What's on the Horizon for Shipping Finance?

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September 30, 2011

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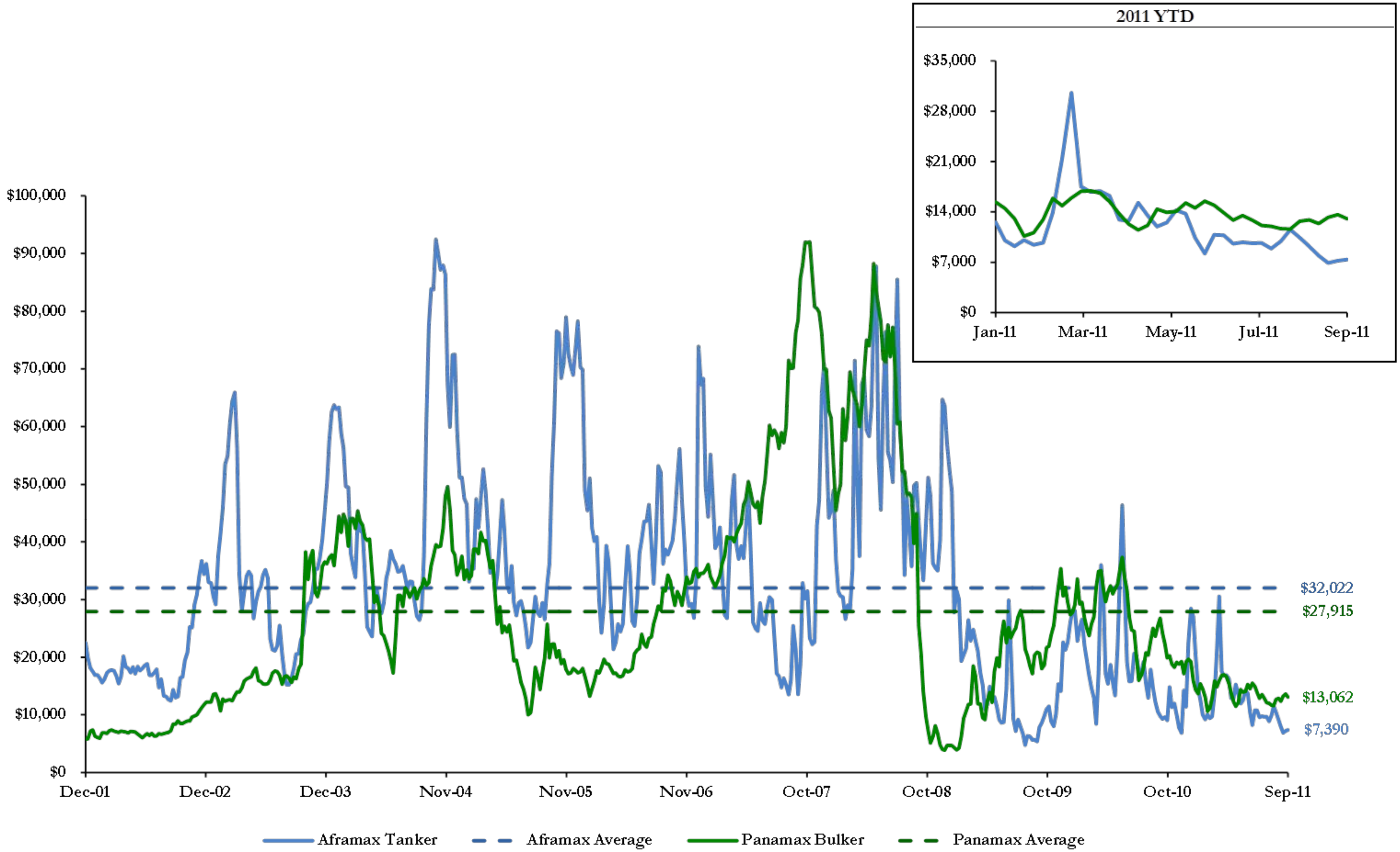
Current Shipping Finance Themes

Earnings	■ Prevailing freight rates at or near historic lows are creating liquidity problems for even the strongest shipping companies
Debt Covenants	■ Financial and 'Loan-to-Value' covenants under pressure
Bank Debt	■ European Banks are temporarily paralyzed and bank debt is difficult to secure
Equity Markets	■ Equity markets remain important for shipping, but new issuance is on hold
Private Equity	■ Private equity is becoming more active in shipping
Distress Deals	■ Distress transactions are becoming more common

Earnings – Liquidity Under Pressure as Freight Rates at Historic Lows

Aframax Tanker and Panamax Bulker Spot Earnings 2001 - 2011

($ per Day)

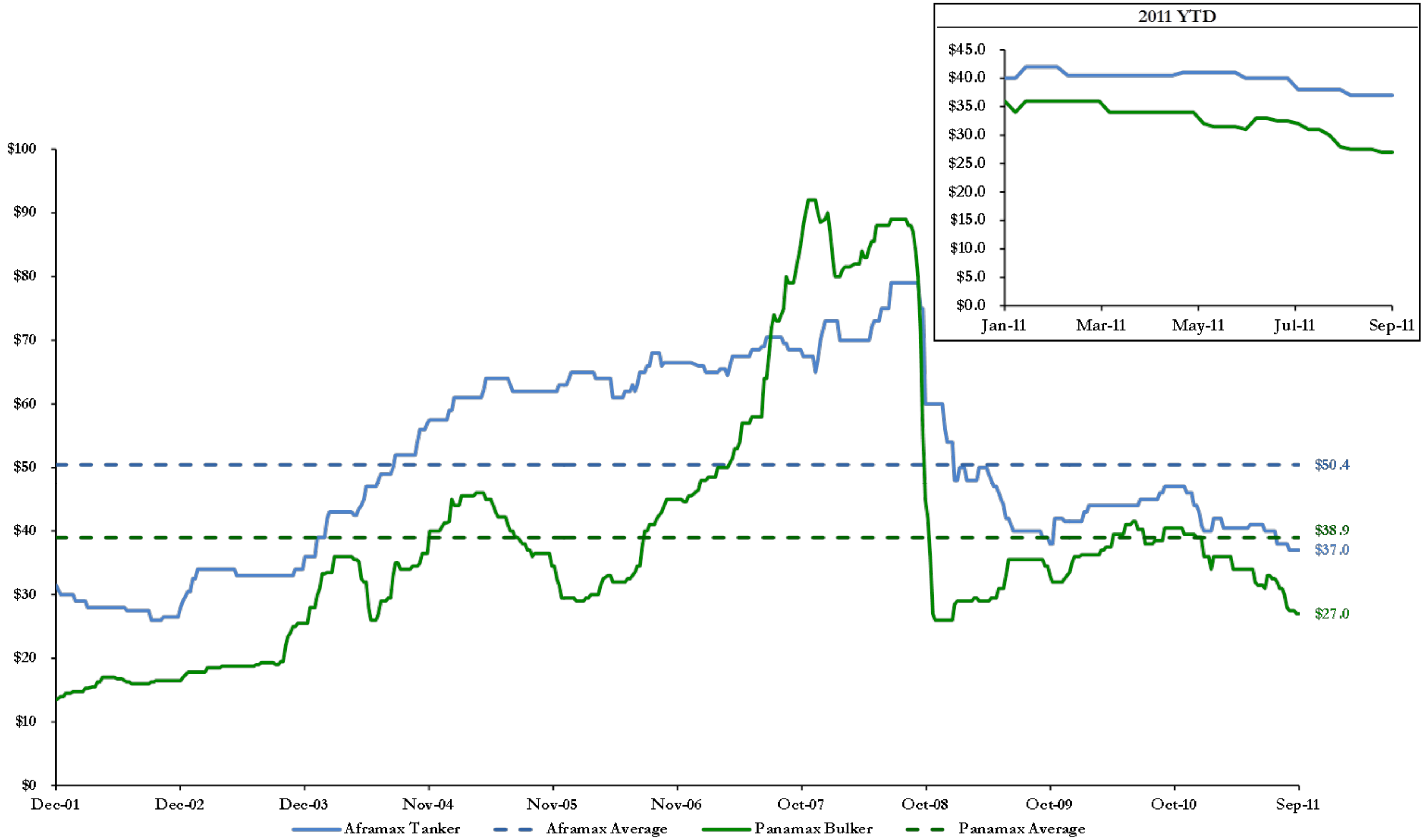


Source: Clarkson Research Services

Debt Covenants – Balance Sheets and 'Loan-to-Values' Under Pressure as Values Decline

Aframax Tanker and Panamax Bulker 5 Year Old Secondhand Vessel Values

($ in millions)



Source: Clarkson Research Services

Bank Debt – Increasingly Difficult to Secure

European Banks

- European banks are the main providers of ship finance
- Limited balance sheet availability– focus on core relationship customers
- Difficulty in securing U.S. Dollar funding

Bank Market Contraction

- Bank mergers disproportionately affected shipping banks
- UK/Irish banks have substantially reduced lending or exited shipping
- German and Dutch banks have reduced lending

Limited Alternatives

- Asian banks are not a solution for non-Asian ship-owners
- Export Credit Agency, private placement, and capital markets options actively pursued, but bank debt remains core source of ship finance

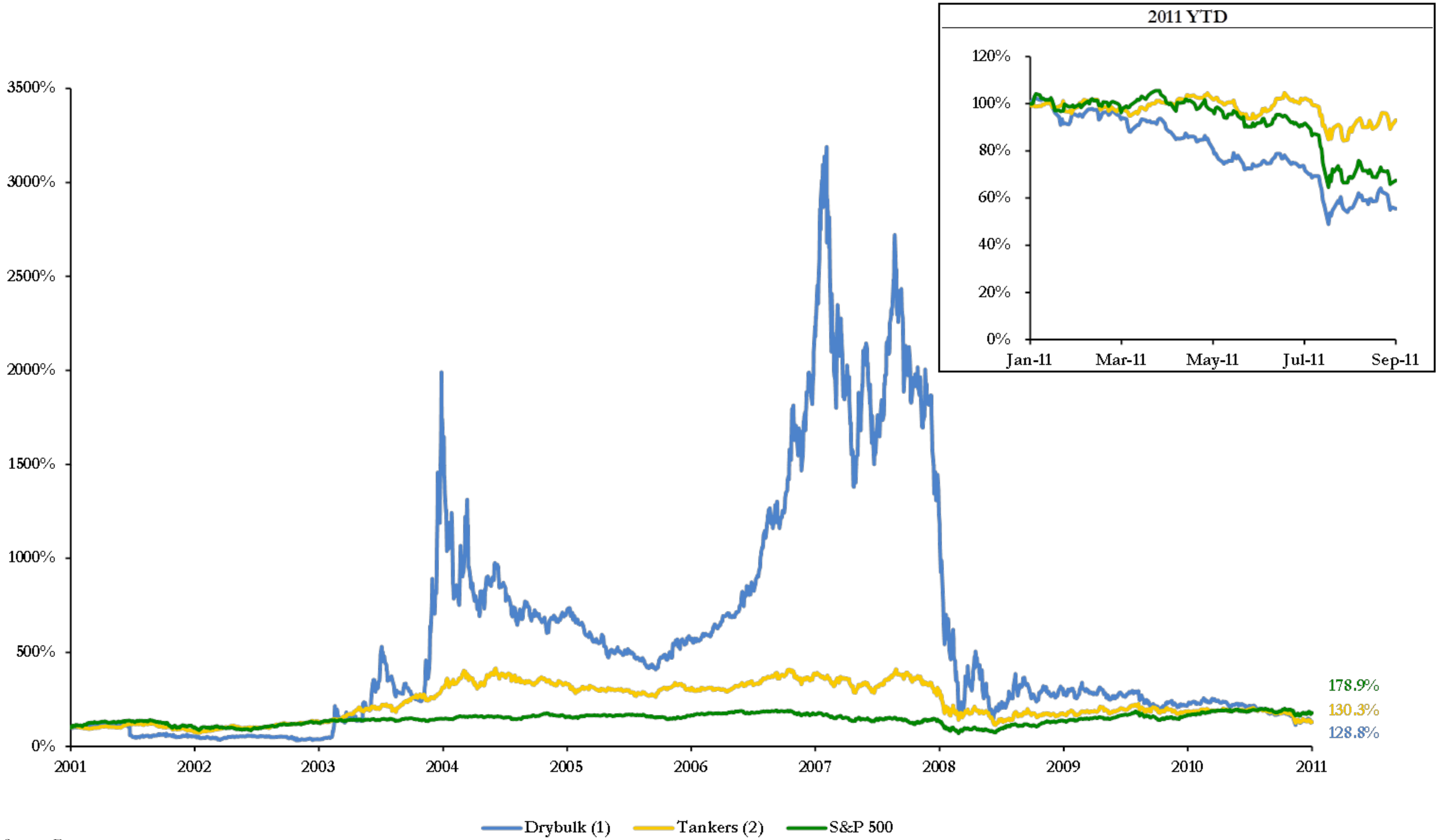
Terms & Conditions

- More equity required – '50% is the new 70%'
- Margins have more than doubled
- Tougher covenants

Equity Markets - Shipping Stocks Have Fallen Significantly from pre-Crisis Highs

Tanker and Bulker Stocks vs. S&P 500 Since 2001

(indexed)



Source: Factset

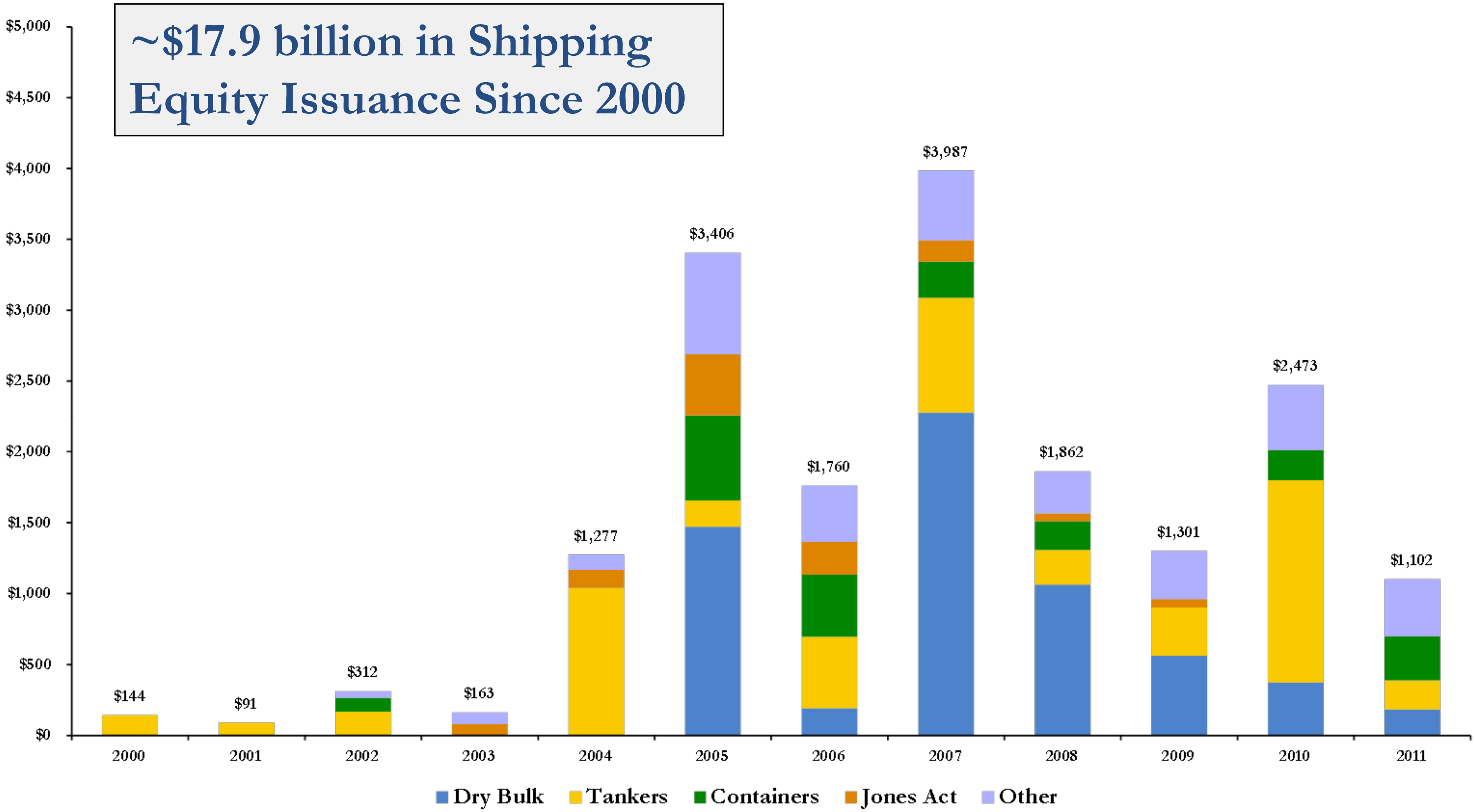
(1) Includes Baltic Trading, Diana Shipping, DryShips, Eagle Bulk, Euroseas, Excel Maritime, Genco, Navios Maritime, Oceanfreight, Paragon Shipping, Safe Bulkers, Star Bulk and TBS International

(2) Includes Crude Carriers, DHT Maritime, Frontline, General Maritime, Knightsbridge, Omega Navigation, Overseas Shipholding Group, Ship Finance, Teekay Corp, Teekay Tankers and Tsakos

Equity Markets - Remain Important Source of Capital

Follow-on and IPO Activity Since 2000

($ in millions)



Source: Dealogic

Private Equity - Increasing Exposure to Shipping

- Particularly active in shipping since beginning of financial crisis as shipping seen as a 'distress' sector and the market downturn was seen as potentially a good cyclical entry point
- Preference for more liquid commoditized sectors such as dry bulk and tankers
- Initial preference to partner with ship-owners, however current trend is to hire experienced shipping executives for a start-up
- High return expectations and 'carry cost' require successful timing of entry point

Recent Investors in Shipping

- Kelso & Company
- First Reserve Corporation
- The Blackstone Group
- Greenbriar Equity Group LLC
- Riverstone
- WL Ross & Co.
- Apollo Management, L.P.
- Quintana Capital Group, L.P.
- The Carlyle Group
- Rhône
- Littlejohn & Co.
- Eton Park Capital Management

‘Distress’ Deals - Remain Elusive but are Beginning to Take Place

Distress Deal Activity

- Activity levels quietly increasing, but remain moderate
- Distress not always publicized – 64 ship arrests in Singapore YTD 2011

Typical Deals

- Deals tend to be for individual vessels – few fleet deals yet
- Bank action usually caused by liquidity event – ship-owner runs out of money
- Buyers in distress deals are usually established ship-owners working with their key banks (not private equity)
- Transactions usually structured and involve some form of soft-financing for the buyer

Banks Deferring Action

- Banks understand cyclical nature of industry so want to keep kicking the can down the road – the preferred (and usually best) strategy
- Banks are not willingly taking haircuts