$10.9bn on the table – Poseidon to acquire Atlas Corporation, global shipping container lessor

Introduction

On November 1, 2022, Poseidon Acquisition Corp. entered into a definitive agreement to acquire Atlas Corporation (NYSE: ATCO) in an all-cash deal of nearly $10.9bn (about €10.9bn). The investment vehicles backed by David L. Sokol, Chairman of Atlas' Board of Directors, affiliates of the Washington Family, Canadian investment firm Fairfax Financial Holdings Limited (TSE: FFH), and Japanese transportation and shipping company Ocean Network Express (TYO: ONE) already owns 68% of Atlas' fully diluted outstanding common shares. With this transaction, supposed to be finalized over the first half of 2023, Poseidon will take Atlas private by purchasing all the remaining shares for $15.50 per share. This offer represents a 34% premium to Atlas' stock price on August 4, the day before Poseidon first proposed buying it for $14.45 per share.

Upon completion of the operation, Atlas' common shares will no longer to be traded on the New York Stock Exchange. Even though Washington and Fairfax will possess most of its equity, Atlas will continue to be led by Bing Chen, who will retain the positions of Chairman and Chief Executive Officer, contributing his equity in Atlas as an owner alongside Poseidon.

About Poseidon Acquisition Corp.

As mentioned above, Poseidon Acquisition Corp. is a consortium group comprised of four affiliates, the first of which being Fairfax Financial Holdings Limited (TSE: FFH). Founded in 1985, it is a Toronto-based investment management company engaged in property and casualty insurance. Secondly, Ocean Network Express (TYO: ONE) is a Japanese global container shipping company whose executive management is headquartered in Singapore. It was established in July 2017 as a joint venture between Nippon Yusen Kaisha (TYO: NYK), Mitsui O.S.K. Lines (TYO: MOL), and K Line, who own a 38% and 31% stake, respectively. As of June 2022, ONE is the 7th largest in the world with a network covering 120 countries and a fleet size of c. 1.5m TEU (Twenty-foot Equivalent Unit, the standard measure of length for container ships). Finally, David L. Sokol is the Chairman of Atlas' Board of Directors, while the Washington Family is related to the person who incorporated the Washington Construction Company (former Seaspan) – Dennis Washington.

About Atlas Corporation

Headquartered in Hong Kong, with an annual revenue of $1.6bn and a market cap of $4.3bn as of Q3 2022, Atlas Corporation is a major asset management company. It was founded in November 2019, because of the reorganization of Seaspan Corporation, a leading independent owner and worldwide lessor of shipping containers. Together with the creation of this new holding company, Seaspan Corporation had also announced the acquisition of the worldwide leader in fast-track, mobile turbine power APR Energy Limited in a $750m all-stock transaction. After the operation was finalized in February 2020, Atlas Corp. became the parent company of both Seaspan and APR Energy.

Located in Canada, Seaspan Corporation is the largest independent containership management and ownership firm. with an employee headcount of 5,200 across its offices in Hong Kong, Canada, and India. Its business can be divided into three main segments: Shipyards, Marine, and Ferries. Seaspan Shipyards, comprised of Vancouver Shipyards, Vancouver Drydock, and Victoria Shipyards, provides a broad range of services: construction, conversion, refit, repair, life-cycle maintenance, and refurbishment work for naval, research, and commercial vessels including cruise-ships, deep-sea vessels, and submarines. Seaspan Marine constitutes the most differentiated tug and barge company across the Pacific Northwest Coast. Finally, Seaspan Ferries provides customer-focused commercial ferry service in British Columbia. As of June 30, 2022, Seaspan has an operating fleet of 127 containerships for an overall capacity of more than 1.1m TEU. Since other 67 vessels are currently under construction, this figure exceeds 1.9m TEU.

Founded in 2004, APR Energy is the largest mobile gas turbine fleet owner and operator worldwide. With over 450 employees across 9 power plants, it offers energy solutions to customers, including large corporations and government sponsored utilities in 35 countries. APR offers a fully integrated platform to both lease and operate its fleet, comprised of 850MW of mobile gas turbines and c. 550MW of diesel generators. As global energy systems are facing constraints, APR has been actively working to push forward the energy transition by implementing innovative short, mid, and long-term power solutions. As fuel accounts for nearly 70% of the cost of power production, consumers are seeking alternative, cheaper fuels to save money and reduce emissions. Therefore, APR Energy's turbine technology allows customers to switch between a range of fuels, based on cost and availability. It provides solar-hybrid plants, which integrate renewable energy benefits with immediate back-up power, together with fuel-efficient, power dense, and emissions-friendly gas turbines.

Strategic rationale

Since 2020, the containership business has been facing unpredictable challenges. Firstly, supply chain disruptions due to Covid-19 lockdowns resulted in congestion at ports all over the world. Secondly, geopolitical uncertainty because of the war between Russia and Ukraine and the ongoing US – China dispute have both contributed to escalating tariffs, thus impacting trade relations also among other countries.

Nonetheless, according to its earnings and annual reports, Atlas has shown a track record of solid financial performance and operational excellency, which can partially be attributed to the pent-up demand for goods rather than services the pandemic brought about. Indeed, during Q3 2022, asset utilization for Seaspan has been reported to be of 98.6%, in line with their pre-pandemic average. The day the news of the transaction became official, Atlas' Chairman and CEO stated that "Atlas has continued to develop its long-term strategic partnerships and differentiated business model to position the company for sustainable and quality growth."

It is interesting to highlight that Ocean Network Express, one of the affiliates of the Poseidon group, already is the major customer of Seaspan, which means that this deal could represent a sort of vertical integration aimed at capitalizing on synergies between the two companies through efficiency gains.

Indeed, Ocean Network Express is a member of THE Alliance, which is one on the three major shipping alliances, alongside 2M and Ocean Alliance, formed in 2017 to facilitate two elements that ocean carriers compete on: low prices and broad service coverage. These alliances now account for 80% of the global container shipping industry, leaving 20% for other smaller, regional carriers. Over the past years, major players have been focusing on maximizing economies of scale and scope by developing larger and more efficient ships. As states above, ONE was created in July 2017 as joint venture between Nippon Yusen Kaisha (TYO: NYK), Mitsui O.S.K. Lines (TYO: MOL), and K Line in 2017. In February, these three companies had joined THE Alliance since a large process of consolidation was taking place at that time. Indeed, this market was particularly characterized by weak profits and surplus capacity: during 2016, it lost about $10bn. The notable fixed-cost structure of shipping lines is certainly a striking reason for them to participate in strategic alliances. However, extending coverage and providing more routes is probably the main argument for cooperation. Since most shipping companies are stronger in certain areas, carriers who are present in complementary regions with a broader network increase service offerings to their customers.

On the other hand, the global gas turbine industry, worth $18.5 bn in 2020 and $22bn in 2021, is expected to grow at a CAGR of 6.2% until 2030, reaching a value of approximately $25bn. This industry is both capital and labor intensive, with the biggest cost coming from raw material and component procurement, followed by the workforce cost component. In addition, being a mature, consolidated segment implies that taking advantage of globalization to exploit the benefits of international trade is fundamental to gain market share, cut costs, as well as obtain access to new regions. Currently, the largest market is North America while the fastest growing one is Asia Pacific, due to increasing demand from developing countries like China, India, and Southeast Asia.

Gas turbines play a vital role in reducing greenhouse gas emissions (GHG) worldwide. Therefore, the rising concern about such emissions, demonstrated by the severe government regulations as to the implementation of gas fired turbines over conventional power generating units, should further promote growth in this market.

Deal structure

Poseidon has engaged in a definitive agreement to acquire Atlas in an all-cash transaction amounting to an enterprise value of $10.9bn. The agreement includes the acquisition of all the outstanding common shares of Atlas not already owned by Poseidon's partners, who currently possess approximately 68% of the common shares. The price of $15.50 per share represents a 34% premium to Atlas' share price on the last day of trading prior to the public disclosure of the deal.

Furthermore, the investment vehicle will pay all ordinary 2022 third and fourth quarter dividend payments to Atlas shareholders. President and CEO of Atlas, Bing Cheng, will contribute his equity in the company to also become owner alongside Poseidon, while retaining his current management position. Poseidon had previously proposed acquiring Atlas for $14.45 per share. However, the proposal was blocked in early September by Albright Capital Management, a private investment firm founded by former U.S Secretary of State Madeleine Albright with a large minority stake in Atlas. Albright argued that Poseidon was worth somewhere between $23 and $29 per share.

The transaction is expected to close in Q2 2023, subject to regulatory approval and approval by most of the minority shareholders, who are guaranteed a certain cash pay-out on closing. Once the transaction is completed, Atlas common shares will no longer trade on the New York Stock Exchange ("NYSE"), with its preferred shares, however, continuing to trade under current terms on the NYSE.

Morgan Stanley & Co. LLC is serving as financial advisor to the Atlas, with Citi serving as financial advisor to Ocean Network Express ("ONE") specifically.

Outlook

The acquisition will likely create significant value for Atlas, an asset management firm with a focus on sustainable and quality growth. The transaction with Poseidon presents a direct partnership with ONE, the sixth largest container shipping company globally with a 5.8% market share, and Atlas' main customer. This, along with the strategic, financial, and operational flexibility that comes with no longer being a publicly listed company, will present Atlas, and specifically Atlas' portfolio containership leasing company, Seaspan, with a strong foundation to grow in the future.

Since 2020, the container shipping industry has faced a global supply chain shock caused by the COVID-19 pandemic. Following lockdowns, as economies reopened and online-shopping increased across the world, demand for finished goods soared in 2021. Along with China's zero-covid policy and labour shortages in most western countries, the world experienced a supply chain chokehold. During these periods the lease price per container that firms like Seaspan could charge multiplied to almost 10 times the average rate pre-pandemic. This has allowed these shipping firms to use their profit windfalls to build new vessels, with fleets expected to grow 4 and 8 percent in 2022 and 2023 respectively. Seaspan itself has extended leases for 14 operating vessels in Q3 2022, accumulating an additional $1.1bn in gross contracted cash flow.

The current business environment is likely to remain extremely uncertain in the short to medium term with the Russia/Ukraine conflict, rising geopolitical tensions between China and the West, soaring inflation, and a looming and potentially global recession. A longer-term focus on decarbonization, adapting to customers' changing demands, and cyber security will also be key in outperforming competitors within the industry. ONE seems to embrace both a path towards the decarbonization and digitalization of their services, while also investing heavily in their future fleet capacity and in the replacement of obsolete vessels.

ONE plans to invest more than $20bn by 2030, mostly into its vessels, but also its terminals and technology. This will present Atlas with many income opportunities by leasing new containerships and providing ship management services to the global shipping company. The Japanese container shipping firm, on the other hand, will likely be able to integrate Atlas' business somewhat vertically into their own, using their containerships and management services at a discount to run their shipping lines globally. The two companies may be able to work together to exploit their synergies, and potentially help ONE gain a greater market share in the container shipping industry, currently lead by MSC and Maersk.

Despite perhaps not directly benefiting from the acquisition like Seaspan through ownership by ONE, APR Energy has many growth opportunities in its sector. As a supplier of rapidly deployable large-scale and fast-track power, the growing emerging market demand for energy in the short term and global climate crisis in the long term will create a lot of business for APR. The increasing incidence of natural disasters across the globe, specifically impacting developing countries lacking resilient infrastructure, creates an increased demand for APRs services. Furthermore, in a global energy sector transitioning to renewable energies, APRs mobile power plants can provide customers with stability for grids that rely on renewables with high levels of variability such as wind and solar. Seeking stable and quality cash flow opportunities, APR has recently signed a 44-month contract in Brazil, and a 4-month power generation contract with Imperial Irrigation District in the US. Business opportunities like these will help APR, and hence Atlas, to gain predictable financial returns throughout macroeconomic market cycles.

Conclusion

Atlas' acquisition by Poseidon marks one of the few large buyouts to occur this year amidst record interest rate hikes and soaring inflation. Both the maritime container shipping and energy sectors have and continue to experience global shocks due to macroeconomic events such as the pandemic and the Russian war in Ukraine. The two sectors are also facing long term transitions towards becoming less polluting and carbon neutral industries. The transaction stands as an opportunity for the Poseidon investment group to own the entire share of Atlas and profit from the steadily growing revenues generated by Seaspan and APR Energy, while providing Atlas with more flexibility to operate as a private company, and to increase its ties with its main customer ONE.

TAGS: Acquisition, M&A, Shipping, Energy