Anatomy of Ship Finance

1 - 6 July 2018
Madingley Hall · Madingley · Cambridge

Organised by

Cambridge Academy of Transport

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Cambridge Academy of Transport

Registration Form

ANATOMY *of* SHIP FINANCE

1–6 JULY 2018

To register, please complete this form and send it by email or post to Tulika Singh at the address given below.

PARTICIPANT 1: Title ______________________ First name(s) ______________________
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Company position ______________________

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PARTICIPANT 3: Title ______________________ First name(s) ______________________
Family name ______________________
Company position ______________________

Company name ______________________
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❏ Enclosed is a cheque ❏ Please invoice my Company ❏ I wish to pay by Credit Card (details below)

Seminar Fees: The fee of **£3,900** includes UK Value Added Tax, tuition, accommodation, all meals, documentation and a full social programme. Payment can be made by cheque, bankers draft or inter-bank transfer. Cheques should be made payable to Cambridge Academy of Transport in Sterling drawn on a Bank in the United Kingdom. Our Bank details are:

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Course Programme

Anatomy of Ship Finance
1-6 July 2018
Madingley Hall · Cambridge

Course Leaders
Trevor Law · Former Senior Vice President · DVB Bank SE · UK

Sunday 1 July

Welcome and Preview of Seminar **1445-1500**

During this introductory session, the aims of the programme will be reviewed leading into the scene setting session that follows. The Ship Finance Business Game and the week's lectures will be previewed.

INTRODUCTION & PRINCIPLES OF SHIP FINANCE

Session 1
Introduction to Ship Finance **1500-1630**

The aim of this lecture is to provide a broad overview which will "set the scene" for the many detailed lectures provided by experts during the week. The lecture will outline the various types of financing available to the shipowner from governmental and private sources and explain their relevance to owners considering either newbuilding or second hand tonnage acquisitions. Concentrating on the commercial debt market, a detailed description will be given of the various risks considered and analysed by the commercial banker when faced with a loan application.

The impact on shipping finance and world trade of the Basle Accord will also be addressed. The Accord dictates the capital adequacy ratios of the banks in most of the World's major trading countries and lays down more severe debt/equity ratios than has been common in recent decades. In addition, the lessons learned by the finance community during the shipping crisis which began in late 2008 will be considered prior to the application of the Basel 3 Accord in 2019.

Session 2
Where Does the Money come from? **1645-1815**
Norton Rose Fulbright carry out an annual Transport Survey which highlights the issues upon which the shipping industry is focusing or which are causing it concern. The session will provide a brief overview of the main findings of the Survey and then look at the financing issues which the shipping industry is currently facing and the different types of finance that are available.

Public, and along-the-way give some insight to the rich history surrounding Madingley Hall and the Estate which go back over a thousand years.

Madingley Tour **1830-1915**
Steve, a local Cambridge guide, will take the group into parts of the Hall which are not open to the Public, and along-the-way give some insight to the rich history surrounding Madingley Hall and the Estate which go back over a thousand years.

DEBT FINANCING & THE CAPITAL MARKETS

Monday
2 July

Session 3
0815-0830

Daily Review

Session 4
1000-1115

Capital Constraints

Banking has changed considerably in recent years, particularly since the financial crisis following the collapse of Lehman Brothers in 2008. Eight years on has brought with it \n increase in political and regulatory intervention in the activities of banks and other financial institutions. The main thrust of today's regulatory controls is to create a financial resilience to enable banks and other financial institutions to withstand any future major financial shocks.

This session will focus on:

- Risk categories with special regard to
- Bank's product risk spectrum
- Cash risk management tools
- Fraud
- Sanctions
- KYC (Know Your Customer)
- AML (Anti-Money Laundering)
- AB&C (Anti-Bribery & Corruption)
- Geopolitical risks
- Portfolio management
- Basle 1, 2 and 3, the latter of which will be phased in in 2019

Session 5
1000-1115

Corporate Finance

This session will answer the question "what is Corporate Finance"? Broadly speaking it is a wide range of banking products other than asset based loan finance, the latter of which is the main vehicle used by small to medium sized shipowners to finance their fleets.

Larger international banks, while not ignoring asset backed loan finance, prefer to participate in the shipping finance space through offering Corporate Finance products to the medium/large sized shipowners and those which have a more sophisticated business structure.

The presentation will feature the following:

- Features of a typical Client seeking corporate finance (the Target Market)
- Reasons why reliance on asset based loan finance is not sufficient for the larger banks
- Looking at the products by category:
  - Flow Products
    - FX (Foreign Exchange)
    - Cash Management
  - Traded Products
    - Derivatives
    - Swaps
  - Structured Products
    - M&A/Valuation
    - Export Finance
    - Leasing
    - Capital Markets: Debt/Equity

Session 6
Public Equity and Bond Markets **1000-1115**

All capital markets have a wide choice of investments and will follow yields and trends from one sector to another. Shipping has always been peripheral to these sources of funds, representing only a tiny fraction of available private and public capital.

Whether or not shipping has made a rational coupling with the capital markets can only be judged after a suitable period of time has elapsed, but some of the lessons learned from the early beginnings of the relationship can be told. This session and the next will highlight the main features of capital market funding and draw some specific conclusions based on recent experiences with a particular focus on two placements: Scorpio Bulker Inc and Euronav NV.

GROUP PHOTOGRAPH **1400-1415**

Session 7
Understanding the IPO Process **1415-1530**

This session continues on from the previous one and focuses on the Euronav placement, their "initial public offering" in the United States. This transaction took place in January 2015 and is one of the few to have hit the market within the last 18 months.

Session 8
Risk Management in Ship Finance Transactions: A Financier's Perspective **1545-1715**

Following a brief overview of the most recent shipping and ship finance cycle, the lecture will then focus on risk. Identifying where risk lies within the shipping industry requires a forensic analysis of the risk factors, the result of which places risk within four separate categories:

- Industry related risks which impact across the board
- Company based risks which are a consequence of how a particular company runs its business
- Financial risk which has more to do with developments in the inter-bank markets and related regulatory pressures
- Other risks which do not neatly fall into any of the above three categories.

While it is most important to identify the risks which a lender faces when providing finance to the shipping industry, it is even more important to consider how to mitigate or, for the lucky few, remove the risk. The session will examine a number of financial structures and consider the risk potential of each.

The session will conclude with a review of a number of recent corporate failures and offer insight into the risks which contributed to these failures.

Session 9
Business Game Preview **1730-1830**

In anticipation of the three day Business Game that the participants will begin shortly, this session will provide a brief overview of what to expect and hand-out the various documents which form the backbone of the Game.

The Game is divided into five rounds, each representing consecutive years in the evolution of the Game, with the current year being Year 1. During each round the Bank or Shipping Company will enter into loan agreements with an opposite Owner or Bank, and have the freedom to choose whichever opposite team they so decide. Following the conclusion of a mutually acceptable loan agreement, Teams will complete the Loan Term Sheet and pass the details of the agreement to John Doviak who will enter the relevant figures into the Game Model spreadsheets. In the case of shipowners, any sale and purchase transactions and chartering decisions will also have to be recorded.

At the end of the session representing a single year, with transaction details correctly entered, the Game model will provide an accurate summary of all the bank and shipowning companies finances. At each of these successive stages, the model will have incorporated the latest "Market Factors" for the year being analysed. Market factors for each successive year include freight rates, vessel values, interest rates and scrap prices. On the basis of each year's results, banks and owners will then decide what actions they wish to take in the following year. After all five rounds of the Game are completed, the final position of the banks and owners will be revealed, with the winner in each category being the team that has achieved the best return on (starting) equity.

Tuesday 3 July **Session 10 0815-0830**

Daily Review

TOOLS OF THE TRADE

Session 11 0830-1000

Key Factors Regarding Security in Debt structures

Any debt transaction is accompanied by a wealth of documentation which is intended to clearly spell-out the relationships between the parties and to provide protection for the lender. This session will review recent developments, highlighting the following:

1. Structure of security
2. Implications of flag for mortgagees
3. Mortgage requirements and registration; dual registration problems
4. Insurances, reinsurance's, brokers and captives
5. Earnings, charter-parties, pooling
6. Covenants; subordination of second mortgages; events of default
7. Priority of maritime liens; pollution claims
8. Impact of insolvency laws; risks for owners and mortgagees
9. Work-outs and enforcement
10. Asset sales

Session 12 1015-1145

Marine Insurance: What Lenders and Investors Should Know?

Shipping has many risk factors and a number of these have already been mentioned earlier in the course. Included amongst these risks are:

- Exchange rates
- Bunker prices
- Interest rates
- Sale & Purchase markets
- Freight rates
- Economic issues

Missing from this list, and perhaps the hidden risk from the perspective of a banker or investor lending to a shipowner, is insurance. Most shipowners are likely to have three forms of cover:

- Hull & Machinery Insurance (H&M) to cover mainly physical losses to the asset (the hull and its machinery)
- Protection & Indemnity (P&I) for liability risks, and
- War Risk Insurance to cover losses which are excluded from the above two basic policies

Following a brief review of how each of these insurances work and the risks that each covers, the session will look at how the expected cover for losses can go wrong. It is for this reason that two other forms of insurance exist:

- Mortgagees Interest Insurance (MII), and
- Mortgagees Additional Perils (Pollution)

How each of these works, their relationship with owners' main insurance policies and the protection they provide to lenders will be explained.

Session 13
Business Game Briefing **1730-1830**

Having received the Game documentation the previous evening, this final briefing session is intended to allow any questions arising amongst the teams to be answered.

Session 14
Business Game: Investment Decisions - 1 January 2016 **1400-1630**

Session 15
Cash Flow Analysis **1645-1745**

This lecture will review how a cash flow analysis is carried out and how financial risks can be quantified, focusing on the practical use of cash flow analysis in support of loan/investment decisions. It will review cash flow forecasting methodology and the practicalities of developing input assumptions including:

1. OPEX - Operating Expenses
2. Freight rates
3. Scrap values
4. Operating days per annum
5. Repair and maintenance costs

One of the most important reasons for a cash flow analysis of a transaction is to be able to undertake "what if" assessment of the deal. Shipping is a volatile business and few financial deals are immune to the vagaries of the spot market. The better deals, however, are robust enough to withstand these fluctuations without threatening the fabric of the transaction.

Session 16
Finance for New Construction **1745-1815**

During the past five decades, a considerable volume of financing for ship purchases has been concluded with government assistance. Most usually these transactions were for newbuildings and in particular newbuildings from shipyards located in the country providing the financial assistance. In the early days of Japan's expansion as a shipbuilding powerhouse, many of these schemes were put in place to protect the yards operating in high cost countries, for example in Europe. As a consequence of what appeared to be unbridled government interference with the workings of a "free" market, the OECD stepped in to lay down some ground rules.

That, of course, is all history. Today, the main movers of shipbuilding activity are Korea and China, and it will not be a surprise to learn that these two governments also offer financial incentives to bolster their shipbuilding industries. This session will consider the types of funding available and how the financial package is structured. While there are many advantages to taking cheap money, shipowners must also recognise that there are also disadvantages.

Wednesday 4 July

Daily Review — **Session 17** **0815-0830**

Business Game: Investment Decisions - 1 January 2017 — **Session 18** **0830-1030**

How to Spot a Loan Going Wrong — **Session 19** **1030-1145**

All loans carry with them a risk, and it is to the covenant package that a banker looks to for protection in the event that the transaction turns sour. What actually happens before, during and after a creditor exercises any lien or other authority is a mystery to most borrowers and lenders - and most hope never to go through such an experience.

For any lender to the industry, monitoring the owner's financial movements and vigilance for tell-tale signs that something may be amiss are extremely important. With over 30 years experience of the industry and a history of assisting banks when time are tough, the speaker will give a personal account of the areas to watch for when a loan begins to go wrong. Any relationship banker does not enter into a loan agreement expecting it will go wrong, but some of the biggest failures were also the deals that looked brilliant on paper at the time of their signing. Early action often reduces the risk so knowledge of what to look for is a critical skill in the banker's armoury.

Repossession: A Banker's Perspective — **Session 20** **1200-1300**

There has been considerable talk in the market about foreclosures and loan restructurings. But it appears to be the case that the current shipping crisis has not seen the same level of bankruptcies as in the previous major shipping crisis of the mid-1980s. None-the-less, problem loans exist and it is how the lender identifies and then deals with a borrower who is on the ropes which will be addressed.

This session will therefore focus on the consequences of the recent shipping recession which began with the collapse of the freight markets at the end of 2008. Lenders, especially the commercial banks, were exposed to the risks of the markets as the valuations of their shipping portfolios fell in parallel with the charter markets. Traditionally, banks could enforce their mortgage and repossess the ship. But the dynamics of the banking market well outside the control of the shipping sector have had a significant impact on the action (or some would say, inaction) of the banks.

How do shipowners view the pressures exerted upon them by their lenders; what is the market practice for dealing with shipowners unable to pay as contracted; what are the signs of an owner in trouble? These and other issues will be covered during this session.

Business Game: Investment Decisions - 1 January 2018 — **Session 21** **1400-1530**

Thursday 5 July

Daily Review — **Session 22** **0815-0830**

Business Game: Investment Decisions - 1 January 2019 — **Session 23** **0830-1000**

Private Equity & Hedge Funds: What's the Deal? — **Session 24** **1130-1245**

Private equity has a fickle relationship with shipping, although it must be said that virtually all shipowners will have some equity position in their fleets. However, the private equity we are considering in this session is new money coming in to the industry from non-traditional sources. These investors will only be attracted in to shipping investments when the market conditions and the future prospects align in such a way as to suggest a significant return on the investment. They are unlikely to be long-term players in the business, but their investment horizon is generally much longer than a hedge fund which often moves in and out of markets relatively quickly.

While the investor profile of hedge funds and private equity funds may look similar, it is the focus of the investments that are likely to determine how best to describe the fund. A hedge fund will look to a variety of investments which are liquid – thus allowing more scope for frequent entries and exits to suit the fund managers perception of opportunities. Private equity funds will generally acquire whole companies or a substantial stake in the companies hoping to influence its future trading success. During the session, the lecturer will:

- describe private equity from a maritime perspective
- draw a distinction between hedge funds and private equity
- provide some examples from real life and what has been seen in practice

Session 25-26

Valuing Ships in the Open Market **1130-1415**

Any public offering or debt finance requires a valuation to be placed on a ship or fleet. This valuation is particularly important in a major placing where the value of the fleet will appear in a "prospectus", the accuracy of which is covered by numerous stock exchange regulations in the major financial centres. Although important, it is not only for major stock market flotations that ship valuation is sought. This session will:

- review the many uses to which valuations are put
- show how a valuation is undertaken
- highlight the factors that need to be taken into account in preparing a valuation
- point out the many pitfalls that threaten the accuracy of a valuation, and
- discuss the problems which may arise during and as a consequence of the valuation of a ship or fleet.
- Explain the methodology used by VesselsValue.com in producing "live" valuations of a vessel or fleet of vessels the result of which is used by banks and other lenders as a measure of their security.

Session 27

Business Game: Investment Decisions - 1 January 2020 **1430-1600**

Session 28

Current Issues facing the Container Lines **1600-1700**

Are mergers and acquisitions back on the container industry agenda? This question will be examined in the wake of a 10 year lull of such activity and the staggering fact that container shipping remains remarkably fragmented, with the top five operators accounting for less than half the global market.

This presents considerable opportunity for further consolidation. The speaker was a contributing researcher in the Drewry White Paper on "Consolidation in the Liner Industry" and will highlight a number of the outcomes of the research. Here is just one extract from the study which should give financiers hope and concern:

> "The financial pressure on the industry players, and in particular on weaker carriers, is intensifying daily as rates plumb new depths. Consolidation may be a route to survival for some, allowing lines to combine to create scale and to realise synergies....The benefit to the industry as a whole is considerably greater if lines pursue growth through acquisition rather than continuing to build new and larger tonnage, which the industry does not need. On the other hand, consolidation as a strategy for individual shipping lines entails considerable risk

that the targeted benefits will not be achieved. Much depends on how effectively the task of consolidating the two businesses is managed."

Against this background, the speaker will develop a picture of the container business today highlighting the following:

- What is 'container shipping' and how does it sit alongside "liner shipping"?
- Who are the main players in the container industry?
- Financial performance of the container lines
- The 'laws' of supply and demand and their brutal application to container freight rates
- The drive for scale economy in the container industry
    - Vessel size
    - Alliances
    - Mergers and Acquisitions

Friday **Session 29**

6 July **Business Game: Results** **0900-0945**

Session 30

View from an Independent Ship owner **0945-1045**

In 2016 when the speaker presented this "view" from a shipowner, he chose to create the Inaugural Lecture in honour of Lloyd's List's former editor, Tom Leander, who sadly died in early 2016. His chosen title of the "Fourth Industrial Revolution and How it will Effect World Shipping Due to Supply Chain Disruption" presented a less optimistic picture of the future than many in the industry would have hoped. How the shipping industry has fared in the intervening year will be revied on this first anniversary of the Tom Leander Memorial Lecture.

Session 36

Shipping Market Outlook – The Final word **1100-1215**

The shipping market operates within the framework of a supply/demand mechanism which means that future earning levels depend as much on how the industry manages supply as on the growth of demand for ships. This session looks at the various factors which determine freight market earnings and discusses the directions and drivers that will emerge. The session will consider:

- Demand drivers for shipping
- Supply-side developments
- Earnings for the different sectors of shipping
- Newbuilding prices
- Second-hand prices
- Where are opportunities to be found in the medium term.

Conclusion **1215-1230**

Programme content and lecturers subject to change.