

A MEANS TO AN END – THE MERGERS & ACQUISITION AWARD

By George Weltman

With bank financing being the lubricant for M&A deals, one might have expected little activity in this category. On the contrary, there were, in fact, a number of important M&A transactions done in 2009. One of the largest and most interesting was the sale by TUI AG of Hapag-Lloyd AG to the Albert Ballin Consortium. No longer a strategic fit to its business, TUI, with Citi acting as its advisor, began the process of selling the fifth largest liner company in 2008 and received indications of interest from both strategic and financial buyers. Agreement was reached with the Hamburg Consortium in October of that year as the perfect storm approached. Despite the many travails of getting the deal done in this period of uncertainty and weakness, the sellers, with the assistance of Citi prevailed, closing the transaction in March thanks to some creative structuring including the buyback of a 43.33% entrepreneurial stake.

Not to be outdone, the Asian market nominated the acquisition of a controlling stake (56.81%) in the PRC's Tianjin Port Co. by the Hong Kong listed Tianjin Port Development for \$1.4 billion. Advisors

on the transaction were Merrill Lynch, Morgan Stanley and Citic.

In a down market, the inherent weakness of the MLP model in shipping is apparent. The model depends on growing long-term contracted cash flows to ensure not only that distributions continue but also grow. OSG America was not immune from the weakening demand for oil domestically. Weakening revenues caused it to reconsider its dividend, eventually leading to OSG's tendering for its shares to bring it private once again. Bank of America Merrill Lynch and Evercore Partners took on the difficult role of acting as financial advisors to the insider, OSG.

While all were deserving, we chose the winner as an emblem of the times. A recurrent theme of this issue is the importance of access to the capital markets and that was the motivation behind the winning transaction, the acquisition of Aries Maritime by Grandunion Inc. With perhaps the exception of Asia, where bank lending is more prevalent, it has been evident throughout the year that being public was the ticket needed to raise capital. Understanding this, Messrs.

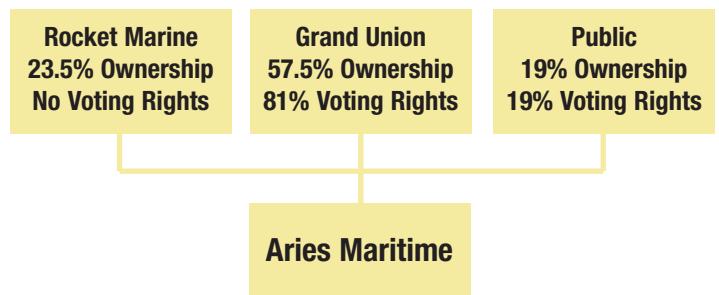
Fistes and Zolotas, the principles of Grandunion had been looking at a number of opportunities to go public but none had worked out. The IPO market remained shuttered, but opportunity arose in the form of Aries Maritime, a company, which continued to struggle and had put itself in play with little interest. With the assistance of Sheldon Goldman of S. Goldman Advisors, Grandunion successfully pursued Aries and concluded the transaction in October.

Aries was acquired and re-capitalized in a series of simultaneous transactions. Grandunion transferred 100% ownership in three Capesize bulk carriers to Aries in exchange for 18,977,778 newly issued common shares in the company. The vessels had a fair market value of \$73 million and were transferred with an existing credit facility of \$37.4 million, for a net equity contribution of

approximately \$36 million.

To gain control of the company, the principals of Grandunion entered into an agreement with Rocket Marine, an entity controlled by the principal shareholders of Aries, Messrs. Petrides and Bolin, in which it was agreed that Grandunion would transfer 2,666,667 of the company's common shares to Rocket in exchange for Grandunion's control over the voting rights of the 17,563,444 shares owned by Rocket. The voting agreement, which contains a lock-up period through December 31, 2011, is in place for as long as Rocket Marine owns the shares.

The critical transaction was the issuance of \$145 million in aggregate principal amount of 7% senior unsecured convertible notes due 2015. The notes are convertible at any time into common shares at a price of \$0.75 per share and if fully



converted would result in the issuance of approximately 193.3 million new shares. The Investment Bank of Greece purchased \$100 million of the notes with the balance bought by Mr. Zolotas. Proceeds were used to prepay \$20 million of the existing credit facility with the balance to be used for general corporate purposes and vessel acquisitions. The purchase of these notes, which have preference above only the common by the Investment Bank of Greece speaks to the reputation and standing of the principals as well as their relationships in the shipping community.

The prepayment of the credit facility and the additional unsecured, and therefore in effect subordinated, capital allowed the banks to refinance the company's existing credit facility. The new \$221.4 million credit facility was immediately paid down with \$20 million of proceeds from the convertible notes. The credit facility has a very favorable repayment profile of 19 quarterly payments of \$2 million to a balloon of \$163.4 million in October 2014 and financial covenants, except for working capital and minimum liquidity, are waived for a period of 30 to 36 months. Together, the capital injection

and debt restructuring provide stability and time for the new management to turn the company around and implement its growth plans.

The direction the company was going in was clearly evident in a subsequent transaction involving the dropdown of four bulk carriers, two Capesize and two Panamax, two handy size product carriers and its commercial and technical management company Newlead Shipping. The nominal purchase price is \$180 million, which will be paid through the assumption of \$160 million in debt and the net equity paid in out of the money stock issued at

a price of \$2.25 per share, a premium of 125%. Based upon an effective purchase price of \$169 million and an EBITA contribution of \$20.6 million, the acquisition multiple was 7.9 times.

For Grandunion, the stealth acquisition of Aries, which was subsequently renamed Newlead Holdings, gave them the public vehicle, with the third currency, they wanted and needed to grow. It also brought out of the shadows their investment banker, S. Goldman Advisors, who, until now, was mainly a key and very busy advisor to Angeliki Frangou and Navios.



Selected 2009 Shipping M&A Transactions

Acquirer, New Partners, Parent Seller, or JV	Advisors	Amount (US\$ M)	Target / New Company or Partners	Date
NYK		78	Taiheiyō Kaiun	Dec-09
Thoresen Thai Agencies		136	Unique Mining Services	Dec-09
Mermaid Maritime	Pareto Private Equity	11	Nemo Subsea	Oct-09
OSG	BofA Merrill Lynch and Evercore for OSG. Lazard for independent directors		OSG America	Sep-09
Grandunion	S. Goldman Advisors for Grandunion. Cantor Fitzgerald for Aries	36	Aries Maritime	Sep-09
Teekay Offshore Partners		320	Petrojarl Varg FPSO from parent Teekay	Sep-09
Seacor Holdings		300	U.S. Shipping L.P.	Sep-09
Navig8 Chemicals			Navig8 & Sokana Chartering	Aug-09
Rand Logistics Inc.	Jefferies (Rand), Greenhill (USSLP)	255	U.S. Shipping L.P.	Aug-09
DryShips	Evercore	330	Remaining 25% share of Primelead Marine (DRYS rig assets) from Cardiff Marine	Jul-09
easyGroup Holdings		EUR 9 (\$12.7)	Sea Star Capital	Jul-09
Draften	Nordea	1	13 vessels controlled by Eastwind	Jul-09
Seanergy Maritime		Nominal cash consideration	50% interest in Bulk Energy Transport (Holdings) Ltd	Jul-09
First Olsen		2	Remaining 42.3% of Oceanlink	Jul-09
Tufton Oceanic Finance Group and SIF Limited	In house	approx 250	Allocean Charters (Singapore)	Jul-09
National Shipping Company of Saudi Arabia (NSCSA)		300	Arabian Agricultural Services (ARASCO)	Jun-09
Wilh. Wilhelmsen		78	Glovis Logistics	Apr-09
World Nordic SE		392	BW Gas	Apr-09
Hapag-Lloyd	Citi, Deutsche, Greenhill equally for TUI;	5,900	Done	Mar-09
Calulo Petrochemicals (15%), Adopt-A-School Foundation (10%)		28	Grindrod South Africa (GSA)	Feb-09
Arcade SPAC/Conbulk		262	10 feeder containerships	Feb-09
AP Moller-Maersk		567	Brostrom	Jan-09
Seacove Shipping, Greenbriar Equity Group		100	Seacove Shipping Partners	Jan-09
Liberty Shipping Group	Jefferies	308	International Shipholding Group	Jan-09
Vesterhavet-DSV		140	DFDS	Jan-09