Choices facing owners in today's market

<u>Going public: a blessing or a curse?</u>

In the wake of shipping's best ever performance in the last 4 years and with the promise of more to come, owners face a classic dilemma: to expand, consolidate or cash in and leave.

A small minority, especially those owning one or two very old vessels have cashed in and left or are waiting in the sidelines. They believe that they lack the resources to ‘stay in the game' or simply that vessel prices that can be achieved for their vessels are too enticing to refuse. As such, they have played it safe and sit on what is for them comfortable cash piles and live in the hope of the market crushing in the near future so that they may re-enter. If their expectations do not materialise, their hopes of re-entering will simply vanish. They could only watch shipping from the sidelines and perhaps consider investing as private investors or by buying shipping stocks. Their independent management and owning ability will have disappeared.

Faced with the above rather bleak prospect a greater number of owners have opted to consolidate and keep their vessels running. In most cases they would have paid off their bank debts through vessel earnings and would continue enjoying the high freights achievable today for as long as they last. Their strategy would be one of maximising earnings whilst not jeopardising their cash and fleets in acquiring younger and very expensive vessels. Their fleets would often consist of rather old vessels which require heavier maintenance and care but in the absence of capital repayment requirements their overall operating costs would be but a tiny fraction of today's vessels' earnings.

It is not surprising, though, for an industry that favours the bold and committed to the industry owner that the majority of owners have chosen to expand.

The rising Greek fleet and newbuilding statistics are a testimony to the Greek commitment some will say ‘obsession', towards their industry. To most, simply leaving the industry, it will simply take away their very oxygen, their reason for living. In case some readers think that I am over dramatising, let me say that Greek owners may have invested in real estate or other forms of investment but their hearts and brains and everyday thoughts continue to revolve around shipping and shipping decisions.

For those owners that have opted to expand, their expansion strategies vary. Many have opted to continue with their traditional private shipping style and have simply invested in more modern vessels, perhaps the odd newbuilding. In their way they are moving with the times, whereby owners' fleets become larger and more modern.

This is also in line with banks, insurers and authorities' preference for younger vessels. This owners' sector rarely makes the headlines but does represent the backbone of Greek shipping with their small to middle size fleets and is equally responsible as their bigger brothers for improving its age profile and the overall size of Greek shipping over the recent years.

Those owners who wish to expand more decisively and view the outlook for shipping as most promising do, however, face a call for huge capital resources. With 5 years old vessel prices approaching $45m per vessel for handymaxes, $49m for panamaxes, $85m for capes and $65m for suezmaxes, to give but a few examples (from Clarkson's Shipping Intelligence), the owners' capital requirements for a 10-vessel fleet even assuming a 70% loan finance ratio at today's prices are simply enormous and to the tune of $150m to $300m. Whilst a surprising large number of individual names have the capital capacity to provide the above capital requirements privately and to even finance a stream of newbuilding orders, the majority of owners either lack such ability or would not be willing to commit it all in shipping in ‘one throw of the dice'. As we stand at a high point in the historic cycle and with newbuilding orders running to 2010 or even 2011 deliveries, getting the timing right, has become an enormous issue which will either reward or punish those who become engaged in such a long-term risk. Whilst many large owners have made fortunes from their fleet earnings and vessel sales over the last years, such fortunes have to be seen in the context of the huge capital requirements of their newbuilding order fleets.

Those owners, therefore, who remain committed to growth and to modernising their fleets but still have memories of not so happy years in shipping or simply lack the required capital resources are invariably drawn to sharing their equity with others.

Offering small percentages in owners' fleets or vessels is hardly a new phenomenon and most of the early successes of many a prominent shipping name today has been based on raising private ‘private' capital (PPC). I call it PPC, as opposed to private capital that is now becoming increasingly fashionable in shipping which is offered by the numerous private equity institutions and hedge funds. PPC consisted of long-term private individuals' investments that followed the owners through good and bad times. There were no established exit scenarios or other sophisticated exit strategy schemes.

There is increasing evidence that, attracted by shipping success and phenomenal returns over the past years, PPC money flows have grown substantially and that shipping has attracted private investors from many non-shipping sectors such as industrialists, professionals and others. Operating multi-shareholder investment pools is not easy and demands clarity, fairness, consistency and good investor skills by the principal owners.

More than the above, it needs good timing and the right vessel selection, efficient operating standards and the right employment and good financial risk hedging strategies. Shareholders attracted to an industry on the basis of its recent superb performance however may not welcome lack lustre results or even losses for too long.

Attracting private equity from institutions does reduce the number of investors to one or very few. However, owners should realise at the outset that the envisaged investment returns of such private equity funds are in excess of 20% per annum and that they do have a wish for a clearly perceived exit strategy of say-3-5 years at most. Bearing in mind the above, most owners will only seek international private equity as a prelude to going public or for special projects.

Satisfying private equity funds is a skill in itself as the shipping industry is volatile and with the best will or strategy in the world the future is always uncertain. Nevertheless, a successful experience of living with institutional private capital is extremely useful and often mutually rewarding. It also allows for the realisation of an owners' expansion strategy by the sharing of risks.

Having offered the above views, we now come to the issue of going public: a blessing or a curse?

The capital markets have welcomed shipping over the last few years and there have been 16 successful key listings in the US alone (see table 1) as well as Goldenport and GO Carriers in London and Ocean Tankers in Cyprus. Moreover, there is a long potential list of up to 30 Greek owners with plans for IPOs or listing at various stages of development.

Their aim is to exploit the market's appetite for shipping risk, whilst the prospects for shipping remain sound and a good ‘story'. It is seen as a window of opportunity for growth. There is nothing wrong with this view as this is the reason public markets do exist, which is to channel capital to growing companies with a good track record, solid management, a clearly defined strategy and high operating, technical management and financial standards.

The road to ‘publicdom', however, is a relatively long, demanding and tortuous one. It is an all consuming process that strains management to its limits. It involves an army of investment bankers, investors, legal, financial, accounting and public relations advisors and all need to be fine tuned and come to perfection like a flower with a short flowering span. If the investment climate or the outlook for shipping has not changed in the meantime, then the listing ordeal is over and the next ordeal of living as public listed company begins.

Before, addressing some of the issues of living as a public company, let me raise some issues that need to have been dealt with in advance.

Owners aiming for a public listing, need among others, to demonstrate:

- a solid management team of high ability, integrity and success;

- a number of non executives with quality shipping and / or financial backgrounds and experience;

- a clearly defined strategy and goals;

- a clearly defined dividend policy;

- a clear shareholding structure, preferably avoiding poison pill and multi-class shareholdings;

- a corporate strategy of full public, financial, operating and interests accountability;

- a good ‘story' as a to the type and size of fleet that will be developed as well as any ‘niche' factors that differentiate the company;
- reputable list of advisors and banks;
- a clear financial and investment plan;
- a policy of arms' length procedures;
- competitive but high vessel management standards;
- avoid conflict of interest issues with other activities of owner/main shareholder;
- a success oriented incentive policy for the management.

In addition to the above, owners must seek the public markets as long-term companions. Their success will be determined on the future performance of the company's stock and P/R multiples, its premium or discount to NAV and its overall ability to satisfy shareholders via consistent earnings and no surpluses. As such, owners should not aim to maximise the price they will achieve in the first share issue in the markets. They may wish to follow the example of Stelmar of setting a share price target at a reasonable level but involving a relatively small percentage of the company for the first flotation, so as to leave room for subsequent share issues at even better multiples and once shareholders will have hopefully have seen a rise to levels that are higher than the initial share issue price.

Public companies need to develop the skill not to surprise the market. Although for example some FFA losses that were published lately may have been perfectly justified or easily explained, they, nevertheless, created a shock for shareholders who immediately assumed the worse about future similar losses or the ability of management to contain risk. In the attached table, you can observe some companies that have performed better than others and some which are trading near their lows and far from their entry price. It is reasonable to say that for such companies, something has occurred that has severely depressed the share price and lead shareholders to aim for the exit door.

Life as a public company, having spoken to a number of recent participants, is a series of compliance meetings with advisors, meetings with or dealing with investors' issues, projecting the company in a positive light, avoiding forecasts and / or any ‘promises' to the market, maintaining the utmost transparency, working on potential projects and determining their compliance with the company's strategy, as well as effect on the company's performance, etc. One owner said that before going public, he spent 90% of his time deciding on when to buy or sell vessels, what types and chartering and their finance. Having gone public, he spends despite heavy delegation of duties and assistance by many capable people) 90% of his time on compliance with life as a public company.

Whereas I believe the above is an exaggeration, it, nevertheless, represents a significant shift in the allocation of senior management's time away from its key function of investment strategy and the efficient running of the fleet and towards satisfying the regulations and red tape of the public markets.

Another issue that arises, is that public companies have a higher cost structure per vessel. At all levels, decisions become more involved and the cost of management, administration and advisors does increase. These may be offset to a large extent by economies of scale and benefits from a lower cost of borrowing as well as the benefit of opportunities that are presented to a public company.

To summarise, therefore, going public is not for everyone. Many owners will resent the loss of flexibility and instant decision making that has been their competitive advantage and personal style. They would resent looking over their shoulders all the time, having to follow advice and / or facing legal suits if something goes wrong.

Adopting a corporate approach is not for everyone and without doubt great efforts at adapting to the new working style need to be made by everyone. These can and do have positive aspects as well. However, everyone involved in a public company will feel the change and will need to evolve and adapt with it.

For those who meet the challenge head on and adapt, the rewards are enormous. These are not only expressed in personal rewards but also in corporate achievements and the swift growth of their fleets.

Greek shipping is going through a process of concentration. Owners realise that there are financial, operating, investment and strategic benefits by becoming larger and developing fleets that can compete on a global basis. The price necessary in most cases to achieve this goal is to tap and satisfy the public markets. Once this shall be achieved, then the ability to raise capital and develop into true global players by a worthy few will be without bounds.

Greek shipping needs to adapt in order to meet the new global challenges when only the most competitive and often largest will survive.

Greek owners have realised these changes and the opportunities offered by China 's industrialisation and growth to their ability to grow into global players by tapping the public markets. It is an opportunity and a challenge that a number of Greek owners have decided to seize.

Table of listed shipping public companies / shipping IPOs (based in the US).

		Company Name	Market Capitalisation	52-week high	52-week low	Initial	Current	Change
1	Nasdaq	Aries Maritime Transport Limited	0,246	14,8	0,06	12,5	8,47	-32,24%
2	NYSE	DANAOS CORP	1,323	25,55	19,61	21	23,6	11,02%
3	NYSE	Diana Shipping Inc.	0,847	17	9,5	17	16,24	-4,47%
4	Nasdaq	DryShips Inc.	0,6	18,37	8,5	18	16,99	-5,61%
5	NYSE	Excel Maritime Carriers	0,306	16,42	7,3		15,65	
6	Nasdaq	Navios Maritime Holdings Inc.	0,4	5,65	3,8		5,51	
7	Nasdaq	Omega Navigation Enterprises, Inc.	0,19	16,8	12,75	17	15,55	-8,53%
8	Nasdaq	Quintana Maritime Limited	0,67	13,32	7,3	11,5	13,3	13,53%
9	AMEX	Star Maritime Acquisition Corp	0,29	10,16	8,1	10	9,91	-0,90%
10	Nasdaq	StealthGas Inc.	0,177	14,79	10,9	14,5	12,12	-16,41%
11	Nasdaq	TOP Tankers Inc.	0,16	18,32	4,5		5,16	
12	NYSE	Tsakos Energy Navigation Ltd.	0,862	49,33	33,71		45,53	
13	Nasdaq	Freeseas	0,029	5,52	2,56		4,66	
14	Private 144A	Paragon Shipping inc						
15	NYSE	Aegean Marine Petroleum Network Inc.		17,89	14,53		16,92	
16	OTCBB	Euroseas						

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