

KARATZAS

MARINE ADVISORS & Co.

Shipping Finance Advisory | Marine Appraisals & Surveys | Ship-brokerage & Auctions

Shipping & COVID-19: Looking into the Future

Bulk Terminals 2020

WEBINAR

October 28th – 29th, 2020
Virtual Event

'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**
-  **COVID-19: The “Knowns”**
-  **COVID-19 and Shipping, Present & Future**
-  **Parting Thoughts**
-  **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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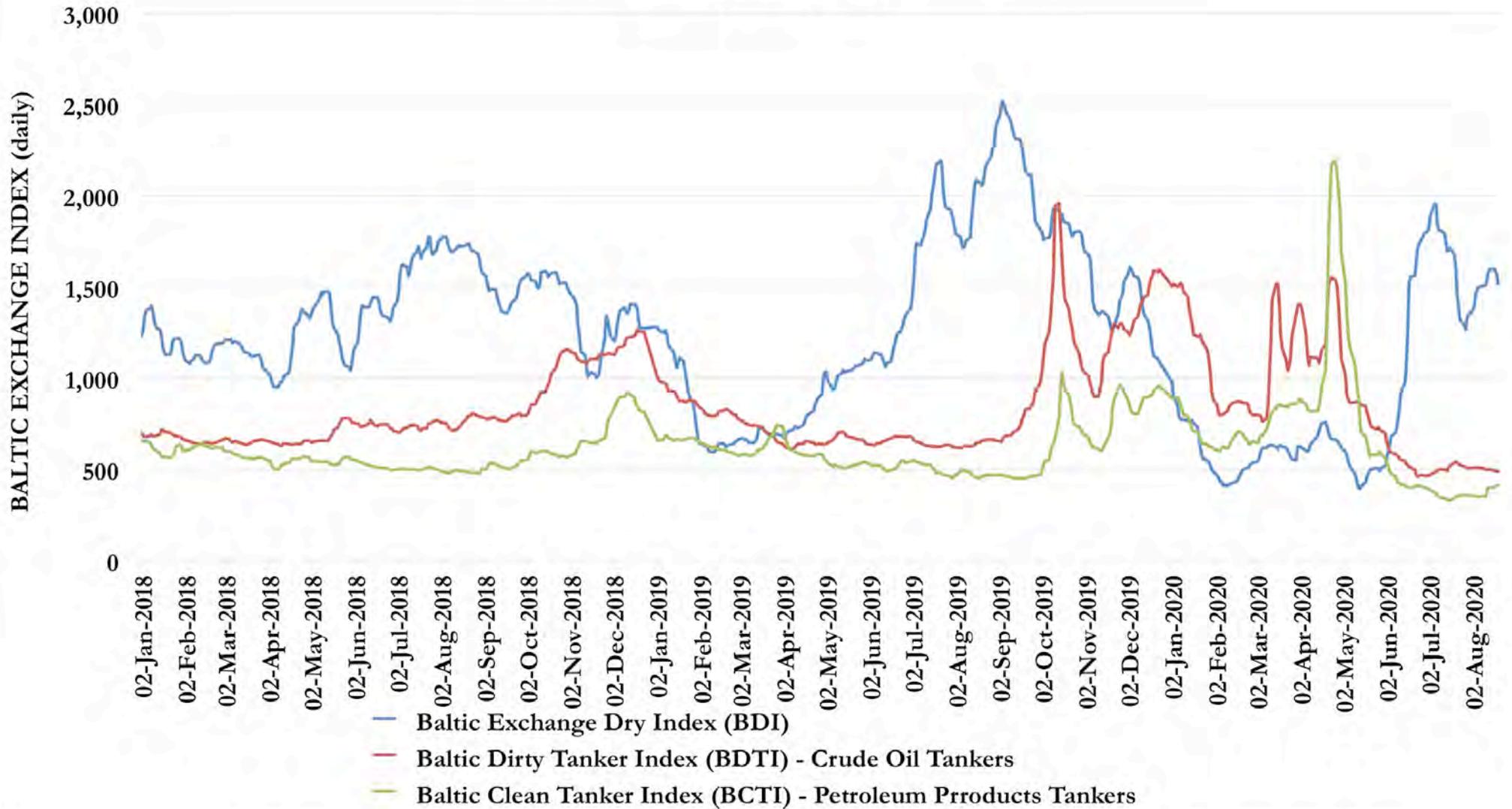
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 **Company Contact Details**

 **Appendix**

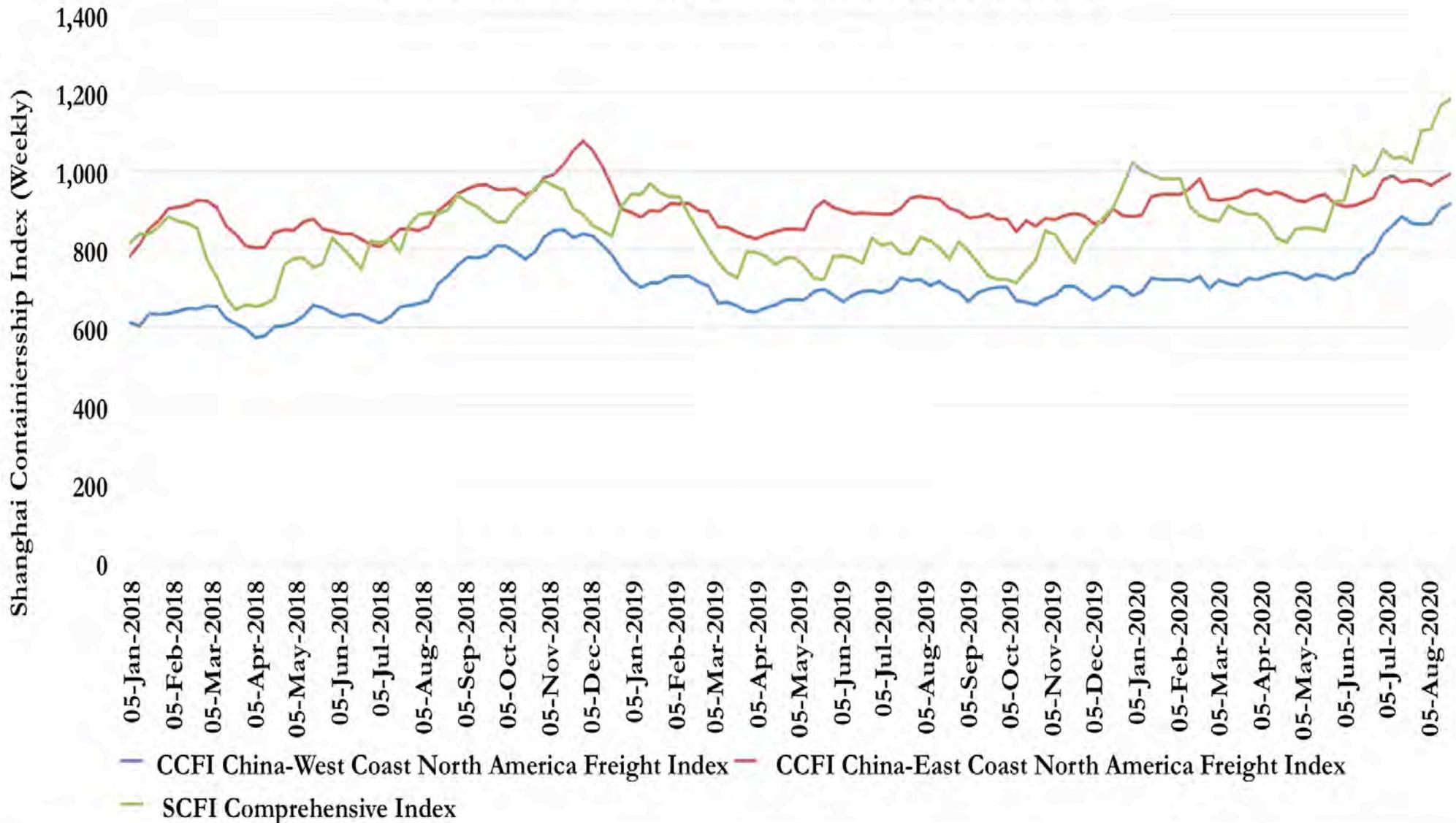
The International Shipping Industry: The Baltic Indices for Dry, Crude and Clean Tankers

BALTIC EXCHANGE FREIGHT INDICES
(Since January 2018)



The International Shipping Industry: The Containership Market

SHANGHAI EXCHANGE CONTAINERSHIP INDEX



COVID-19: The “Known knowns”

COVID-19 (SARS-CoV-2)

-  Novel Risk
-  Unlike a financial crisis
-  Unlike a shock event to the world economy (terrorist attack, natural event, etc)
-  Only historic comparable event: the 1918 Pandemic (“Spanish flu”)
-  There is no playbook, there are no “experts” to consult with, we are in uncharted waters

The Business of the Virus

-  Although demand has been affected, temporary and permanent changes to the supply chains can have bigger impact on shipping than changes in demand / supply
-  Given that COVID-19 is transmitted via air-droplets and contact to contaminated surfaces, human life and lifestyle and society and human interaction and business life and business activity have profoundly been affected

 One has to analyze the impact through specific business activities and industries and markets, both individually and as part of the chain link

COVID-19: The “Known unknowns”

- Uncertain whether a vaccine exists; its efficacy, side-effects unknown
- There are huge financial costs associated with responding to COVID-19
 - Unemployment, fiscal deficits
- More critically, there are huge political costs associated with responding to COVID-19
- So far, citizenry has proof that politicians in many countries will do what is politically expedient, not what is scientifically prudent. Predicting the impact and costs of such “irrational” behavior gets us beyond business modeling, and reasonable assumptions sphere
- Thus, as a business executive, as a shipowner, as a port / terminal operator, one has to be more attuned to what politicians and governments are doing rather than what scientist community expects

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Impact on the Shipping Industry

-  Given the breadth of “known knowns” and “known unknowns”, there is a great number of permutations of how life, and business and ultimately shipping will be affected; just too many scenarios
-  Not all shipping sectors will be affected equally. i.e. the cruiseship industry has shut down, and it’s faced with a catastrophic scenario if a vaccine is not discovered this year
-  COVID-19 impact on shipping with short-term and long-term impact
-  COVID-19 impact on shipping based on structural changes to demand, and impact based on short-term “noise” and adjustment of supply chains and inventories
-  COVID-19 likely has a “sensibility” impact on consumer—sort of global warming actual reminder— and likely be the catalyst for healthier trends, environmentally more responsible trends, politically more responsible trends, including ESG for shipping and shipping finance. If so, the move away from fossil fuels will accelerate, which will be negative for shipping industry segments in such market

COVID-19 Impact on Ports & Terminals

-  Demand for raw materials seems steady and little affected by COVID-19, which would imply steady overall volumes for terminals
-  Terminal operations seem to have been least affected by COVID-19, and reportedly terminals have been operating even during the darkest days of the pandemic. Extensive terminal workforce shortage was reported in Brazil earlier in the year, and terminal operations in China had been affected earlier in the year, but mostly due to trucking and inland transport been unable to reach ports
-  A trend away from coal in the last five years, only accelerating under COVID-19
-  New terminals and port infrastructure, especially in the US, regarding new, massive offshore wind projects
-  Ease of transporting and storing raw materials takes volatility off bulk terminal market (as opposed to oil and petroleum products transport and storage)

COVID-19 Impact on Bulk Shipping

- **Structural demand has fallen (~5-10%), to be seen whether it's recoverable**
 - **Accordingly, it's hard one to be excited with the prospects of the industry**
- **Compounding a weak market to an uncertain regulatory environment, newbuilding orders have collapsed, which is a net positive for the industry**
- **COVID-19 has been acting as an accelerator for ESG and tougher regulations, that will affect shipowners, disproportionately smaller shipowners, proving the trend where “the big get bigger, and the small get wiped out”**
- **COVID-19 and the seafarer crisis (seafarer being at sea extendedly beyond their employment contracts, and even major shipping nations not allowing crew changes at their ports) has exposed to the broader world the “parochial” structure of the shipping industry, which likely to draw regulatory actions.**

The Impact of COVID-19 on Financing

- Weak demand, low daily rates and declining assets prices
- Several operators have difficulty (or have stopped) making payments on their financial obligations; for now, all is “under control” and no imminent defaults / bankruptcies
- Traditional lenders (banks) have been holding onto their money and have curtailed new originations
- Lessors / Equipment Financiers are more in demand, as a result, and they see more deal flow and better quality of credit (that usually had gone to the banks)
- Offshore industry in distress, little hope for recovery
 - Only speculative investment / capital
 - Likely reorganizations / bankruptcies
 - Strong effort / best hope to re-purposes offshore vessels
- Low Fed rates still make financing cost competitive and allows enough leeway for both lenders and borrowers
- COVID-19 has re-emphasized trends already in-play, that:
 - Bigger companies and bigger balance sheets have a better chance surviving a crisis
 - Companies with contracts have better chance than spot market players
 - Bigger companies would be better position to exploit the current crisis and investment opportunities that would present themselves
 - “Mom and pop” shipowners / operators have a harder time than bigger players

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Parting Thoughts

- **COVID-19: Hope for the best, be prepared for the worst**
- **When combined with “trade wars” and “re-shoring”, COVID-19 has the potential to impact negatively the shipping industry**
- **There is a re-think of supply chains (“JIT” is not a panacea anymore), which will affect the shipping industry, likely negatively**
- **COVID-19 is accelerating ESG and regulations, further increasing financial burdens on shipowners, and favoring large companies**
- **Certain shipping segments (i.e. cruiseships, offshore drilling, etc) may be facing an existential crisis**
- **Focus on the people (family, community, company, society). COVID-19 is a risk not seen before, and taking care of people (subordinates, colleagues, team-mates) is of paramount importance for survival and for success (including for business!)**

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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