

# **Application of Valuation Principles: Industry-Specific Valuation Methods**

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# AMERICAN BANKRUPTCY INSTITUTE

## VALCON 2016

### Application of Valuation Principles, and Where (and Why) Methodologies Deviate by Industry

#### (Shipping, Oil & Gas, and Healthcare)

Presented by

**Joseph A. DiSalvatore, Grant Thornton**  
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**Honorable Mark Mullin, US Bankruptcy Judge**  
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#### Selected Valuation Cases Summaries

<i>Case Name</i>	<i>Citation/ Court/ Jurisdiction</i>	<i>Fact Summary</i>	<i>Valuation Method</i>	<i>Conclusion</i>
<u>In re Genco Shipping &amp; Trading Limited</u>	513 B.R. 233 (Bankr. S.D.N.Y. 2014)	Shipping: Valuation of dry-bulk shipping company, operating a shipping fleet, pursuant to chapter 11 proceedings.	Market Multiple Approach, Comparable Transaction Approach, and Discounted Cash Flow Analysis all deemed acceptable methodologies; Net Asset Value methodology also considered influential within the shipping industry.	<ul style="list-style-type: none"> <li>For cram-down purposes during bankruptcy, “market price” or “going concern” valuation is best fair-value measurement.</li> <li>Net Asset Value methodology, proposed by debtors, could not be exclusive determinant of debtors’ value, but could be accorded significant weight.</li> </ul>
<u>R.F.C. v. Denver &amp; RGWR Co.</u>	328 U.S. 495; 66 S.Ct. 1282 (SCotUS 1946)	Shipping: Valuation of railroad, within context of cram-down of reorganization plan over creditors’ objections.	Capitalization of Present/Future Earnings Method	<ul style="list-style-type: none"> <li>Earnings-based valuation methods deemed acceptable to establish railroad’s reorganization value.</li> </ul>

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<u>In re Mirant Corp.</u>	334 B.R. 800 (Bankr. N.D. Tex. 2005)	Energy: Chapter 11 Valuation of conglomerate of companies engaged in the production and marketing of electric power in the United States, Caribbean, and the Philippines.	Discounted Cash Flow and Comparable Companies Methods	<ul style="list-style-type: none"> <li>Accepted methods based on need to value debtor based on future ability to generate income.</li> <li>Market’s pre-confirmation valuation of debtor corporations was not proper measure of enterprise value, as pre-confirmation valuation did not account for beneficial impacts of chapter 11 process.</li> <li>Appropriate cost of equity used for DCF analysis: 12% to 16.6%</li> </ul>
<u>In re Associated Gas &amp; Elec. Co.</u>	149 F.2d 996 (2d Cir. 1945)	Energy: Valuation of public utility holding companies.	Capitalization of Earnings	<ul style="list-style-type: none"> <li>Valuation, based on capitalization of earnings (accounting for future earning capacity) was reasonable.</li> </ul>
<u>In re Addington</u>	2015 WL 3404505 (Bankr. E.D. Ky. 2015)	Energy Valuation (regarding Mineral Rights): Adversary procedure to recover fraudulent transfer of Debtor’s mineral interests.	Multiples of EBITDA	<ul style="list-style-type: none"> <li>Valuation of Mineral Interests: Common to use multiples of EBITDA or projected income.</li> <li>Deviation from projected valuation range is acceptable as long as deviating amount is at least close (in this case, within \$20,000) of minimum or maximum values.</li> </ul>
<u>In re Semcrude, L.P.</u>	526 B.R. 556 (D. Del. 2014)	Energy: Valuation for midstream Oil and Gas company / chapter 11 debtor.	Income Approach (used to value going concern-debtor)	<ul style="list-style-type: none"> <li>Income approach preferred over asset approach, when applied to valuation of going-concern entity. Reflects concept of valuation as reflection of present value of company’s future income.</li> </ul>
<u>Parsons &amp; Whittemore Enterprises Corp. v. Cello Energy, LLC</u>	2011 WL 382813 (S.D. Ala. 2011)	Energy: Valuation of assets of Synthetic Fuels Company, within context of fraudulent transfer challenge.	Market Value; Business Enterprise Method deemed permissible	<ul style="list-style-type: none"> <li>Market value used to assess value of assets for purposes of evaluating potential fraudulent transfer.</li> <li>Under Alabama fraudulent transfer law, assets could be valued using the “business enterprise method.”</li> </ul>

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<u>Floyd v. Hefner</u>	556 F.Supp.2d 617 (S.D. Tex. 2008)	Energy: Valuation stemming from implosion of former Seven Seas Oil Company, specializing in oil & gas E&P in Colombia. Plaintiffs challenged expert valuations of the company, partially based on experts' reference to a 2001 tax appraisal.	Experts used the "Fair Market Value" Method, defined as "price at which property would change hands in a hypothetical sale between a willing buyer and willing seller, neither being under any compulsion to buy or sell and both having reasonable knowledge of all relevant facts."	<ul style="list-style-type: none"> <li>Fair Market Value analyses not required to include a "marketability discount."</li> <li>Experts not required to have industry-specific expertise, if they are experts in valuation methods, have conducted previous valuations, and have experience analyzing financial data related to companies in the industry.</li> </ul>
<u>Gasmark Ltd. Liquidating Trust v. Louis Dreyfus Natural Gas Corp.</u>	158 F.3d 312 (5th Cir. 1998)	Energy: Valuation of broker-dealer in natural gas, where parties challenged their opponent's methods of valuation.  LDNG challenged Trustee's method of valuation, arguing for Going-Concern value because Gasmark's assets were largely "soft" and did not appear on a balance sheet. LDNG's expert testified to this effect, but Judge elected not to address this issue because LDNG had not shown a "genuine issue of material fact" regarding Gasmark's insolvency or whether LDNG received greater than chapter 7 liquidation value.	Balance Sheet Method used.	<ul style="list-style-type: none"> <li>Even if valuation method is incorrectly selected, court may not address challenge to method if no genuine issue of material fact is demonstrated.</li> </ul>
<u>In re Future Energy Corp.</u>	83 B.R. 470 (Bankr. S.D. Ohio 1988)	Energy: Valuation of upstream oil and gas E&P company	Entity's "going concern" value obtained via capitalization of debtor's estimated future earnings.	<ul style="list-style-type: none"> <li>Post-confirmation valuation of shareholders' retained interest in reorganized debtor must take account of debtor's reduced indebtedness post-reorganization.</li> </ul>

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<u>In re Energy Co-Op, Inc.</u>	109 B.R. 822 (N.D. Ill. 1989)	Energy: Valuation of energy co-op owing an oil refinery. When determining co-op's solvency, Trustee asserted book-value was best gauge of refinery's value, while operators claimed fair-market or going-concern value was more appropriate measure.	Court applied Fair Market Value method, based on repeated failed sales attempts yielding only one offer of one Nigerian dollar.	<ul style="list-style-type: none"> <li>Reliance on expert's "discounted replacement basis" or "discounted future earnings" methodology cannot establish value for an asset, if marketing processes have yielded no suitors willing make a firm offer for the property interests.</li> <li>"There is simply no substitute in measuring value than to analyze what informed buyers are willing to accept, informed sellers are willing to pay, and with neither group under a compulsion to act."</li> </ul>
<u>In re Doctors Hosp. of Hyde Park, Inc.</u>	507 B.R. 558 (Bankr. N.D. Ill. 2013)	Healthcare: Valuation of for-profit hospital entity, spurred by fraudulent transfer challenge during chapter 11 bankruptcy proceedings.	Plaintiffs relied on Capitalized Cash Flow Method, supplemented by Trailing-Twelve Month method, to complete balance sheet test with regards to solvency.  "Fair Valuation" – the price a willing buyer would pay in an arm's length transaction. Fair Market Value of property defined as what property would bring if actually sold on the open market at the time of the transfer, assuming informed willing buyer and seller having reasonable amount of time to sell the property. Subsequent events not used to fix fair market value at time of transfer, unless they were reasonably foreseeable at the time of the transfer.	<ul style="list-style-type: none"> <li>Expert valuation of debtor erred by not valuing debtor's sole shareholder's wealth as a contingent asset.</li> <li>Company specific risk premiums applied when calculating the WACC should be scrutinized carefully.</li> <li>Cannot use value of loans to entity as proxy to establish entity's value.</li> </ul>
<u>In re Valley Health System</u>	429 B.R. 692 (Bankr. C.D. Cal. 2010)	Healthcare: Valuation of bankrupt public health agency operating system of hospitals, as part of chapter 9 proceedings.	Income Capitalization Approach and Sales Comparison Approach used to determine "fair value" for agency's assets.	<ul style="list-style-type: none"> <li>California local standard: fair market value presumed if transaction certified as fair and reasonable by independent consultant – consideration offered by purchaser was deemed greater than fair market value of VHS' assets.</li> <li>Public health agency officers not deemed to have fiduciary duties to maximize sale value, only to obtain "fair" value.</li> </ul>

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<i>Case Name</i>	<i>Citation/ Court/ Jurisdiction</i>	<i>Fact Summary</i>	<i>Valuation Method</i>	<i>Conclusion</i>
<u>In re Erez Health Care Realty Co., LLC</u>	2011 WL 5900807 (Bankr. D.N.J. 2011)	Healthcare: Valuation of single-purpose entity which owned a residential health care facility, pursuant to challenge to real property tax assessments.	Market Value of property used for purposes of tax assessment, as determined by the Income Capitalization Approach.	<ul style="list-style-type: none"> <li>Income Capitalization Approach given more credence than Cost Approach to establish property's market value, where Sales Comparison Approach was inapplicable and Cost Approach was inappropriate for very old or very new properties.</li> </ul>
<u>In re Med Diversified, Inc.</u>	346 B.R. 621 (Bankr. E.D.N.Y. 2006)	Healthcare: Valuation of health care services company during sale to other healthcare entity.	Discounted Cash Flow Method, Guideline Company Method, and Comparable Transaction Method	<ul style="list-style-type: none"> <li>While choice of methods was appropriate, expert's application of discounted cash flow method, guideline company method, and comparable transaction method deemed so flawed as to render conclusions unusable.</li> </ul>
<u>In re Health Diagnostic Laboratory, Inc.</u>	2015 WL 4915621 (Bankr. E.D. Va. 2015)	Healthcare: Valuation of medical testing and analysis company, pursuant to chapter 11 proceedings.	Fair Market Value, using the "Going Concern" valuation method	<ul style="list-style-type: none"> <li>"Forced liquidation" valuation method inappropriate, where chapter 11 debtor-in-possession continued to operate business during proceedings.</li> </ul>
<u>In re Integrated Health Services, Inc.</u>	289 B.R. 32 (Bankr. D. Del. 2003)	Healthcare: Valuation of "fair rental value" of nursing home facilities leased by debtor and later rejected pursuant to chapter 11 proceedings.	Fair rental value determined by comparing rent to projected earnings, as well as analysis of market comparable transactions.	
<u>In re American HomePatient, Inc.</u>	298 B.R. 152 (Bankr. M.D. Tenn. 2003)	Healthcare: Valuation of home healthcare service, pursuant to chapter 11 proceedings.	Market Comparison Approach, Comparable Transaction Approach, and Discounted Cash Flow Approach all deemed acceptable methodologies.	<ul style="list-style-type: none"> <li>Expert witness given credence by court applied synthesis of the MCA, CTA, and DCFA to estimate debtor's value.</li> </ul>
<u>In re Greater Southeast Community Hospital Corp. I</u>	2008 WL 2037592 (Bankr. D.D.C. 2008)	Healthcare: Valuation of single-purpose entity which owned a hospital, pursuant to chapter 11 proceedings.	Market (comparable transactions) Approach, Cost Approach, and Discounted Future Income Approach	<ul style="list-style-type: none"> <li>Market Approach value reached via analysis of Guideline Transactions (similarly structured businesses) and Guideline Public Companies (similarly structured publicly-held businesses)</li> <li>Cost Approach calculated using aggregate value of entity's assets and liabilities, adjusted to fair market or liquidation values, as appropriate.</li> </ul>

<i>Case Name</i>	<i>Citation/ Court/ Jurisdiction</i>	<i>Fact Summary</i>	<i>Valuation Method</i>	<i>Conclusion</i>
<u>In re Coram Healthcare Corp.</u>	315 B.R. 321 (Bankr. D. Del. 2004)	Healthcare: Valuation of IV / Infusion services company, pursuant to chapter 11 proceedings.	Market Comparison Approach, Comparable Transaction Approach, and Discounted Cash Flow Approach all deemed acceptable methodologies.	<ul style="list-style-type: none"> <li>Trustee's failure to place debtors on open market to establish fair market value was acceptable due to perceived deleterious effects on debtor's operations if offered for sale.</li> </ul>

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## GENCO Outline

### Background

- Summary of GENCO
- Summary of Bankruptcy Filing

### The Issue

#### Valuation Methodology – A Comparison

- A Comparison Re: DCF
- A Comparison Re: Comparable Companies
- A Comparison Re: PTA
- A Comparison Re: ABV & NAV

#### Industry Considerations

- Reasonableness of Projections
- Baltic Dry Index
- Supercycle
- The Boom-Bust Cycle in Dry Bulk Shipping
- Going Concern Value

### Conclusion

#### Other Factors

- Security Analyst
- GENCO Market Performance – Over Time

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## Background

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### Summary of GENCO

- At the time of GENCO's bankruptcy filing ("the Filing") - considered one of the world's largest dry bulk shipping companies
- Fleet size of 53 bulk carrier vessels composed of Capesize, Panamax, Supramax, Handymax, and Handysize vessels
- Had an approximate 11% and 20% economic ownership interest in Baltic Trading ("Baltic") and Jinhui Shipping ("Jinhui") (fleet size of 13 and 36 bulk carrier vessels, respectively)
- Based on most recent financial statement data at the Filing GENCO reported latest twelve months EBITDA of \$90.0 million; NAV of \$1.5 billion, and
  - Had a highly leveraged capital structure that was composed of senior secured debt held in three separate credit facilities including \$1.05 billion with Wilmington Trust (as agent); a \$100.0 million credit facility with Credit Agricole (as agent), and \$253 million credit facility with Deutsche Bank (as agent)
  - Convertible unsecured notes ("the Note Holders") amounting to \$125.0 million
  - Amounts due to ordinary unsecured creditors including charters, vendors and suppliers

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### Summary of Bankruptcy Filing

- On April 21, 2014 GENCO filed a voluntary petition with the Court seeking relief under Chapter 11 of the Bankruptcy Code
- The Filing was a prepackaged plan ("the Plan") seeking to implement a consensual debt conversion restructuring (that was supported by GENCO's lenders)
- Prior to the petition, GENCO negotiated a restructuring support agreement ("the RSA") on April 3, 2014, which established a framework for the Plan that was intended to
  - Deleverage GENCO (converting approximately \$1.2 billion of debt to equity)
  - Extend maturity dates on the Credit Agricole and Deutsche Bank credit facilities
  - Note Holders to receive equity and a right to participate in up to 20% of the rights offering
  - Provide new liquidity through a fully backstopped \$100.0 million rights offering
  - Equity holders to receive warrants in exchange for cancelling their equity interest. Warrants to cover 6% of new equity

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## The Issue

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## The Issue

- The primary points of disagreement between GENCO and the Equity Committee are
  - The GENCO business enterprise value ("BEV")**
  - The valuation methods** used by GENCO (and its financial advisor, Blackstone) and the equity committee ("the Equity Committee") and its financial advisor Rothschild
  - GENCO urges court to adopt Net Asset Value ("**NAV**") **as the appropriate methodology**
  - The Equity Committee's position - **GENCO's valuation analysis was flawed** and improper. **Recommended a weighted approach** heavily weighting the discounted cash flow ("DCF") method
    - The Equity Committee also employed the comparable companies method, precedent transactions method ("PTA"), and the Assessed Break-up Value ("ABV") method
- The BEV range was

BEV Range	Low (In Billions)	High (In Billions)
The Equity Committee	\$1.54	\$1.91
GENCO	\$1.36	\$1.44

Of note, the Equity Committee required a minimum value of \$1.48 Billion to recover and not be out of the money

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## Valuation Methodology – A Comparison

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## Valuation Methodology – A Comparison

Valuation Methodology (In Billions)	DCF	Comparable Companies (Valuation Multiples)	PTA (Valuation Multiples)	ABV/NAV
The Equity Committee: Mid-Point	\$1.97	\$1.64	\$1.58	\$1.42
GENCO: Mid-Point	\$1.24	\$1.29	\$1.35	\$1.39
<b>The Equity Committee</b>	<ul style="list-style-type: none"> <li>Traditional valuation methodologies – standard for investment bankers</li> <li>Virtually every fairness opinion delivered by globally recognized investment banking firm determines intrinsic value using these three methods</li> <li>Methods fully account for elements of a going concern (including goodwill)</li> </ul>			<ul style="list-style-type: none"> <li>NAV method reflects prices paid to buy vessels (not a business)</li> <li>Elements of a going concern not accounted for using NAV</li> <li>NAV undervalues GENCO</li> </ul>
<b>GENCO</b>	<ul style="list-style-type: none"> <li>Methods are not applicable</li> <li>Methods do not reflect how industry values itself</li> <li>Industry emphasis on sales of vessels, not enterprise, thus PTA is not applicable</li> <li>Charter rates inherently volatile, but uses DCF to stress test its conclusion</li> </ul>			<ul style="list-style-type: none"> <li>NAV is more indicative of how industry values itself</li> <li>GENCO management has used NAV for every transaction it has historically analyzed</li> </ul>

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## Valuation Methodology – A Comparison Re: DCF

The Equity Committee	GENCO
Range of Values: \$1.66 - \$2.27 billion	Range of Values: \$1.11 - \$1.37 billion
<b>Principle Positions:</b> <ul style="list-style-type: none"> <li>Relied on adjusted shipping rate projections provided by Mr. Arntzen*</li> <li>WACC 8.5% - 10.5%</li> <li>Calculated terminal value using EBITDA exit multiple and perpetuity growth rate</li> <li>Concedes shipping rates are volatile and industry characterized as cyclical</li> </ul>	<b>Principle Positions:</b> <ul style="list-style-type: none"> <li>DCF method is used to stress test its value conclusion</li> <li>WACC used 10.1% (but sensitized at 9.1% - 11.1%)</li> <li>Summary of Blackstone: charter rates inherently volatile; rates can change drastically on a daily basis, which makes it difficult to predict charter rates; cash flow projections are unreliable</li> </ul>

\* Mr. Arntzen of CMG, qualified as an expert witness, and assisted Rothschild by providing adjusted shipping rates that were used by Rothschild in their application of the DCF.

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## Valuation Methodology – A Comparison Re: Comparable Companies

The Equity Committee	GENCO
Range of Values: \$1.49 - \$1.80 billion	Range of Values: \$1.17 - \$1.42 billion
<b>Principle Positions:</b> <ul style="list-style-type: none"> <li>Criteria for selection of comparable companies - <ul style="list-style-type: none"> <li>Corporate profile</li> <li>Fleet Composition</li> <li>Size of company</li> </ul> </li> <li>Comparable companies include - <ul style="list-style-type: none"> <li>Baltic Trading</li> <li>Diana Shipping</li> <li>Safe Tankers</li> <li>Star Bulk</li> </ul> </li> <li>Selected an EBITDA multiple of 7.3X</li> </ul>	<b>Principle Positions:</b> <ul style="list-style-type: none"> <li>Criteria for selection of comparable companies - <ul style="list-style-type: none"> <li>Corporate profile</li> <li>Fleet Composition</li> <li>Size of company</li> </ul> </li> <li>Comparable companies include - <ul style="list-style-type: none"> <li>Baltic Trading</li> <li>Diana Shipping</li> <li>Jinhui</li> <li>Paragon Shipping</li> <li>Safe Tankers</li> <li>Star Bulk</li> </ul> </li> <li>Selected an EBITDA multiple of 6.5X* and a multiple of 0.92X NAV**</li> </ul>

\*Each EBITDA multiple was adjusted to account for differences between average age of GENCO fleet and comparable companies average fleet age. Adjusted EBITDA multiples ranged 5.9X – 7.3X.

\*\*Multiples ranged 0.60X – 1.18X of NAV.

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## Valuation Methodology – A Comparison Re: PTA

The Equity Committee	GENCO
Range of Values: \$1.54 – \$1.62 billion	Range of Values: \$1.30 - \$1.40 billion
<b>Principle Positions:</b> <ul style="list-style-type: none"> <li>• Reports 6 transactions over last 5 years</li> <li>• Does not dispute there are few transactions</li> <li>• Acknowledges fleet acquisitions tend to be around NAV</li> </ul>	<b>Principle Positions:</b> <ul style="list-style-type: none"> <li>• Argues 5 of 6 transactions were actually fleet sales</li> <li>• Reports there were 4,422 dry bulk vessels sold within the last 10 years</li> </ul>

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## Valuation Methodology – A Comparison Re: ABV & NAV

The Equity Committee	GENCO
ABV* Range of Values - \$1.37 – \$1.47 billion	NAV** Range of Values - \$1.36 - \$1.44 billion
<b>Principle Positions:</b> <ul style="list-style-type: none"> <li>• Assessed GENCO's <u>fleet valuation based on</u> range implied by <u>GENCO's appraisals</u></li> <li>• Valued GENCO's interest in Baltic on a control basis using a range of 29.6% - 35.2% control premium</li> <li>• Argues Blackstone's valuation thesis is economically inconsistent with amount of private capital invested into the marine industry and the dry bulk sub-sector, also</li> <li>• Thesis is inconsistent with economic terms of the Plan itself and Management Incentive Plan ("MIP"). States MIP strike prices indicate management anticipates significant increase in GENCO's value</li> </ul>	<b>Principle Positions:</b> <ul style="list-style-type: none"> <li>• Engaged multiple third party appraisal firms to conduct asset level valuations of GENCO fleet</li> <li>• Valuations of fleet by appraisers ranged from approximately \$1.2 - \$1.3 billion***</li> <li>• NAV provides impartial assessment of the broadest, most concrete consensus regarding future earnings</li> </ul>

\*ABV (assuming mean values herein) inclusive of fleet value approximating \$1.2 billion; \$78 million for management contracts, investments in Baltic and Jinhui \$56 and \$59 million, respectively; \$3 million for net working capital; and \$4 million for other fixed assets.

\*\* Median of range of values that is inclusive of Maritime Strategies International Limited (MSI) conclusion for each vessel based on valuation approaches inclusive of Econometric Modeling approximating \$1.2 billion; Time Series Modeling at \$1.3 billion; and Last Done Method at \$1.2 billion; plus Blackstone's estimate of value for net working capital at \$40 million; \$42 million and \$56 million respectively for interest in Baltic and Jinhui; \$40 million for contracts; and \$4 million for other fixed assets.

\*\*\*MSI's fleet valuation was median value approximating \$1.2 billion. Other appraised values of fleet approximated \$1.2 billion by Marsoft; \$1.2 billion by Vessel Value; and two unnamed brokers which ranged from \$1.2 - \$1.3 billion.

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## Industry Considerations

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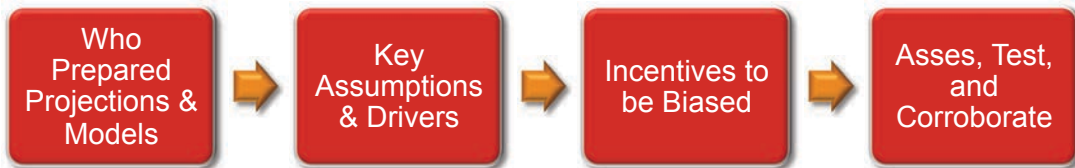
## Reasonableness of Projections

The Equity Committee	GENCO
Expert: Mr. Arntzen of CMG	Expert: Mr. Sterling of Marsoft
<b>Purpose: engaged to provide adjusted shipping rates to Rothschild – who utilized data for their DCF analysis</b> <ul style="list-style-type: none"> <li>• CMG was formed weeks prior to hearing</li> <li>• Mr. Arntzen has 35 years of industry experience</li> <li>• Former CEO of shipping company</li> <li>• Was never previously paid for his rate forecast</li> <li>• Rates never subjected to review by others (i.e. analysts, financial advisors, etc.)</li> <li>• States "It is difficult to accurately forecast rates in dry bulk shipping".</li> </ul>	<b>Purpose: engaged by GENCO to provide shipping rates for use in their forecast</b> <ul style="list-style-type: none"> <li>• Marsoft founded 30 years ago</li> <li>• Has 25 employees</li> <li>• Serves 100+ clients in maritime industry</li> <li>• Provides ongoing evaluations &amp; forecasting of market conditions including recurring quarterly reports on dry bulk markets</li> <li>• Marsoft has built advanced modeling &amp; planning techniques</li> <li>• Analyzes accuracy of its forecasting of rates to industry performance</li> </ul>
<b>Conclusion:</b> Shipping rates had to be adjusted because 2016 and 2017 projections were inconsistent with management's historical practices. Also, by contrast, forecast by leading industry analysts – increasing market for spot rates	<b>Conclusion:</b> DCF is fundamentally unreliable

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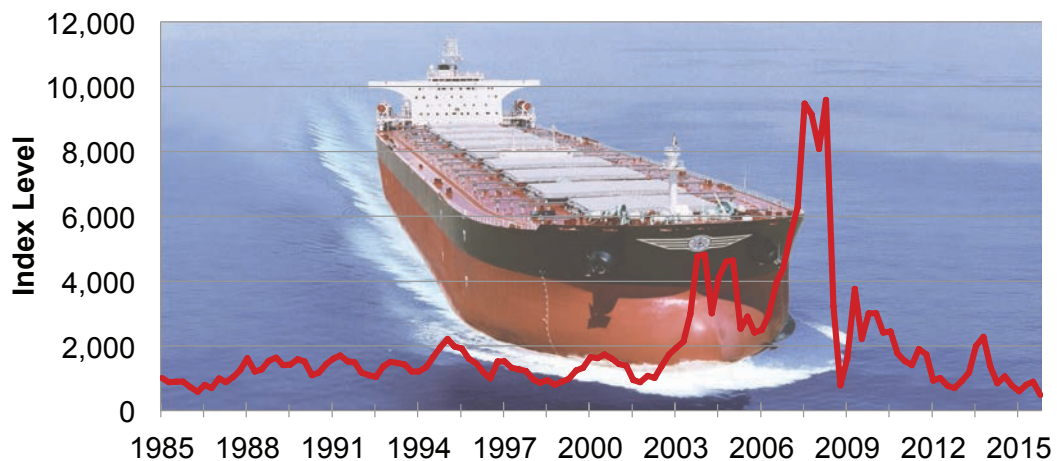
### Reasonableness of Projections – Continued There is a Process



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### Baltic Dry Index



Source of Information: Bloomberg as of December 31, 2015

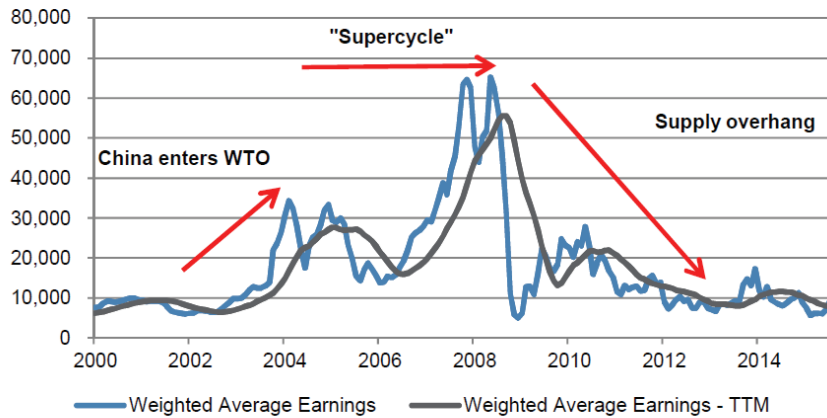
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## Dry Bulk Supercycle

Figure 1: The last dry bulk "supercycle"

\$ per vessel/day

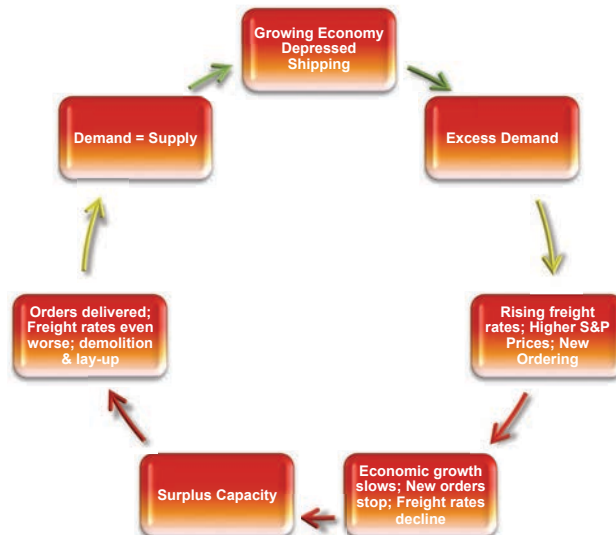


Source: J.P. Morgan, Clarkson Research Services

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## The Boom-Bust Cycle in Bulk Shipping.



\* Source of Information: University of Gothenburg

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### Going Concern Value – Industry Considerations

Highly Competitive

Fragmented

Low Barriers to Entry

Labor content ( ship crews and maintenance & repair workers)- contract workers

No brand loyalty or other factors to distinguish competition from one another

Subject to periods of little or no profits

Cyclical factors that include volatile shipping rates; periods of over-capacity; order books for new vessels

Presently, low oil prices

The China Effect

More recent times EPA issues, especially in US, UK, Canadian , and Australian waters

Long periods where investment returns are less than cost of capital

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### Conclusion

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## Conclusion

### Summary of Judge Lane's Opinion (from a valuation perspective)

- "There are three main methodologies commonly used to determine reorganization value: (1) discounted cash flow analysis ("DCF"); (2) market multiple approach; and (3) comparable transaction approach."
- "But courts have "broad discretion to determine the extent and method of inquiry necessary for a valuation... depend[ing] on the facts of each case."

### Regarding Methodologies

DCF	Comparable Companies	Precedent Transactions	NAV
May be problematic where projections are inaccurate or unreliable	Choice of appropriate comparable companies is a key consideration	Requires judgement in light of unique facts & circumstances of each transaction	Adds together appraisal values and any other assets

### Regarding the Value of GENCO

Not an appropriate method due to highly speculative nature of rate projections in dry bulk shipping	Useful in determining value; but given nature of the industry size (of comparable company) alone would be of less significance	Has some limited utility. The few transactions that exist appear to confirm NAV. Virtually all of the transactions have been in the form of vessel sales.	Should not be given exclusive basis for valuation, but given substantial weight due to nature of the dry bulk shipping industry
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### Judge Lane

"...the court concludes that the Debtors have established by a preponderance of the evidence that the Debtors' value does not exceed the \$1.48 billion figure."

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## Other Factors

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## Security Analysts – GENCO & Other Bulk Shipping Companies

Company	Security Analyst	Security Analyst Methodology	NAV (in \$ billions)	EV / NAV	Number of Full Time Employees
GENCO	Morgan Stanley Jefferies	NAV	\$ 1,150	0.9x	50
Baltic Trading *	Arctic Securities	NAV	NA	NA	N/A
Diana Shipping	JP Morgan	NAV	\$ 1,239	0.6x	11
Golden Ocean	JP Morgan	NAV	\$ 1,217	0.8x	25
Jinhui Shipping	Arctic Securities	NAV	\$ 784	0.3x	75
Navios Maritime Holdings	JP Morgan	NAV	\$ 1,170	1.5x	N/A
Navios Maritime Partners	Bank of America	Comparable Companies	\$ 742	1.1x	N/A
Paragon Shipping	N/A	N/A	\$ 141	1.1x	5
Safe Tankers	N/A	N/A	\$ 668	0.8x	5
Star Bulk	JP Morgan	NAV	\$ 1,443	0.6x	N/A
Scorpio Bulkers	JP Morgan	NAV	\$ 1,230	0.3x	3**

Source of Information: S&P Capital IQ financial information as of December 31, 2015; Employee information for each company – per latest 10-K.

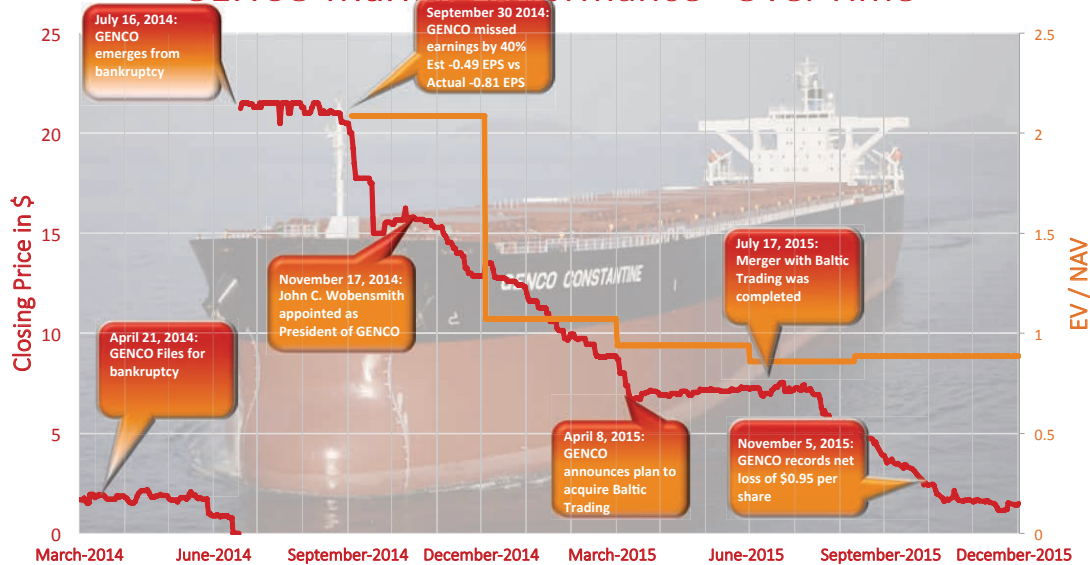
\* Baltic Trading was acquired by GENCO on July 20, 2015

\*\* Excludes executive officers

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## GENCO Market Performance - Over Time



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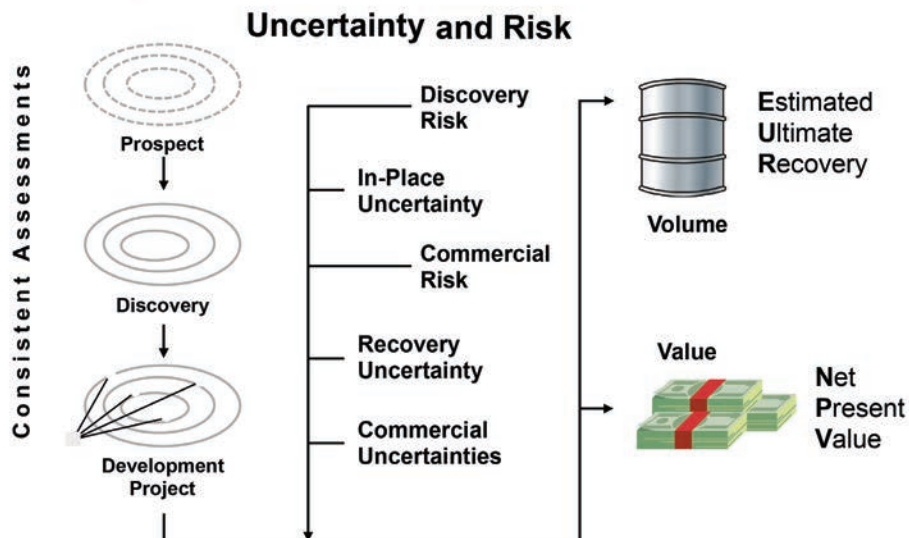
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## OIL & GAS VALUATION - IT'S ALL ABOUT THE ASSETS

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## Evaluating Resources



Source: SPE Reserves ATW

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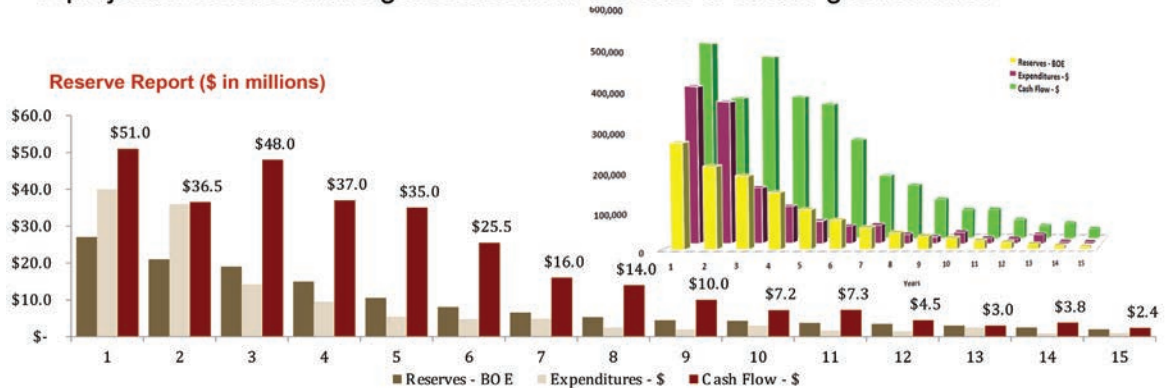
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## What is a Reserve Report?

An inventory of oil and gas reserves categorized by uncertainty (reserves category)

A forecast of future expenditures required to develop and produce the reserves

A projection of cash flows generated from the sale of oil and gas reserves

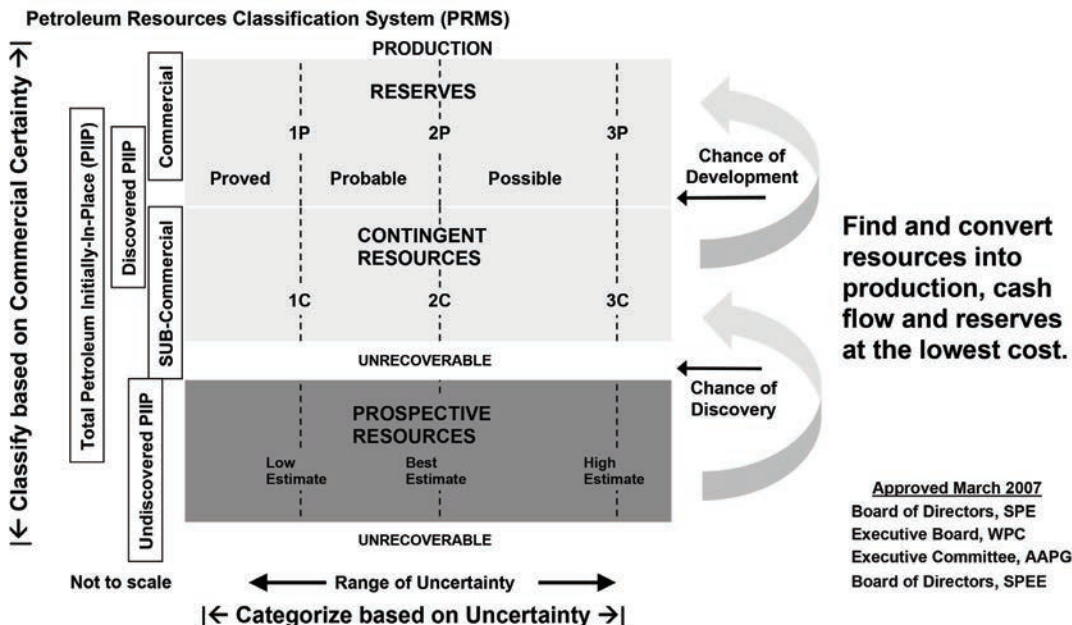


Source: NSAI

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## The Business Model

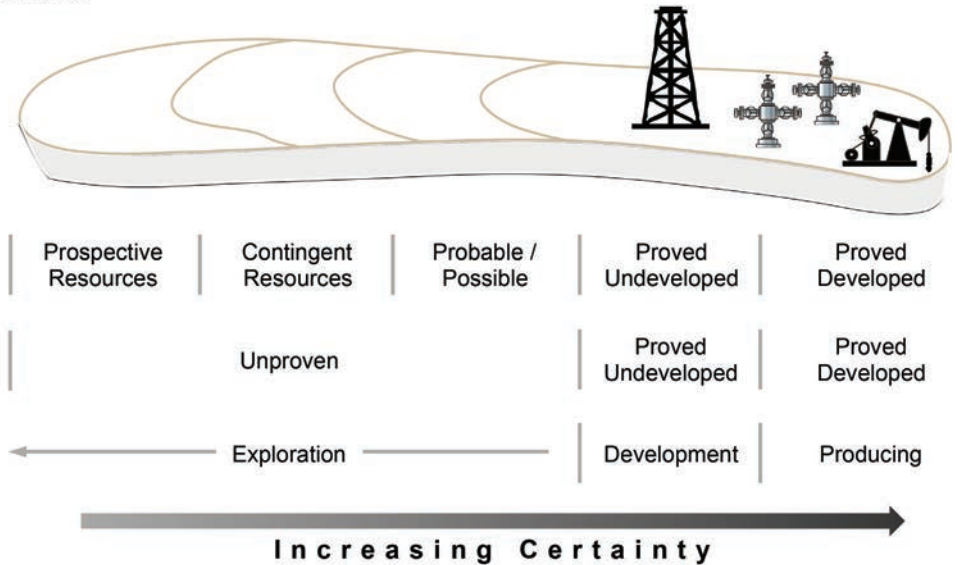


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## Resources Definitions During Development

Common Terms

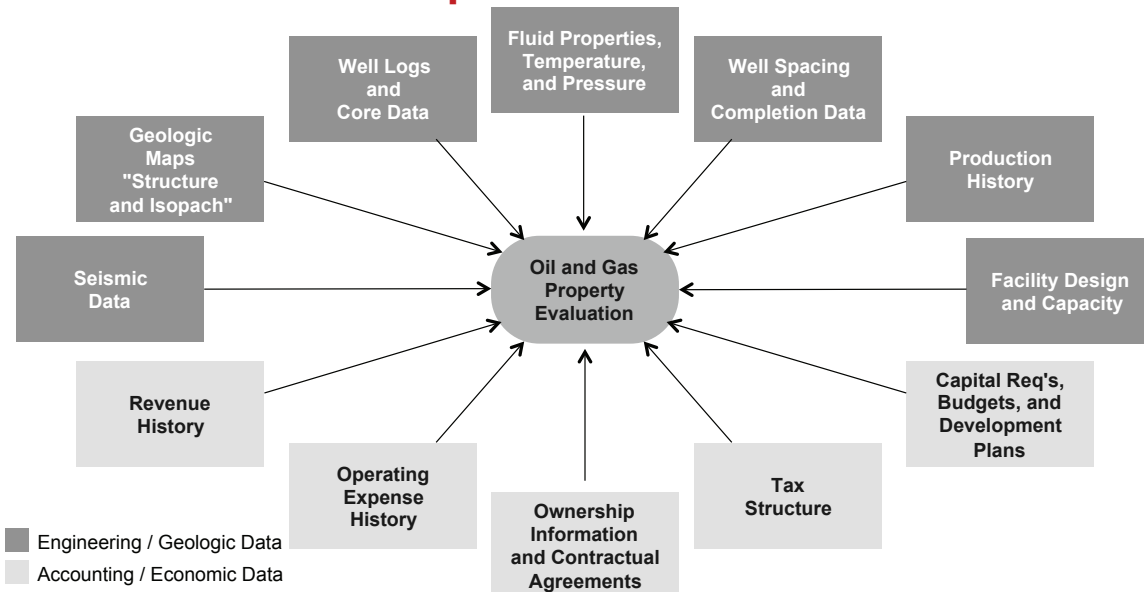


Source: SPE Reserves ATW

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## What do Reserve Reports Consist of?



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### Typical E&P Valuation Methodologies

- Trading Multiples
  - Enterprise Value / EBITDAX
  - Enterprise Value / Daily Production (BOE per day)
  - Enterprise Value / Proved Reserves (BOE)
- Comparable Transactions
  - Value / EBITDAX
  - Value / per flowing Barrel (BOE per day)
  - Value / Proved Reserves (BOE)
  - \$ per Acre (Undeveloped)
- Net Asset Value
  - Risk adjusted present value calculation of reserves / resources
    - Key inputs
      - ◆ Reserve report production volumes
        - Risk factors applied by category
      - ◆ Price deck
      - ◆ Operating expenses
      - ◆ Capex for non-producing or undeveloped assets

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### Acquirer Perspective General Industry Practice

#### Risked Internal Rate of Return

- Risked by Reserve Category
- Expected Return influenced by Buyer's Cost of Capital

#### Additional factors to consider:

- Location of properties
- Type of properties (oil, gas, marginal, long / short life, etc.)
- Concentration or diversity of properties
- Operated vs. non-operated
- Operator quality
- Value sensitivity to prices or operating expenses
- Abandonment liability issues
- Premium / discount due to industry mood (e.g., shale in favor, offshore out of favor)
- Open / limited list of buyers (e.g., partnership where the only buyers are other partners)

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### Potential For Increased E&P Transactions

- Since the downturn in commodity pricing, substantial bid / ask spreads have existed
- What changes that.....
  - Acknowledgement of lower for longer
  - RBL borrowing base redeterminations
  - Distressed situations may experience challenges arriving at POR and may shift toward asset sales
  - Non – core versus core after reducing costs
  - G&A synergies may drive consolidation

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### HEALTHCARE – IT'S THE MULTIPLES, AND MAYBE A BIT MORE

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## Going Concern Value – Industry Considerations

Highly Competitive

Government Ruling, Regulations & Oversight

CON States versus Non-CON States

Labor content ( Employed versus Independent Physician Group, Union versus Non-Union)

Reimbursement Rates and Payer Mix

Demographics ( Population age & health, growth)

The Affordable Care Act

Health systems versus Stand-alone entities

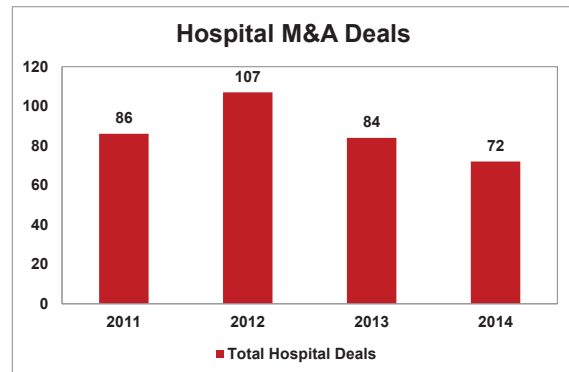
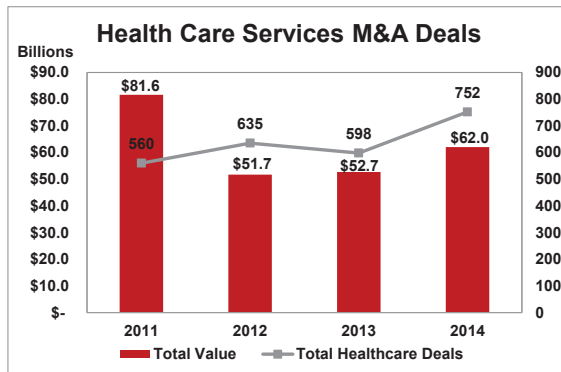
High M&A activity in recent years, overall consolidation in the industry

Shift to outpatient care

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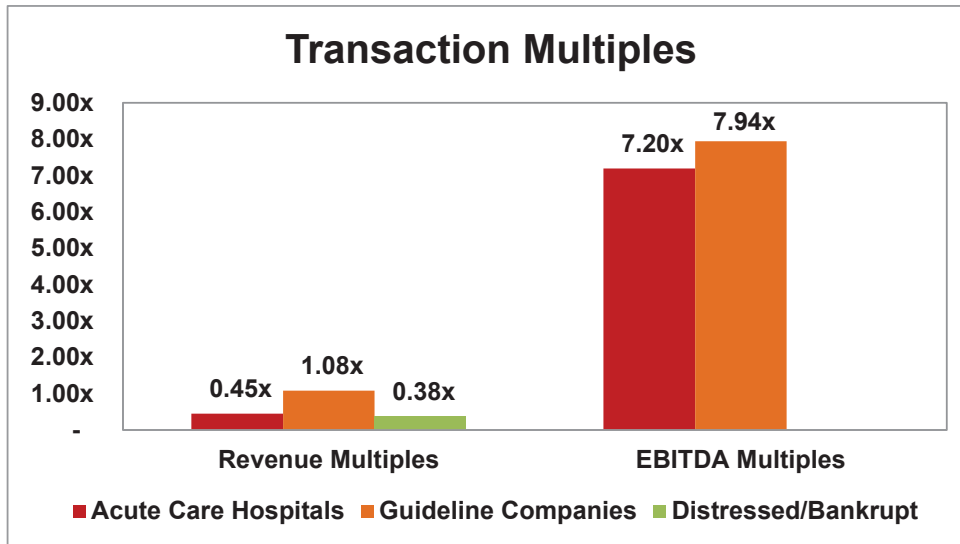
## Healthcare M&A Deals



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## Healthcare Transaction Multiples



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Distressed and Bankrupt Hospital Transactions							
(In U.S. Dollars, 000s)							
Target Company	Acquiring Company	Terms	Closing Date	Enterprise Value	Revenue	EBITDA	EV as a Multiple of:
							Revenue EBITDA
Baritan Bay Health Services	Meridian Health Systems	Distressed	Pending	n/a	\$ 246,660	\$ 10,040	n/a n/a
River Valley Health Partners	Prime Healthcare Services	Distressed	Pending	n/a	55,249	1,135	n/a n/a
Larkin Community Hospital Health System	Hollywood Hills Operator	Bankruptcy	Pending	17,000	107,006	4,359	0.16x 3.90x
Mercy Suburban Hospital	Prime Healthcare Services	Distressed	Pending	35,000	105,951	(37,372)	0.33x n/a
St. Michael's Medical Center	Prime Healthcare Services	Bankruptcy	Pending	62,200	103,631	(75,565)	0.60x n/a
Southern Regional Medical Center	Prime Healthcare Services	Bankruptcy	Pending	71,560	161,967	(16,594)	0.39x n/a
University General Hospital	Foundation Healthcare	Bankruptcy	Dec-15	33,000	70,182	n/a	0.47x n/a
Daughters of Charity Health System	BlueMountain Capital Management LLC	Distressed	Dec-15	n/a	1,200,000	(74,500)	n/a n/a
West Jefferson Medical Center	LCMC Health	Distressed	Sep-15	540,000	243,926	(2,326)	2.21x n/a
Parkview Adventist Medical Center	Mid Coast Hospital	Bankruptcy	Aug-15	3,800	28,248	(2,090)	0.13x n/a
St. Joseph's Hospital Health Center	Trinity Health System	Distressed	Jul-15	365,000	626,609	30,229	0.56x 12.07x
Skiff Medical Center	Mercy Medical Center - Des Moines	Distressed	Jul-15	n/a	34,212	(599)	n/a n/a
Southwest Regional Medical Center	Washington Health System	Distressed	Jul-15	n/a	30,654	1,431	n/a n/a
Westbury Community Hospital	Ethicus Mgmt Co. HopeBridge Hosp. Houston	Bankruptcy	Jun-15	4,000	16,318	(2,774)	0.25x n/a
Ty Cobb Regional Medical Center	St. Mary's Health Care System	Distressed	Jun-15	12,500	27,097	(6,796)	0.48x n/a
Lodi Health	Adventist Health	Distressed	Jun-15	190,000	168,137	4,943	0.59x 24.73x
Mineral Area Regional Medical Center	B/C HealthCare/Parkland	Distressed	May-15	27,800	40,179	(1,517)	0.69x n/a
Presence Our Lady of the Resurrection Medical Center	Munier Capital Group LLC	Distressed	Apr-15	30,000	n/a	n/a	n/a n/a
3 Alabama Hospitals	Curae Health	Distressed	Feb-15	n/a	62,853	(4,362)	n/a n/a
Harris Hospital	White County Medical Center	Distressed	Feb-15	n/a	32,399	(9,043)	n/a n/a
North Vista Hospital	Prime Healthcare Services	Distressed	Jan-15	n/a	126,349	(3,555)	n/a n/a
Callaway Community Hospital	Nuerra and MJ Health	Distressed	Jan-15	6,000	16,296	347	0.37x 17.25x
Valley General Hospital	EvergreenHealth	Distressed	Nov-14	n/a	35,545	(4,804)	n/a n/a
Morroe Hospital	Prime Healthcare Services, Inc.	Bankruptcy	Nov-14	8,150	41,938	(26,177)	0.19x n/a
Gaffney Medical Center	Community Health Systems	Distressed	Nov-14	n/a	47,689	(1,046)	n/a n/a
Texas Health Presbyterian Hospital - WNU	Aleco Healthcare Services	Distressed	Nov-14	n/a	115,190	(54,920)	n/a n/a
River Parishes Hospital	Ochsner Health System	Distressed	Nov-14	n/a	33,615	n/a	n/a n/a
Natchez Regional Medical Center	Community Health Systems	Bankruptcy	Sep-14	16,000	60,151	3,763	0.30x 4.78x
Fairmont General Hospital	Aleco Healthcare Services	Bankruptcy	Sep-14	15,300	96,600	n/a	0.16x n/a
St. Mary Health Corporation	Prime Healthcare Services, Inc.	Distressed	Aug-14	85,000	152,253	1,640	0.58x 51.83x
Emanuel Medical Center	Tenet Healthcare Corporation	Distressed	Aug-14	131,000	217,798	(35,618)	0.60x n/a
MedWest Health System, Inc.	DLP Healthcare, LLC	Distressed	Aug-14	36,000	105,672	3,952	0.34x 9.11x
Bedford Memorial Hospital	Centra Health, Inc.	Distressed	Jul-14	22,000	32,881	1,239	0.67x 17.76x
St. Francis Hospital	Westchester County Health Care Corporation	Distressed	May-14	45,000	145,341	(8,601)	0.31x n/a
Grandview Medical Center	TriStar Health	Distressed	Mar-14	n/a	24,464	(1,773)	n/a n/a
MedCentral Health System	OhioHealth Corp	Distressed	Mar-14	n/a	270,040	(12,701)	n/a n/a
				High	\$ 540,000	\$ 1,200,000	\$ 30,229 2.21x 51.83x
				Low	3,800	16,296	(75,565) 0.13x n/a
				Median	30,000	70,182	(2,208) 0.38x n/a

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## Questions