Financial Innovations in the Shipping Industry:

Case Studies

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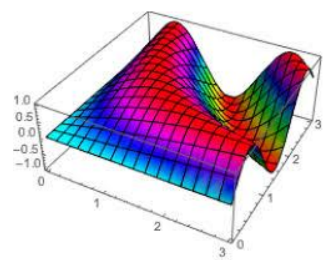

Introduction

Maven Global

- Background

Trends in Quantitative Innovation

New Industry Participants

New Issues to be Addressed

Challenging Times

Lower Margins

Study Cases

- 2 Examples
- Different Industries
- Different Stakeholders
- Different Issues

Case Study 1: Charter Negotiation – Information Asymmetry

Situation Overview

- Shipping Firm looking to charter
- 4-year deal with profit share above strike
- Charterer asked for new terms

Quantitative Approach

- Create Monte Carlo model for freight rates
- 500,000 future paths over next 4 years
- Quantify value of each financial option

Challenge

- 3 key dimensions: annual cash flows vs. 4-year cash flow, profit share, strike
- Negotiation involved all 3 parameters
- How much dollar value per each change?

Outcome

- Shipping Firm better off by $2.5m on deal
- Dollar value of asked amendments was substantially less than concessions
- Different values in different environments

Case Study 2: Credit Analysis for Chinese Shipyards

Situation Overview

- US Private Equity Firm + Shipping Firm
- Potential Order for number of Newbuilds
- Chinese yards offered impressive deals

Quantitative Approach

- Credit Analytics used for Corporate Bond portfolios in Emerging Markets
- Traditional and Shipping Credit Metrics
- Ranked yards by probability of default

Challenge

- Key Reason for discounts: poor pipeline
- Number of Chinese yards closing down
- If yard closes down during project → significant costs for consortium

Outcome

- Unsurprisingly, yard with best offer was most likely to default
- Innovation on Credit Analytics: One factor
- Yard was asked for additional safeguards