

# Navigating a Future for Container Shipping

Assessing the Impact of Consolidation and the Way Forward for the Industry

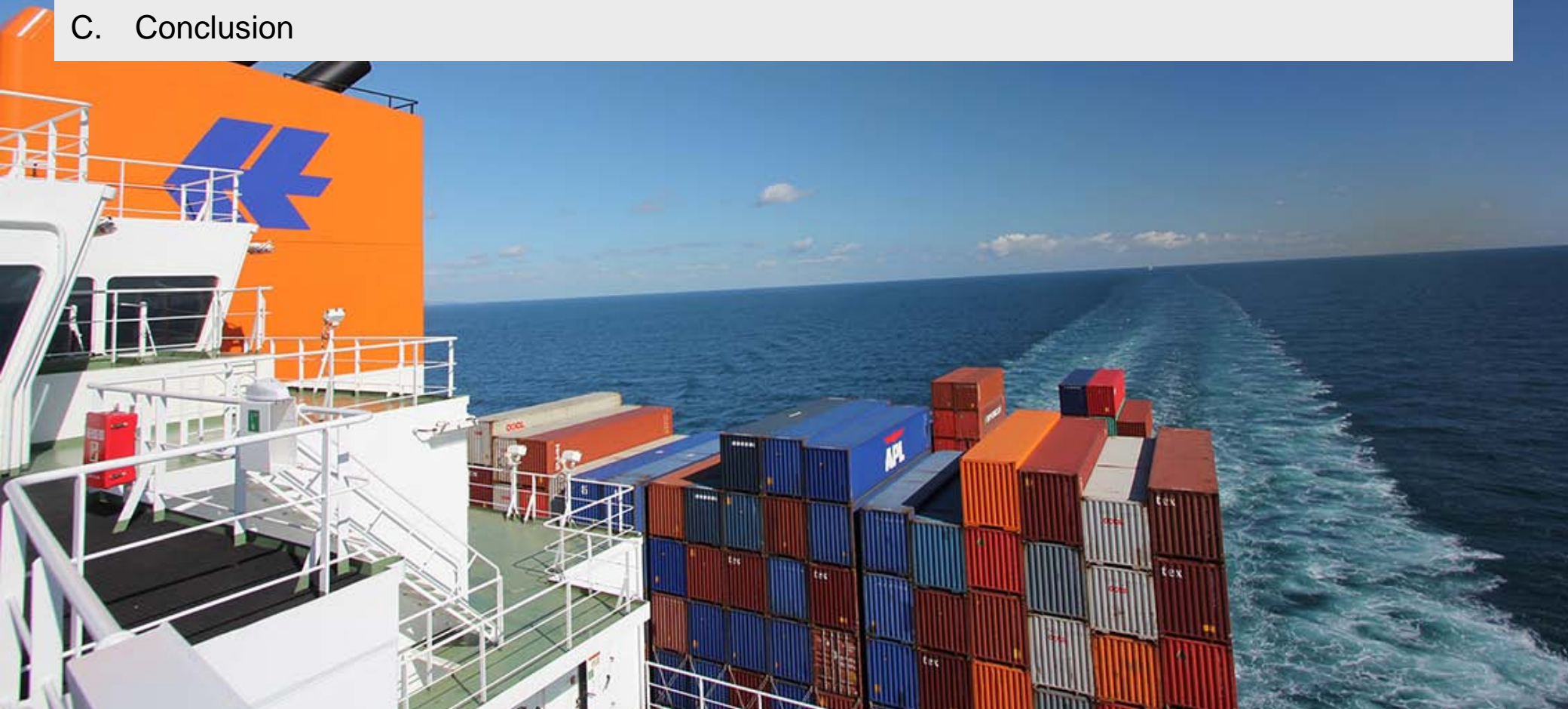
Anthony Firmin, 21<sup>st</sup> April 2015, Hamburg



## A. Consolidation in the Liner Shipping Industry

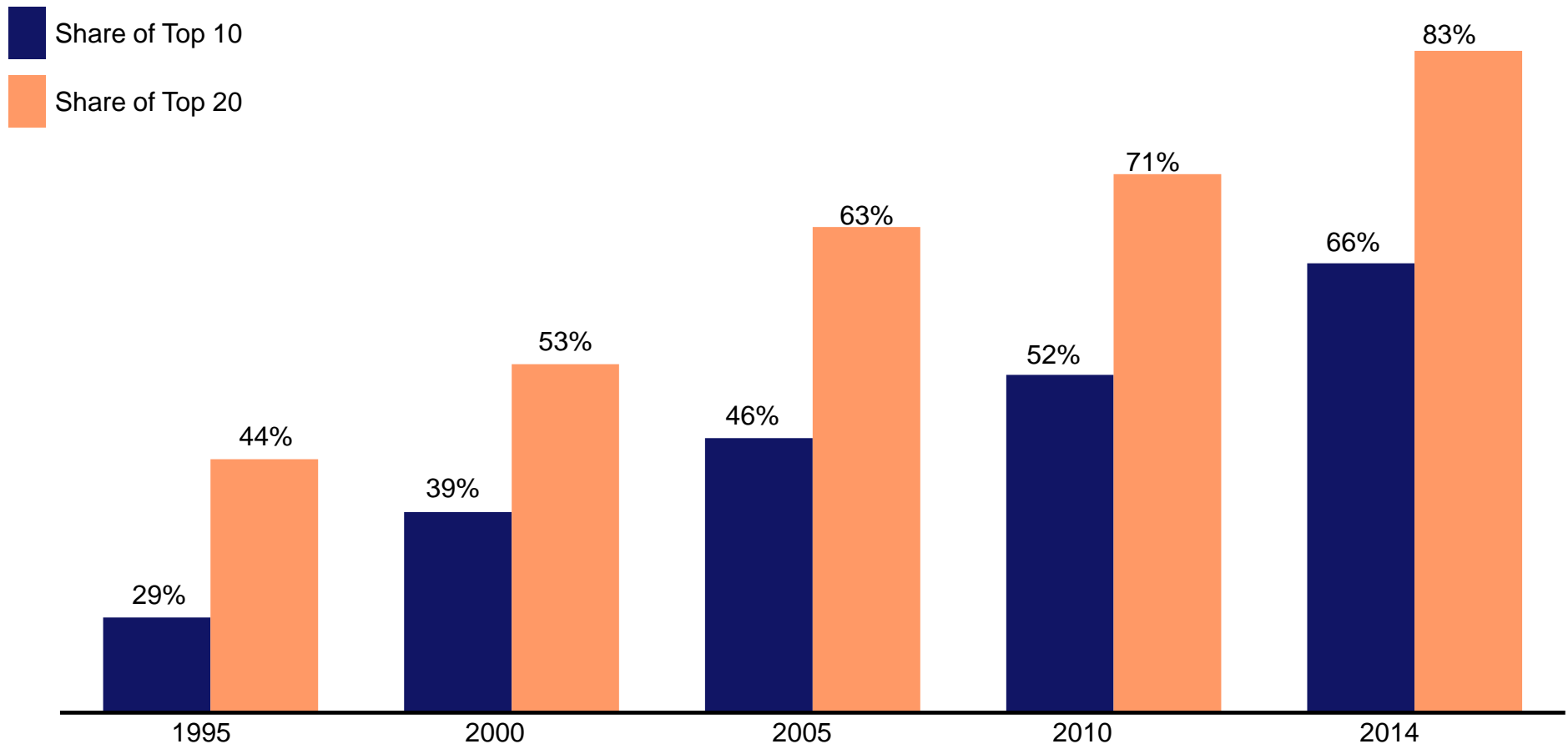
B. The Way forward for the Industry

C. Conclusion



# The market share of the top players in our industry has grown steadily – but actual consolidation has remained slow

## Total Market Share of the Top 10 / Top 20 Companies

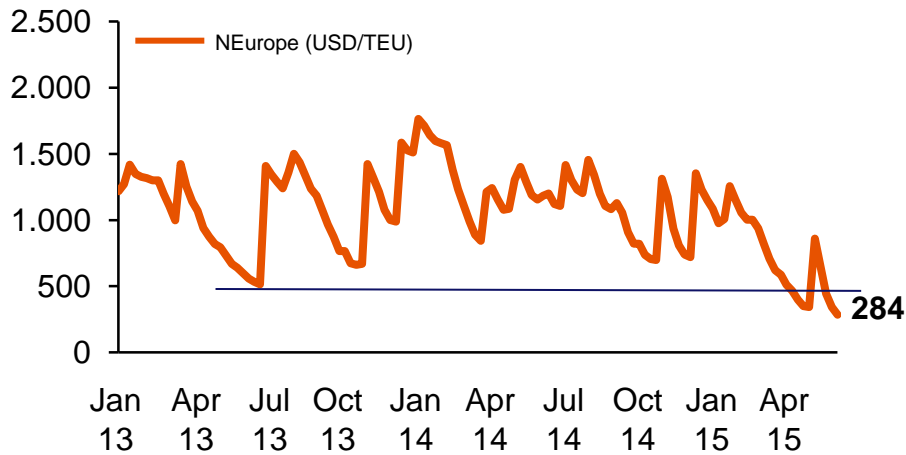


Source: MDS Transmodal

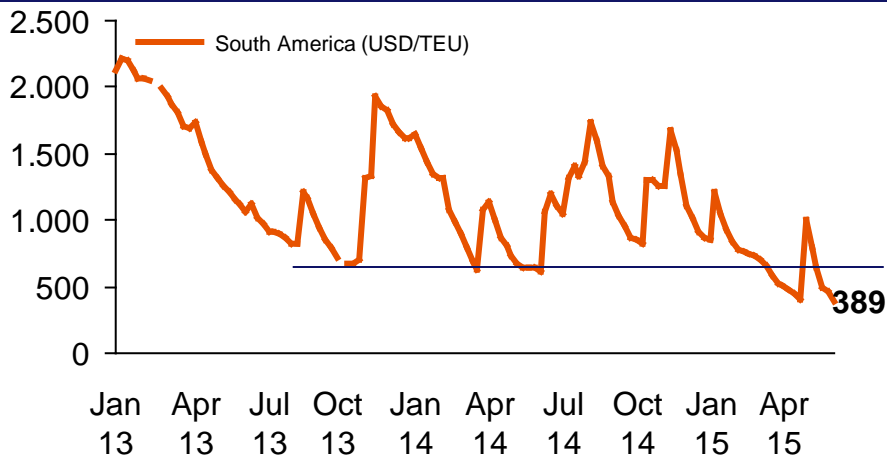


# The industry remains highly competitive in an exceptionally volatile market – and further Consolidation is needed ...

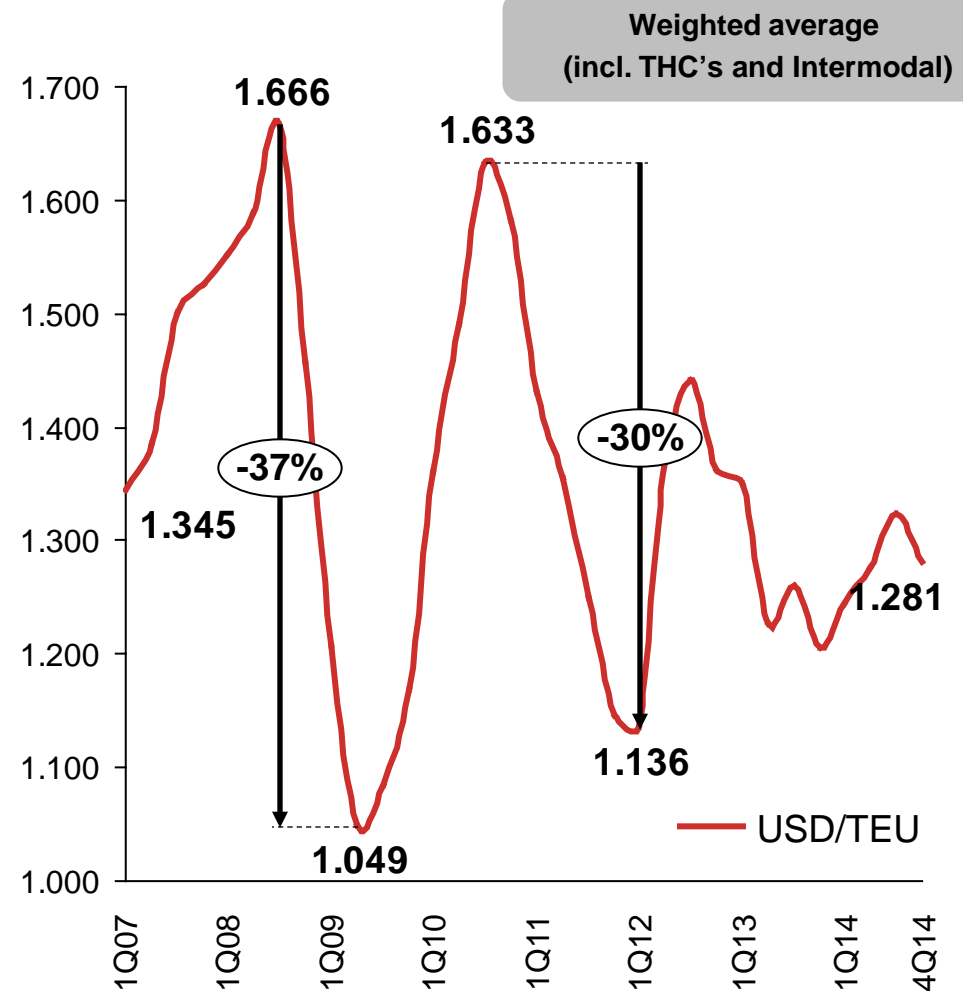
## Shanghai – Europe (SCFI)



## Shanghai – Latin America (SCFI)



## Rates East West Trades 2007-2014



... but M&A activity over the last 19 Years has been limited to a few major deals – two by Hapag-Lloyd in 2005 & 2014

### No major M&A Deals between 2007 and 2013

Year	Acquisitor	Target
1996	P&O	Nedlloyd
1996	CMA	CGM
1997	Hanjin	DSR Senator
1997	NOL	APL
1998	Evergreen	Lloyd Triestino
1998	Hamburg Süd	Alianca
1999	Maersk	Safmarine
1999	Hamburg Süd	Transroll Nav.S.A.
1999	Maersk	Sea-Land
2000	CSAV	Norasia
2002	Hamburg Süd	Ellerman
2003	Hamburg Süd	Kien Hung Shipping Co.
2005	Maersk	Royal PONL
2005	CMA CGM	Bollere (Delmas)
<b>2005</b>	<b>Hapag-Lloyd</b>	<b>CP Ships</b>
2007	Hamburg Süd	Costa Container Lines

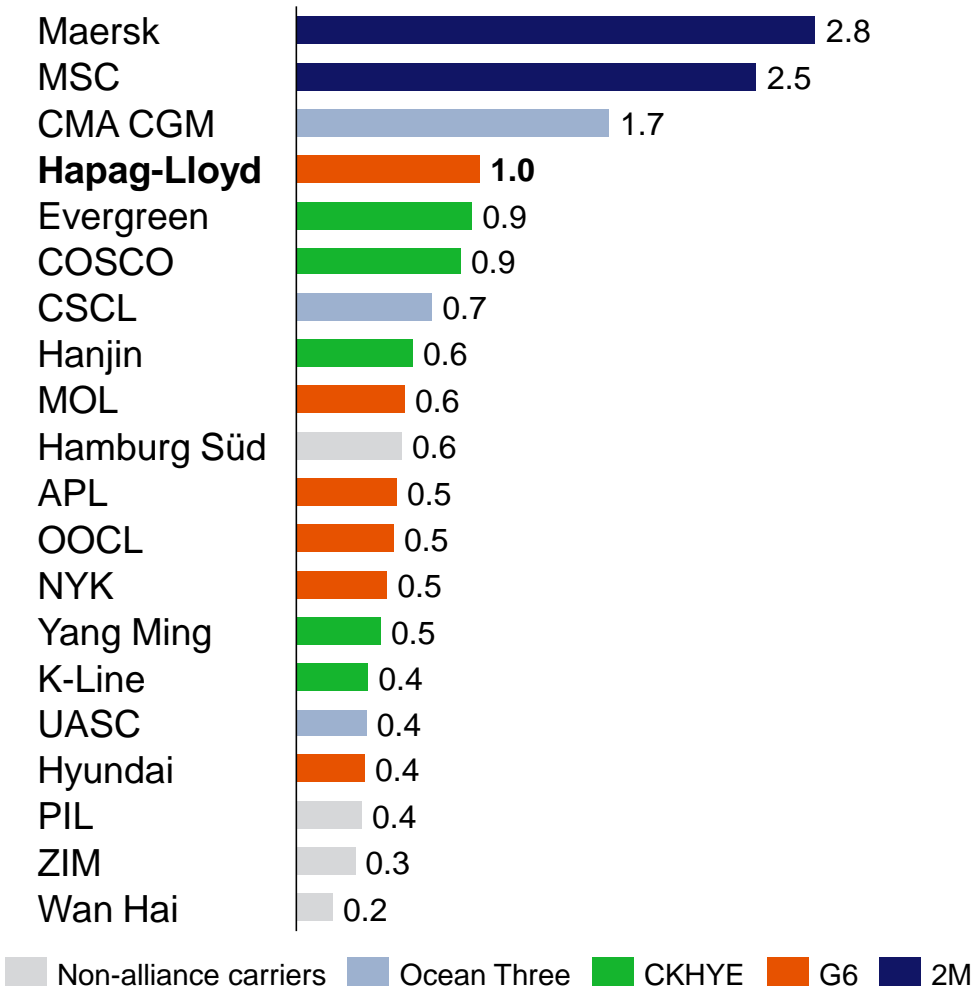
Year	Acquisitor	Target
<b>2014</b>	<b>Hapag-Lloyd</b>	<b>CSAV</b>
2014	Hamburg Süd	CCNI
2015	CMA CGM	OPDR

### Reasons for low M&A Activity

- Ownership Structure
- Value Misconception
- Cultural Challenges
- Post Merger Integration Risks

# Alliances are the best available alternative, given the reluctance to cede control

## Top 20 – Fleet [m TEU] & Alliance



- Alliance members share assets, but remain competitors (vessels are shared but sales, pricing and marketing stay independent)
- Benefits of Alliances:
  - Select the most economical vessels for each trade lane
  - Reduce investment otherwise required to run a service
  - Expand the product to offer more flexibility to the customers.
- Four key Alliances in liner shipping leave only four small carriers without partnership
- The members do not necessarily put all of their portfolio into the Alliance

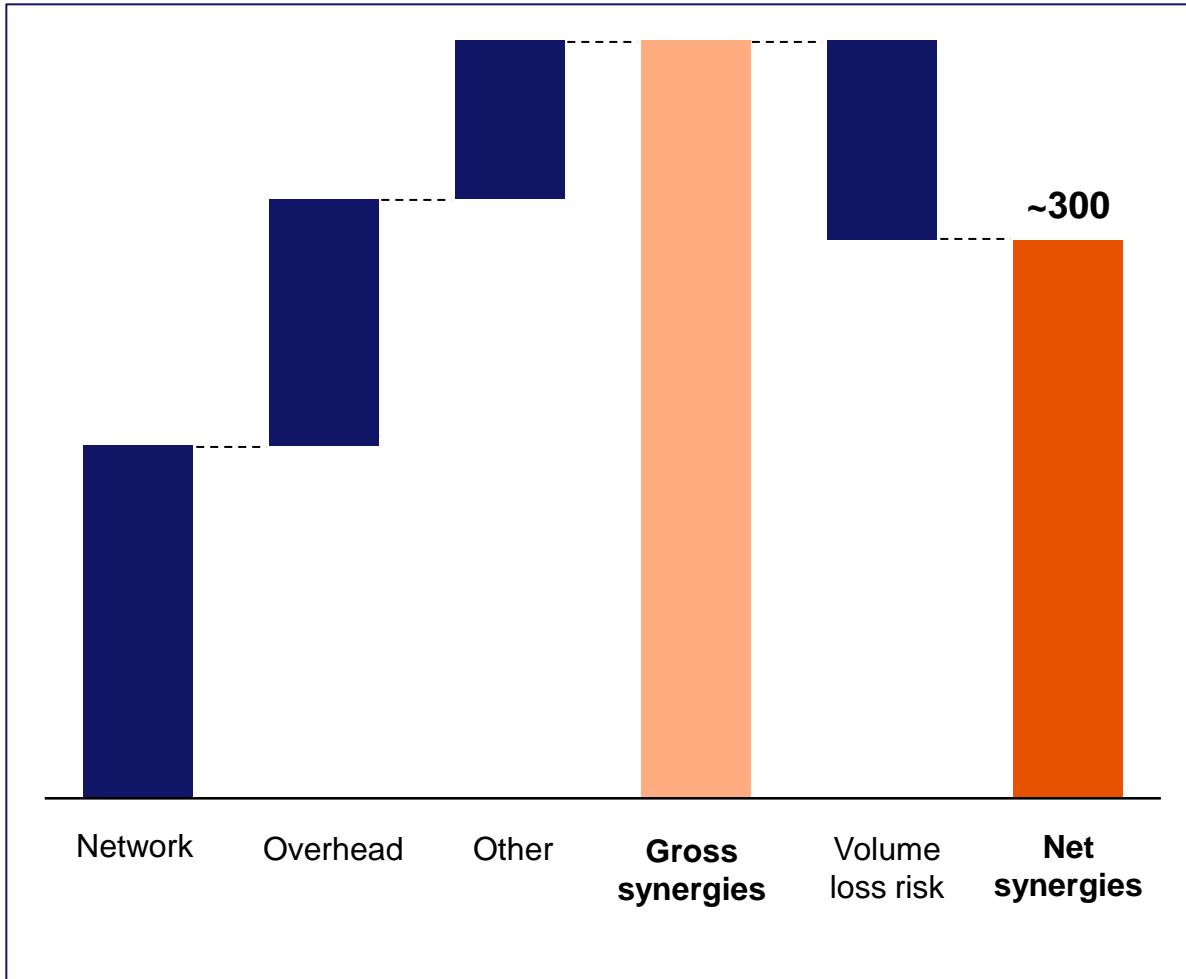
# The Merger of Hapag-Lloyd and CSAV was an exception!



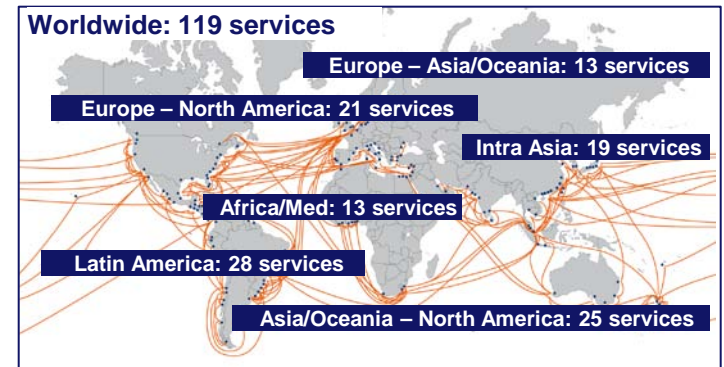
Container  
Shipping

		New Hapag-Lloyd	
Turnover 2013	~6,5 bn EUR	8.5 bn EUR	~2.0 bn EUR
Transport Vol. 2013	5.5 Mio. TEU	7.4 Mio. TEU	1.9 Mio. TEU
Vessels	147 (760 TTEU)	191 (1 Mio. TEU)	44 (238 TTEU)
Average Fleet Age	8.7 years	7.8 years	5.0 years
Staff	~7,000	~11,000	~4,000
Container Fleet	~1,2 Mio. TEU	~1,7 Mio. TEU	~500,000 TEU
Founded	1847	>300 Years Experience	1872

## Synergies of approx. USD 300 m p.a.

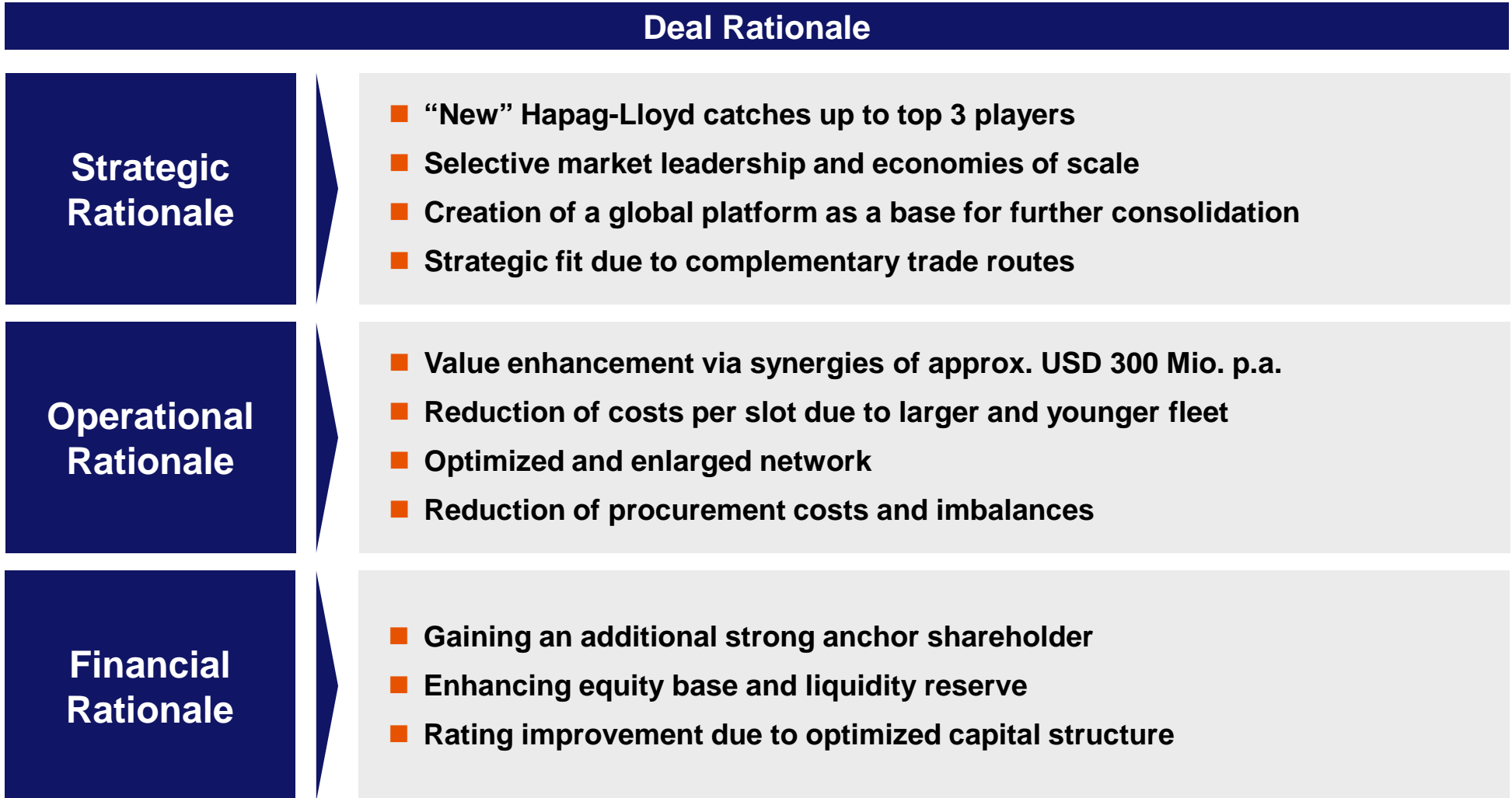


## Optimized and enlarged network



- Convincing Synergies
- Niche Services
- Complementary Market Shares
- Balanced Global Presence





A. Consolidation in the Liner Shipping Industry

**B. The Way forward for the Industry**

C. Conclusion





**What is the Way forward for our Industry  
if Consolidation is not a realistic Option?**

# Alliances are the only alternative

	Standalone	VSA	“Conventional” Alliance	Value added Alliance	Integrated Alliance	Merger
Description / Structure	<ul style="list-style-type: none"> <li>Fully independent operations</li> </ul>	<ul style="list-style-type: none"> <li>Share vessel capacity on one or more services</li> </ul>	<ul style="list-style-type: none"> <li>+ Share capacity and coordinate in all/part of ocean network</li> </ul>	<ul style="list-style-type: none"> <li>+ Land-side coordination</li> </ul>	<ul style="list-style-type: none"> <li>+ Joint ops (land &amp; sea) on joint systems</li> </ul>	<ul style="list-style-type: none"> <li>+ Full/partial integration of companies</li> </ul>
Benefits	<ul style="list-style-type: none"> <li>✓ Full control</li> <li>✓ No sharing of scale, other benefits</li> </ul>	<ul style="list-style-type: none"> <li>✓ Less capex</li> <li>✓ Broader reach</li> </ul>	<ul style="list-style-type: none"> <li>✓ + Joint network planning</li> <li>✓ + Best ship</li> </ul>	<ul style="list-style-type: none"> <li>✓ + Land-side cost savings</li> </ul>	<ul style="list-style-type: none"> <li>✓ + Operational and system optimisation</li> </ul>	<ul style="list-style-type: none"> <li>✓ + Sales and pricing synergies</li> <li>✓ + Corporate overhead savings</li> </ul>
Risks/Costs	<ul style="list-style-type: none"> <li>✗ On your own</li> </ul>	<ul style="list-style-type: none"> <li>✗ Loss of flexibility</li> </ul>	<ul style="list-style-type: none"> <li>✗ + Loss of control / decision making</li> </ul>	<ul style="list-style-type: none"> <li>✗ + Partner selection</li> <li>✗ + Hard to reverse</li> </ul>	<ul style="list-style-type: none"> <li>✗ + Regulation</li> <li>✗ + Integration costs</li> </ul>	<ul style="list-style-type: none"> <li>✗ + Transaction risk</li> <li>✗ + Integration costs</li> </ul>
Examples	<ul style="list-style-type: none"> <li>Standalone niche player</li> </ul>	<ul style="list-style-type: none"> <li>Common model</li> </ul>	<ul style="list-style-type: none"> <li>Current G6</li> </ul>	<ul style="list-style-type: none"> <li>Future G6?</li> </ul>	<ul style="list-style-type: none"> <li>P3 (rejected)</li> </ul>	<ul style="list-style-type: none"> <li>HL &amp; CSAV</li> </ul>

Organizational simplicity

Increasing synergies

## Possible Areas for a more integrated landside Collaboration

### Terminals

- Pool Terminal Operations – especially on US WC
- Allow multiple terminals to operate as close as possible to being one large terminal

### Rail

- Combine Intermodal Operations
- Operational and contractual interface with rail companies
- Co-ordination to realise trucking/repositioning savings and improve rail carrier car balance

### Trucking

- Trucking and Truck Dispatch
- Plan movement of all carrier controlled drayage, thereby increasing roundtrip utilization
- Negotiate common trucking contracts, taking advantage of the scale



## Objectives of a stronger Integration within the Alliances

### Goals

- Achieve a competitive cost base across combined operations
- Reduce the operational complexity of Alliances which is currently a disadvantage
- Act as a single entity where possible, but without a merger

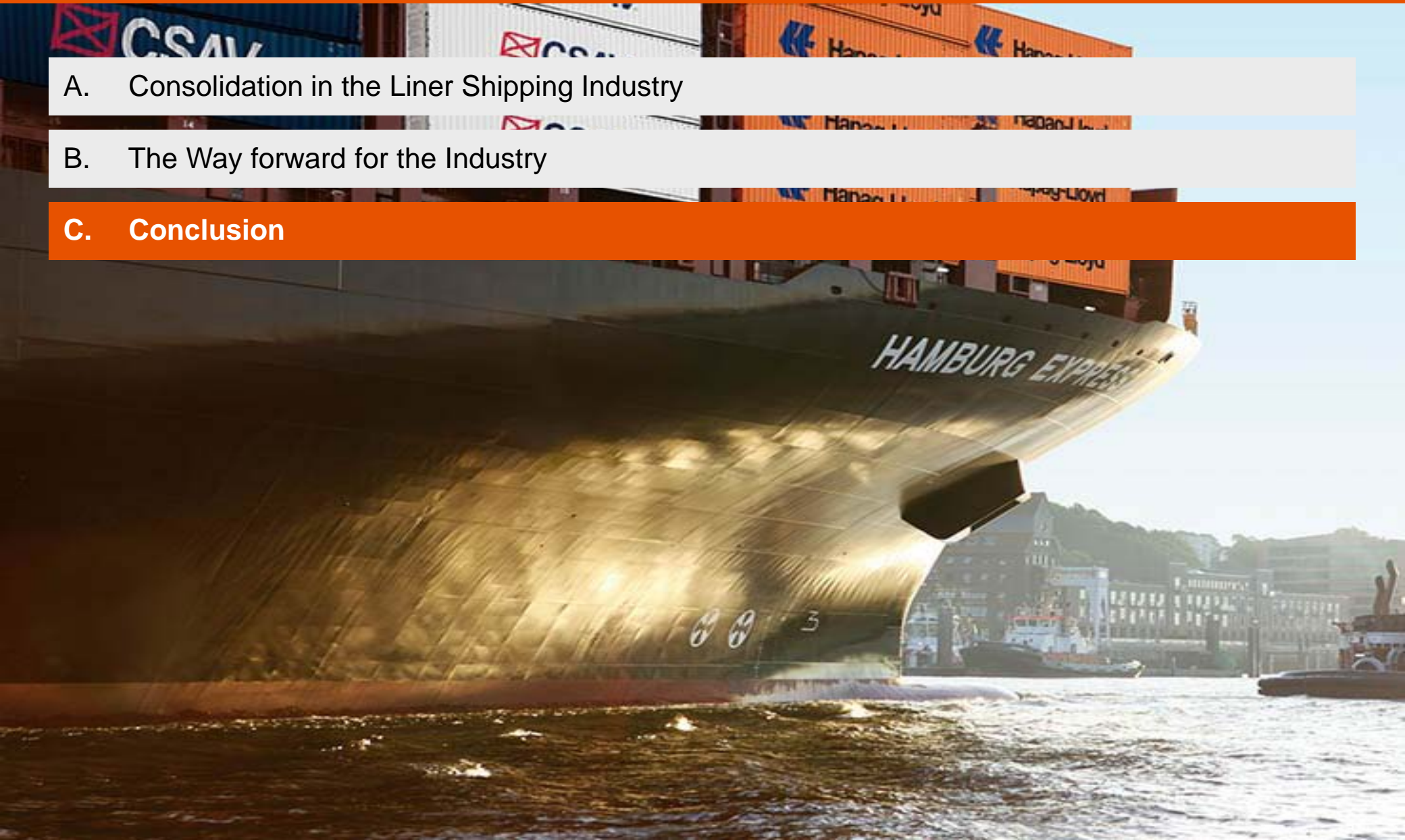
### Regulatory considerations

- Regulatory aspects will need to be managed carefully
- But initial assessments indicate this is possible according to FMC

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## A more realistic option for the near future?

### Consolidation vs Alliances

- There is a constant economic pressure for consolidation, but family and government shareholders continue to be reluctant to give up control
- Alliances are the best available alternative, but need to be developed further

### Value added Alliances?

- Landside operations are the next untapped savings pool for extending the benefits of Alliances
  - Economies of scale don't end when the ship arrives
  - More procurement power
  - Better utilization of assets and resources (also relief of infrastructure)
  - Customers will also benefit from more efficient landside services

### Operational considerations

- Alliances need to further reduce their complexity
- Member Lines should operate like one entity – as far as possible permitted by Competition Laws





**THE END!**