

Ship Recycling to Ship Owning and Finance

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Agenda

1. GMS / Industry Facts
2. Ship recycling Boom and Corrections/Trends
3. Ship Finance Facts and Fads
4. Private Equity: Filling the Gap / Alternative
Financing: PE Markets & Role of GMS
5. Closing Thoughts

GMS Background

Current Headquarters	Dubai, UAE
Founding	Founded in Cumberland, MD in 1992, GMS began business through the acquisition of naval vessels from the US Maritime Administration
Offices	Dubai (UAE), Maryland (USA), Hamburg (Germany), Shanghai (China), Singapore, and Tokyo (Japan), GMS is the only cash buyer with local representative offices in all five major recycling markets
Clients	Ship owners, Banks, PE firms, Brokers, Ship Recycling Yards
Vessels Concluded	Negotiated nearly 3,000 ships so far.....and counting !
Salient Points	<ul style="list-style-type: none">✓ World's first ISO 9001:2000 certified Cash Buyer✓ Over the last few years, principals of GMS have delivered about 1/3 of the world fleet sold for recycling (excluding Chinese subsidized tonnage)✓ Developed a unique Green Ship Recycling program together with a leading IACS class society / helped support the HK Convention (GMS is the Green Leader!)✓ Employs over 50 employees globally and about 300 crew✓ Lloyd's List has ranked the President of GMS, amongst the Top 100 Most Influential People in Shipping for the last 5 consecutive years!✓ Principals of GMS have diversified into ship owning, ship finance, real estate and other types of investments✓ Extensive experience in tech/commercial management and offshore towage✓ Provide 24/7 service to clients and partners world wide!

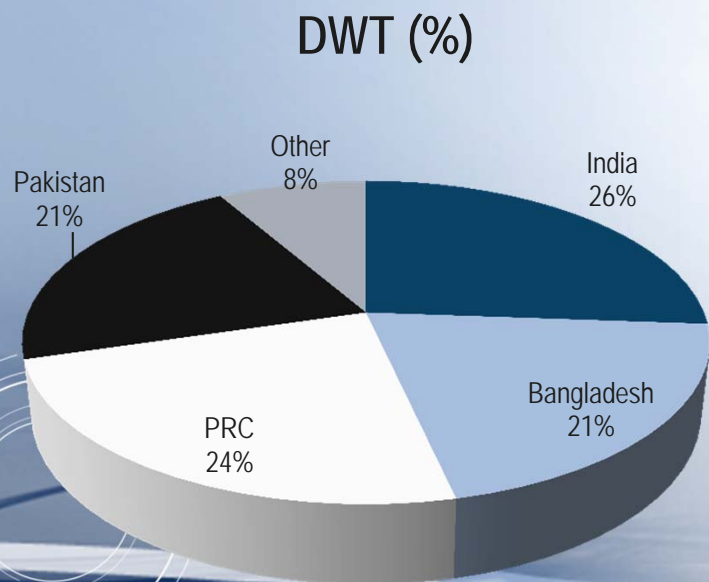
1.1 Industry Facts

- Cash Buying has evolved into a huge industry with large economic, environmental and social impacts. In 2012 alone, roughly **\$5.1 billion** worth of scrap vessels were purchased for recycling, where as, in 2013, the total worth of scrap ships was approximately **\$4 billion** and in 2014 roughly **\$3 billion**
- Throughout 2014 about **34 million DWT** was recycled, vs. about **46.8 million DWT** in 2013 and a total of **56.5 million DWT** in 2012

**Note \$ est. are rough calculations based on averages

Note: all figures are approximates

Geographical Breakdown by DWT %¹

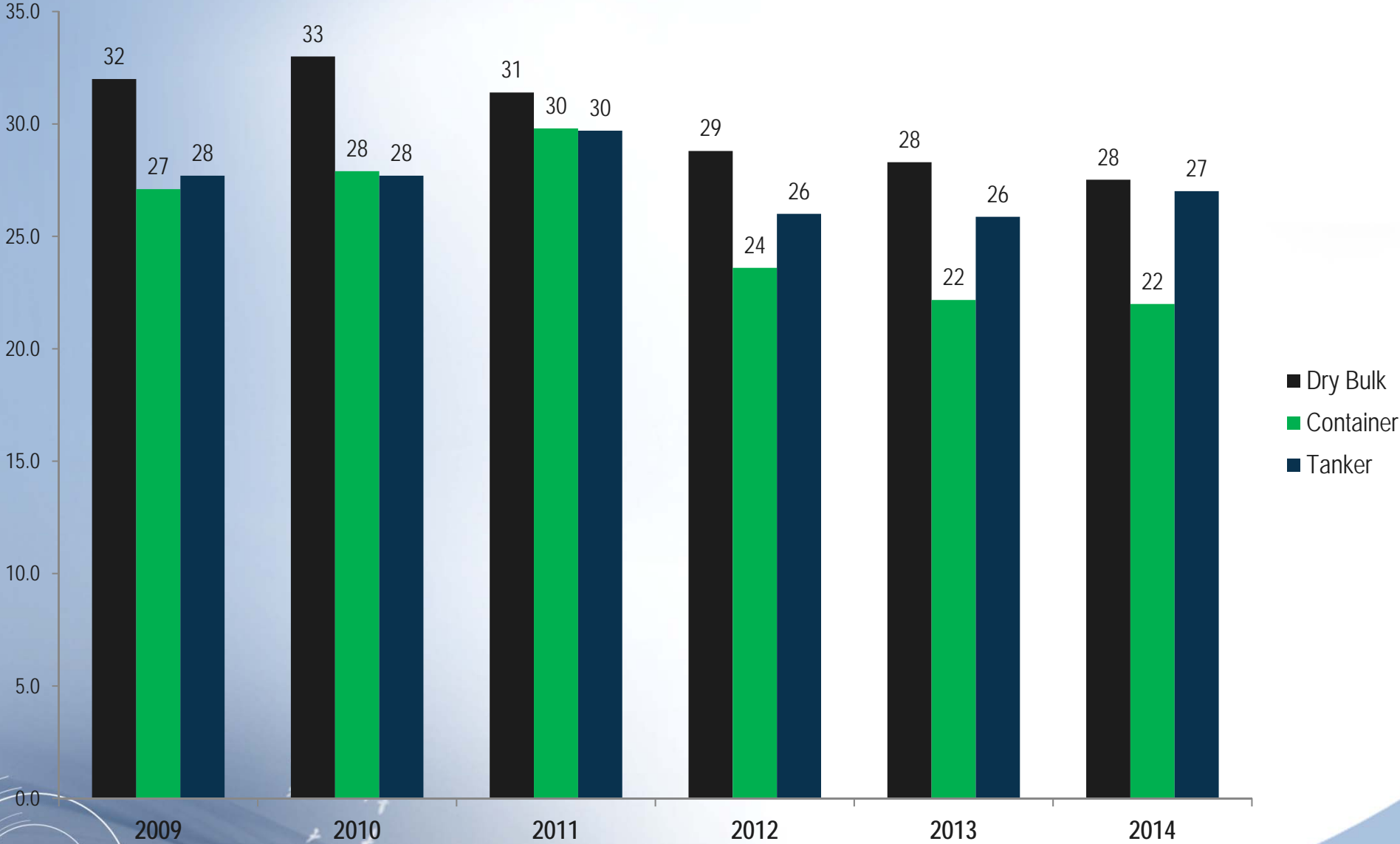


¹Data from Clarksons

24 February 2015

INDUSTRY BREAKDOWN (2014)			
	INDIAN SUB CONTINENT	CHINA	OTHERS (incl. TURKEY)
No. of Vessels	575	194	189
Deadweight (dwt)	23,086,700	8,151,236	2,846,563
Est. Amount (US\$)	2.29 bill	520 mill	191 mill

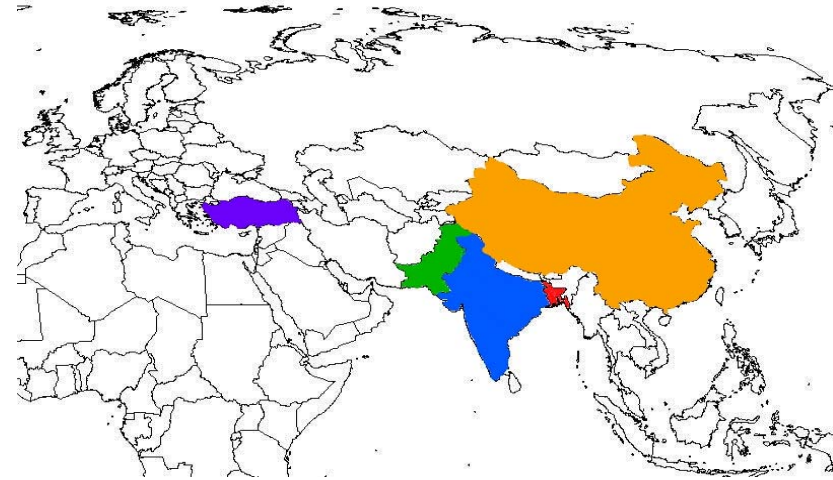
1.2 Average age of recycled Vessels



Source: Allied Maritime Research

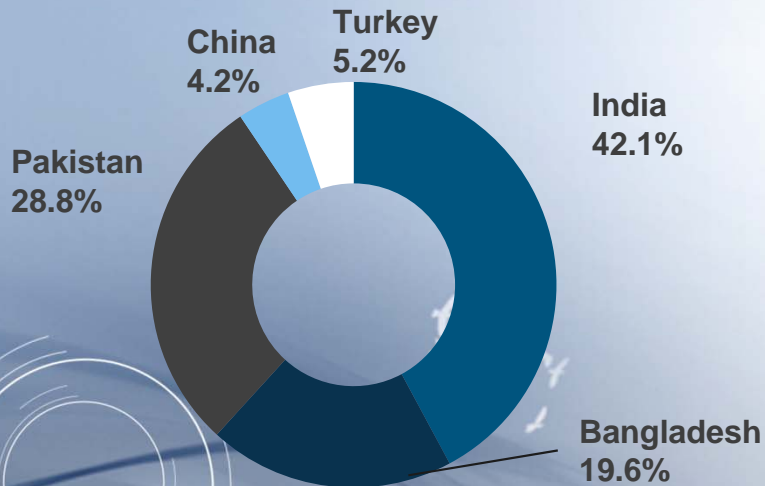
1.3 Where it is done (Capacity)

- ✓ 5 countries (with 80% Asian) recycle about 95% of the world's fleet
- ✓ Number of active yards in each Country:
 - Indian subcontinent
 - India (160-162 of 170-172)
 - Bangladesh (70-80 of 100-110)
 - Pakistan (110 of 129)
 - China (16 of 20)
 - Turkey (20)



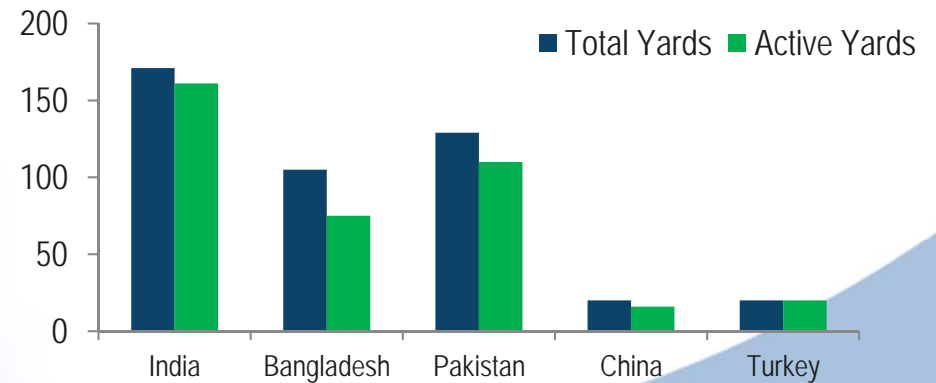
* Note: all figures are approximates

Geographic Breakdown – No. of Yards (%)¹



¹Data From Clarksons

Total v/s Active Yards



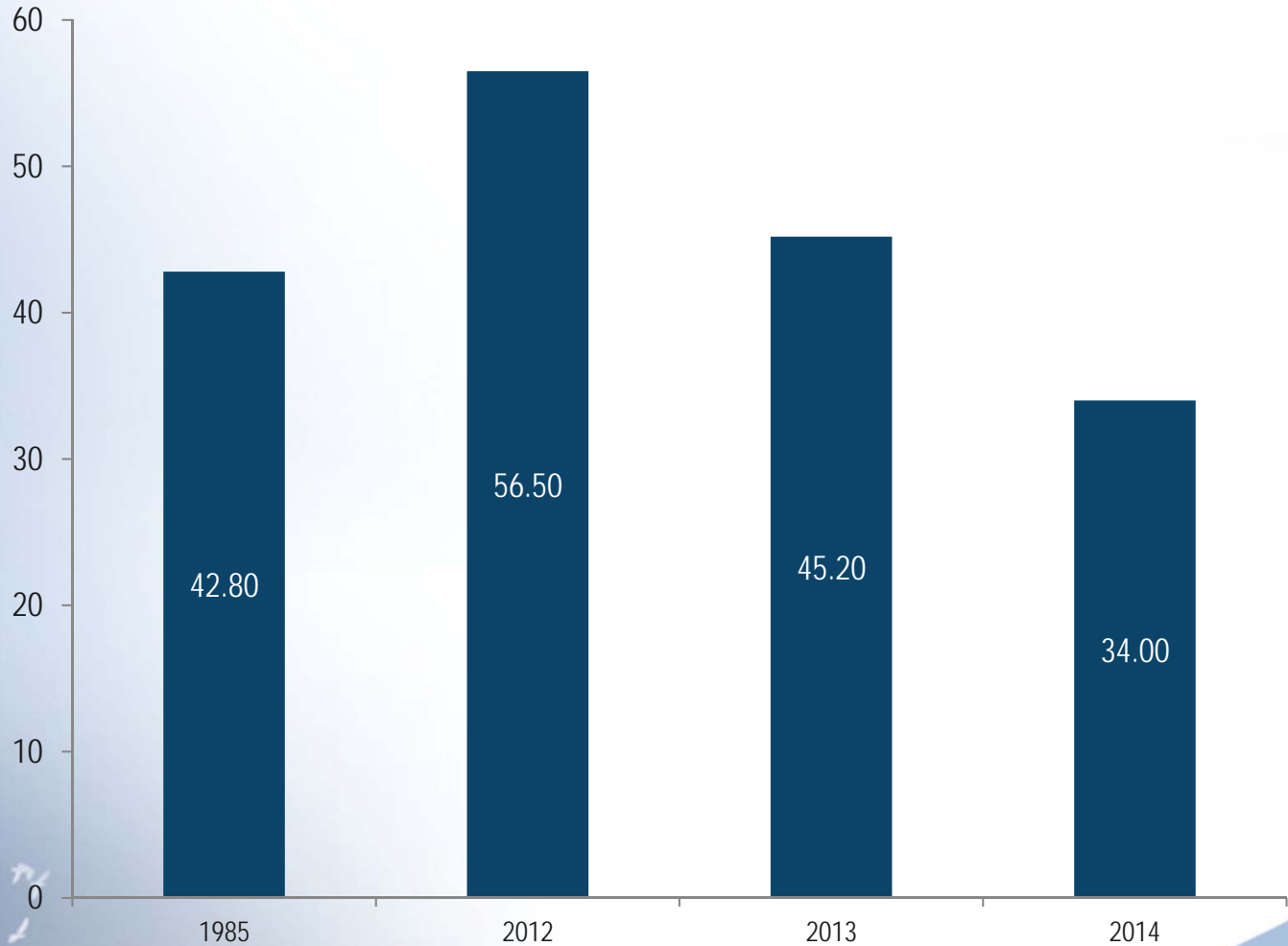
1.4 India



2.1 Historical Highs – Ship Recycling BOOM...and 2015!

Tons Scrapped (Dwt)

■ Tons Scrapped (Dwt)



• 1985
42.8 Million Dwt

• 2012
56.5 Million Dwt

• 2013
45.2 Million Dwt

• 2014
34 Million Dwt

Note: All figures are approximate

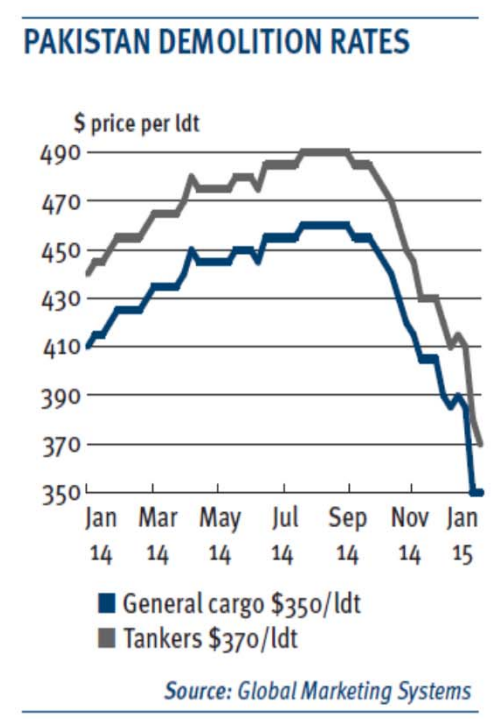
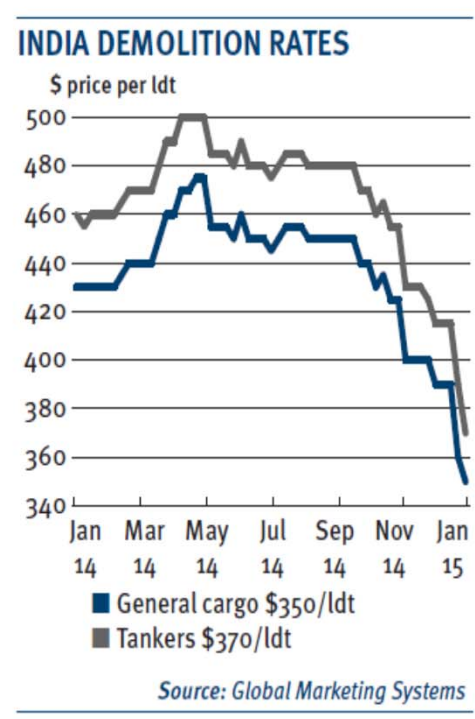
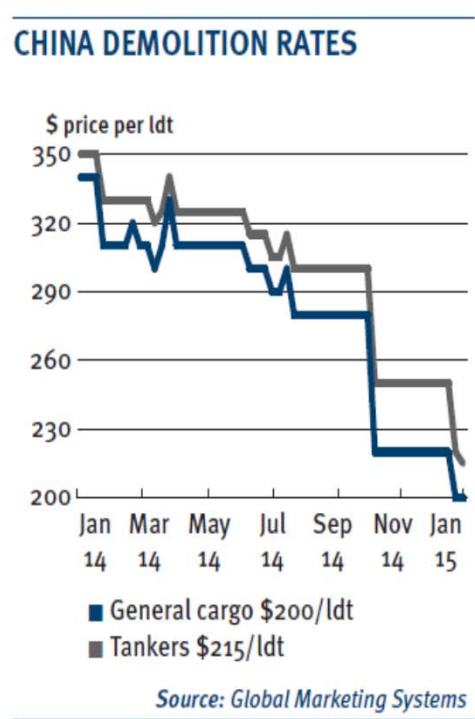
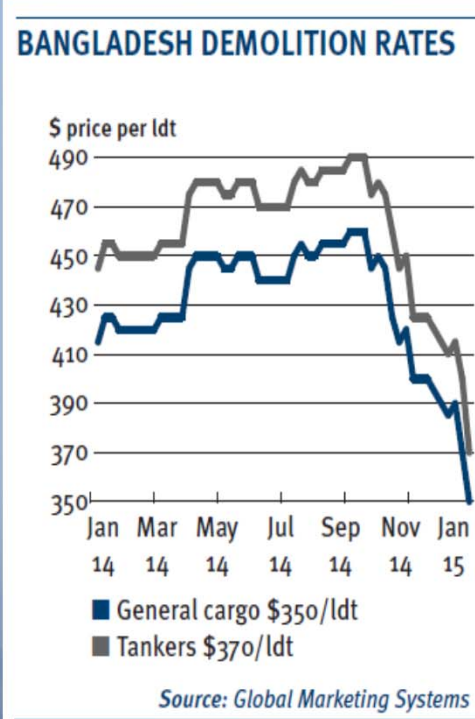
2.2 Demometer

Ship Type	Sales Recorded over last 30 days	Total Scrapped in 2015 YTD	Total Scrapped for Same Period in 2014	Total Scrapped in 2014	Total of New buildings Delivered in 2015
Bulk Carrier	4.2 m – DWT (55 VSLS)	4.6m – DWT (66 VSLS)	2.3 m – DWT (42 VSLS)	16.9 m – DWT (357 VSLS)	8.5 m – DWT (101 VSLS)
Tanker	0.7m – DWT (13 VSLS)	0.9m – DWT (17 VSLS)	1.0 m – DWT (23 VSLS)	8.8 m – DWT (136 VSLS)	2.6 m – DWT (36 VSLS)
Containership	28,000 – TEU (12 VSLS)	47,500 – TEU (22 VSLS)	99,000 – TEU (34 VSLS)	400,500 - TEU (135 VSLS)	166,000 – TEU (23 VSLS)

Source: Braemar
Seascope
February 2015

2.3 Factors that Affect Pricing / Predictions

1. Supply
2. Demand
3. Steel Prices
4. Currency exchange rates
5. Government Regulations



2.4 The effect of Ship Recycling on NB and 2nd Hand Markets

✓ New Building Market:

- Determines the capacity of tonnage
- Lower Order-book would be a step closer to an equilibrium between supply and demand
- An active recycling industry gives space for inflow of tonnage

✓ Second Hand Market:

- The value of “older” assets are directly affected by the price fluctuation in the ship recycling industry
- Recycling yards: supplier of spare parts

2.5 The effect of Ship Recycling on Vessel Employment and Service Providers

- ✓ Chartering Market:
 - Cause and effect relationship
 - Rates are determined by the available supply of tonnage
 - Ship recycling affects the average age of the existing fleet
 - Technical and age requirements from Charterers determine the supply of tonnage for recycling

- ✓ Others being affected by the Ship Recycling:
 - Underwriters
 - Flag State
 - Class
 - Regulators

2.6 CSR: GMS

- GMS - Development of ship recycling program (SRP) which is value driven: balance between cost of CSR and the actual value of the ship
- SRP: Cooperating closely with facilities in India, China and Turkey which are meeting and enforcing responsible ship recycling.
- ✓ISO 9001: Quality management system that meets customer and applicable statutory and regulatory agreements
- ✓ISO 14001: Environmental management system for the positive performance, production and efficiency, related to environmental issues
- ✓OHSAS 18001: Framework for providing a safe and healthy working environment
- ✓ISO 30000: Efficient safe and environmentally sound management system for the recycling of ships, based on the methodology "Plan-Do-Check-Act"

Acting proactively: Continuous improvement of the practices undertaken in the ship recycling facilities in order to comply with international Guidelines and the forthcoming mandatory regulations around ship recycling

Our principals have recycled 65% of the vessels that were offered for responsible ship recycling in India!

3.0 Ship Recycling to Ship Owner

- Understanding the recycling markets is a key factor today to understanding the correlation between vessel financing, owning older assets, and being able to unlock “hidden” value in vintage tonnage.
- In the next section, we will take a look at ship finance facts and trends.



3.1 Ship Finance Facts and Trends

Capital Structure of the world fleet & orderbook as of January 2015:

Total: \$1.171 trillion

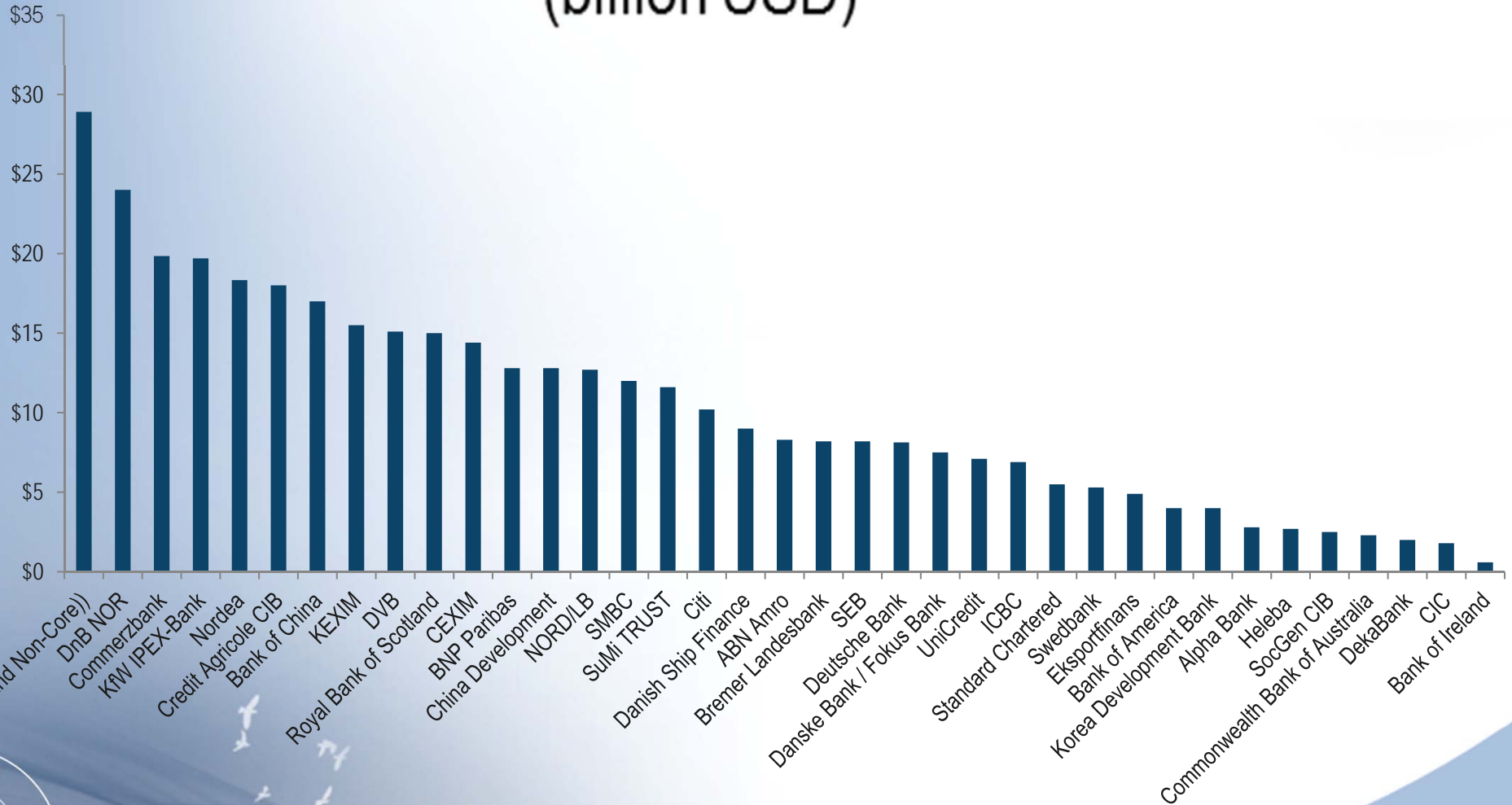
- Bank Debt, \$513 bn (44%)
- Public Equity, \$192 bn (16%)
- Government/Other, \$162 bn (14%)
- Unfunded orderbook, \$126bn (11%)
- Private Equity, \$94 bn (8%)
- Bonds, \$84 bn (7%)

Capital Allocation (by sector):

- Offshore, \$423 bn (36%)
- Wet, \$292 bn (25%)
- Dry, \$246 bn (21%)
- Container, \$136 bn (12%)
- General Cargo, \$72 bn (6%)

Still a large funding gap...

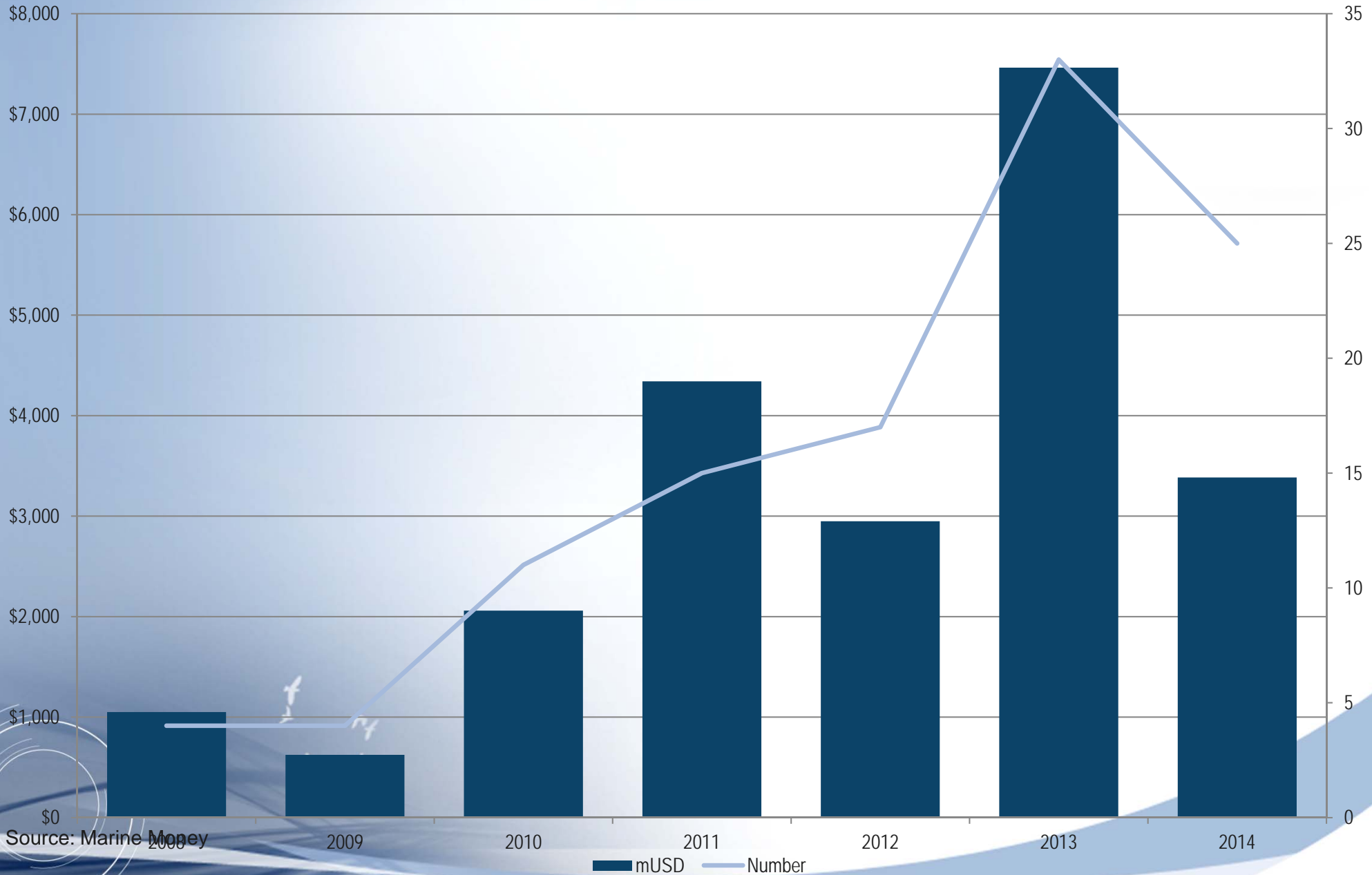
Selected Bank Shipping Portfolios, 2013 (billion USD)



Source: Marine Money

3.3 Private Equity Investment in Shipping

Private Equity Investment in Shipping (mUSD)



Source: Marine Money

3.4 Ship Finance Facts and Trends

With traditional banks more reluctant to lend, we now witness a more eclectic financing mix (blurred lines in terms of PE)

- Capital Markets (ie Scorpio)
- Private Equity (Wilbur Ross – Navigator Gas Transport)
- Aircraft style leasing and/or sale leaseback transactions

The USA based capital markets have gone through a Renaissance of sorts as it applies to ship finance

Slowly but surely, European banks will become more aggressive again, however, at the moment, PE seems to be taking the stage although most of the deals are accompanied by some sort of bank financing as well and with cargo market rates remaining unpredictable in wet and historically low in dry throughout this winter, even the equity firms seem to be slowly growing reluctant to invest today (although they remain on the sidelines ready to strike)

4.1 Private Equity – “THE GAP”

The “official” figures provided give a good view of the market, however, they are likely under estimating the true impact of private equity. Countless deals go undetected on a regular basis. GMS has a department that specializes in shipping equity and finance transactions, catered to the needs of small to medium sized owners who are not attractive enough for banks to finance while being too small for the larger PE firms to consider.

With PE firms still poised to invest in modern 2nd hand and NB tonnage at any given time, it is likely that cargo rates will remain low for many years since upticks will be short lived in any sector due to new investment.

GMS has diversified its fleet with NB and vintage tonnage. As a result of its core recycling business and experienced team of in house technical and commercial operations, the firm has an infrastructure in place that allows it to quickly take advantage of distressed opportunities in older vessels and trade them until their certificates are due and they are ready to be recycled. Due to low asset prices and experienced management, maximum value is derived through trading vintage tonnage.

4.2 GMS in PE Markets

GMS Examples of Private Equity Transactions :

- Example 1 – Acquisition of Existing Company (i.e. Konig & Cie)
- Example 2 – Struggling Owner Needs Cash – GMS Buys 50% of vessel acts as JV partner
- Example 3 – Owner Needs to Sell Vessel but Wants to Continue Operations – GMS buys 100% of the vessel and structures a form of sale leaseback / BB back
- Example 4 - Cash strapped owner wants to buy a new vessel but has no funds on hand – GMS buys the “new” asset and takes in one of the owner’s “older” assets as a down payment
- Example 5 – Owner does not want to handle recycling of the vessel – GMS buys vessel clean or with cash flows attached and maintains ownership for set period of time until current employment obligations expire and vessel is recycled
- Example 6 – GMS acquires distressed tonnage at or near demo values and operates the tonnage until certificates become due and the asset is recycled

4.3 GMS Advantages

- Personnel – The firm employs the most well qualified commercial and technical team in the business. No one is as capable of quickly taking over and successfully managing vintage tonnage as well as GMS (it has a track record in technical management of old ships dating back to 1992!).
- Flexibility – Our principals are actively looking to do deals and believe we can offer better terms and pricing than available elsewhere. We are comfortable with demolition values and therefore have a greater appetite for calculated residual risk than others.
- Security – Charter back and equity deals based on residual values allow investors to ‘close out’ deals early so they can lock in profit or limit losses by structuring these sorts of transactions
- Expertise – GMS is the market leader and has better information and a stronger network than anyone else. Therefore we can help partners make the right call in terms of unlocking the maximum return from the residual value of the asset.
- Simplicity – as a private, self funded company we are able to make quick decisions and to tailor deals to what the partner requires, we do not have to comply with the regulations, credit committees etc. so we can turn a proposal into a closed deal in a short period of time

5. Closing Thoughts

- 1) The ship recycling market is showing signs of slowing down, however, the capacity is there to take more tonnage and although levels have come off, 2015 is expected to be another high volume year in the industry.
- 2) Traditional debt is still the primary vehicle of ship finance, although it is very difficult for many owners of vintage tonnage to obtain debt financing today
- 3) The absolute impact of private equity is difficult to quantify, however, it is clear that PE has had an enormous effect on the market and is helping to fill the “finance gap” – too much equity will lead to a prolonged downturn which will present niche opportunities
- 4) At GMS, Cash Buying has evolved into a well rounded shipping and investment platform capable of unlocking “hidden” value in older assets better than any other firm in the market – GMS is active in deals that focus on low risk and high returns that are generated by the instability in the current market

THANK YOU!

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