


'Safe Harbor' Statements

 „And seas but join the regions they divide”

Alexander Pope







 „In Sea affairs, nothing is impossible, and nothing is improbable”

*Admiral Lord Nelson, writing from
HMS Victory in 1804*

 „If you want to build a ship, don't drum up the men to gather wood, divide the work and give orders. Instead, teach them to yearn for the vast and endless sea”

Antoine de Saint-Exupéry

Agenda

-  **Agenda and Company Introduction**
-  **A Shipping Company: Case Study**
-  **Risk in the Shipping Industry**
-  **In the Event of Restructuring**
-  **Company Contact Details**
-  **Appendix**

Karatzas Marine Advisors: Company Introduction

- Client-focused, results-oriented shipping finance, ship-brokerage and services firm
 - Established in 2011, headquartered in Manhattan, NY, satellite office in Hamburg, Germany
- Active on behalf of institutional investors, shipping banks, leasing companies, alternative capital firms and capital providers in shipping industry
 - Originate transactions in the tanker, dry bulk, containership and offshore sectors of shipping industry
 - Equity and debt, preferred capital, mezz, leasing, joint-ventures
 - Disposition and sale of shipping assets, including auctions and judicial sales
 - Advisory services including due diligence, vessel valuations, business valuations
- Active on behalf of operating shipowners
 - Source financing for acquisition, expansion, growth, restructuring
 - Advisory services including due diligence, vessel valuations, business valuations
 - Vessel Sale & Purchase (S&P) services on exclusive mandates
- Management team bears decades of multi-faceted shipping industry expertise, and access to C-suite executives in the industry worldwide
- Well-representative existing clientele base with worldwide footprint
- Impeccable credentials & references

Accreditations & Professional Memberships

■ Accredited Senior Appraiser (ASA), by American Society of Appraisers

■ Accredited in Business Valuation (ABV) by AICPA

■ Certified Marine Surveyor (CMS) by NAMS

■ ASA, ABV, CMS awarded upon successfully completing exam-based accreditation process

■ Subject to continuous education to maintain accreditation

■ Subject to robust Code of Ethics guidelines

■ Institute of Chartered Shipbrokers (ICS), **Fellow**

■ The Baltic Exchange, Member

■ BIMCO, Member

■ Society of Naval Architects & Marine Engineers (SNAME), Member

■ American Bureau of Shipping (ABS), past Member

■ **MBA in Finance, Entrepreneurship and International Business**

Jones Graduate School of Management, Rice University, Houston, TX

■ **Owner / President Management Program (OPM51)**

Harvard Business School, Boston, MA; HBS Alumnus



AN INTERNATIONAL ASSOCIATION OF MARINE SURVEYORS

A NONPROFIT ORGANIZATION WITH THE MISSION TO UPHOLD AND MAINTAIN THE ETHICS AND CREDIBILITY OF OUR MEMBER MARINE SURVEYORS




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Case Study: A Century-old Shipping Company

-  **Company was established in 1918**
-  **Brand-name, family-owned, Jones Act shipping company**
-  **Ownership of appr. 25**
 -  **ocean-going, articulated tank barges of various sizes (35,000 – 260,000 bbl) and ages (built 1979 – 2019 / newbuildings)**
 -  **and their corresponding tugs (3,000 – 10,000 hp, built 1970 – 2019 / newbuilding)**
-  **In 2017, fatal explosion on one of the barges caused the death of two crew-members**
-  **NTSB Report as Probable Cause: “lack of effective maintenance and safety management of the barge”**
-  **Charterers started avoided the company’s fleet**
-  **Cash flow drain (company had CapEx commitments at the time)**
-  **Hesitancy to face the grave situation heads-on and pro-actively**
-  **Hesitancy to raise capital (too expensive)**
-  **Company presently in bankruptcy proceedings**

Was this “Collision Course” Preventable?

- **Probably, and, to a large extent, “Yes!”**
- **Probably the actions (and inactions of the Company’s Management) after the accident preordained the Company’s demise**
- **Without being judgmental or playing “Monday morning quarterback”, and without having the benefit (and responsibilities) to make tough decisions “in real time”, looking for lessons to be learned and avoided in the future**

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Taking a Step Back: Risk in the Shipping Industry

Types of Risk

INTERNALLY-DRIVEN	EXTERNALLY-DRIVEN
HAZARD RISK	FINANCIAL RISK
<ul style="list-style-type: none"> • Marine Hull & Machinery • Perils of the Sea, Assailing Thieves (Piracy) • Fire & Explosion • Accidents (Pollution, Collision, etc) • Acts of War, Confiscation, Detainment, Revolution • Barratry of the Master, Employee Negligence, Human Error 	<ul style="list-style-type: none"> • Credit & Counterparty Risk • Interest Rate Risk • Foreign Exchange Risk • Liquidity & Cash Flow Risk • Funding & Growth Risk
OPERATIONAL RISK	BUSINESS (STRATEGIC) RISK
<ul style="list-style-type: none"> • Human Capital • Recruitment, Employees (incl Crewing) • Knowledge Management • Legal & Regulatory Environment (Corporate, such Sarbanes Oxley Act 2002) • Intellectual Capital • Safety, Quality & Assurance • Health & Environment 	<ul style="list-style-type: none"> • Tonnage Demand • Change of Global Macroeconomics • Changes in Charterers Profile • Industry Changes • Legal & Regulatory Environment (Maritime, such as US Pollution Act of 1990, etc) • Competition • Image & Perception • Political & Country Risk

“Risk Management from the Shipowner’s Perspective”, Basil M Karatzas, Marine Money, May 2006

Risk in the Shipping Industry

- The Marine / Maritime / Shipping Industry are “risky” (high volatility)
- Managing a Shipping Company is mostly about managing risk
- Operational and Technical and Management expertise needed at different levels
- A great deal of Risk Management can be solved with money, directly or indirectly
 - Insure away non-systemic risk (buy more insurance)
 - Raise operational and vessel management standards (newer vessels, well-maintained vessels)
 - Raise operational and company management standards (hire highly competent and motivated people)
 - Lower financial risk (less financial leverage)
 - Lower market risk (less spot and more period charter coverage)
- **If it's a problem that money can solve, it's a good problem to have!**

Managing a Shipping Company: Actionable Suggestions

- Optimally, do not fall into trouble
 - Be alert
 - Be proactive (especially financially)
 - Be ready (“*Semper Paratus*” or “Always Ready” by USCG)

- Eventually, one day, trouble will run into Company’s course
 - Be proactive (especially financially)
 - Assume the situation will deteriorate (Do NOT Underestimate!)
 - Built as much as runway / leeway one can

- It will become a money “trouble” as expertise will be needed, expenses will increase, professional fees will skyrocket
 - Raise money preemptively
 - Raise money fast (ideally, before the need becomes apparent or grave)
 - Ring-fence the Company / Management
 - Hire the best professionals one can afford / not “amateur hour”
 - Not the time to be frugal / the alternative is much worse









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In the Event of Restructuring

- If trouble reaches the point of Restructuring
 - Be aware that things will never be the same again
 - Reputational damage
 - Corporate existential decisions to be made
 - The “Alternative” (losing the Company) is closer than one believes
 - Not a time anymore to think about “cost of capital” or “cost of financing” or how much “vulture funds” will make
 - “Get real” – long past “playing cute”
- Hire the best professionals one can afford (before the creditors or the judge do)
- Communicate with Stakeholders
 - Be transparent & realistic
 - Convey clearly the objectives
- Thrive to exceed expectations and earn back their trust (and business)
- “A Crisis is a terrible thing to waste”, it has been said – as painful as restructuring it can be, a great way to correct Company course to a better direction (as older course evidently was not optimal)

Parting Thoughts

-  Diversify away as much risk as possible
-  Be prepared for “trouble”
-  Expect that tough decisions will have to be made under very tight deadlines
-  Expect that things will get worse
-  Get the best advise and help you can get
-  Not the time be to save on costs
-  Be transparent and proactive
-  Put such a crisis to a good use

The Future is Always Bright!

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Contact Details

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What Separates KMA from the competition?

Dedication, focus, hard-work and a solid track-record of delivering value for the Clients time and again

- More than \$500 million in sale & purchase transactions
- More than \$500 million in financial transactions in shipping
- Extensively published / mentioned / quoted on maritime maritime in the international business press and trade publications
- Have repeatedly consummated value-added transactions with ‘Fortune 10’ companies
- Have solid record of ‘repeat customers’ and strong customer referrals
- Have done business with national oil companies and other state-own companies
- Solid record of results-driven performance with integrity and professionalism
- No ‘legacy issues’ or ‘hidden agendas’ of ‘conflicts of interest’ / Transparent structure

Above all, simple business strategy: **We Sail the Extra Mile for the Client!**

Core Competencies & Business Philosophy

Core Competencies

- In-depth knowledge of the shipping markets and access to decision makers worldwide
- Access to institutional investors, private equity, fund managers
- Timely access to market information
- Management's diverse business & professional background encompassing entrepreneurship and venture capital, finance & leasing, advisory, vessel operations and managements, ship brokerage, project & term chartering

Business Philosophy

- Integrity, Accountability, Confidentiality, Loyalty
- Adamant belief in that only 'win-win' structures are long-term successful and profitable
- Due diligence, and knowing intimately the client, their needs and goals
- 'At all times the idea of doing only first-class business, and that in a first-class way, has been before our minds.' **J.P. Morgan, Jr;** May 23, 1933; Excerpt from statement made before the Sub-Committee of the Committee on Banking and Currency of the U.S. Senate.

Worldwide Expertise & Credibility

**The
Economist**

■ “Still at Sea”, Basil Karatzas quoted in The Economist, March 4th, 2017

■ “Ruling the Waves”, article written by Basil Karatzas in Week in China (Hong Kong), March 3rd, 2017

■ “Shipping Crisis Hits German Banks”, Basil Karatzas quoted in The Wall Street Journal, F

THE WALL STREET JOURNAL.
WSJ

■ “Trade and Shipping: The World is not Flat Anymore”, article published by Basil Karatzas in the Cayman Financial Review, January 2017

■ “Perfect Storm Looms over Shipping Lenders”, The Financial Times, September 21st, 2016

FT

■ “Container Ships Stranded At Sea After South Korean Company Goes Bankrupt”, Basil Karatzas interviewed on National Public Radio (NPR), September 6th, 2016

FINANCIAL
TIMES

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■ “Stranded at Sea”, Basil Karatzas interviewed by the Canadian Broadcasting Corporation (CBC), The Exchange, September 3rd, 2016



■ “Fender Benders on Water; See Expanded Panama Canal”, Basil Karatzas quoted in The New York Times, July 31st, 2016

The New York Times