Manhattan's tale of two cities

As underwriters and shipbrokers falter, restructuring and private-equity firms ascend, writes **Greg Miller**

> **"It was the best of times, it was the worst** of times," wrote Charles Dickens in *A Tale of Two Cities*. That sums up the split fortunes of New York's shipping cluster in 2012.

It remains a "winter of despair" for professionals reliant on public markets. Underwriting volume has tanked, IPO and junk-bond windows are largely shut, equity follow-ons are plagued by double-digit discounts and stock prices are floundering.

Simultaneously, regional shipbrokers are facing serious pressure as S&P activity remains stalled by the dearth of commercial lending and banks' reluctance to accept write-downs. "There is not enough of a market for all the brokers out there," one ex-shipbroking MD told *Fairplay*.

And yet, 2012 is simultaneously a "spring of hope" for other professionals in Manhattan's maritime sphere. The slump in public-capital business and S&P is being counterbalanced by surging demand for New York restructuring advice, bankruptcy representation, claims enforcement and private-equity funding.

Statistics provided to *Fairplay* by Cap IQ and AMA Capital Partners reveal the battered condition of the public arena. The market cap of US-listed shipping stocks slid a whopping $41Bn, or 28%, in 2011. In comparison, overall worldwide market cap fell 23%.

American exchanges remain the most liquid, however. The 2011 value of US-listed shipping stock trades was roughly quadruple the total market cap, according to statistics from CAP IQ and AMA. For non-US exchanges, the ratio is closer to 1:1.

Today's pivotal question on the public front is whether listed companies actually sell more equity – and if they can, should they, if it must be priced at a steep discount?

▼ $41Bn

Drop in 2011 market cap for US-listed shipping stocks

In December, Scorpio priced a follow-on at a 17% discount to the previous close. January's follow-on by NAT was at a 9% discount, while Teekay Tankers sold equity last month at a 12% discount.

Evercore MD Mark Whatley told *Fairplay* that those who tap public equity despite discounted pricing are "extremely prudent". He noted that proceeds are used to purchase assets at below-average prices, meaning such transactions "should be accretive over time" even if they "seem dilutive today".

"You should raise capital when you can, because you can't raise it when you need it," emphasised Whatley.

DNB Markets MD Jae Kwon outlined the two sides of the debate at the recent NACC/HACC shipping conference in New York. He noted that commercial banks want debtors to sell more equity, "but management has a duty to ensure there is no unnecessary dilution of existing shareholders".

Kwon explained that the commercial banks are urging debtors to raise equity not just for balance-sheet repair but to "prove they can". If so, banks can go to their own credit committees with more confidence that such debtors retain access to capital alternatives.

But Jefferies MD Hamish Norton told the NACC/HACC conference that the banks "haven't done their part in getting these equity offerings accomplished".

"What the banks haven't understood is how painful it is for a public company to raise equity at the bottom of the market," said Norton. "The banks should be prepared to say: 'If you don't raise this equity, we are going to call a default.' It is frankly not rational for public companies to raise equity at the bottom of the market if they know that the bank will just 'amend and extend'. What I've seen is that banks are more afraid of calling a default than public companies are of causing one."

As New York's public markets languish, the

> Public shipping markets caps 2010 & 2011

Market	Market cap end 2011 ($Bn)	Share of total (%)	Market cap end 2010 ($Bn)	Share of total (%)	Annual change (%)
US	108	32.4	149	34.3	▼27.5
Norway	102	30.6	119	27.4	▼14.3
UK/Europe*	63	18.9	88	20.3	▼28.4
Asia**	35	10.5	40	9.2	▼12.5
Singapore	22	6.6	34	7.8	▼35.3
Other	3	1.0	4	1.0	▼25.0
Total	**333**	**100**	**434**	**100**	**▼23.3**

* UK/Europe excludes Norway, which is listed separately. ** Asia excludes Singapore, which is listed separately.

focus is increasingly turning towards Manhattan's restructuring services and private-equity shops.

"In a lot of these restructurings, Chapter 11 is becoming at least a part of the dialogue, so you have to involve people in the New York sphere to get a perspective on the implications," said Whatley.

Randee Day of Connecticut-based restructuring firm Day & Partners agrees. "A lot of advisers outside the US do not understand Chapter 11 so, even if you have foreign advisers, it makes sense to link up with a US firm," Day told *Fairplay*.

Meanwhile, shipping's hunt for private equity is raising the stature of New York, which boasts more private-equity firms than any other city. Private equity is also more focused on direct shipping investments in 2012 because of its inability to place sizeable bets on the sector in public markets.

"If you want to put $50M of equity to work, there are now very limited opportunities in the public space, because there's no liquidity and there's no size," AMA Capital Partners MD and New York Maritime (NYMAR) chairman Peter Shaerf told *Fairplay*.

Shaerf also noted that 2011's entry by famed investor Wilbur Ross "was a huge boost to the recognition of shipping within private equity. It was the best advertisement for New York capital markets in the past year."

Karatzas Marine Advisors founder, Basil Karatzas, told *Fairplay:* "If you're trying to access private-equity investors, you have to be in New York. Hong Kong is not what it used to be. The Chinese are more careful with their money and they're not just looking for absolute returns, they're also looking for strategic benefit."

The problem is that most New York private-equity firms are still on the sidelines. "There is more private equity hovering vulture-like over the shipping space but there continues to be a shortage of carcasses," said Shaerf. "You can take private equity to the water but it's still not drinking."

Karatzas believes private-equity investors are now focused less on buying distressed assets than on providing high-return liquidity to existing owners. "Private equity is concerned that we have not seen the worst on asset pricing yet, so it might be too early to buy vessels," he reported.

As the business mix in New York shifts from the public to private arena, the monetary stakes are enormous. According to a recent study conducted by NYMAR, shipping accounted for $648M in New York banking income in 2011.

Asked by *Fairplay* about the ultimate effect of the crisis on New York's cluster, Shaerf responded: "Fortunes have been lost here. That's for sure. But many that were lost will be rebuilt." F

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