PHOTO: CHRIS PREOVOLOS

Christos Papanicolaou and Basil Mavroleon of C.R. Weber

PE and the Greeks: best friends forever?

Private Equity is the rage in maritime finance, and has been warmly embraced by Greeks, as Barry Parker reports from New York.

The floodgates of Private Equity money began to open after shipping's crash in 2008. PE deals are for low markets - either because a company needs help, or because of an attractive buying opportunity, with these deal motivations sometimes intertwined.

We can only guess at the real depth of PE penetration. 'There have been some very important jv's done between PE and some major Greek owners that have never been publicised and that leave the ones announced or made public very much in the shade,' notes Harry Theochari, a partner and global head of transport at law firm Norton Rose Fulbright, which has crafted many important ship finance deals.

One savvy participant in the thick of liaisons between capital sources and shipowners is Christos Papanicolaou, director of business development at specialist tanker broker C.R. Weber. He cites a confluence of factors that caused the Greeks to take a hard look at PE.

First, of course, is the reduced availability of bank finance after the 2008 finance crisis, when German banks, the largest group funding Greek owners, were especially hard hit (see sidebar).

Papanicolaou also notes what he calls a 'new generation' of family members taking the helm at traditional companies. 'These new leaders have been educated at top MBA programmes and they have built more corporatised structures,' he says. The necessity to bridge funding gaps has made the new company captains receptive to the phone calls from their B-school classmates - now in the ascendancy at PE and other 'alternative capital' providers, who are scouting for opportunities as the shipping cycle turns upward.

A few marquee deals illustrate the most widely used structures and motives of PE deals.

Diana Shipping (DSX) was an early participant, to buttress its balance sheet. The company, formed by long time shipping denizens the Palios family, was a major presence in the drybulk markets and from 1999 onwards struck deals with Fortis Bank and its PE fund, to finance Panamax newbuilds. Fortis became a 25% owner of the company and provided the shares later sold in Diana's IPO in 2005.

The Diana transaction underscores another critical aspect to PE deals - though investors sometimes view themselves as healers of bad balance sheets - ultimately, successful asset plays turn ordinary deals into great ones.

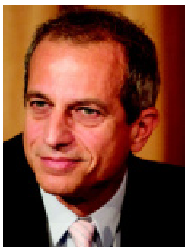
The Panamax vessels that Simeon Palios and his partners had ordered for circa $20m each in 1999 were worth roughly double that at the time of the IPO six years later. And it's worth noting that this deal priced above net asset value, meaning that the ships were 'sold' for closer to $50m each.

Riding in the tailwinds of Diana was Eagle Bulk Shipping, controlled by US-based Sophocles Zoullas - seen by some as an archetype of the new generation - which came to market about a year later. The firm had been hastily assembled to attract funding and go public, and promptly did just that by enlisting the support of investment firm Kelso and Company as an equity sponsor, which provided most of the funding to support Eagle's initial foray of orders (in early 2005), prior to its IPO.

When the IPO came around, Kelso saw an instant gain, with its equity stake rising from $37m to around $95m.

More recently, Zoullas's non-public company, Delphin, has also been supported by Kelso, with a $150m investment in 2010, a time that a second round of "asset plays" was hatched.

The most prevalent style of deals, based on reported transactions, is the formation of a pool where a financial investor joins forces with an established owner. Examples include Costamare's deal to jointly purchase containerships with York Capital, and Eletson's tie-up with Blackstone to acquire gas carriers. These deals are not balance sheet rescues, rather, they are alliances of capital joined together with shipping smarts.



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The template for such deals in this cycle had been laid down by another traditional Greek owner; it was Aristides Pittas, from Euroseas, who teamed up with Eton Park Capital (founded by ex Goldman Sachs guru Eric Mindich) and Rhone Capital (run by alums of Goldman and Lazard) to establish Euromar LLC.

In this transaction, both of the PE funds put in up to $75m, each, while Euroseas put in $25m. The Euromar jv recently purchased a 5,600teu containership with a charter attached, bringing the jointly - owned fleet to 11 vessels.

Then there is Oaktree Capital and its wide swathe of shipping investments (with Greeks and others) and diverse structures.

Oaktree was an early backer of two Peter Georgiopoulos companies: General

Maritime, on the tanker side, and later drybulk owner Genco Shipping and Trading. In the tanker company's 2012 pre-packaged bankruptcy, Oaktree swooped in to plug a big leak in the capital structure, closing a lending void with $175m, as traditional banks jumped ship.

Following its 'loan to own' strategy, Oaktree now controls the once-mighty tanker owner Genmar. Drybulk entity Genco, also in a 'pre-pack', will be controlled by private investors (including Apollo Management and others - but not Oaktree) who had acquired soured bank debt with a face value of $1.1bn, if all goes as planned.

Oaktree was backing Georgiopoulos (left) long before Genmar's first listing, in 2001. But, more recently Oaktree has been allied with another owner - Petros Pappas'

Spyros Kapralos (left) and Petros Pappas (centre)

Oceanbulk, in a partnering structure. Vessel acquisitions, totalling in excess of $1bn, began with newcastlemax, capesize and ultramax bulk carriers, and have crossed sector boundaries into VLCCs and container carriers.

Oaktree has also invested in a separate Pappas-controlled company, Product Shipping & Trading (PST) - the buyers of eight tankers from the ill-fated Omega Navigation.

Still another Greek owner where Oaktree maintains a stake, of just under 20%, is Pappas' Star Bulk, which has been tapped to manage Oceanbulk's burgeoning fleet. Ex Olympian and chairman of the Athens Exchange Spyros Kapralos is its president and ceo. Following Starbulk's successful recapitalization in 2013, a similar proportion of its shares was held by funds managed by distress investor Monarch Capital.

Hellenic American Chamber of Commerce

Sophocles Zoullas addressing Hellenic American chamber of Commerce

By definition, PE investors need to 'cash out' of a transaction, often through the medium of a public offering. This explains the drumbeats, getting louder, that Oceanbulk might be setting up for an IPO and the softer rumblings about General Maritime.

Sometimes, the PE presence may be most visible at the time of an 'exit' and disclosures need to be made. Such was the case with the Milonas family in the States, which, in late 2006, had invested in Navigator Gas (originally formed in the 1990s within Lehman Brothers) as it restructured after a three year Chapter 11 bankruptcy drama. It was only in late 2011 that investor Wilbur Ross began making moves on Navigator, ultimately becoming its largest shareholder by the time of its November 2013 IPO. Yet, it is Spiro Milonas that should be credited with providing financing that rescued the company.

The above list of deals is by no means exhaustive, but what will remain interesting to see is how the volume of PE transactions evolve now that ship prices have begun moving upwards. With most shipping sectors now perceived to be in an upward part of the cycle, the question on everybody's mind is whether Private Equity will head for the exits, and find a new 'best friend' as it abandons shipping.

Report shows traditional bank lending in decline

A recent report by Petrofin research, headed by Ted Petropoulos, notes that while traditional lending to Greek owners by banks has steadily declined in recent years, Private Equity Funds (PEFs) have filled the gap.

In 2013 there was an overall reduction of bank lending to Greek shipping by 6.5%, says Petrofin, with loans booked at the end of the year standing at $61.5bn, down from $65.78bn year-on-year, a 6% decline at a time when Greek shipping was full ahead in expansion mode.

Following the post-2008 financial crisis and sharp decline in shipping markets, 'PEFs were for many Greek owners often the only way to take advantage of what promised to be a healthy shipping recovery,' notes Petropoulos. Funds 'often scoured Greece for opportunities to co-invest and lend to Greek owners, believing the anticipated shipping recovery will provide them with the high returns they have been seeking.

'The result was an explosion of joint ventures most of which investing in eco-friendly vessels of a new design that is hoped will be the vessels of the future.'

Petropoulos says he believes there are over 40 joint ventures in place between Greeks and Private Equity Funds, which 'explains the paradox of a 6.5% fall in Greek ship lending at a time when the Greek fleet grew to record levels.'

By David Glass