McKinsey meets Burke, Georgiopoulos and Toepfer

Contributed by

Barry Parker

Barry Parker is a financial writer and analyst. His articles appear in a number of prominent maritime periodicals including Lloyds List, Fairplay, Seatrade, and Maritime Executive and Capital Link Shipping.

One of the challenges of being a shipping writer, analyst, and sometime pundit is that I know a great deal about the maritime business and something about other transport modes , but struggle to get beyond the interfaces of vessels and the broader business "hinterland". So , imagine my delight when an e-mail arrived from McKinsey- the well -known consultant, with a link to a report called "Creating value in transportation and logistics." Coming on the heels of Marine Money's 2015 Ship Finance Forum, which I had planned to review here, this high level checklist on mainstream transport businesses offered a set of mainstream benchmarks, a lens, if you will, for discussing maritime finance.

Cutting to the chase, the McKinsey folks offered a set of boxes, which when checked off, then mixed and shaken, connote success (as measured by "value creation"- as defined by a handful of listed company metrics). The transport business is described as one where: "The sector's checkered history of value creation is counterbalanced by compelling lessons from successful players in a range of transportation and logistics industries, both pre- and post-crisis. For all of the upheaval facing the sector, a number of powerful megatrends will create unprecedented opportunities to enter new markets and redefine existing business models. " Maybe yes, maybe no; we'll get back to those boxes in a minute.

At the Marine Money conference, tankers offered a high note- in particular, the presence of Ridgebury Tankers dominated the room, with its Chief Financial Officer , Hew Crooks, acting as Conference Chair, and its CEO, Bob Burke, effectively taking the role of conference keynote speaker. Among companies mentioned, Tsakos Energy, DHT and Euronav were noted as beneficiaries of the strong tanker markets. Many of the sessions, mostly sans Powerpoint, were inspired by the style of well-known TV personality Charlie Rose (a graduate of Duke University), who sits and "chats" with his guests. The most notable chat saw Mr Burke being interviewed by Scorpio Group's Robert Bugbee (who then appeared on a panel later in the day with investor Wilbur Ross, where he expressed delight at the six Diamond S ships which recently joined the Scorpio MR pool). The Burke interview, clearly the highlight of an excellent day, delved into philosophy as much as actual tactics- with Burke emphasizing the need to continually network and talk to as many people as possible.

In a year that seen a dearth of marquee deals, the conversation at the conference was dominated by two tanker transactions- a $150 million private equity raise by Burke's Ridgebury (going towards a quartet of VLCC's), and the successful IPO (raising $236 million, if the Greenshoe is added in) by Peter Georgiopoulos's Gener8 Maritime. Honorable mention went to Alterna Capital's "American Phoenix" deal, cited as an example of a successful exit, at the Jones Act's zenith. Timing is everything; the once heady U.S coastal trades have eased considerably since earlier in the year.

A big-picture speaker, Mark Williams, Head of Research at Affinity Shipbrokers, noted that tanker market development had exceeded earlier already bullish forecasts, and he waxed enthusiastic on the oil sector, noting increased demand from emerging markets, and growing distances in the tanker trades. Gas was also given high marks, with "plenty of projects", and the advent of LNG bunkering.

But back to our theme, McKinsey's description of the pangs and stomach rumbling and then the recipe ingredients to satiate this hunger includes the following ingredients (the bold is mine): Shifting growth patterns, Megacities and emerging trade routes, Shared transportation: New solutions from unexpected competitors, The future is now: The digital frontier ,The race for efficiency: Burdening capex as a prerequisite for competitiveness, Rules of the game: The impact of deregulation on growth and competition, Size matters: Consolidation and cooperation across the network, Turbulent times: Increased volatility of demand and input factors.

What does it take to win? Five ingredients for value creation- Be agile in resource allocation and reallocation, Resolve the asset dilemma, Make your digital transformation a success story, Develop programmatic M&A and cooperation capabilities, and- finally, Manage for an uncertain world.

OK. Some of these ingredients are trite, and others are too techie- we can save transformative Big Data for a skewering in a future article. But certain parts of McKinsey clearly do comport with Marine Money.

The consultants opine: "As industries consolidate and competition increases, M&A is a core competency for transport and logistics companies. At the same time, traditional and innovative approaches to cooperation are increasing opportunities to work together to leverage scale and realize synergies." Compare this with Peter G's take on consolidation. As he was interviewed by Seward & Kissel partner Gary Wolfe and Jefferies bank Jeff Pribor, Mr. Georgiopoulos explained that larger capitalization companies (with more shares trading) are required because money managers "…need to put bigger numbers to work…" and that shipping companies need to get to $5 billion capitalizations. In a downturn, he explained further, financial buyers could go for big company shares- rather than ordering newbuilds.

The consultants opine: "A through-cycle procurement strategy is also required to overcome pro-cyclical asset purchases that create vicious cycles of capacity influx in times of lower demand. An understanding of the enormous efficiency gains in the newest equipment models helps avoid the 'asset trap'... A shipping line has saved five percentage points (sic) on the costs of adding new asset capacity relative to competitors by consistently better timing its vessel purchases through the cycle for the last 15 years, thereby avoiding having to pay the substantial price premium that is charged during 'order booms.' " Bob Burke, in his chat, offered that: "…at a certain price we'll transact- buy or sell…" and, on selling, "I think to make real money, you have to decide- I am all out," a reference to selling an entire fleet. In discussing the recent acquisition of four older VLCC's, he said, "…we are always looking for value."

So, shipping is full of surprises, and conference attendees know this. Therefore, drybulk attracts more attention than it might otherwise (though not from Bob Burke)- based on dour forecasts on China, iron ore and coal. One pleasant countercyclical surprise came from ING Bank, with Managing Director Adam Byrne saying: "This year, we've been active supporters of the drybulk industry." Speaker Christoph Toepfer, who runs Borealis Maritime (with support from investor KKR), invoked behavioral economics (which does not enter into the McKinsey playbook), in his discussion of the crowd-defying nature of shipping, "If we all believe it's going to be good, it won't happen…and if everyone thinks it will be bad for the next five years, it's actually the opposite…." Toepfer suggested that his fund (now in its third money raise) has gained dry cargo exposure through a bank portfolio <coming out of Commerzbank> it acquired, adding, "…at this point in the cycle, we were actually reasonably happy to take some dry cargo exposure."