Finding Focus: 2015 / 2016 Container Shipping Outlook
Disclaimer – Important Information Regarding this Presentation

- This Finding Focus: 2015 Container Shipping Outlook presentation ("Presentation") was prepared by AlixPartners, LLP ("AlixPartners") for general information. DISTRIBUTION OF THE PRESENTATION IS STRICTLY CONFIDENTIAL AND NON-RELIANCE BASIS AND SUBJECT TO THE PROVISIONS OF THIS DISCLAIMER. No one in possession of this Presentation may rely on any portion of this Presentation. The recipients of the Presentation accept that they will make their own investigation, analysis and decision relating to any possible transactions or investment and will not use or rely upon this Presentation to form the basis of any such decisions. Accordingly, no liability or responsibility whatsoever is accepted by AlixPartners and its employees, partners or affiliates for any loss whatsoever arising from or in connection with any unauthorized use of the Presentation.

- This Presentation may be based, in whole or in part, on projections or forecasts of future events. A forecast, by its nature, is speculative and includes estimates and assumptions which may prove to be wrong. Actual results may, and frequently do, differ from those projected or forecast. Those differences may be material. Items which could impact actual results include, but are not limited to, unforeseen micro or macro economic developments and/or business or industry events.

- The information in this Presentation reflects conditions and our views as of this date, all of which are subject to change. We undertake no obligation to update or provide any revisions to the Presentation to reflect events, circumstances or changes that occur after the date the Presentation was prepared. In preparing this Presentation, AlixPartners has relied upon and assumed, without independent verification, the accuracy and completeness of all information available from public sources or which was otherwise provided to us. AlixPartners has not audited or verified the data reviewed in connection with the preparation of this report.

- The Presentation is incomplete without reference to, and should be viewed solely in conjunction with, the oral briefing provided by AlixPartners which forms part of the Presentation.

- Neither the Presentation nor any of its contents may be copied, reproduced, disseminated, quoted or referred to in any presentation, agreement or document with or without attribution to AlixPartners, at any time or in any manner other than for the internal use of the recipient, without the express, prior written consent of AlixPartners.
## Agenda

- Introduction to AlixPartners
- Update on Container Industry Supply & Demand Dynamics
- Overview of Financial Results
- Focus on Core Business
- Question & Answer

Please read and review the Important Information in the Disclaimer on page 2 of this Presentation
Who We Are

Turn to AlixPartners when it really matters.

We’re a global firm of senior business and consulting professionals with:

- An international presence
- More than 1,500 professionals
- 26 Global offices staffed by experts who know the local markets

In urgent, high-impact situations, we specialise in:

- Executing corporate turnarounds
- Improving corporate financial and operational performance
- Providing litigation consulting and forensic accounting services
Our Experience in the Transportation Sectors

Transportation Companies: Advisory & Interim Management

- Help clients boost EBITDA, sustainably improve overall performance, and if necessary, complete financial restructuring
- Experienced in trucking, ocean, air, freight forwarding, third party logistics, intermodal, warehousing, ports and distribution industries
- Serve in C-level positions and as advisors

Transportation Buyers: Freight Optimization & Organization Design

- Reduce costs through sourcing, distribution footprint changes and supply chain optimization. Have sourced over $15 billion of freight spend
- Create logistics organizations & implement transportation management technologies

Recognized Industry Experts

- Council of Supply Chain Management Professionals
- Transpacific Maritime Conference
- Journal of Commerce and several logistics periodicals
- Wall Street analyst conferences
- American Trucking Association

Please read and review the Important Information in the Disclaimer on page 2 of this Presentation
Brian Nemeth  
**Director**  
**Hong Kong**  
+852.6392.3510  
bnemeth@alixpartners.com

Brian is based in Hong Kong and has more than fourteen years of industry experience within the global shipping, freight forwarding, and 3PL industries. He has a track record of success in helping clients strategically improve their performance. In addition to international transportation expertise, Brian has had extensive general supply chain experience in a variety of industry sectors.

Brian’s experience from both sides of the shipping /shipper relationship, provides unique insights for both asset heavy and asset light companies within the industry.

Prior to joining AlixPartners, Brian held various positions in the United States, Hong Kong, and Vietnam within the A.P. Moller-Maersk Group.

- Led multiple work streams on a US Chapter 11 filing for a ship owner who’s fleet includes bulkers, tankers, and RoRo vessels.
- Team lead on the restructuring of a large maritime project cargo carrier, identified over 20% in EBITDA improvements through cost reductions and revenue enhancement
- Led and implemented two work streams on a freight project that resulted in a 15% annual savings for a US manufacturer. Work streams included transportation spend, consolidation opportunities, and freight pricing structure.
- Led EBITDA improvement initiatives for a major break-bulk and project carrier resulting in multiple initiatives with expected EBITDA improvement of over 15%
- Project lead for an integrated end-to-end logistics solution enabling network optimization and improved asset utilization for the client’s product portfolio. Project pilot client obtained over 10% savings on freight movements.

Brian studied general business with a focus in logistics at University of Maryland. He has also completed his MBA from the New York University Stern School of Business.

He is a member of the Council of Supply Chain Management Professionals (CSCMP).
Agenda

› Introduction to AlixPartners

› Update on Container Industry Supply & Demand Dynamics

› Overview of Financial Results

› Focus on Core Business

› Question & Answer
Global Demand for Container Shipping has Languished in the Years Following the “Great Recession” of 2008/2009.

- WTO reduced 2014 estimate for global trade growth to 3.1%
- WTO reduced 2015 global trade growth forecast to 4%; well below historical average
- Forecasts for global container shipping demand vary from 5-7% growth in next few years
- Low or flat growth on major East/West container trades

YoY Change in Global Container Shipping Demand

Source: www.clarksons.net (September 2015)
Global Container Fleet Capacity is Expected to Grow More than 9% in 2015. Forecast Calls for Reduced Growth in 2015 and 2016.

Forecasts show global fleet capacity will continue to increase for years. Increasing share of the growth is dedicated to mega-vessels with 13K+ TEU capacity.
The Net Outcome Appears to be a Continuation of the Widening Gap Between Supply and Demand on a Global Basis.

Supply and Demand Growth

Global supply growth has outpaced demand for 8 of the last 10 years and looks set to continue in 2015.

Source: Alphaliner, Citi Research (December 2014)
Supply and Demand Imbalances Are Contributing to Depressed Rate Levels On Major Trades from China

Asia/Europe has been the hardest hit all year and with the resolution of the West Coast situation Transpacific rates have also dropped dramatically

Source: JP Morgan Research and, Shanghai Shipping Exchange (September 2015)
Persistent Industry Headwinds Have Driven Significant Changes in the Container Carrier Landscape.

- Alliances have grown in number and membership:
  - 2M formed by Maersk Line and MSC
  - Ocean Three formed by China Shipping, UASC and CMA CGM
  - Evergreen joined CKHY making it the CKHYE alliance
  - G6 with APL, Hapag, Hyundai, Mitsui, NYK, and OOCL
- CSAV combines with Hapag Lloyd – The first merger of top 20 lines in nearly a decade
- Rumors of additional high profile mergers and acquisitions in the news recently
- More capacity in fewer hands allows carriers to manage capacity levels
- Service strings have become longer with more port calls
- Slow steaming is the new norm despite lower fuel prices
- Continued manipulation of schedules, sailings, transit times

Industry should expect much of the same the rest of 2015 and 2016 as carriers continue to struggle with challenges stemming from oversupply and low rate levels.
• Fuel prices have seen further deterioration in recent months and have dropped below 50% of the 2014 levels

• Fuel represents 20-25% of a carriers expenses (Drewry)

BW 380 – Bunkerworld Index
(US$ per metric tonne)

Source: Bunker World
Agenda

› Introduction to AlixPartners

› Update on Container Industry Supply & Demand Dynamics

› Overview of Financial Results

› Focus on Core Business

› Question & Answer
While Carriers Should Expect to Find More Choppy Waters Ahead, the Eye of the Storm Appears to Have Passed.

Financial Summary

<table>
<thead>
<tr>
<th></th>
<th>USD Billions</th>
<th>YoY Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2012</td>
<td>2013</td>
</tr>
<tr>
<td>All Companies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>$199</td>
<td>$185</td>
</tr>
<tr>
<td>Total Debt</td>
<td>$111</td>
<td>$114</td>
</tr>
<tr>
<td>EBITDA</td>
<td>$18</td>
<td>$18</td>
</tr>
<tr>
<td>EBIT</td>
<td>$ 6</td>
<td>$ 6</td>
</tr>
<tr>
<td>CAPEX</td>
<td>$25</td>
<td>$21</td>
</tr>
<tr>
<td>Cash From Ops</td>
<td>$10</td>
<td>$15</td>
</tr>
<tr>
<td>OPEX</td>
<td>$192</td>
<td>$179</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Ratios</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>LTM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash from Ops/CAPEX</td>
<td>0.4</td>
<td>0.7</td>
<td>1.0</td>
<td>1.1</td>
</tr>
<tr>
<td>Debt/EBITDA</td>
<td>6.2</td>
<td>6.4</td>
<td>4.7</td>
<td>4.3</td>
</tr>
<tr>
<td>Opex as % of Revenue</td>
<td>97%</td>
<td>97%</td>
<td>94%</td>
<td>94%</td>
</tr>
<tr>
<td>EBITDA as % of Revenue</td>
<td>9%</td>
<td>10%</td>
<td>11%</td>
<td>12%</td>
</tr>
<tr>
<td>Cash from Ops as % of Revenue</td>
<td>5%</td>
<td>8%</td>
<td>11%</td>
<td>9%</td>
</tr>
</tbody>
</table>

Sources: AlixPartners research based on publically available financial reports

Please read and review the Important Information in the Disclaimer on page 2 of this Presentation
Debt Levels Remain High but Have Been Checked after Three Successive Years of Growth.

- Significant asset sales have helped carriers to de-lever.
- EBITDA has grown since 2012 as carriers have reduced operating expenses.
- Generally high leverage still poses risks in commoditized market with volatile EBITDA.

**Total Debt to EBITDA Ratio**

<table>
<thead>
<tr>
<th>Year</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>2.7</td>
</tr>
<tr>
<td>2011</td>
<td>4.6</td>
</tr>
<tr>
<td>2012</td>
<td>6.2</td>
</tr>
<tr>
<td>2013</td>
<td>6.4</td>
</tr>
<tr>
<td>2014</td>
<td>4.7</td>
</tr>
<tr>
<td>LTM (June, 2015)</td>
<td>4.3</td>
</tr>
</tbody>
</table>

Sources: AlixPartners research based on publically available financial reports.
Margins Remain Tight, a Position Many Anticipate to be Sustained in an Increasingly Commoditized Market.

Supply/demand imbalance will make it difficult to improve margins through top-line growth.

Sources: AlixPartners research based on publically available financial reports

Please read and review the Important Information in the Disclaimer on page 2 of this Presentation
Industry-wide Cost-cutting Initiatives Appear to Be Bearing Fruit, Although CAPEX Has Not Been Entirely Curbed.

- Cash from ops has increased to $20B in 2014 compared to just $10B in 2012
- As percentage of revenue, cash from operations is over 10% in 2014
- Cash from operations had been showing a steady improvement over the last 3 years
- Carriers continue to require outside funding to pursue investments

Sources: AlixPartners research based on publically available financial reports
* 16 carriers were used in this analysis
Interest Coverage is Marginally Improving as Carriers Rationalize Spending and Draw Down Debt.

The industry appears to have started out on the long journey back to stability.

Sources: AlixPartners research based on publicly available financial reports
* 16 carriers were used in this analysis
The Carrier Sector Remains in Distress, in Spite of Green Shoots.

- Altman Z-score indicates risk of bankruptcy based on five ratios that can be found in a company’s 10K.
- The industry as a whole is improving at a slow clip.
- Many carriers continue to suffer from sustained losses and a heavily eroded balance sheet.

Altman Z-Score For Publically Traded Carriers

<table>
<thead>
<tr>
<th>Year</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>1.97</td>
</tr>
<tr>
<td>2011</td>
<td>1.44</td>
</tr>
<tr>
<td>2012</td>
<td>1.3</td>
</tr>
<tr>
<td>2013</td>
<td>1.07</td>
</tr>
<tr>
<td>2014</td>
<td>1.26</td>
</tr>
<tr>
<td>LTM (June, 2015)</td>
<td>1.37</td>
</tr>
</tbody>
</table>

Grey Area: Distress

Sources: AlixPartners research based on publically available financial reports.

Please read and review the Important Information in the Disclaimer on page 2 of this Presentation.
Agenda

- Introduction to AlixPartners
- Update on Container Industry Supply & Demand Dynamics
- Overview of Financial Results
- Focus on Core Business
- Question & Answer
Carriers Continue to Demonstrate Commitments to Big Ship Investment but have Reigned Back Spending in Other Areas.

- Total debt of listed carriers is steadily decreasing which is a welcome sign.
- Global fleet capacity continues to grow.
- Carriers are avoiding new investment in non-core activities and exiting past investments, using the proceeds to reduce debt.

Sources: AlixPartners research, Alphaliner
Carriers are Applying Heightened Scrutiny to Business Activities and Enhancing Balance Sheets Through Divestment of Peripheral Assets.

- Terminal acquisitions are picking up after a few years of relatively little activity
  - Dedicated terminals no longer sought after
  - Valuations incentivize monetizing assets
  - 2007/8 investment now reaching maturity; first round investors seeking exits
- Scale is required to cater to larger ships
  - Volume base required to support CAPEX demands
  - Peak factor issues mitigated by flexibility borne of scale
  - Mergers, or at least collaboration between terminals anticipated in North America
  - Cross-port collaboration in shared markets
- Institutional investors attracted by ports
  - Significant levels of un-deployed capital
  - Terminals continue to offer sustained returns with moderate exposure to economic cycles to long-term investors
  - Valuations are below 2007/2008 peaks
- Forwarding/logistics businesses once considered a “must have” for carriers are now being sold off
  - Some shippers are wary of carrier-affiliated forwarder making it difficult to achieve the synergies that existed
- Recent forwarder transactions are fetching attractive EBIT multiples
  - Most publically traded forwarders trade at 13-16X EBIT
  - CH Robinson paid 13X EBIT for Phoenix International
- There are active buyers for forwarding businesses
  - APL Logistics recently sold to Kintetsu for $1.2B; 15X EBITDA
  - Toll acquired by Japan Post for $5B; a 50% premium on the company’s share price
  - Other strategic and financial investors are looking for deals

Sources: AlixPartners research, JOC.com, American Shipper.com, TransportIntelligence.com
Agenda

› Introduction to AlixPartners

› Update on Container Industry Supply & Demand Dynamics

› Overview of Financial Results

› Focus on Core Business

› Question & Answer
AlixPartners is a leading global business advisory firm of results-oriented professionals who specialize in creating value and restoring performance at every stage of the business lifecycle. We thrive on our ability to make a difference in high-impact situations and deliver sustainable, bottom-line results.

The firm’s expertise covers a wide range of businesses and industries whether they are healthy, challenged or distressed. Since 1981, we have taken a unique, small-team, action-oriented approach to helping corporate boards and management, law firms, investment banks, and investors respond to critical business issues. For more information, visit alixpartners.com.

AlixPartners. *When it really matters.*