

BRAEMAR



Braemar Shipping Services plc

Preliminary Results

Year Ended 28 February 2018

May 2018

Agenda

- Strategic Delivery
- Financial Results
- Shipbroking Division
- Technical Division
- Financial Division
- Logistics Division
- Earnings & Dividend
- Investment Case

Strategic Delivery

- Technical Division returned to profit
- Entry into financial advisory market via acquisition of Braemar NAVES
- Executed strategic recruitment plan to build key shipbroking market segments
- Stabilised Logistics division following management change
- Entry into the commodity derivatives sector via acquisition of Braemar Atlantic

Braemar's Key Drivers

Shipbroking

- Chartering
- Sale and Purchase
- Valuations
- Research and Analysis

Financial

- Restructuring
- Debt advisory
- Loan Service Monitoring
- Corporate finance

Key Drivers

- Global trade & economic growth
- Supply and demand for commodities and tonne miles
- Oil price, E&P spend, project activity in energy field.
- Fleet Capacity and net change (newbuilding deliveries vs scrapping)
- Shipping finance activity, financings and loan portfolio transfers

Logistics

- Ship Agency
- Hub Agency
- Freight Forwarding
- Logistics

Technical

- Marine (Vessel surveys)
- Adjusting (Energy)
- Engineering (LNG consulting)
- Offshore (Marine warranty surveys)

Segmental Results

	FY 2017/18			FY 2016/17			FY 2015/16		
	Revenue £m	Profit £m	Margin %	Revenue £m	Profit £m	Margin %	Revenue £m	Profit £m	Margin %
Shipbroking	61.8	7.7	12.5%	63.1	7.9	12.5%	70.7	9.7	13.7%
Technical°	34.6	0.7	2.1%	39.0	(2.2)	(5.6)%	54.3	5.2	9.6%
Logistics	33.2	0.8	2.3%	33.9	1.3	3.7%	34.1	1.6	4.6%
Financial*	3.7	1.8	47.6%	-	-	-	-	-	-
Central	-	(2.9)	-	-	(2.7)	-	-	(2.7)	-
	133.4	8.2	6.1%	135.9	4.2	3.1%	159.1	13.8	8.6%

°Technical Division excludes Braemar Response, which is treated as discontinued following the decision to divest

*Financial Division established on 26 September 2017 and contributed 5 month's results to the full year income statement

Specific Items

	FY 2017/18 £m	FY 2016/17 £m	FY 2015/16 £m
Amortisation	(2.4)	(0.5)	(1.1)
Acquisition Items			
• ACM	(0.6)	(1.5)	(2.4)
• Braemar-Naves	(5.1)	(0.1)	-
• Braemar-Atlantic	(0.6)	-	-
• Other	(0.4)	(0.4)	-
	(6.7)	(2.0)	(2.4)
Restructuring Costs	-	(2.9)	-
Gain on sale of investment	-	1.7	-
	(9.1)	(3.7)	(3.5)

Group Balance Sheet

	FY 2017/18 £m	FY 2016/17 £m	FY 2015/16 £m
Goodwill and other intangibles	92.4	80.0	79.6
Non current assets	8.1	9.9	9.2
Current assets	55.6	57.2	58.1
Current liabilities	(44.4)	(48.6)	(46.6)
Acquisition liabilities	(10.7)	-	-
Pension	(3.4)	(4.3)	(1.2)
Provisions / Other	(1.4)	(1.1)	(1.0)
Net (debt) / cash	(2.4)	7.1	9.2
Net Assets	93.7	100.2	107.3

Group Cashflow Statement

	FY 2017/18 £m	FY 2016/17 £m	FY 2015/16 £m
Cashflow from operations	9.5	6.8	10.4
Acquisitions	(12.3)	-	-
Capital expenditure	(1.0)	(1.0)	(2.2)
Restructuring cash outflow	-	(2.2)	-
Proceeds from sale of investment	-	1.8	-
Dividends/purchase of own shares	(4.0)	(8.3)	(7.7)
FX Impact	(1.6)	0.7	1.5
Movements in cash	(9.5)	(2.1)	2.0
Net (debt)/cash	(2.4)	7.1	9.2

Shipbroking Division

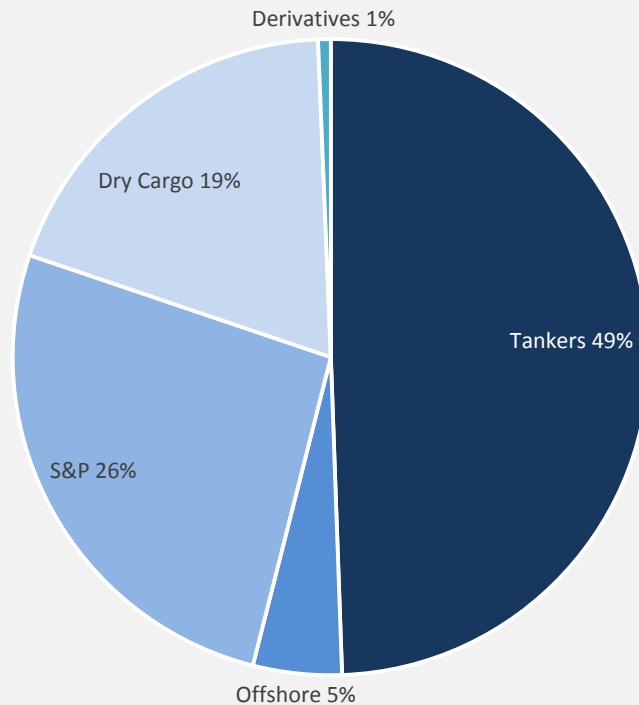
	FY 2017/18	FY 2016/17	FY 2015/16
Revenue	£61.8m	£63.1m	£70.7m
Underlying Operating Profit	£7.7m	£7.9m	£9.7m
Operating Margin	12.5%	12.5%	13.7%
Staff	298	291	334
Forward Order Book	\$44m	\$39m	\$49m
Total Transactions	6,073	6,454	6,643

- Resilient performance in turbulent markets
- Strong forward order book including several tanker newbuilding projects
- Braemar Atlantic acquisition in February 2018, providing access to commodity derivatives broking
- Strategic recruitment targeting expansion into key markets (including chemicals and dry cargo)

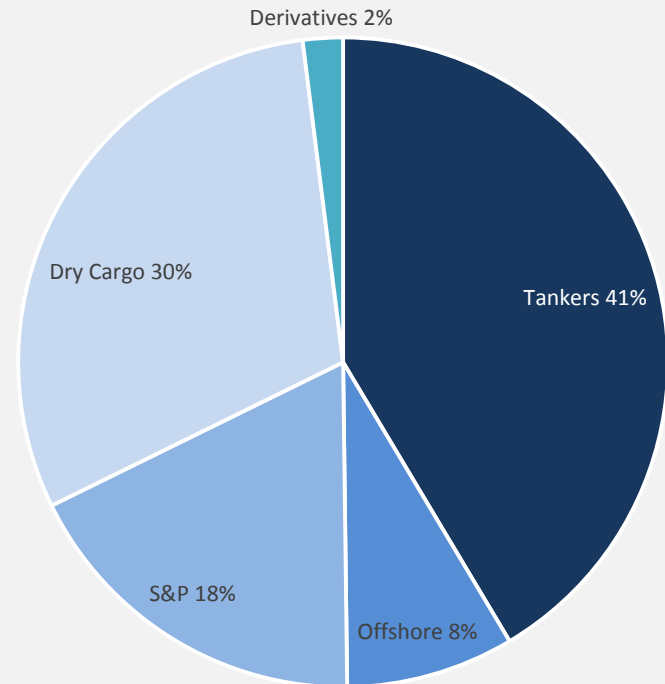
Shipbroking — Revenue and Staff by Desk

Year Ended 28 February 2018
























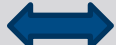


Revenue



Staff



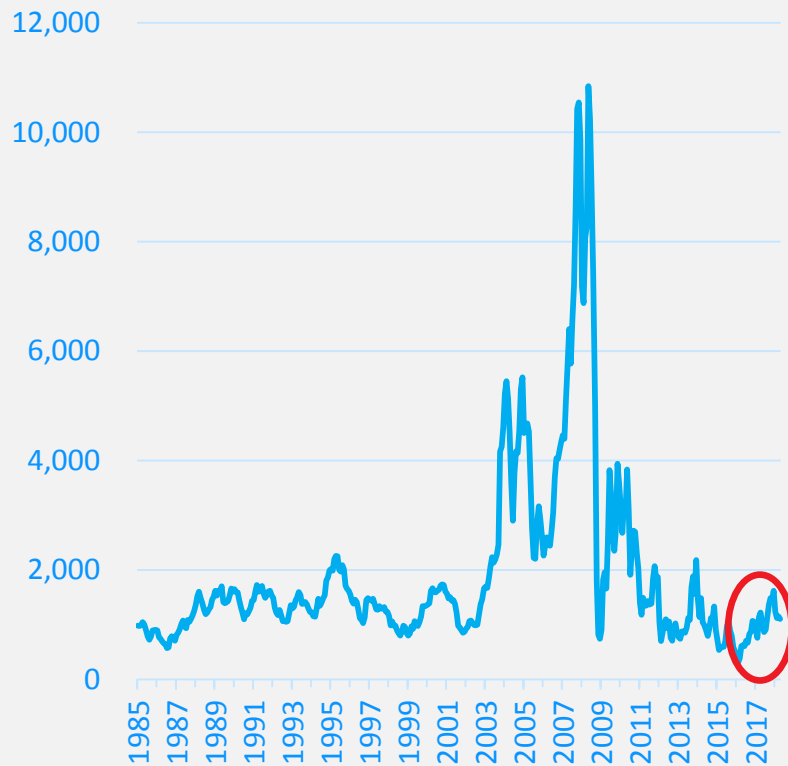
Overview of Trends in Shipbroking

	Rates	Transaction numbers	Demand	Supply
Crude Tankers				
Product Tankers				
Specialised Tankers				
Dry bulk sector				
Offshore sector				
Newbuilding				
Second-hand S&P				
Demolition				

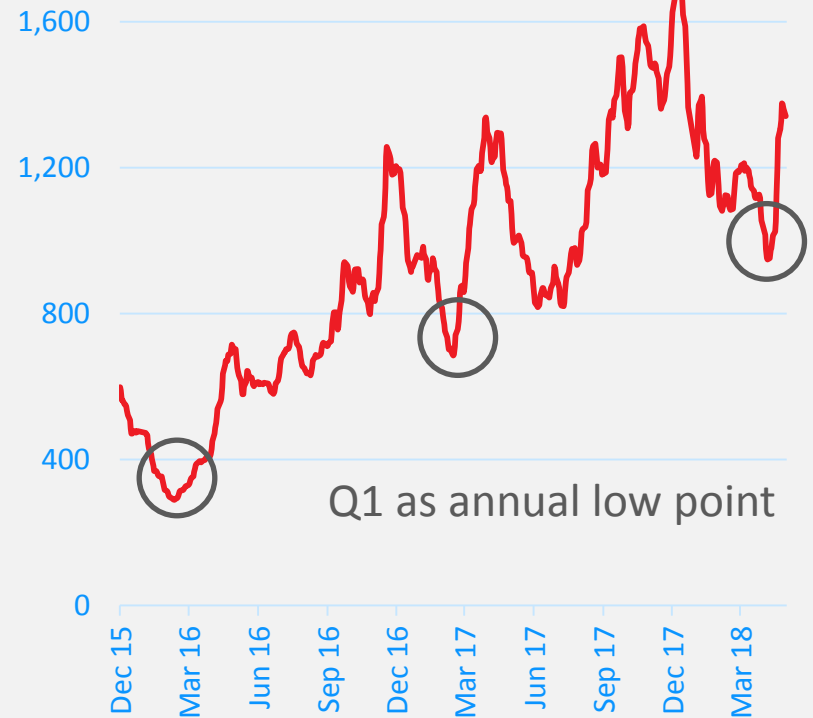
Dry Bulk Spot Market

Recovery enters third year

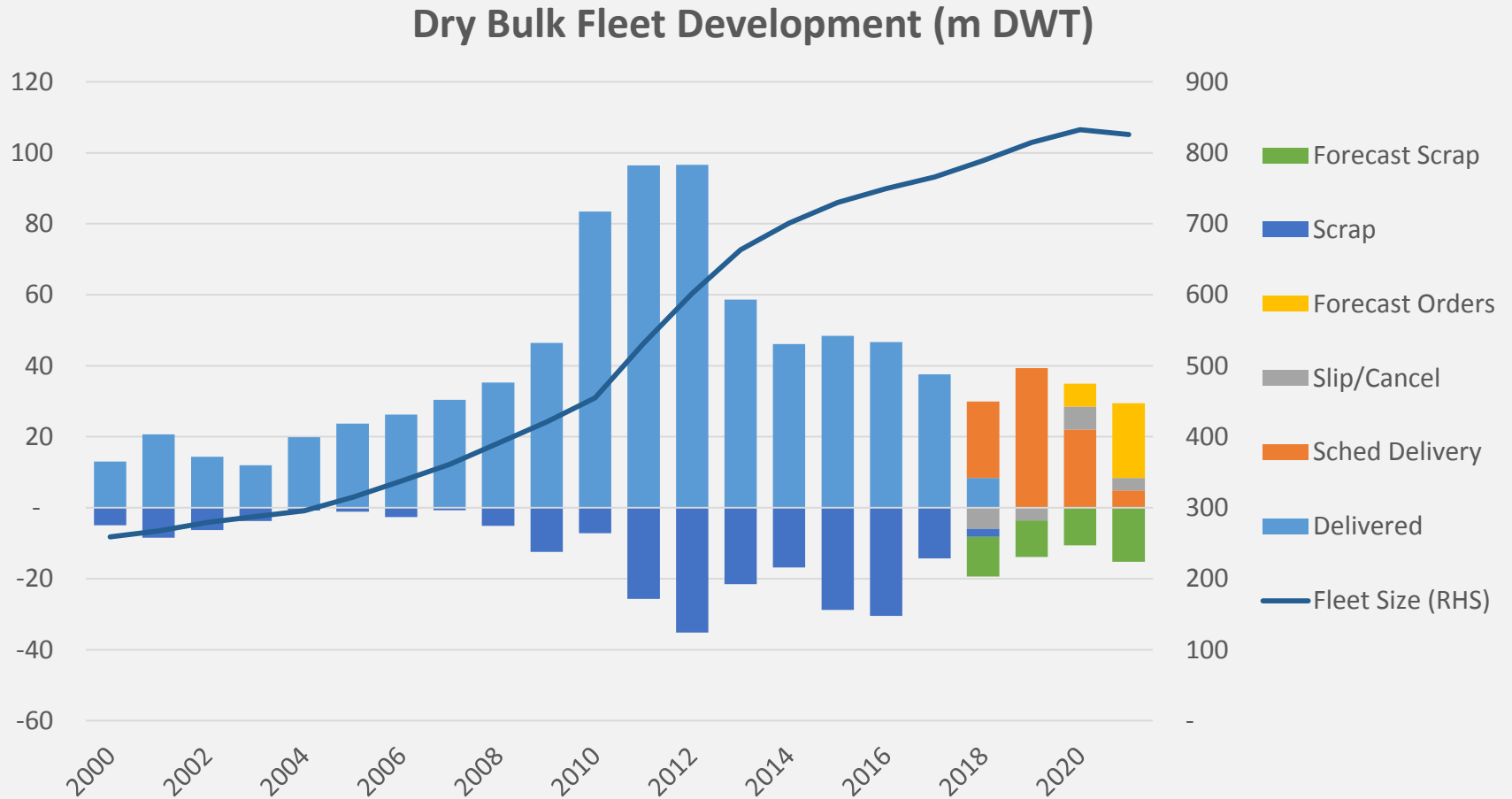
Baltic Dry Index



Baltic Dry Index

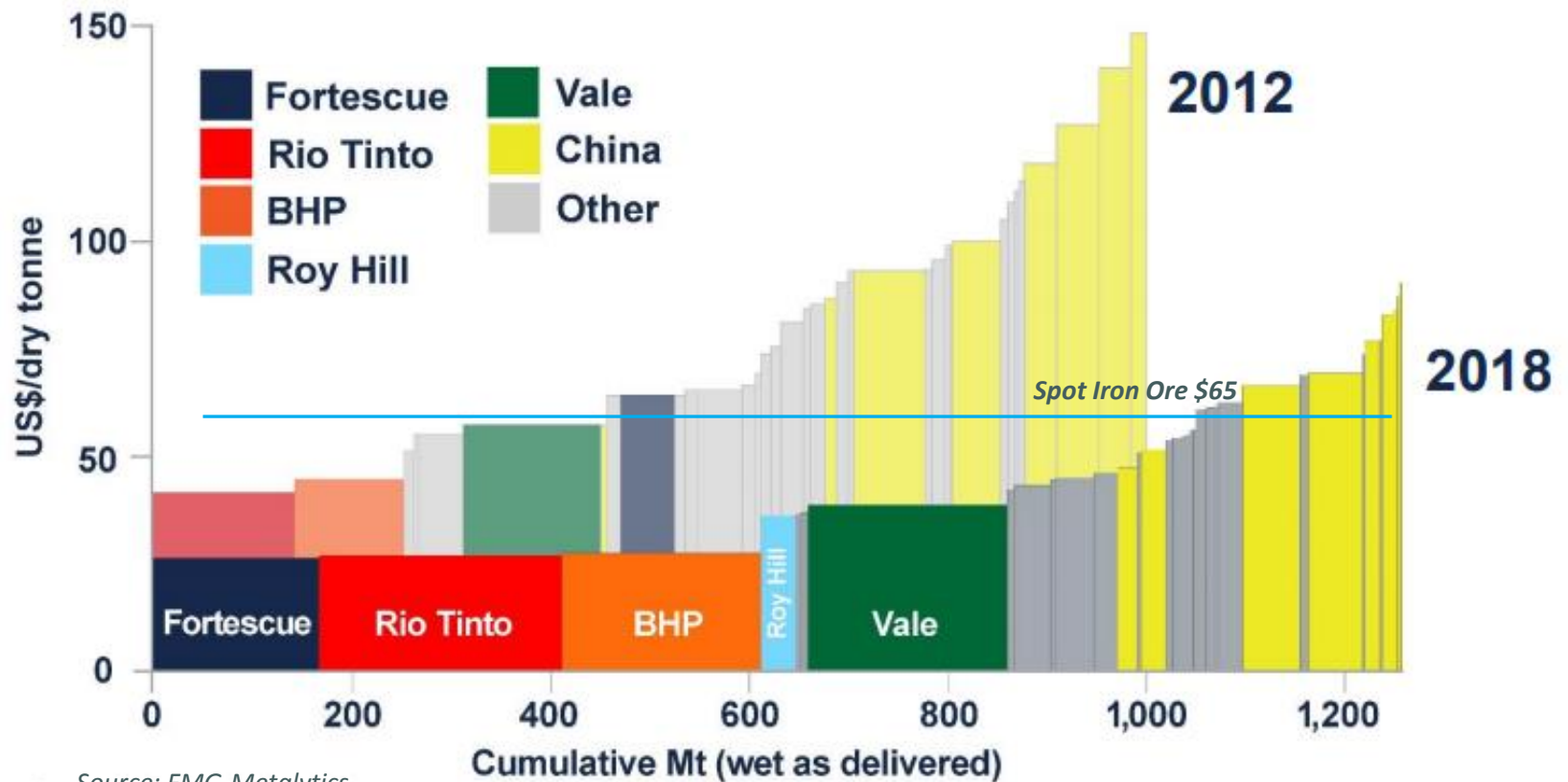


Dry Bulk Fleet Development



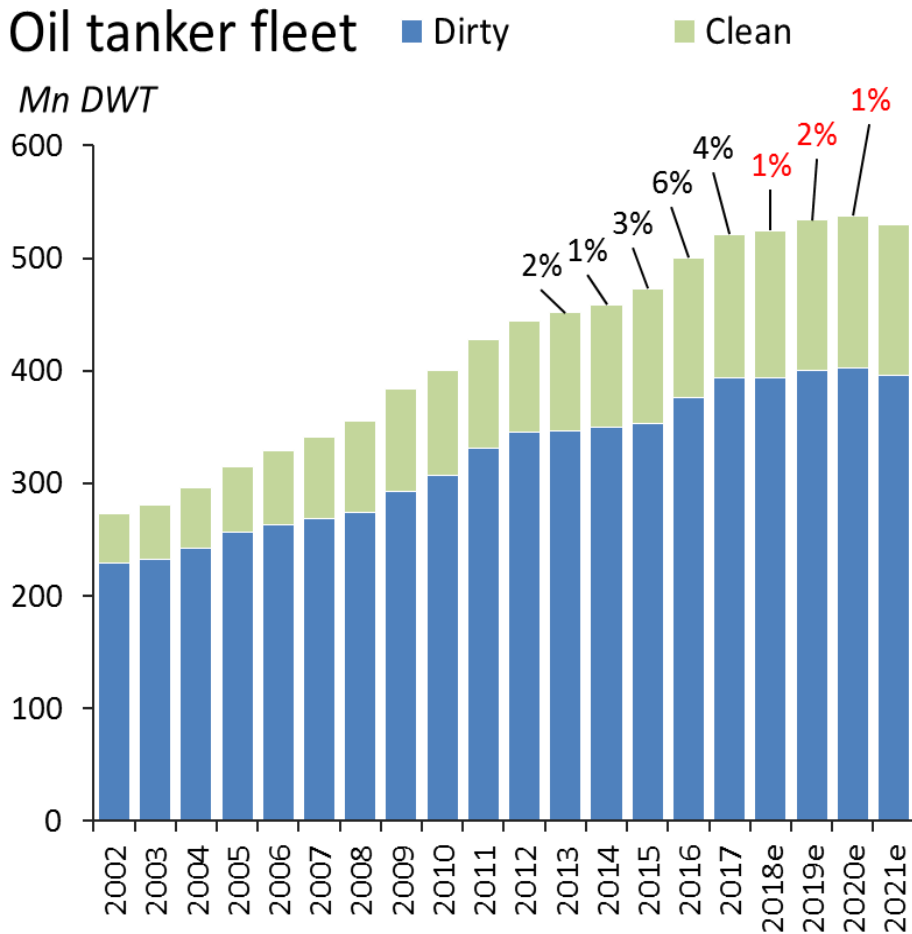
Dry Bulk Market Share

China's Iron Ore Supply CFR Costs *(including royalties & ocean freight)*

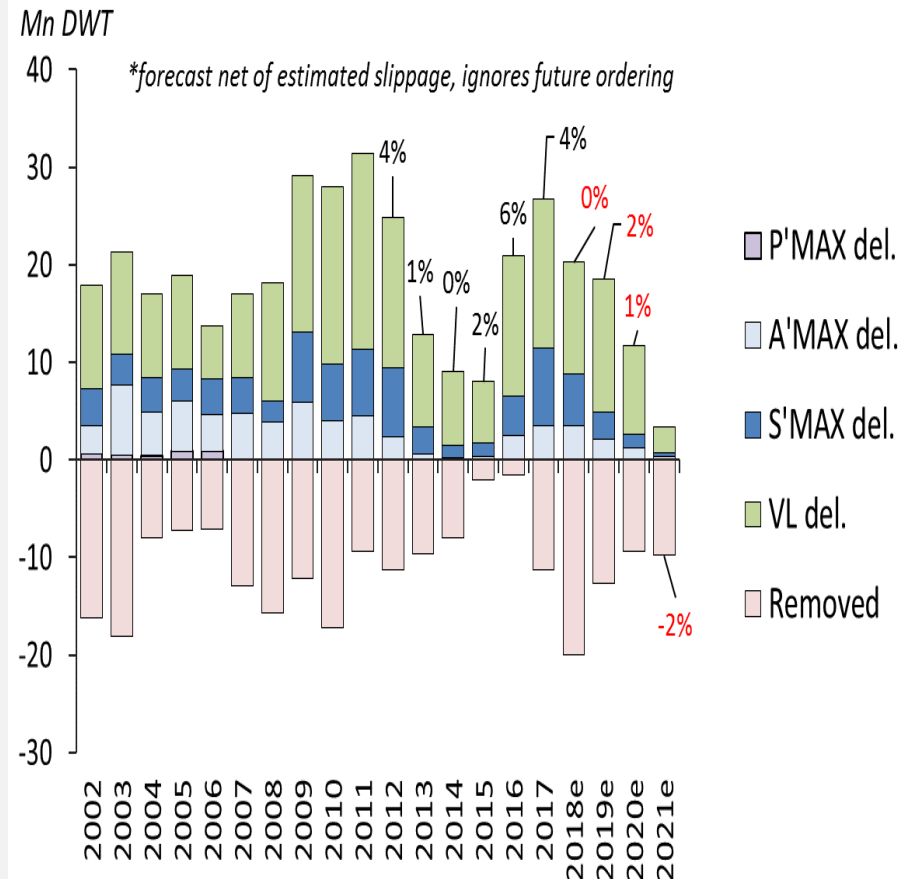


Source: FMG-Metalytics

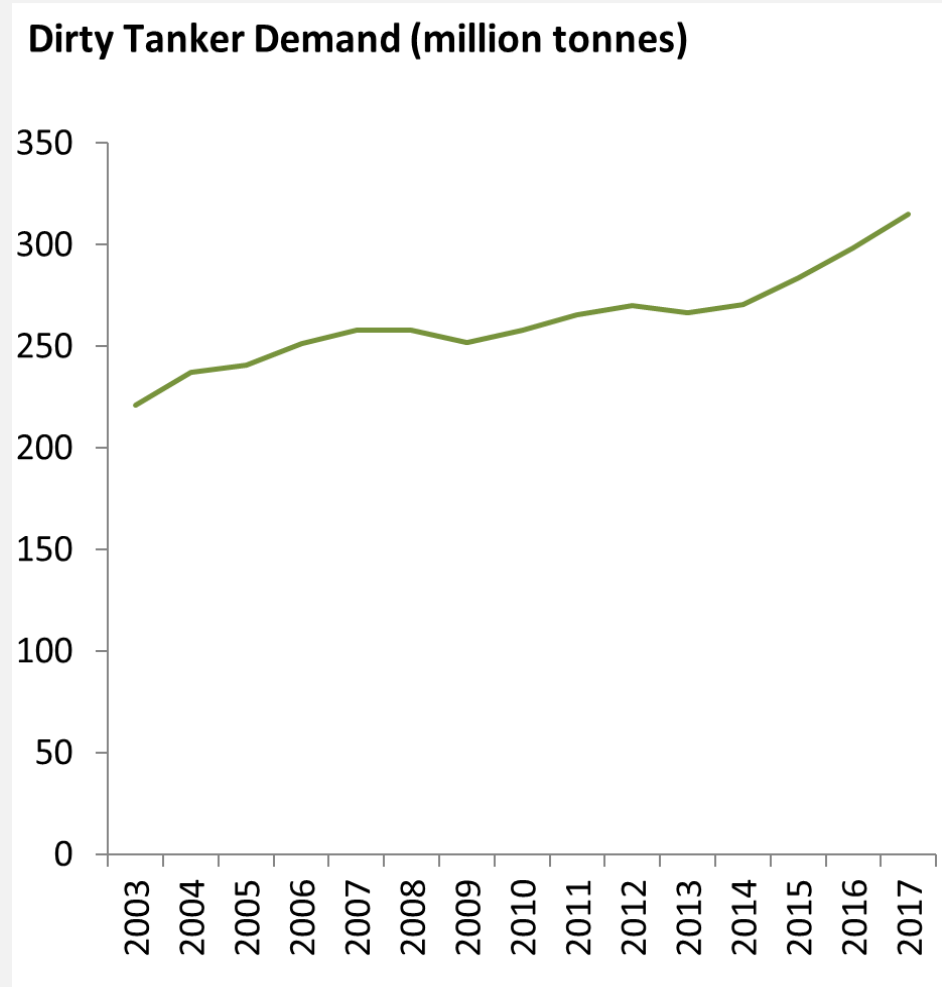
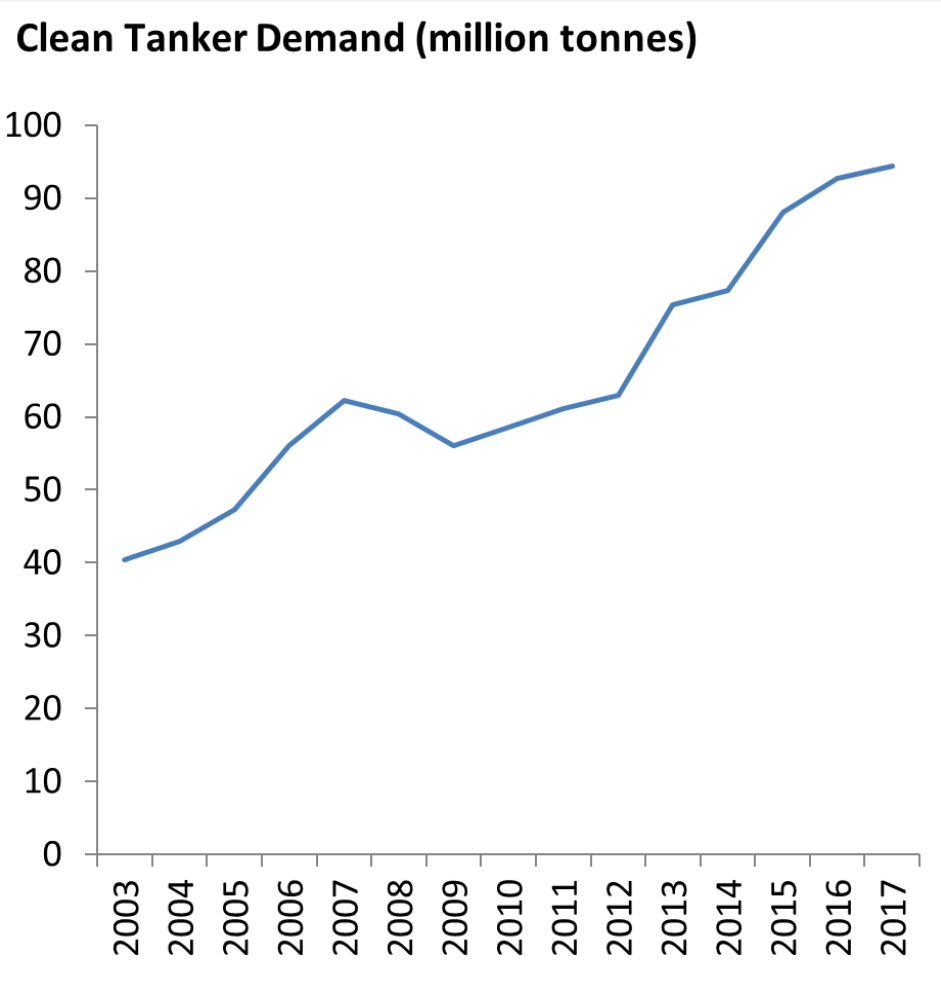
Tanker Fleet Development



Additions* vs. removals



Tanker Demand Growth



Environmental Regulations

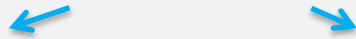
- Reduction of SOX from 3.5% to 0.5% from January 2020
- Purchase low sulphur fuel at a premium
- Fit Scrubbers: Cost \$1-3m. Pay back 3-5 years
- Scrapping uneconomic tonnage
- Newbuildings with NOX Tier 3 post Jan 2016
- Longer run: demand for LNG or Methanol fuelled vessels, but expensive to build
- Changing fleet ➡ good for business

Shipbroking — Divisional Objectives for 2018/19

- Maintain our market share in the tankers market
- Expand presence in the dry cargo market
- Build presence in chemical chartering market
- Build presence in the regulated commodity future market via Braemar-Atlantic
- Continue to develop synergies between sale and purchase and Braemar-Naves
- Expand container broking team into Hamburg

Technical Division

EVENT-LED



Marine

Consultancy

Surveys

Ports & Harbours

Superyacht
Services

Adjusting

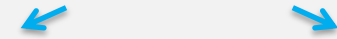
Loss Adjusting

Litigation Support

Risk Assessment

Dispute Resolution

PROJECT-LED



Engineering

Dynamic
Positioning,
FMEA, Audits

LNG, Afloat,
Onshore &
bunkering

Specialist Vessel
Design

Vessel
Conversions

Offshore

Marine Warranty
Surveys

Offshore
Installation
Engineering

Offshore
Structures,
Pipelines

Geotechnical

Technical Division

	FY 2017/18	FY 2016/17°	FY 2015/16
Revenue	£34.6m	£39.0m	£54.3m
Underlying Operating Profit/(Loss)	£0.7m	£(2.2)m	£5.2m
Operating Margin	2.1%	(5.6)%	9.6%
Restructuring Costs*	-	£(2.9)m	-
Staff	261	303	444

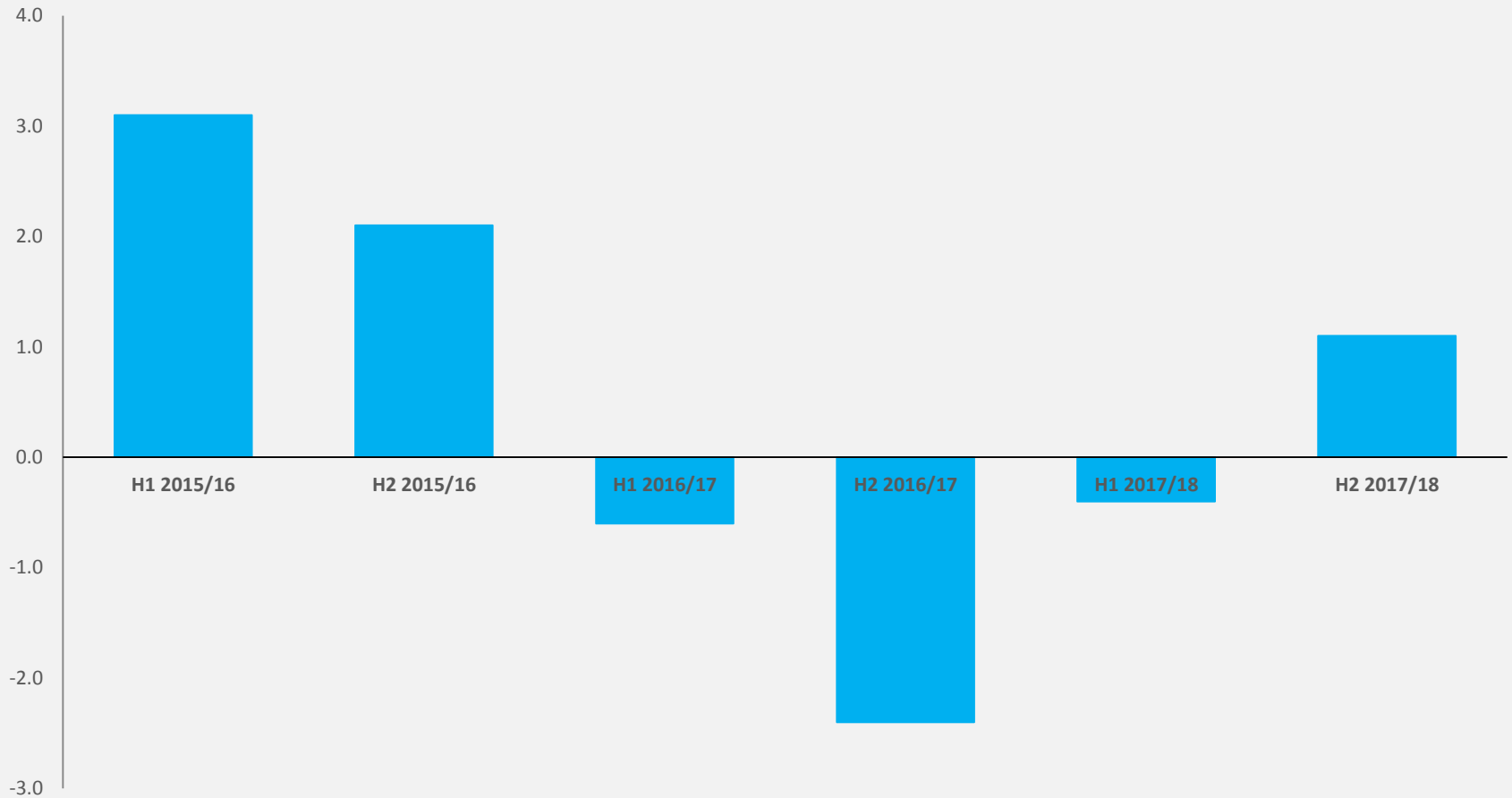
- Considerable management action taken
- Returned to profit during H2 2017/18 (H1 loss: £0.4m)
- Results driven by improved staff utilisation and cost savings
- Decision taken to divest Braemar Response
- Renewed focus on business development as market conditions start to turn

*Included in Specific items

°Restated to exclude Braemar Response following decision to divest.

Technical Division Results

Underlying Operating Profit (£m)



Technical – Divisional objectives for 2018/19

- Increase focus on division's specialisms
- Enhance tendering capabilities via selective recruitment
- Utilise links with Financial division to provide technical due diligence services to debt and equity providers
- Sell Braemar Response

Financial Division

	FY 2017/18	FY 2016/17	FY 2015/16
Revenue	£3.7m	-	-
Underlying Operating Profit	£1.8m	-	-
Operating Margin	47.6%	-	-

- Acquisition of NAVES Corporate Finance GmbH completed on 26/9/2017, for €24-35 million (depending on performance)
- Braemar NAVES - a new division offering wide ranging maritime financial services and revenue synergy opportunities are being pursued
- Currently 25 staff, largely based in Hamburg, with strong links to German banking and shipping communities
- Trading ahead of expectations

Financial Division

Braemar Naves develops and implements corporate finance and financial asset management solutions

Services include:

- Transactions and capital raising
- Restructuring
- Financial management and loan servicing
- Insolvency advisory services

Synergy Opportunities

Asset inspection	Technical
Financial analysis of the borrower	Financial
Advice on outlook based on fundamental research	Shipbroking
Expert opinion on asset value	Shipbroking
Opinion on recovery potential and proposal of alternative solutions / restructuring concepts	Financial
Setup of parking structure / recovery vehicle	Financial
Refinancing (debt or equity)	Financial
Provision and safeguarding of vessel during arrest	Logistics
Asset disposal at highest achievable price	Shipbroking

Financial – Divisional objectives for 2018/19

- Leverage relationship with sale and purchase Shipbroking
- Develop international presence in London and other locations
- Develop deeper links with the Technical to provide packaged services to the financial sector
- Obtain appropriate licenses to provide capital market advice

Logistics Division – Port Agency

	FY 2017/18	FY 2016/17	FY 2015/16
Revenue	£8.2m	£7.8m	£6.9m
Underlying Operating Profit	£0.6m	£0.8m	£0.7m
Margin	7.3%	10.7%	9.8%

- New management team in place and performing well
- Revenue increased, particularly in UK ports and key client hub services
- High client KPIs, supporting continuation of long term relationships
- Period of low market activity during H2 2017/18, already reverting to normal
- Results include one off settlement of £0.75m (of which £0.5m booked in FY 2017/18) for an historic claim

Logistics Division – Freight Forwarding

	FY 2017/18	FY 2016/17	FY 2015/16
Revenue	£25.0m	£26.1m	£27.3m
Underlying Operating Profit	£0.2m	£0.5m	£0.9m
Margin	0.8%	1.9%	3.3%

- Focus on key client and specialist cargos delivers value
- Challenging market with increasing price competition makes general work difficult to win
- Building and maintaining sales pipeline is key to success

Logistics – Divisional Objectives for 2018/19

AGENCY

- Target dry cargo and offshore port agency in UK
- Build further internal synergies with shipbroking division

FREIGHT FORWARDING

- Drive new sales initiatives and resources
- Increase gross margin through improved procurement

Dividend and Earnings

	2017/18	2016/17	2015/16
Half Year Dividend	5.0p	9.0p	9.0p
Full Year Dividend	10.0p	5.0p	17.0p
Total Dividend	15.0p	14.0p	26.0p
Underlying Basic EPS	21.1p	10.7p	34.7p
Cover	1.4	0.8	1.3

- Proposed final dividend of 10p (at a cost of c£3m), payable on 27 July 2018
- Full year dividend cost c£4.5m
- Dividend policy to pay 1:2 split between interim and final
- Dividend cover target remains to build to 1.5x
- ESOP Trust: 395,000 shares purchased during the year. Purchases limited by extended quiet period due to Braemar-Naves and Braemar-Atlantic acquisitions. 250,000 shares have been purchased since the year end

Investment Case

- Continue to follow a diversified portfolio strategy
- Unique intragroup synergies and client service offering
- Serve interrelated end-markets through the life cycle of a vessel
- All divisions benefit from growth in world trade
- Trading on a conservative PE rating compared with peers
- Valuation support from dividend yield

ANY QUESTIONS?

Appendices– Additional Information

- Accounting for acquisition of NAVES Corporate Finance GmbH
- Accounting for acquisition of Atlantic Brokers Holdings Ltd
- Disclaimers

Naves acquisition deal structure

Total Consideration	Capped at €35m (cash and principal value of loan notes)
Core Consideration	€24m Core Consideration: <ul style="list-style-type: none"> • €14.8m on completion 50% in cash, and 50% in convertible loan notes pro-rata to all sellers • €1.5m paid to non management in shares (based on 30 day average share price prior to announcement of 300.2p) on completion • €1.4m p.a. for three years to all sellers; 50% cash, and 50% convertible loan notes (with 3% interest p.a.) pro-rata to all sellers. • €0.7m p.a. paid in convertible loan notes for five years to Management sellers only • Management portions of all payments subject to remaining in the business and good/bad leaver provisions
Earn out Consideration	Up to €11m (100% convertible loan notes) payable in three annual instalments of up to €3.667m for three years following completion to Management sellers only: <ul style="list-style-type: none"> • Dependent on performance against a pre-agreed annual EBIT target • Annual EBIT target €4.375m p.a., minimum EBIT €2m p.a. with EBIT reallocation mechanism for excess EBIT among years 1 - 3 • EBIT performance stated post remuneration and bonus payments • Earn out consideration dependent on Management remaining in the business and good/bad leaver provisions

Naves acquisition deal structure

Convertible Loan Notes

- Convertible at a fixed 30% (390.3p) / 50% (450.3p) premium for Management and Non-Management shareholders respectively, to 300.2p completion equity price
- Euro denominated, 3% p.a. coupon, redeemable two years after issue by Braemar or holder
- Unsecured, unlisted and non-transferable
- Total number of shares from conversion capped at 19.9% per annum of Braemar voting rights
- Accelerated conversion rights in the event of distress

Financing

- Cash element of consideration and transaction costs will be funded through Braemar's existing banking facilities
- Cash element of deferred consideration and any repayment of convertible loan notes will be funded through operating cash flow

Key staff commitment

- Five year Management incentive arrangements

Naves acquisition accounting treatment

Braemar's accounting policy is to exclude Specific Items from underlying profits. The following specific transaction items will be recognised within reported operating profit but excluded from underlying operating profit:

- Transaction expenses
- Fair value movements on earn out and deferred consideration due to Non-management sellers
- Post-completion payments to Management sellers in relation to the transaction which are treated for accounting purposes as post-acquisition services, comprising:
 - Deferred cash consideration
 - Deferred loan note consideration
 - Earn out loan notes
- Foreign exchange movements in relation to earn out and deferred consideration which have not been designated as hedging instruments
- Fair value movements on the equity conversion feature of the issued (and recognised but not yet issued) loan notes
- Amortisation of acquired intangible assets
- Interest, including the unwinding of any discounting of earn out and deferred consideration, will be separately identified in financing costs

Naves acquisition future accounting

	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
Acquisition Costs	-	-	-	-	-
Retention	2.3	1.2	0.5	0.2	0.1
Maximum earn-out	5.7	2.1	0.7	-	-
	8.0	3.3	1.2	0.2	0.1

- All future payments to management sellers will be treated as specific item costs in income statement
- IAS19 requires each tranche to be spread over its life (e.g. 1st anniversary payment over 1 year, 2nd anniversary payments over 2 years)
- Earn out expectations will be recalculated at each balance sheet date and 'trued up' through income statement (maximum earn out restated to take account of actual cost recognised in 2017/18)

Atlantic acquisition deal structure

Total Consideration £4.8m (cash and equity)

- Consideration terms
- £2.7m in cash
 - £2.1m in ordinary shares
 - All working sellers (90.5%) subject to 3 year clawback based on employment
-

Atlantic acquisition accounting treatment

Braemar's accounting policy is to exclude specific items from underlying profits. The following specific transaction items will be recognised within reported operating profit but excluded from underlying operating profit:

- Transaction expenses
 - Payments to the working sellers in relation to the transaction which are treated for accounting purposes as post acquisition services company
 - Cash
 - Equity
-

Atlantic acquisition future accounting

	2018/19 £m	2019/20 £m	2020/21 £m
Acquisition Costs	0.2	-	-
Consideration	1.6	1.6	1.4
	1.8	1.6	1.4

- All payments to working sellers will be treated as specific item costs in income statement
- All completion consideration paid to working sellers as subject to a 3 year clawback
- IAS19 requires consideration payable to working sellers to be spread over the clawback period

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Braemar uses alternative profit measures ("APMs") as key financial indicators to assess underlying performance of the Group. Management considers the APMs used by the Group to better reflect business performance and provide useful information to investors and other interested parties. In particular, we have separated the impact of individual material capital transactions, such as acquisitions and disposals from ongoing trading activity to allow focus on ongoing operational performance. Our APMs include underlying operating profit and underlying earnings per share. Our prior year APMs have been restated to reflect the reclassification of discontinued operations.

The information and opinions contained in this presentation are provided as at the date of this presentation and are subject to change without notice.

BRAEMAR



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