Chapter 7
Business Acquisitions as a Tool for Proactive Financial Management: The Case of Seanergy Maritime Holdings

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Abstract Seanergy, as a former SPAC company and owner of six vessels that were acquired at historical all-time high values in the dry bulk industry, had managed to sustain its operations amid a challenging market environment by implementing proactive financial management. The weak freight environment that followed just 3 months after the acquisition of the initial fleet, declared that Seanergy would not be able to serve its hefty financing obligations in the long run. The secured cash flows, which stemmed from the significant premium of the attached charter parties over prevailing market rates, provided a short term cushion. During that period, the Management of the Company decided that the only way to shield Seanergy against a future cash deficit and accounting losses was to add more vessels with a daily break even low enough to cover the high break even of the initial six vessels resulting from their high financing cost. The proactive business planning exercise, highlighted the fact that accretive business acquisitions can lead to a lower average break even for the Company as a whole. Therefore, Seanergy, had implemented its proactive financial management, by acquiring two businesses over the next 2 years. The combined impact of the two business acquisitions, apart from more than tripling the size of the fleet, also led to increased revenue, kept operating income positive and augmented cash flows. Seanergy's case, allows practicing managers in senior level financial positions to enrich their understanding about how business acquisitions can be used as a means of proactive financial management.

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O. Schinas et al. (eds.), *HSBA Handbook on Ship Finance*,
DOI 10.1007/978-3-662-43410-9_7, © Springer-Verlag Berlin Heidelberg 2015

7.1 Background Information

Seanergy Maritime was incorporated in August 2006 as a Special Purpose Acquisition Company (SPAC). SPACs, or the so-called shell or blank-check companies, do not have operations at the time of their inception and instead raise equity in the public markets with the intention of using the proceeds of their initial public offering (IPO) to acquire or merge with a company. If an acquisition is not concluded in a 2 years' time, then the funds are remitted back to the IPO's investors. SPACs usually raise blind pool funds, which are placed into a trust fund in the form of an escrow account for an unspecified business transaction, sometimes in a targeted industry. Seanergy Maritime was formed with the aim of acquiring companies or assets in the maritime shipping industry.

Seanergy Maritime consummated its IPO of shares in September 2007 raising total proceeds of $231 million on the American Stock Exchange (AMEX), presently known as NYSE Amex Equities and before March 2009 as NYSE Alternext U.S., which is the alternative market of the New York Stock Exchange. Each Seanergy Maritime SPAC unit was sold at $10 for one share of common stock and one warrant that could purchase one additional share at $6.5 per share until September 2011. Until early May 2008, Seanergy Maritime remained a development stage company with the main goal of identifying potential acquisition targets in shipping industry. The proceeds from the offering were kept in an interest bearing escrow account and the interest income for 2007 and 2008 was distributed to the IPO investors in the form of a dividend.

In May 2008, Seanergy Maritime reached an agreement to acquire six vessels from companies affiliated to the Restis family for a net price of $395.3 million. At the same time, entities affiliated to the Restis family acquired 9.62 % of Seanergy's share capital from the company's founding shareholders for $25 million. The vessels acquisition was financed partially by $149.1 million of IPO net proceeds after deducting the redemption of common shares valued at $63.7 million by shareholders that did not concur with the proposed transaction $218 million of bank debt and $28.2 million of convertible promissory note due in May 2010. In addition, the agreement included an EBITDA earn-out provision for the sellers of the vessels to receive up to 4,308,075 shares of Seanergy Maritime common stock subject to the company meeting an EBITDA target of $72 million in the 1-year period between October 1, 2008 and September 30, 2009. The target was achieved and the additional consideration was paid to the sellers of the vessels.

Upon completion of the transaction in August 2008, Seanergy Maritime acquired a fleet consisting of two Panamax, two Supramax, one Handymax, and one Handysize bulk vessels, with a carrying capacity of approximately 318 thousand DWT and an average age of 11 years. The acquired vessels came with 1 year time charter contracts with South African Marine Corporation, a chartering company affiliated to the major shareholder, at time charter daily gross rates of between $30 and $65 thousand. In September 2008, owing to the downturn in freight rates and vessels values, the market value of the vessels was $360.1 million or

Table 7.1 Dry Bulk companies listed on NASDAQ and NYSE

NASDAQ[a]		NYSE[a]	
Company	Date of IPO	Company	Date of IPO
Eagle Bulk Shipping	June 2005	Excel Maritime	February 1989
TBS International[b]	June 2005	Diana Shipping	March 2005
Freeseas	December 2005	Genco Shipping	July 2005
Star Bulk Carriers	December 2005	Paragon Shipping	August 2007
Seanergy Maritime	September 2007	Navios Maritime Partners	November 2007
Globus Maritime	June 2007	Safe Bulkers	May 2008
		Baltic Trading	March 2010

[a] In the event that some companies have listed their shares on the NASDAQ or on the NYSE after initially going public on a different exchange, the IPO date will not coincide with the listing date
[b] Delisted in 2012

$44.8 million lower compared to the agreed gross price in May 2008. The difference between the agreed and market value was recorded as goodwill from acquisitions in the Company's financial statements. From September 2008 through December 2008, significant disruptions took place in the credit markets that have affected many sectors of global economic activity, including the shipping industry. More specifically, since mid-August 2008, the charter rates in the dry bulk charter market have declined significantly and dry bulk vessel values have also decreased, both as a result of a slowdown in global economic activity and the significant deterioration in the availability of credit. In December of 2008, in light of the prevailing market conditions signalling a potential impairment, Seanergy Maritime decided to impair all of the goodwill recorded in the balance sheet along with $4.5 million of its vessels book value.

Following the completion of the acquisition and as the purpose of the blank-check company was fulfilled, Seanergy Maritime was dissolved in January 2009 and Seanergy Maritime Holdings emerged as its successor. Shareholders in Seanergy Maritime received one share in the new company in exchange for every share in the old company, and the shares commenced trading on the NASDAQ Stock Market in January, 2009. The NASDAQ was chosen as it had emerged as an important marketplace for raising equity capital for shipping companies since 2000. In particular, at least six pure-play dry bulk firms have floated their shares there. These, along with pure play dry bulk firms listed on NYSE, would bring the total to 13 (Table 7.1).

The agglomeration of dry bulk company listings in NASDAQ has to do with the increased transparency in financial reporting and strict corporate governance associated with a listing in the United States. At the same time, the reporting requirements for foreign stock issuers, such as shipping companies, allow flexibility which was particularly relevant in the case of Seanergy. High standards of corporate governance are considered crucial for all company stakeholders and a listing on NASDAQ acts as a testament of increased reporting transparency and accountability

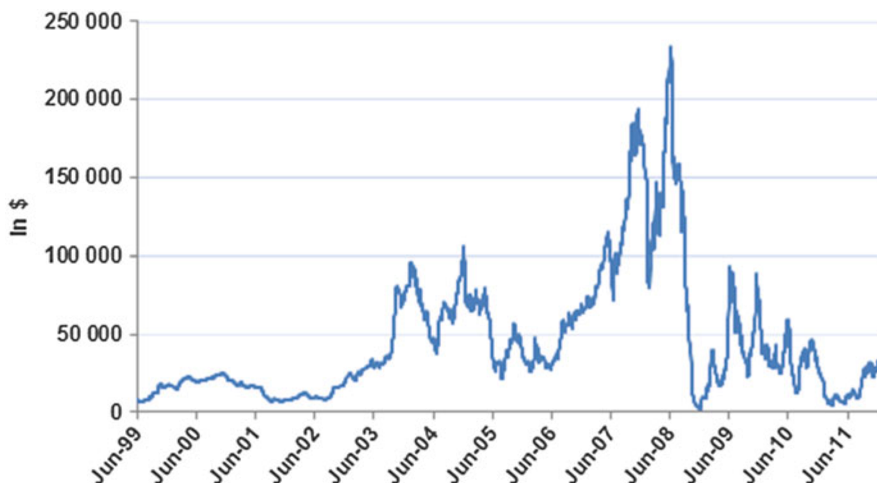

Fig. 7.1 The Baltic Capesize Index Time Charter Average

to investors. Furthermore, the high level of development in the financial services industry in the U.S. also makes it easier for ship-owners to contact lending institutions, investment banks, underwriters, and potential investors willing to subscribe to a share offering. Additionally, stock exchanges in the U.S. are the largest in terms of transaction volumes and attract a highly diversified investor base, as opposed to other bourses that lack the same international orientation. What is more important is that United States stock exchanges, such as the NASDAQ, enjoy increased liquidity and consequently lower transaction costs. This allows investors to trade in a company's stock and consequently results in a premium valuation compared to companies listed on less liquid exchanges. Another important reason for choosing the NASDAQ is the presence of an industry peer group that allows analysts to compare companies and provide stock valuations.

At the time of the six initial vessel acquisitions, the BDI index, which measures the cost of transporting dry bulk commodities across various routes, was close to its all-time high and so the vessels earned very high charter rates (see Figs. 7.1, 7.2, 7.3, and 7.4).

The above four graphs present the time series of average daily time charter rate paid for each of the four major types of dry bulk vessels. From the graphs, it can be seen that market rates for all vessel types peaked in May 2008. The healthy shipping market prevailing at the time enabled Seanergy to adopt a business model based on paying high dividends to shareholders out of internally generated cash flows. Besides, the relationship with the major shareholder and the options to purchase two additional vessels afforded the Company attractive growth prospects. Following the collapse of Lehman Brothers and the ensuing financial crisis, the BDI retreated by about 90 % compared to its previous peak and reached a low in December 2008. This prompted Seanergy's Management to suspend dividend payments from February

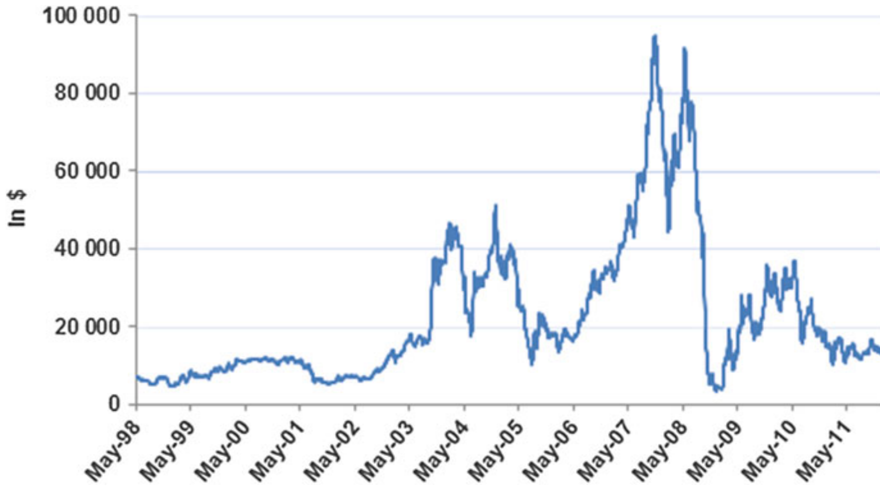

Fig. 7.2 The Baltic Panamax Index Time Charter Average

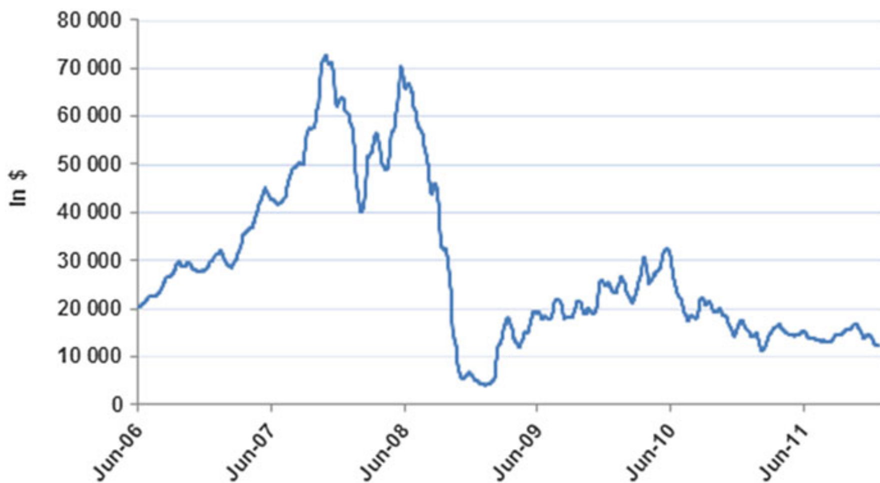

Fig. 7.3 The Baltic Supramax Index Time Charter Average

2009 onwards, with a view to conserving the company's cash during a volatile period. Furthermore, a waiver on the security margin covenant which is calculated as the ratio of fleet market value to net debt was obtained from Marfin Bank, as the precipitous fall in the dry bulk market caused a corresponding decrease in the market value of Seanergy's vessels. During this time, the aforementioned EBITDA earn-out clause in the purchase agreement of the vessels proved particularly useful as it provided the charterers with the incentive to continue to pay high charter rates for Seanergy vessels, whereas in the absence of that clause, it would clearly be in

Fig. 7.4 The Baltic Handysize Index Time Charter Average

their interest to renegotiate the charters at considerably lower rates. In this way, Seanergy generated free cash flows throughout the term of the contracts.

As 2009 progressed, it became clear that Western economies had slipped into recession and that a complete economic meltdown had only been averted due to coordinated government stimulus aimed at increasing aggregate demand in the economy and the concurrent monetary easing undertaken by major central banks around the world. The negative impact on the dry bulk market was evident as charter rates in the market were substantially lower than what was seen in 2007 and 2008 for all vessel classes. Although Seanergy's charterers honoured their commitment to the previously signed charter agreements, redelivered vessels had to be chartered in the market at much lower rates. As Seanergy's vessels had been purchased at very high prices, the fall in market rates meant that covering expenses and repaying debt out of vessels cash flows had become unsustainable. Consequently, Seanergy had to plan its response to the ongoing crisis, both in shipping and in the financial markets. One possibility was to attempt to burn through existing cash for as long as vessels were to earn rates below what was required to break even. At the end of September 2009, cash in hand stood at around $64 million. However, the risks of such an approach would have been significant, as the Company would eventually run out of cash after a long stretch of unfavorable market rates. On the other hand, as future prospects in the shipping market were looking negative due to the massive influx of new vessels, there were opportunities to be found in acquiring vessels or shipping companies from financially distressed ship-owners at low prices. At the time, Seanergy was in a good position to capitalise on such opportunities mainly because of two reasons. Firstly, despite having purchased its fleet at what proved to be unfavourable price levels, it was a publicly listed company with the ability to obtain equity funding

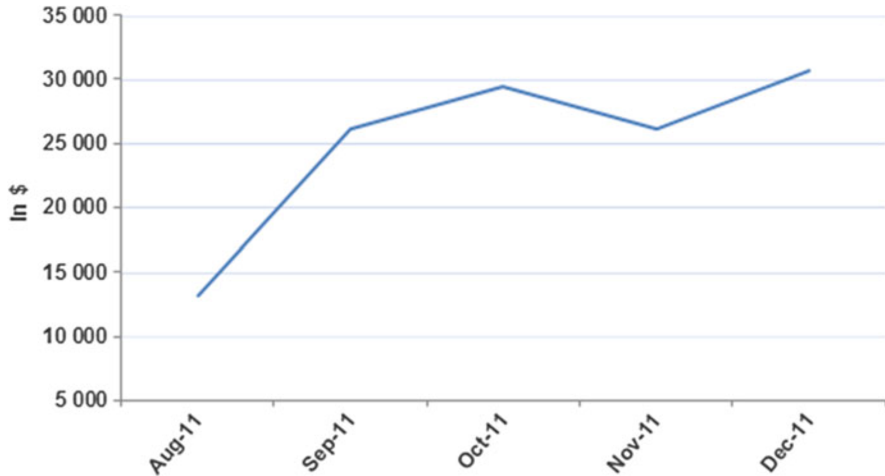

Fig. 7.5 The Baltic Capesize Index Time Charter Average (August 2011–December 2011)

in the market. Secondly, the affiliation with the major shareholder provided the Company with considerable advantages in terms of shipping industry connections, lenders' willingness to engage in negotiations and provide liquidity, as well as in finding opportunities to acquire distressed companies willing to sell their assets.

Seanergy's Management chose to take advantage of falling asset prices and engaged in the acquisition of a 50 % stake in Bulk Energy Transport (BET). At the time, BETs ownership was split equally between a company affiliated to the major shareholder and Constellation Bulk Energy, a subsidiary of Constellation Energy Group. At the time, BET suffered from high levels of debt relative to the falling value of its vessels and high economic uncertainty. Constellation was interested in divesting its stake in the shipping company and Seanergy took advantage of the opportunity by purchasing the 50 % for a nominal consideration of one dollar. The transaction was completed in August 2009 and as a result, Seanergy gained the control of a five vessels fleet that comprised one Panamax and four Capesizes. As a result, Seanergy controlled 11 vessels with a total capacity of one million DWT. The vessels were chartered to SAMC at profitable rates. It was an important milestone, as Seanergy acquired a controlling stake in a company for a relatively small cash outflow and initiated its exposure to the Capesize sector. This is particularly important because Capesize vessels are the primary means of transporting iron ore and the main driver of dry bulk shipping returns over the past years. As a result, it is a very volatile market where even a temporary shortage of ships can cause rates to rise dramatically. In this respect, it is indicative that since the beginning of August 2011, Capesize rates went from $9,300 per day to about $32,000 in December 2011, as can be seen in Fig. 7.5.

7.2 The Acquisition of BET

The acquisition of BET also marked an important milestone in terms of forming Seanergy's strategy of acquiring fleets at distressed prices, rather than opting for single, newly-built vessels. The Management's connections and wide network in the Capesize sector enabled Seanergy to enjoy superior commercial management and efficient operations. The acquisition of BET was accompanied by a debt restructuring that involved a $20-million prepayment of debt, which reduced the outstanding principle to $123 million from $143 million. At the same time, semi-annual instalments were reduced to $7.1 million from $8.3 million previously. Furthermore, temporary waivers to loan covenants were also obtained. After the expiration of the waiver period, the facility's covenants were temporarily amended, as the required ratio of equity to total capital fell to 17.5 % from 30 % previously and the ratio of the market value of ships to outstanding debt fell to 100 % from 125 % previously.

Following the acquisition of BET, Seanergy's capital structure was reinforced by the conversion into common shares of the promissory note that was issued to companies affiliated to the major shareholder. As a result, Seanergy reduced its outstanding debt without depleting its cash reserves. In the beginning of 2010, Seanergy took advantage of its position as a public company and engaged in a secondary sale of shares to obtain additional equity capital. In the beginning of February 2010, the contemplated share offering was priced at $1.2 per share and 20,833,333 shares were sold to the public, while the major shareholder purchased an additional 4,166,667 at the same price. On March 19, 2010, the underwriters exercised their option to obtain 1,985,000 shares to cover overallotments, which resulted in Seanergy achieving net proceeds of $28.1 million. The timing of the offering was particularly fortunate when considering the fact that shipping market sentiment deteriorated sharply in the months that followed making it hard to raise equity. Furthermore, there were a number of other advantages associated with it. Firstly, following the acquisition of BET, the capital structure of Seanergy was reinforced. Secondly, increasing cash levels allowed greater financial flexibility and ability to make acquisitions to capitalise on profitable opportunities. Lastly, the offering significantly diversified Seanergy's shareholder base, as the majority of shares were purchased by various investors. This was important in increasing the shares liquidity.

Following the strengthening of the company's balance sheet, Seanergy continued to look for accretive acquisition opportunities. In May 2010, Seanergy used the cash raised in the public share offering and purchased a 51 % stake in Maritime Capital Shipping (MCS), which is a Hong Kong-based owner of nine Handysize vessels. The price paid by Seanergy for the controlling stake was $33 million. In the aftermath of the transaction, Seanergy was in control of 20 vessels with a total carrying capacity of 1.3 million DWT. The acquisition of MCS increased Seanergy's exposure to the Handysize segment, where demand and supply fundamentals seem to be the most solid. In fact, it happens to be the case that at the time of the

acquisition, more than 40 % of the global Handysize fleet was older than 20 years, while average annual fleet growth in terms of tonnage is in the 4–5 % range. Furthermore, Seanergy gained control of a fleet that was younger on average than the initial fleet and had high charter coverage with reputable counterparties, which greatly increased revenue generating potential, while also offered better access to the Asian shipping and financial markets through the office in Hong Kong.

At the time before the acquisition, the total debt of MCS stood at $166.9 million and comprised three different facilities, all with different lending institutions. $48 million was outstanding under the HSBC facility, $56.8 million under the UOB facility, and $62.1 million under the DVB facility. As MCS was in financial distress, a restructuring of debt was agreed with the purpose of making the company's debt burden manageable, given the weak market environment. The restructuring deal involved total debt prepayments of $28 million. For the HSBC, UOB, and DVB facilities, prepayments were equal to $7.6 million, $13.0[1] million, and $7.4 million respectively. The prepayments were accompanied by changes in the repayment profile of the loans as the instalments were modified to take account of the new debt outstanding of $138.9 million. Moreover, interest expense on the mezzanine tranche is capitalised, increasing the amount of the loan outstanding, instead of being payable at the end of each interest period. The mezzanine debt principle is to be repaid in whole concurrently with the final balloon instalments of the senior debt tranche.

The restructuring of the MCS debt was particularly important as the shipping market had entered a period of sustained weakness, during which daily rates earned were lower than before. As the debt agreements had been entered into amidst a favourable shipping market environment, it was clear that as generated cash flow would come under pressure, the servicing of the original repayment schedules would be unattainable. Consequently, the restructuring of the debt and the accompanying amendment of covenants and debt schedules proved important in making debt servicing viable. As a result, the prepayment and debt restructuring were mutually beneficial for Seanergy and its lenders by contributing to a sustainable capital structure. Seanergy, therefore, had the opportunity to generate a positive return on its investment in MCS, while the company's lenders reduced their exposure by receiving the prepayments. Furthermore, credit risk was reduced as the probability of default was smaller following the restructuring. Another important aspect of the restructuring is Seanergy's proactive stance toward the Company's lenders, in pursuing a prepayment and restructuring its liabilities in a timely manner, confirming the Company's sound financial planning and its status as being a counterparty of high credit quality. Moreover, as Seanergy is aiming to take advantage of opportunities to acquire vessels and grow its business, building a working relationship with multiple lending institutions had the capacity to prove useful in broadening Seanergy's future financing options.

[1]As far as the UOB facility is concerned, $9.25 million was repaid outright, while $13.8 million was transferred to a newly formed mezzanine tranche of which $3.8 million was prepaid.

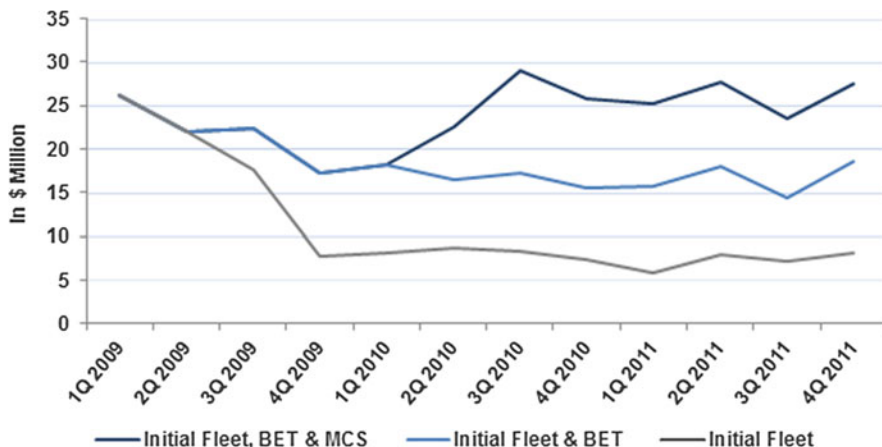

Fig. 7.6 Net revenue evolution due to business acquisitions

Since the end of the second quarter of 2010, Seanergy focused on the successful integration of its holdings in the companies it acquired. As part of this plan, it consolidated its ownership stakes by acquiring 49 % of MCS in the third quarter of 2010 and 50 % of BET in the fourth quarter of 2010. In total, it paid a consideration of $62 million to the sellers who were companies affiliated to the major shareholder, of which $10 million was paid in cash and the remaining consideration was in the form of shares issued at a 14 % premium to the market price prevailing at the time to avoid dilution of minority shareholders. With minimal cash outlays, Seanergy managed to gain full ownership of its fleet, which had more than tripled within a period of 2 years. Seanergy took advantage of the market turmoil to make accretive acquisitions that assisted in gaining growth, diversity, and profitability. What is important to mention here is the reorganisation of the Hong Kong office that took place in the second quarter of 2011, and is expected to contribute about $2 million each year in savings on general and administrative expenses.

As seen in Figs. 7.6 and 7.7, the proactive business acquisitions made by Seanergy in 2009 and 2010 have proved important in increasing revenue and keeping operating profitability within positive territory. This is especially important as the initial six vessels were acquired at high prices and are unprofitable in the current market environment. Supporting operational profitability through well-timed acquisitions with minimal cash outflows has provided a means for Seanergy to generate the cash flow necessary to meet future capital obligations. Furthermore, it assisted Seanergy to establish working relationships with various financial institutions as it has assumed the debt obligations of the two companies acquired. This took place through the loans attached to the vessels purchased in Seanergy's acquisitions. This is important in terms of managing liquidity and securing financing for future investment opportunities. As risks to global financial stability have risen markedly since the start of the Eurozone debt crisis, European banking institutions that have

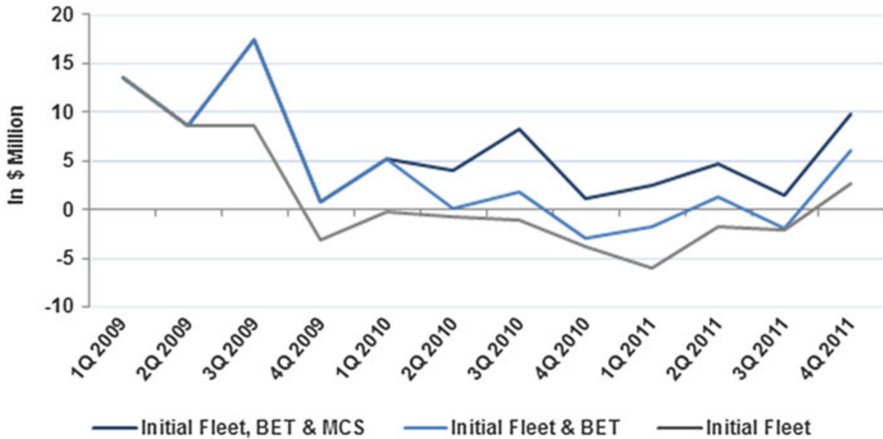

Fig. 7.7 Operating income evolution due to business acquisitions

in the past been traditional finance providers to the maritime shipping industry have found it more expensive to fund their operations. Besides, there is increased uncertainty about the ability of major European lenders to meet the new collateral rules and capital requirements set out as part of the Basel II and Basel III regulatory frameworks. Under these agreements, the risk weighting of corporate loans, including those made to shipping companies, has increased, requiring lenders to set aside more reserves for each loan made. At the same time, the total reserve requirements themselves have also been increased. As such rules fade in starting from 2013, banks will inevitably be required to set aside more equity capital, or dispose of parts of their loan portfolios, making it increasingly difficult for them to finance vessels. It is indicative that Societe Generale sold a large part of its shipping portfolio to Citi in 2012, while Commerzbank has elected to exit the shipping finance market altogether. These factors have made it increasingly difficult for ship-owners to finance vessel acquisitions or refinance existing loans. In light of these developments, one can appreciate the importance of forming relationships with multiple lenders in different locations to diversify a company's funding base. In this respect, the acquisition of MCS has benefited the Seanergy Group by making it somewhat easier to utilise Far Eastern finance providers.

7.3 Concluding Remarks

As a conclusion, it is worth mentioning that Seanergy, as a former SPAC company and owner of six vessels that were acquired at historical all-time high values in the dry bulk industry, had managed to sustain its operations amid a challenging market environment by implementing proactive financial management. The acquisition of

the initial fleet at high market values prevailing at the time bequeathed Seanergy with increased financing costs that impacted cash flows. In addition, the weak freight environment that followed just 3 months after the acquisition of the initial fleet lowered the prospects of the Company. The secured cash flows, which stemmed from the significant premium of the attached charter parties over prevailing market rates, provided a short-term cushion. The Management of the Company decided that the only way to shield Seanergy against a future cash deficit and accounting losses was to add more vessels with a daily break even low enough to cover the high break even of the initial six vessels resulting from high financing costs. The proactive cash flow monitoring and business planning highlighted the fact that accretive business acquisitions can lead to a lower average break even for the Company as a whole. Bearing this in mind and capitalising on the major shareholders' extensive network in the shipping industry, Seanergy had managed to acquire BET for a nominal consideration. As part of proactive financial management, the debt restructuring of BET was essential for the success of the venture. Following the BET acquisition, Seanergy Group's cash flows and income statement were reinforced significantly. However, as market conditions remained week and volatile, it was imperative for Seanergy to proceed with further business acquisitions. Before doing so, the Management of the Company strengthened Seanergy's balance sheet by raising public equity in a secondary offering and by converting the promissory note, issued to partially finance the acquisition of the initial six vessel fleet, into shares. Both actions, part of proactive financial management, enabled Seanergy to proceed with the second acquisition. The acquisition of MCS, following its debt restructuring, reinforced Seanergy's cash flows and income statement even more, and maintained a positive operating income.

The combined impact of the two business acquisitions as a tool of proactive financial management was that apart from more than tripling the size of the fleet within a period of just 2 years, it led to increased revenue, kept operating income positive, and augmented cash flows.

It can be seen that in Seanergy's case, using acquisitions as a means of proactive financial management resulted in profitable expansion at attractive prices, while ensuring the continuity of the business during an unfavourable market environment.