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INSIDE

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The Week in Review

"Matchmaker, matchmaker, Make me a match Find me a find, Catch me a catch"

No one could possibly anticipate a pandemic. But with fortuitous timing, Maximilian Otto and his partners married ship finance with technology to create an innovative digital platform which is perfect both for these times and for the future. They describe it as "ship finance, simplified."

Oceanis is a fully Integrated, end-to-end financing platform for asset-backed shipping investments. Standardizing and digitizing the whole process from request to drawdown is the vision. The company's mission is to provide every shipowner easy access to diversified global financing sources and a transparent overview of best possible terms. On the other side, debt providers receive attractive project leads with significantly lower overhead costs. In short, Oceanis provides the industry with a transparent, efficient and digital marketplace to execute ship finance transactions.

There is a void in the ship finance marketplace as the exodus of lenders continues. As a consequence of the losses sustained from bad debts and the need to bolster their capital, those banks that remain are choosing to minimize the use of their balance sheets and are therefore focusing on the larger and better credits, with whom they have had long-term relationships, and cross-selling possibilities. For perspective, financing capacity has declined by 35%, while the total world fleet has grown by 65% since 2008, highlighting the supply and demand gap. For small- and medium-sized ("SME") owners who were rarely on these banks' radar, the situation, if possible, worsened. The banks that were leaving were the ones that historically served them. Making it even more challenging is the geographical shift of debt providers from Europe to the U.S. and Asia mirroring the rise of alternative capital providers and leasing.

Controlling 60% of the global fleet in terms of units, SME owners (less than 20 vessels) have a strong need for alternative financing and direct asset-backed lending to grow and maintain their fleets. The latter is of particular interest to these owners as it often enables the non-recourse loans they prefer. The problem is that there is little overlap between alternative debt providers and SME owners, making deals difficult to source, unless there is an intermediary in-between. And that's where digital ship finance, generally, and Oceanis, in particular, come into play. Oceanis provides digital matchmaking, a standard process, low overheads and full market penetration.

The first version of the platform was launched in May 2019 with nine banks and six funds signed up. The first project comprised a fifteen-year-old Panamax bulk carrier with a 50% LTV requirement. Fast forward to today, more than35 projects with 47 vessels have been uploaded on the platform comprising transaction volume in excess of $500 million. Loan volumes range from $2 million to $65 million, with LTVs ranging between 40% to 80 percent. Funding sources now onboard number 38, including 12 banks and 26 alternative investment funds ("AIF"), with the latter mainly comprising lessors and debt funds. There are a further ten in the immediate pipeline. Ultimately, they hope to attract financial institutions which are not currently active in shipping to the platform as it develops deal flow as well as legal and analysis support. Examples of transactions are shown in the chart below.

Oceanis Sample Transactions

Vessels	Financing	Loan Amount ($M)	LTV	Financiers	Owner
2x MR Product Tankers	Acquisition	$28	~80%	Alternative Debt Provider	Private -Greece
Supramax Bulker	Refinancing	$10	~75%	Alternative Debt Provider	Private - Singapore
LPG Carrier	Acquisition		~50%	Traditional Shipping Bank	Private - Greece
2 x Post-Panamax Containerships	Refinancing	$50	~65%	Traditional Shipping Bank	Private - Germany

How does it work? Actually, it is quite simple. Prospective borrowers go online and upload their project, providing details on the ship, including vessel details, involved manager operating expenses, drydocking status, employment and fee structure. Once uploaded, the ship owner can expect to receive multiple offers within five to ten days. Ideally, the customer will receive four to five indications from various providers which would offer different terms depending on the source – bank, debt fund or leasing company. The offers can be benchmarked, the most attractive one can be chosen, and the term sheet signed. Negotiation and funding are concluded, for the moment, off the platform.

Similarly, lenders sign up online to join Oceanis' debt provider network and set their lending parameters. To protect the platform, participants are required to execute a master non-disclosure agreement and a non-circumvent agreement. Once approved, they receive standardized debt requests from vetted shipowners. Upon seeing a deal that fits its risk profile and lending parameters, the lender can provide indicative terms on a digital term sheet, enter into bilateral negotiations, approve the credit and subsequently sign the loan agreement.

As the company is in its beginnings, the revenue model is commission based, with revenue mainly derived upon the closing of the transaction. In the future, the company hopes to evolve from simply a matchmaker to a real facilitator of transactions. The first step will be to implement credit analysis, negotiation and loan documentation tools.

The KPIs for the first three months are telling and speak to a great response from the marketplace:

- 3 hours – Fastest received indication for $6 million of volume
- $65 million – Largest received indication, which was $5 million above the client's request
- $500 million+ - Total amount of sourced indications
- Every project received at least one financing indication
- $12 billion – Total available debt capital of on-boarded financial institutions
- 45% - Non-European financial institutions signed up.

Shipping has always been a capital-intensive industry. Moreover, despite the long-lived nature of the assets, refinancing requirements are substantial, as tenors rarely exceed five years with substantial balloons. To develop a sense of the market opportunity, the number of ships controlled by SME owners in Greece, Norway and Germany total 4,319. Assuming an average market value of $10 million and a 60% LTV, the total debt requirement of these SME owners is ~$26 billion. And lastly, Oceanis viewed the market opportunity based simply upon S&P transactions. In 2018 the total value of S&P transactions was $17.8 billion, of which SME owners' share was $11.6 billion. Based upon 60% leverage, the debt requirement for these transactions amounts to ~$7 billion. No matter how you look at it, the market has depth and offers opportunity and Oceanis is well-positioned to take advantage of it.

These Are Times That Try Company Balance Sheets

Forgive us for bastardizing Thomas Paine's famous quote, but these are challenging times for all. The economic collapse from COVID-19 has left companies bereft of revenues with survival dependent on cost-cutting or raising capital. The Norwegians have a simple and elegant solution. Built into the structure of Norwegian bonds is the capability to tap the issue, by providing a borrowing limit. Typically, issuers do not draw the full amount, leaving an amount that is authorized and available but not immediately placed with investors. The tap feature allows borrowers to sell bonds from past issues when they require the liquidity the sale of the issue would bring. The new bonds are issued at their original face value, maturity, and coupon rate, but sold at the current market price.

The **Color Group AS** was the first to issue new bonds under the tap feature since the pandemic began. Last week, the company successfully completed a tap issue of NOK 300 million of its floating rate senior unsecured bonds due in September 2022, bringing the total outstanding amount to its full borrowing limit of NOK 1,000 million. The bonds were priced at 85% of par value, reflecting credit investors view of the risk. With the coupon on the bonds set at 3-month NIBOR + 3.20%, the discounted price implies a spread of approximately 1000 bps. The net proceeds from the bond tap issue will be used for general corporate purposes. Details of the transaction are shown on the following page.

Established in 1990 in Oslo, **Color Group** is the parent company of Norway's largest short-sea shipping company, Color Line. A leading Northern European cruise and ferry franchise, the company, in 2019, transported about 3.9 million passengers, 961 thousand cars, 177 thousand trucks and 2,460 FTEs, with daily frequent departures to Sweden, Denmark and Germany. With four routes, the company calls at six ports utilizing its fleet of seven vessels. Color Line operates in two segments offering quality cruises and efficient transportation. In the case of the former, two fully-fledged cruise vessels offer a complete cruise experience on the journey from Oslo to Kiel, Germany. Its transport business operates five vessels between Norway and Denmark/Sweden focusing on passenger transportation, freight and shopping. Color Group is privately owned by O N Sunde AS ("ONS"), which acquired the company in 1999.

With a resilient business model, the company has historically generated highly stable revenues and strong operating cash flow. From 2009, revenues remained relatively flat at ~NOK 4.5 billion through

2015, when they began to rise in 2016 with the strategic shift towards attracting higher margin consumer groups. From 2009 through 2014 EBITDAR showed slight but steady declines as competition increased. With the implementation of a new digital platform, cost initiatives, an improved refund scheme for seafarers and a new pricing strategy, EBITDAR, beginning in 2014, improved 60.5% from NOK 735 million to almost NOK 1.2 billion in 2017. Total revenues in 2019 were NOK 5.3 billion with total EBITDAR equal to NOK 1.1 billion. The decline in the latter was attributable to a 7.4% increase in OPEX, a result of mainly one-offs.

Despite increasing leverage, the result of the issuance of COLG16 and the delivery of the MS Color Hybrid, debt remains manageable. Total interest-bearing debt equals NOK 6.4 billion, split between secured bank borrowing of ~NOK 2.3 billion, unsecured bonds of NOK 3.2 billion and lease obligations of NOK 0.9 billion. As a counterbalance, the company has a total liquidity reserve of NOK 1.9 billion including cash (NOK 399 million), and available drawing rights and liquid securities, which are sufficient to cover 2020 debt repayments by 1.6x. NIBD/EBITDA is higher at 5.5x versus 4.2 in 2018 and the equity ratio has declined to 19.8% from 24.1% in 2018.

As a seasonal business, the timing of the pandemic could have been worse as Color Lines' revenue is largely seasonally skewed to the second half of the year. Still, the financial impact will be substantial as the situation continues. The company has cancelled all passenger sailings but continues to operate the freight business. To offset revenue losses, extensive cost-cutting measures have been implemented including layoffs and salary reductions. As a candidate for government support measures, the company could benefit from state guaranteed liquidity loans and cost coverage.

Arctic's Anna-Karin Hempel assesses the credit:

Credit Strengths
- Non-cyclical business
- Leading market position with high barriers to entry
- Modern and efficient fleet
- Fully funded

Credit Weaknesses
- Uncertain financial impact of COVID-19
- Increased competition
- Private company
- Shareholder-friendly dividend policy

For Ms. Hempel, it is all about the duration of COVID-19, but the company's solid liquidity reserve provides much comfort.

Arctic Securities acted as manager in connection with the placement of the bond tap issue.

Guts Of the Deal - Tap Issue

Issuer	Color Group AS
First Tranche	NOK 700,000,000
Tap Issue	NOK 300,000,000
Borrowing Limit	NOK 1,000,000,000
Notes Offered	Senior Unsecured Bonds
Coupon	3-Month NIBOR + 3.20%
Issue Price	100.00%
Bond Tap Issue Price	85.00%
Maturity Date	23-Sep-2022
Term	2.5 years
Amortization	Repaid in full at the maturity date at 100% of par
Optional Redemption	Non-callable
Guarantor	Color Line AS
Ranking	Parri passu with all other senior obligations of the issuer other than those mandatorily preferred by law.
Security	Unsecured
Undertakings	Mergers/de-merger restriction, continuation of business requirement, disposal of business and operations restrictions, arm's length transactions provisions, corporate status, compliance with laws and reporting requirements etc.
Special Covenant	Negative pledge for amounts exceeding 60% of Group's consolidated Total Assets.
Financial Covenants	Minimum Book Equity of NOK 1 billion.
Event of Default	Includes standard event of default provisions, including cross-default on any financial indebtedness of any group company subject to a carve-out of the highest NOK 10MM or 1% of the Issuers book equity.
Dividends	Not restricted
Change of Control	Put at 101%
Use of Proceeds	General corporate purposes
Manager	Arctic Securities
Governing Law	Norwegian
Incorporation	Norway
Listing	Oslo Bors
Ticker	COLG14
Trustee	Nordic Trustee

Market Commentary

The Lay of the Land

Marine Money's monthly "Ship Finance Market Conditions" survey of the world's top 40 shipping banks reveals just how COVID-19 is affecting the business of ship lending in terms of new deal flow, the performance of existing transactions and the bank's internal capital allocation and risk appetite.

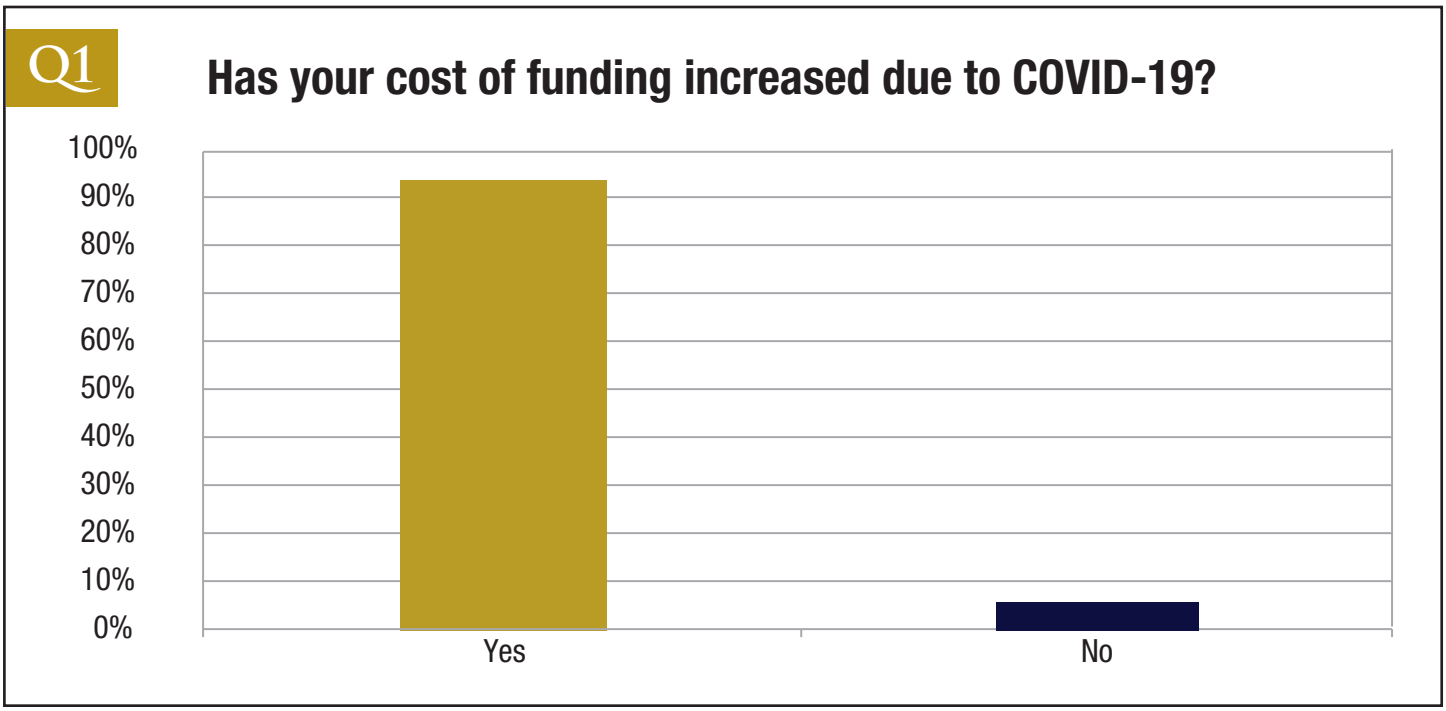
COVID-19: Funding Costs Increase, Deal Flow and Loan Problems Don't

With capital markets unstable, 95% of commercial banks report an increase of funding costs since the pandemic hit, but 87% of them have been able to pass those increased funding costs along to their borrowers. Although 95% of banks are open for new funding requests, only 20% of banks are seeing an increase in deal flow other than drawdowns of existing facilities.

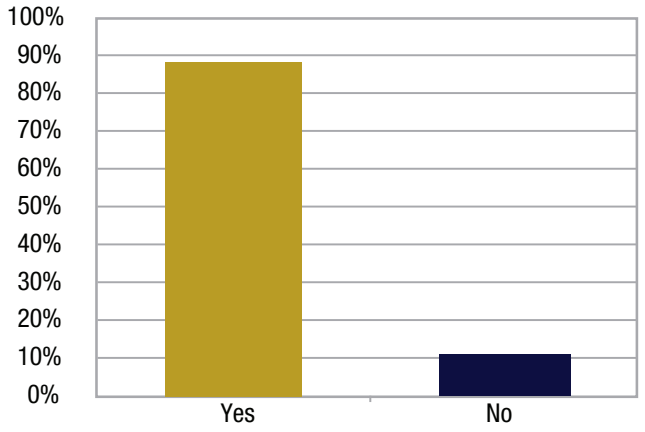
With respect to existing deals, the damage has been minimal. Although 60% of lenders have received COVID-19 related covenant waiver requests, only 5% of lenders have rejected them. ZERO banks have invoked the Material Adverse Change clause (MAC) to prevent an approved transaction from being drawn down and only 5% of banks report having a deal impacted by Force Majeure.

Going forward, the majority of surveyed shipping banks believe COVID-19 will be negative for shipping demand growth with 90% forecasting neutral to negative impact. As a result of the ongoing global health crisis, 50% of banks have modified how capital allocation decisions are being made but only 25% have changed their lending guidelines.

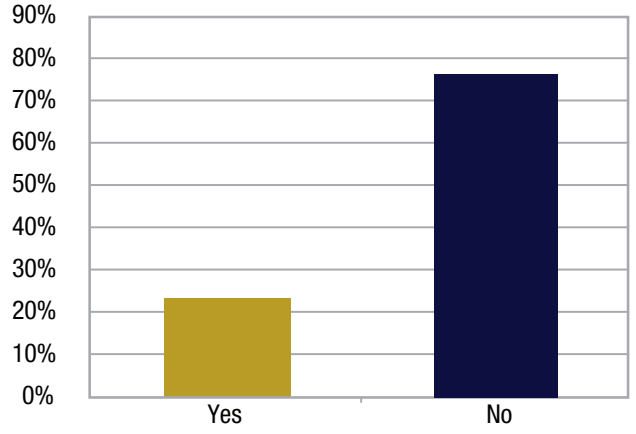
The data, which will be collected monthly and presented in time series format, indicates that the commercial elements of ship finance have not yet been significantly impacted by COVID-19, although bankers and institutions most certainly have.



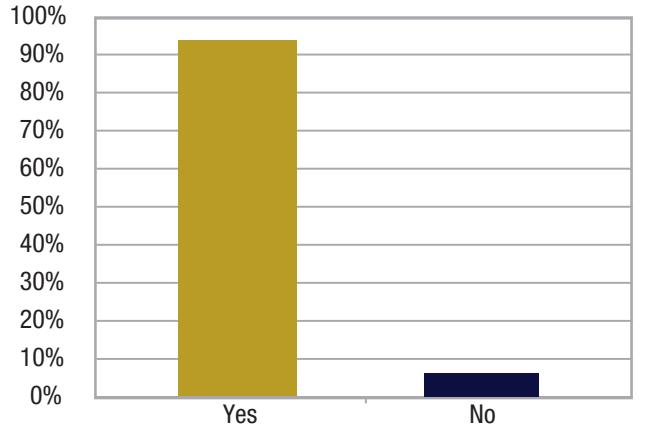
Q2 If yes, are you passing the increased cost on to clients?



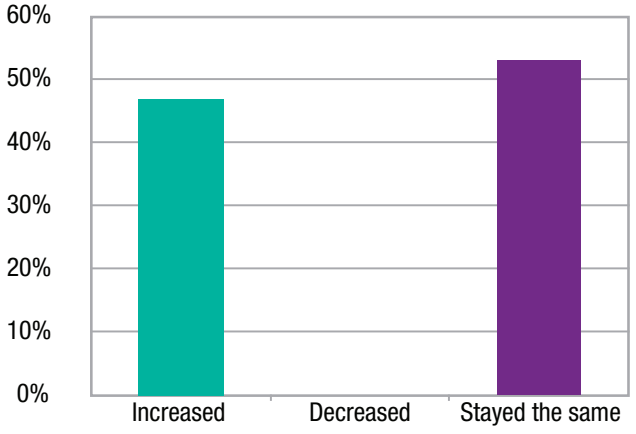
Q3 Are you seeing an increase in inquiries for financing?



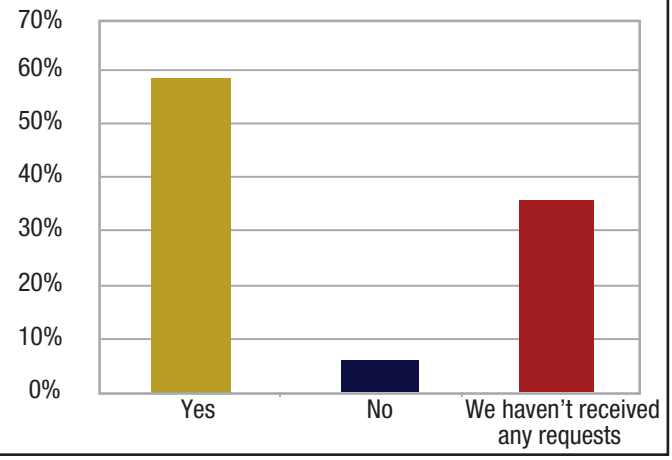
Q4 Are you currently approving new funding requests?



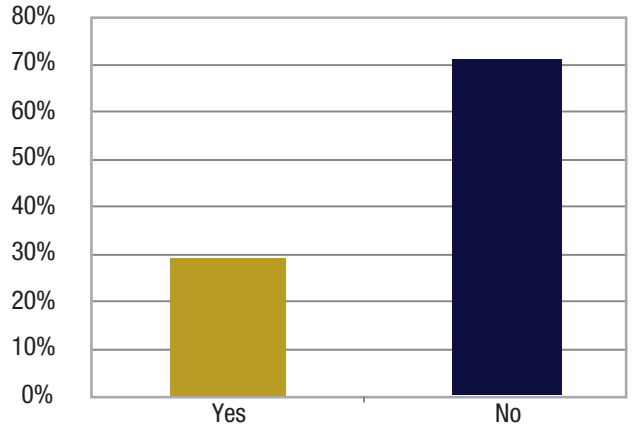
Q5 Drawdowns on Our Undrawn Facilities Have:



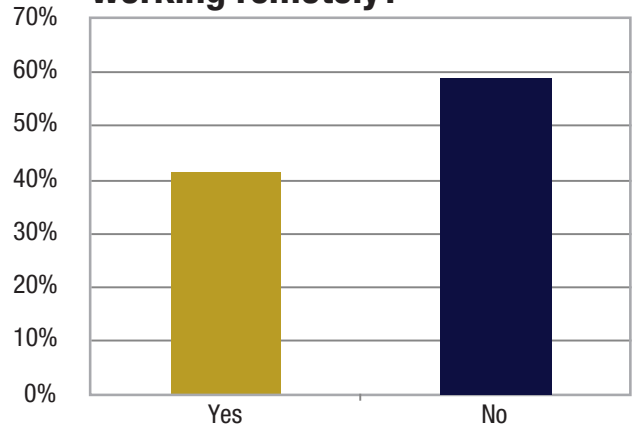
Q6 Have you accommodated requests for COVID-19 covenant waivers?



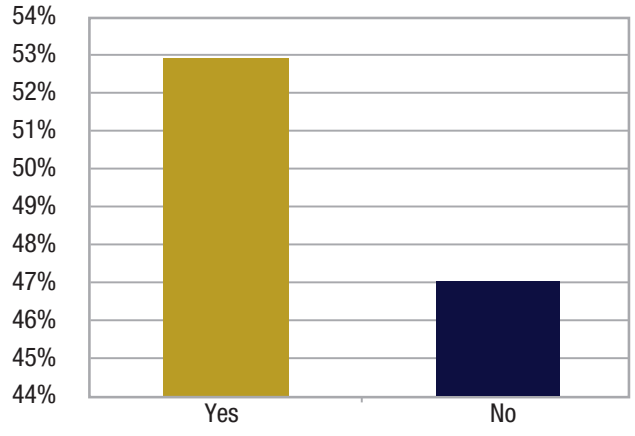
Q7 Have you changed your lending guidelines?



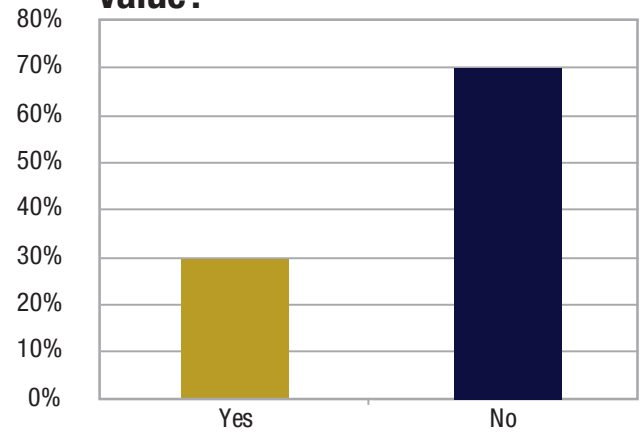
Q8 Are decision making periods extended due to people working remotely?



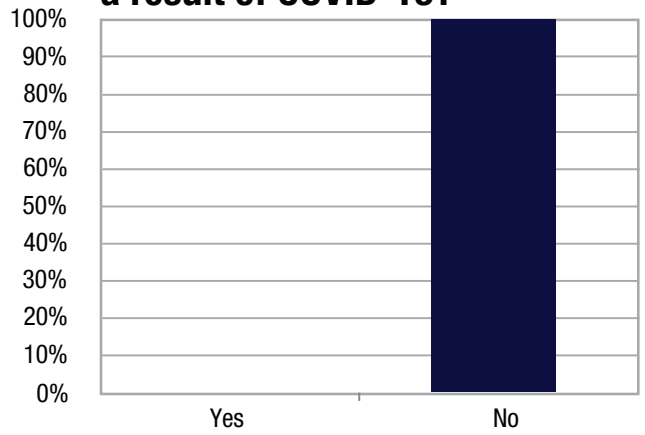
Q9 Have capital allocation decisions been modified?



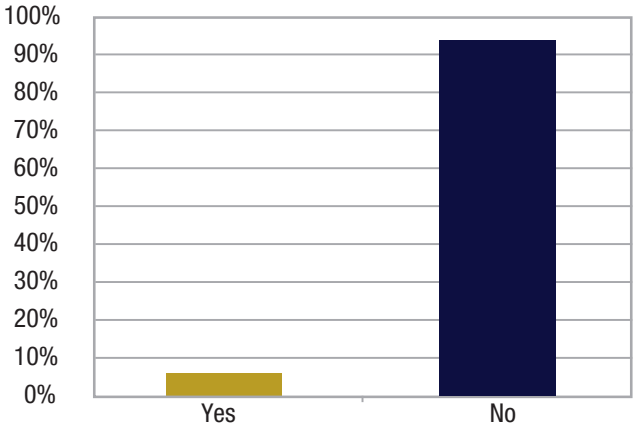
Q10 Do you believe current ship valuations accurately reflect value?



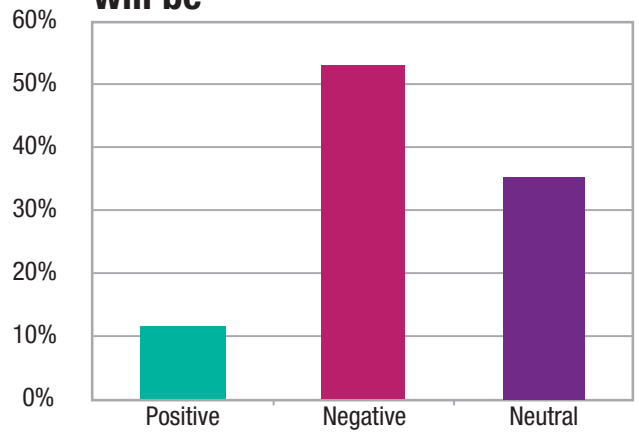
Q11 Have you invoked Material Adverse Change (MAC) as a result of COVID-19?



Q12 Have any of your transactions involved Force Majeure?



Q13 The long-term impact of coronaviruson shipping demand will be



Life Post-COVID-19

That COVID-19 has become the torrent of desperate news these past weeks is to put it lightly. And it will likely be the case for weeks to come. Some countries however seem to be over the worst, they hope, and many countries are considering opening up their economies to varying degrees in the coming days and weeks. Who knows, by the Fall we may be nearing a level of normality apart from social distancing which will stay in place until a vaccine is found. Our pace of life will likely stutter as we continue to reduce outings and travel and stay more at home.

In a recent analysis UBS Wealth Management Chief Investment Office considered a look at the world post-COVID-19. Not perhaps in 3 – 6 months from now but in the years ahead. The central three points raised by UBS are that the world will have more indebtedness, it will be less global, and it will be more digital, and governments, corporates and individuals will have to adjust. Indeed, investors too will have to contend with higher taxation, financial repression, and moderately higher inflation, along with populism and protectionism, while navigating the transitions from global to local supply chains, and from physical to digital.

Looking at each theme individually:

Debt levels will be much higher

At the end of the current crisis debt will be much higher because of the massive fiscal spending plans implemented to date and perhaps with more to come. The UBS report estimates that government debt as a percentage of GDP could be 15–25% higher by the end of 2021 than it was at the end of 2019 across much of Europe and in the US. This is similar to the scale of the increase seen between 2007 and 2010 as a result of the global financial crisis, although the starting point now is much higher.

UBS states that how governments finance this debt will vary across regions, but common factors will be financial repression, higher taxation and moderately higher inflation

The world will be left less global

The UBS report states that the COVID-19 lockdown has been an unprecedented experiment in extreme localization, with many individuals banned from even leaving their own homes. Although such measures will not be long term, the world will be left structurally less global by the crisis, providing a further catalyst to the trend of de-globalization. In such a less global world, it is likely we will see more populism, more protectionism and more localization.

Lasting changes from lockdown

Lockdown measures across the globe have caused individuals and companies to change the way they live and work and buy and sell goods and services. The big winner has been digital technology allowing life to exist remotely from each other and from our place of work in many instances. UBS believes that whilst it is likely that most individuals and businesses will return to previous ways of working as lockdown measures are lifted, it is likely that there will be some lasting changes including greater digital adoption, less sharing and more intense health technology.

We hear from the news and from government spokespeople that the new normal will be unlike the old normal. This is hard to swallow but almost certainly will be the case. The pandemic itself and the measures put in place to fight it and to shore up the global economy mean that going forward the world will be a changed place. Thank you UBS Wealth Management Chief Investment Office for the insight into some of the new realities ahead.

WINNERS AND LOSERS

VesselsValue

VesselsValue provide latest market intelligence as well as valuation, designed to help existing and potential shipping investors better quantify risk, improve reporting and identify opportunities. VesselsValue products are used by the world's leading commercial and investment banks, private equity, investment and hedge funds, ship owners and operators, traders, lawyers, accountants and brokers.

30/04/2020

THIS WEEKS WINNERS					THIS WEEKS LOSERS				
Dry					**Dry**				
Type (dwt)	Week Change $*	Year Change $*	Annual Volatility*	YoY Volatility Change*	Type (dwt)	Week Change $*	Year Change $*	Annual Volatility*	YoY Volatility Change*
Cape (180k)	$0.09	-$6.87	5.40%	0.72%	Supra (60k)	-$0.05	-$1.79	3.74%	-0.79%
					Panamax (80k)	-$0.04	-$4.36	7.53%	2.61%
					Handy (30k)	-$0.02	-$0.60	9.24%	5.17%
Wet					**Wet**				
Type (dwt)	Week Change $*	Year Change $*	Annual Volatility*	YoY Volatility Change*	Type (dwt)	Week Change $*	Year Change $*	Annual Volatility*	YoY Volatility Change*
					VLCC (310k)	-$0.44	$3.40	5.02%	2.40%
					Suezmax (160k)	-$0.25	$3.66	4.46%	1.45%
					LR1 (75k)	-$0.17	$3.91	5.65%	0.37%
					Aframax (110k)	-$0.09	$3.81	6.19%	2.69%
					MR2 (50k)	-$0.08	$0.31	3.90%	0.86%
Container					**Container**				
Type (dwt)	Week Change $*	Year Change $*	Annual Volatility*	YoY Volatility Change*	Type (dwt)	Week Change $*	Year Change $*	Annual Volatility*	YoY Volatility Change*
					Panamax (4,250)	-$0.34	-$13.26	29.23%	22.94%
					Sub Pmax (2,500)	-$0.24	-$1.57	4.25%	-0.75%
					Handy (1,400)	-$0.18	-$2.21	3.29%	-2.40%
					P-Panamax (7,000)	-$0.08	$1.63	2.33%	-17.04%
					Feedermax (750)	-$0.08	-$0.71	6.13%	0.00%

*The $ change in value is for standard specification resale vessels from top quality yards over the previous week or year

** "Volatility" is calculated as the standard deviation of the changes in values across the rolling calendar year (expressed as a %)

*** "Volatility trend" is the change in volatility over the previous rolling calendar year

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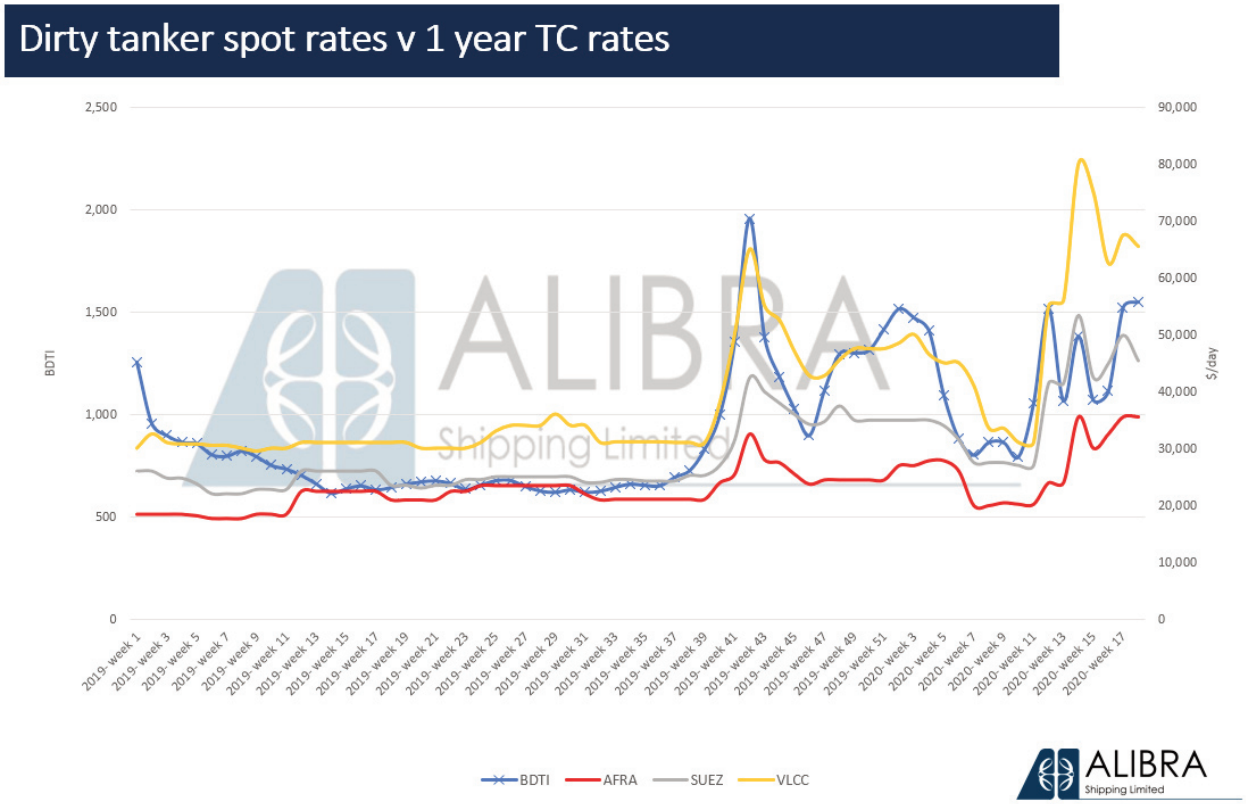
Tankers

Although crude rates have experienced a slight correction in the past few days after hitting a three-month high at the end of last week when the Baltic Dirty Tanker Rate (BDTI) hit 1550 points, it has still been a very strong week for the tanker market. Many period fixtures have been reported, particularly for VLCCs with the focus around the 6-month mark, most interest has been centred around three to six-months with a maximum period of one year. We continue to see increased interest in short term period fixtures with storage options and as such we expect tanker demand to continue in the near future as the imbalance between oil supply and demand persists. Alibra estimates that the average rate for a VLCC for one year is currently $65,500/pdpr, more than double the levels seen this time last year.

The clean market also remains very firm with continued interest in short term MR and LR2 fixtures up to one year, as demand for clean storage continues to surge. The average rate for an LR2 for one-year has moved up $3,000 since last week and is currently estimated as $38,000/pdpr.



By Rebecca Galanopoulos Jones – Commercial analyst, Alibra Shipping Ltd.

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MARINE MONEY FORUM SCHEDULE 2020/2021

MARINE MONEY FORUMS AND CONFERENCES

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September 3, 2020	13th Ann. Hong Kong Ship Finance Forum	Hong Kong
September 22, 2020	13th Ann. Superyacht Finance Forum	Monaco
September 22-23, 2020	19th Ann. Marine Money Week Asia	Singapore
September 23, 2020	Marine Money at UN Climate Week	New York City
September 2020 TBA	22nd Ann. Norway Ship & Offshore Finance Forum	Oslo
October 6, 2020	22nd Ann. Greek Ship Finance Forum	Athens
October 21, 2020	4th Marine Money Cyprus Forum	Limassol
October 21, 2020	Brazil Offshore Finance Forum	Rio de Janeiro
October 2020 TBA	Maritime Finance Lecture & Dinner Reception	Tokyo
November 11-12, 2020	Marine Money China Ship Finance & Offshore Summit	Shanghai
November 19, 2020	21st Ann. Ship Finance Forum	New York City
November 25, 2020	16th Ann. Gulf Ship Finance Forum	Dubai
November 2020 TBA	14th Ann. Korea Ship Finance Forum	Busan
January 22, 2021	12th Ann. London Ship Finance Forum	London
February 2021 TBA	20th Ann. German Ship Finance Forum	Hamburg
May 5, 2021	10th Ann. Houston Offshore Finance Forum	Houston, TX
June 21-23, 2021	33rd Ann. Marine Money Week	New York City

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Pro Membership ☐ One year: $1490 ☐ Two years: $2,533 ☐ Three years: $3,756

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Credit Card # _____ ☐ Amex ☐ Mastercard ☐ Visa ☐ Diners Club

Credit card security code – 3 or 4 digit number located on the back of card _____

Expiration _____ Signature _____

4 easy ways to process your membership…

FAX your completed form to +1 (203) 406-0110. We will acknowledge your fax with an invoice.

PHONE +1 (203) 406-0106. We accept American Express, Master Card, Visa and Diner Club.

MAIL your completed form, along with a check in USD drawn on a bank with a US branch, to:
International Marketing Strategies, Inc.,
100 First Stamford Place, 6th Floor, Stamford, CT 06902 USA.
Please make checks payable to International Marketing Strategies, Inc.
in US dollars drawn on a bank with a US branch.

ONLINE. https://www.marinemoney.com/join

For membership details email jchia@marinemoney.com For billing details email egrevatt@marinemoney.com