



CAPITAL LINK FORUM- THE VOICE OF OUR YOUNG EXECUTIVES

PRIVATE EQUITY, M&A AND INDUSTRY CONSOLIDATION

The funding of the shipping sector investments is faced with a new reality. Private equity funds are the new players in shipping finance. The flexibility they give to ship owners has made them more attractive, increasing their market share especially against traditional bank institutions. Many professionals wonder about what the role of private equity funds is in shipping and what can be expected in the next few months. Conflicting opinions on this matter were expressed during the conference, with some stating that the shipping sector has grown, but it isn't stable enough to attract the interest of the funds, suggesting that private equity doesn't fit in shipping. On the other hand some professionals support the view that the shipping sector is attractive to private equity funds. In my opinion the main role of private equity funds are to provide bridge finance in order to buy the shipping loans from the banks and to offer the financial flexibility that shipping companies need. They were able to do this due to the less regulated environment, in which they operate in, compared to the bank institutions. Thus private equity funds used to invest only in heavy industry markets and can now be found in the shipping market.

Shipping finance funds recently achieved double digit interest rates. Apart from this, it seems that funds are now interested and are mainly seeking to invest in other businesses, related to shipping such as ports, ship management or other shipping services, or even bigger and stronger shipping groups. In the next five years, this could lead the Greek shipping companies, especially the smaller ones to finding alternative ways to raise finance such as consolidating with other companies.

But is it necessary for shipping companies to get bigger in order to attract investors? If a company has a stronger balance sheet, it is more likely to attract private equity

funding. This is why there will be further consolidations in the shipping market. Small businesses of the shipping sector will try to consolidate. The consolidation process however will be delayed, due to disagreements related to managerial issues that will arise in new consolidated companies. Additionally, the coronavirus as a global problem, could affect consolidations.

Furthermore, private equity funds are becoming a prominent feature on the shipping investment landscape. As they are less regulated and more commercial in their approach, they offer greater flexibility to the shipping industry. Private equity funds have adjusted their strategy in the face of their recent experience although, some of them have departed from the shipping industry and many new names have begun looking at other opportunities. There are many private equity funds whose capacity to invest has grown in just a few years, and which now have considerably higher budgets than many well-known shipping banks.

What we are going to see in the near future is that the private equity funds will be attracted by shipping companies with a strong financial back-ground and high prospects so, this will lead especially the smaller family businesses to find a solution in consolidation.



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