

# US funds poised to fill KG void

## German shipowners are exploring co-operation with US private equity

PATRICK HAGEN – COLOGNE

US PRIVATE equity companies could become a viable financing alternative to the barren KG market for German boxship owners very soon, a German ship finance specialist said.

“At the moment, many shipowners are checking alternative sources of equity as the traditional models have lost their competitiveness to some extent,” Dirk Lammerskötter, member of the executive board at HSH Corporate Finance, told Lloyd's List. HSH Corporate Finance is the advisory arm of ship financier HSH Nordbank.

Five or six German shipping companies are exploring the possibilities of co-operation with private equity companies, said Mr Lammerskötter. HSH Corporate Finance is involved in some of the talks. Among these were long-established companies as well as new and more innovative firms. “However, the talks are still at an early stage,” he said.

In the past, German tramp owners have very much relied on private investors who have provided equity for shipping investments via the KG market. This market collapsed during the economic crisis and has not recovered since. “The KG market is not dead,” said Mr Lammerskötter, “but it is very unlikely that it will return to its previous state.”

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***Dirk Lammerskötter,  
HSH***

He added that the volume of equity collected on the market will probably be below €1bn (\$1.4bn) in the medium term. In comparison, during the boom year 2007 the market saw more than €3bn in equity being provided by private investors. At the moment, however, the amount is below the €1bn threshold.

Private equity considered German shipping companies as potential investments at the height of the financial crisis. However, at that time funds had expected that they could buy ships at huge discounts.

Private equity companies have since learned that it was not possible to achieve returns of more than 10% to 15% from the active business, said Mr Lammerskötter. Some were prepared to accept this as they believe that ship values are still comparatively low, which would offer the possibility of additional returns.

“For owners, the entry of US private equity companies is bringing an alternative to traditional schemes, but this alternative does not come for free,” Mr Lammerskötter warned.

Shipowners will have to say goodbye to the passive investors they were used to in the past. Private investors have only limited influence in the daily business of running a vessel.

In addition, investors will expect a lot more transparency from owners. “They will have to open up to monthly reporting and an open dialogue with the investor,” Mr Lammerskötter said.

Private equity companies expect that shipowners also invest their own funds.

“This can be vessels, which are then brought into a new company,” Mr Lammerskötter said. The more an owner invests, the easier the talks with private equity companies are.

The funds are especially interested in boxships as they believe that the segment has disproportionately high growth prospects, Mr Lammerskötter said. ■

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