98M. Vessel to be delivered in April 2013 and go on t/c to COSCO Dalian for 5 years. 70% financing from local Chinese banks.	Oct-10
Ezra Holdings		\$250	Aker Marine Contractors	Acquired the established subsea player in Norway	Oct-10
BOURBON		-		Company has agreed to sell its freight operator activity to a company controlled by Jean-Louis Bottaro, who founded and managed Setaf from 1968 to 2008. Sale will generate a capital gain of EUR 10M for BOURBON, which is now a pure play offshore operator.	Oct-10
Seenergy Maritime Holdings Corp.		\$29	Bulk Energy Transport (Holdings)	Acquiring the 50% of BET it does not own for \$33M from Restis family interests payable in cash in the amount of \$7M and shares totalling \$26M at an agreed price of \$1.05, a 14% premium over the preceding closing price.	Sep-10
Infinity Transportation LLC		-	Domestic intermodal chassis	Infinity acquired a portion of GE Capital's domestic intermodal chassis fleet and will now own 21K chassis that are deployed in the N. American rail industry. Infinity is owned by certain funds within Perella Weinberg Partners' Asset-Based Value Strategy & Infinity management.	Sep-10

## Selected 2010 Shipping M&A Transactions continued

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Golden Ocean Group Limited		\$19	Knightsbridge Tankers Limited	GOGL sold Golden Zhejian, with 4 year charter, to Knightsbridge for \$65.5M. Proceeds will pay down debt on the vessel and acquire 0.97M restricted shares in Knightsbridge for \$18.5M as a strategic investment	Sep-10
Camillo Eitzen & Co. ASA		\$15	Eitzen Ethylene Carriers	Establish j/v with JACCAR Holdings to own and operate ethylene carriers. Eitzen Gas renamed EEC. JACCAR to invest \$15M for 40%, with option to buy another 40% for the identical price. Newco will manage 8x12,000 cbm newbuilding ethylene carriers ordered by JACCAR.	Sep-10
Ship Finance Limited		\$101	Vessel Acquisition	Acquired 3 Supramax bulkers for \$100.7M. One in the water built in 2009; others deliver 4q2010 and 1q2011. Chartered to Asain logistics company for average term of 9 years at net rate of \$17K/day. 80% gearing from banks.	Aug-10
Vantage Drilling Company		\$140	Mandarin Drilling Corporation	Acquisition of the 55% interest in Mandarin, the owner of the drillship Platinum Explorer, which it does not own. Financed with proceeds from concurrent bond and equity offering.	Jul-10
TBS International plc		-	Log.Star Navegacao	Log.Star Navegacao is a joint venture formed by TBS (70%) and Log-In Logistica Intermodal (30%) to carry breakbulk, bulk parcels, heavy lift and general cargo along Brazil's coast and Amazon River Basin.	Jul-10
Navios Maritime Acquisition Corp.	S. Goldman Advisors	\$587	Vessel Acquisition	Acquisition of 7 VLCCs from Shinyo. Financed by assumption of \$453M of bank debt, the issuance of \$11M of shares to the seller with the balance cash. Average age of fleet is 8.6 years with charter coverage of 8.8 years at \$40.4K/day plus profit sharing on 5 of the vessels	Jul-10
Kelso & Company	Deutsche Bank (Kelso), Keefe, Bruyette & Woods (Cronos)	-	Cronos Ltd	Kelso took a majority equity position in Cronos, a leading container leasing company. Concurrently, the company purchased additional container assets and entered into a new \$756M revolver.	Jul-10
Eitzen Maritime Services		\$4	EMS Ship Mgmt. Division	EMS sold its ship management division to Sanary Ltd, a shareholder of EMS. EMS has issued a seller's credit due no later than 3/1/11. Note can be settled by cash payment or EMS shares currently owned by Sanary.	Jul-10
BAE Systems	J.P. Morgan	\$325	Atlantic Marine Holding	J.F. Lehman & Company completed the sale of Atlantic Marine Holding Company to a subsidiary of BAE Systems, Inc. for an estimated \$325 Million.	Jul-10
Yangzijiang Shipbuilding		\$23	Jiangsu Changbo Shipyard	Acquired 51% of the equity interest in the capital of Jiangsu Changbo Shipyard	Jun-10
NewLead Holdings Ltd		\$148	Vessel Acquisition	LOI signed with sponsor, Grandunion, for dropdown of 1 Capesize, 2 Panamax and 2 N/B Handysize with right of first refusal on 3 Kamsarmax dry bulk vessels	Jun-10
Navieras Ultragas Ltd.	ABG Sundal Collier, Carnegie	\$93	Eitzen Bulk Shipping A/S	Purchased CECO's 74.33% interest for DKK 30.51/share. Mandatory offer for the balance concluded with Ultragas controlling 88.56% of the shares.	Jun-10
Golden Ocean Group		\$25	Knightsbridge Tankers Ltd.	Golden Ocean to acquire 1.5M shares of Knightsbridge as partial payment for sale of Capesize vessel to Knightsbridge for \$72M. Balance of proceeds will pay down debt. Vessel on 3 yr T/C at \$31,500/day.	Jun-10
General Maritime Corp.		\$620		Acquired 5 x VLCCs and 2 newbuilding Suezmax tankers. Two of the 5 VLCCs are employed on time-charters expiring in January and February 2011. Subject to equity issuance and financing already agreed.	Jun-10

## Selected 2010 Shipping M&A Transactions continued

Acquirer, New Partners, Parent Seller, or JV	Advisors	Amount (US\$ M)	Target / New Company or Partners	Comments	Month
Genco Shipping & Trading Ltd.		\$166		Acquired 5x35,000 DWT bulk carriers from Metrostar, including 3 newbuildings. The vessels are employed on time charters with Cargill at a rate equal to 115% of BHSL. Four have floors and caps at \$8,5000 and \$13,500/day with 50% profit share.	Jun-10
BW Offshore Limited	Carnegie, HSBC	-	Prosafe Production	Voluntary exchange offer for 70.1% of shares not owned. With sale of APL, offer modified to 1.2 BWO shares + NOK 3/share. With the offer successfully concluded, BWO controls 93.9% of the shares	Jun-10
Baltic Trading Ltd.		100		Acquired 3x35,000 DWT bulk carriers from Metrostar. Delivery between July 2010 and October 2010. All three employed on spot market related time charters with Cargill at a rate of 115% of BHSL.	Jun-10
Shinwa Kaiun Kaisha		-	Nippon Steel Shipping	Nippon Steel Shipping has merged with Shinwa Kaiun Kasha under the new entity NS United Kaiun Kaisha. Nippon Steel Corporation and NYK will be major shareholders	May-10
Seanergy Maritime Holdings Corp.		-	Maritime Capital Shipping Ltd.	Acquired 51% interest in Maritime Capital Shipping Ltd. (MCS). MCS owns a fleet of 9 vessels with an average age of 10.7 years	May-10
Grindrod Ltd.		-	Associated Bunker Oil Contractors	Established supplier of bunkers in the Rotterdam area. Operates 4 bunkering vessels. Synergies with new bunkering business in S. Africa and its bunker trader, Cockett Marine.	May-10
Alterna Capital Partners and Western Bulk Carriers		-		Formed JV to invest in a minimum of four dry bulk carriers (30-60k DWT). Committed to 2 x 58,000 DWT newbuildings for delivery in 2011	May-10
Grindrod Ltd.		22	Fuelogic (Proprietary) Ltd.	Acquisition of bulk fuel transporter allowing expansion into Southern Africa Development Community Region.	Apr-10
A.P. Moller-Maersk A/S		520	Yantian International Container Terminal	Sold 13.7% interest in company which holds minority interest in terminal and related shareholder loans to COSCO Pacific. Book profit US\$300-400M.	Apr-10
Euroseas Ltd		-		Euromar LLC, a Joint Venture with Eton Park Capital and Rhone Capital, with \$175M in equity, will acquire, maintain, manage, operate, and dispose of shipping assets.	Mar-10
Berlian Laju Tanker	RS Platou Markets, ABG Sundal Collier and Carnegie	178	Camillo Eitzen & Co	BLT withdraws indicative proposal to launch a voluntary bid for Camillo Eitzen due to the failure in re-establishing a mutually binding commitment to the transaction.	Mar-10
Hoe Leong Corp	Deloitte & Touche Corporate Finance for the buyer and AmInvestment Bank for the seller	6	Semua Group	Acquiring a 49% stake in Malaysia based tanker owner/operator	Jan-10
Diana Shipping	FBR	83	Container ships	Invested \$50M for 60% interest in newco to invest in containerships over the next 12-18 months. Private investors provided balance	Jan-10
Aegean Marine Petroleum Network		-	Verbeke Bunkering N.V.	Completed the acquisition of Verbeke Bunkering NV, a family owned company which has a strong market position in Antwerp-Rotterdam-Amsterdam range. Includes fleet of 18 bunkering tankers.	Jan-10