Restructuring as a Business & Investment Opportunity

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Current landscape

- Depressed shipping markets
- Depleting cash reserves
- Traditional ship mortgage banks exiting or deleveraging
- Lack of finance
- Funds buying distressed loans/portfolios
- Owners buying back loans
- Charterer insolvencies
Triggers for a restructuring

- Insufficient cash flow – may result in creation of liens to trade creditors
- Decrease in value of mortgaged vessel(s) leading to asset cover breach
- Breach of financial or other covenants
- Weakening of overall group and need for support from performing assets
- Swaps “out of the money”
What are the dynamics in a restructuring negotiation?

• Ship finance traditionally viewed as a relationship banking business

• What are the available options/alternatives?
  – Value/location of security
  – Employment position of ship(s)
  – Cash position

• Who is your counterpart?
  – Bilateral lender or a syndicate?
  – Original lender or has debt been sold?
  – Traditional owner or joint venture with private equity (or other) fund?
  – Recourse or non-recourse?
  – Increasing use of advisers
What are the dynamics in a restructuring negotiation?

• Commonly used “sticks”
  – “Take the keys” – is there a warehousing option?
  – Threat of insolvency – Chapter 11; Schemes of arrangements
  – Threat to enforce mortgage and other security
  – Risk of cross-default
  – Risk to free/unencumbered cash

• What is each counterpart’s goal? Can they be reconciled?
  – Influence of other stakeholders – equal treatment, “most favoured nation” provisions
  – Regulatory pressure on banks
  – Transparency is key
  – Be proactive, not reactive
  – Trust and communication important
Restructuring – typical examples

• Consensual
  – Simple covenant waivers
  – Additional security (over unencumbered fleet vessels or fleet vessels with equity)
  – Principal payment deferrals with cash sweep
  – Extension of maturities
  – Upfront prepayments or raising of fresh equity to “buy” a payment holiday of anything between (commonly) 1 and 2 years with waivers of covenant (for a longer period) being given in consideration of the prepayment/fresh equity
Restructuring – typical examples

• “Semi-consensual”
  – Transfer of mortgaged vessel(s) and loan to a stronger client or sale of mortgaged vessel(s) in exchange for a release

• Non-consensual
  – Enforcement of security – option of last resort and usually costly and time-consuming
  – Insolvency filing
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