

STRATEGIC BUYERS LEAD STRONG RETURN OF 2021 DOMESTIC MARINE M&A ACTIVITY

DOMESTIC MARINE SERVICES INDUSTRY UPDATE | SEPTEMBER 2021



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Domestic Marine Services Industry

Strategic Buyers Lead Strong Return of M&A Activity

KEY INDUSTRY TAKEAWAYS

Capstone Partners' Transportation & Logistics (T&L) Group is pleased to share its Domestic Marine Services report. Through our ongoing conversations with active industry players and analysis of trends during COVID-19, we have identified several key takeaways below, followed by an in-depth overview of industry dynamics and insights from business owners on the following pages.

1. Merger and acquisition (M&A) activity in the Marine sector has rebounded, with 17 closed deals in the first half of 2021, compared to the nine closed during a turbulent 2020.
2. Demand for ocean shipping has risen as the worst of COVID-19 subsides, with container pricing spiking dramatically and U.S. ports experiencing congestion.
3. The International Maritime Organization (IMO) continues to impose emissions-related regulations on shippers in a move to achieve its 2050 net-zero goal.
4. Marine technology is rapidly developing in the industry to improve companies' operational efficiency.
5. Investment in marine technology has been significant, surpassing \$1 billion in 2021, with a focus on late-stage or private equity growth investments.
6. Financial buyers are paying premiums for disruptive marine technology companies as they have experienced growing adoption within various industry segments.

Capstone Partners has developed a full suite of corporate finance solutions, including M&A advisory, debt advisory, financial advisory, and equity capital financing to help privately owned businesses and private equity firms through each stage of the company's lifecycle, ranging from growth to an ultimate exit transaction.

To learn more about Capstone's wide range of advisory services and Domestic Marine Services industry expertise, please contact Capstone Managing Director [Burke Smith](#).

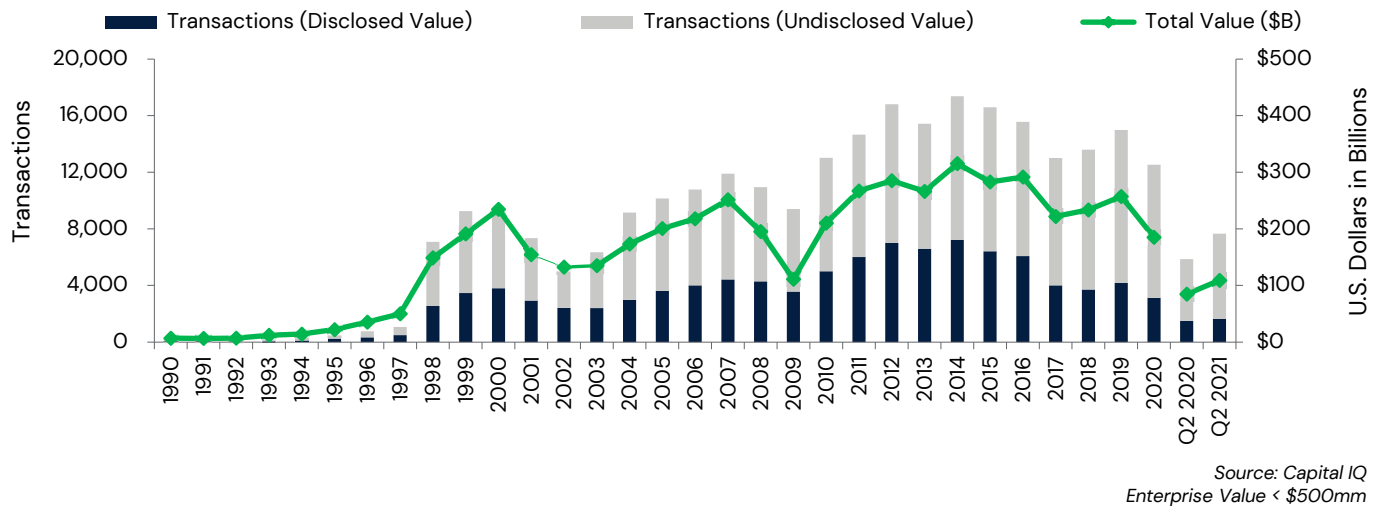
MIDDLE MARKET M&A ACTIVITY NORMALIZES FROM Q2 2020

The overall M&A market is recovering rapidly from the early days of the COVID-19 pandemic and record-breaking deal flow is slated to continue through the end of the year. Middle-market deal volume is up 78% compared to Q2 2020 with the average transaction value increasing to \$70 million. Total U.S. deal value has surpassed \$1.8 trillion with more than 50 deals in excess of \$5 billion. The following macro trends have been most impactful in driving the overall M&A boom:

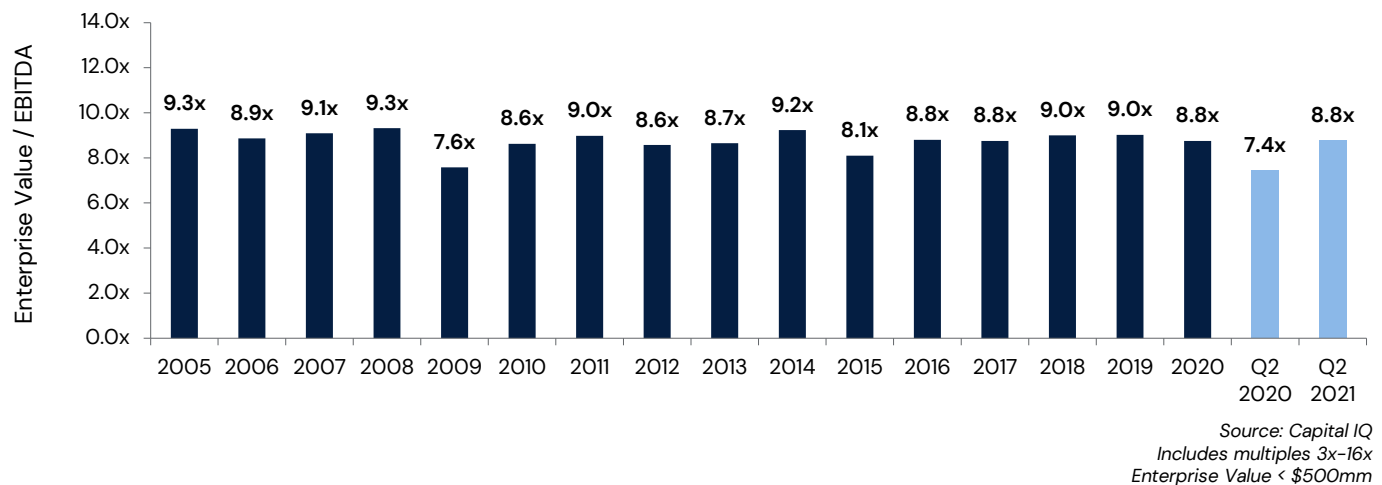
Macro Trends Driving M&A Activity:

1. Both strategic and private equity buyers are demonstrating a willingness to pay higher premiums for accretive acquisitions, contributing to more robust valuations.
2. The persistence of ultra-low interest rates by the Federal Reserve allows for more aggressive borrowing and greater purchasing power for buyers.
3. The prospect of capital gains tax increases outlined by the Biden Administration is motivating new sellers into the market.

Middle Market Transactions



Middle Market Average EBITDA Multiple



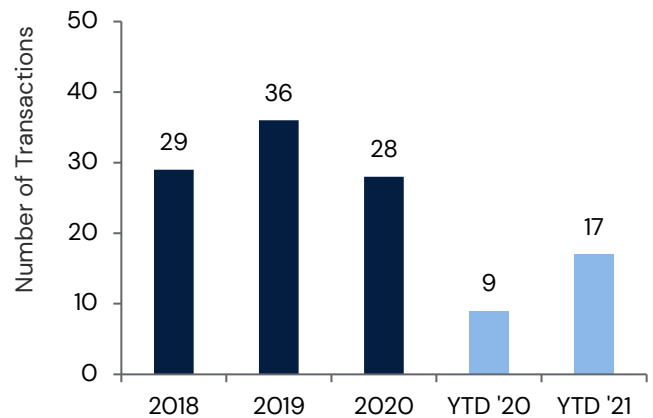
DOMESTIC MARINE M&A ACTIVITY RESURGES

Merger and acquisition activity in the Domestic Marine Services industry has bounced back sharply as the COVID-19 pandemic wanes. Compared to a quiet first half of 2020, M&A volume within the space has seen a resurgence with nine deals closing through August 6th 2021 compared to 17 deals during the same period in 2021. The number of deals is projected to near 2019 levels by year end.

Year-to-date (YTD), strategic acquirers accounted for the majority of deals (75%), with financial buyers comprising the remaining 25%. While financial sponsors are active in the space, 2021 capital raise data suggests that their focus has turned towards less mature companies (see page 13). This data supports the consolidation trend of larger players expanding their geographic presence through add-on acquisitions. In the Liner industry, the market share of the top five companies has more than doubled from 31% in 2000 to 65% in 2021, according to Alphaliner.¹ Marine SMBs (small and medium sized businesses) in more fragmented spaces such as Tug & Barge remain resilient by servicing niche local waterways and have the freedom to grow organically or by acquiring other regional specialists.

One of the most significant domestic marine deals of 2021 is Brunswick's (NYSE:BC) acquisition of the Norwegian company Navico for \$1.1 billion, at approximately 12x adjusted EBITDA. Brunswick, an American marine vehicle giant, is seeking to enhance its Advanced Systems Group (ASG). Navico specializes in producing artificial intelligence (AI)-enabled marine electronics, which Brunswick expects will accelerate its automation and connectivity strategy. With Navico's high revenue stream (\$470 million May 2021 trailing twelve months) and capital efficiency, the firm expects to realize significant revenue and cost synergies. Strategic acquisitions like these have been prevalent this year, as COVID-19 accelerates certain companies' life cycles and as firms seek to diversify their offerings. "The acquisition of Navico and its award-winning brands will immediately accelerate Brunswick's ACES (Autonomy, Connectivity, Electrification and Shared-Access) strategy, and support our vision to deliver distinctive new products and technology-enabled experiences," Dave Foulkes, CEO of Brunswick, said in a press release.²

M&A Transaction Volume



Year-to-date (YTD) as of August 6
Source: Pitchbook and Capstone Research

Notable 2021 Deals



April, Undisclosed – International Marine & Industrial Applicators' add-on acquisition of Main Industries enhances its preservation services for U.S. Naval fleets.



February, \$377 Million – Leidos' acquisition of Gibbs & Cox bolsters its marine architecture and engineering capabilities to naval forces around the world.



January, Undisclosed – Encore Dredging Partners' & AV Capital's acquisition positions Inland Dredging for geographic expansion of dredging services

Source: Capital IQ and Capstone Research

MARKET UPDATE: UNPRECEDENTED OCEAN SHIPPING COSTS

In the wake of COVID-19, carriers have been overwhelmed with consumer demand – especially ocean shipping as ocean container indices have more than quadrupled since 2020. This pricing environment reflects elevated demand for goods amidst a gross shortage of containers and rigid port congestion. Worker shortages have exacerbated the pains. March 2021's obstruction of the Suez Canal further disrupted the global supply chain and exposed many carriers' overreliance on several passages and geographies.

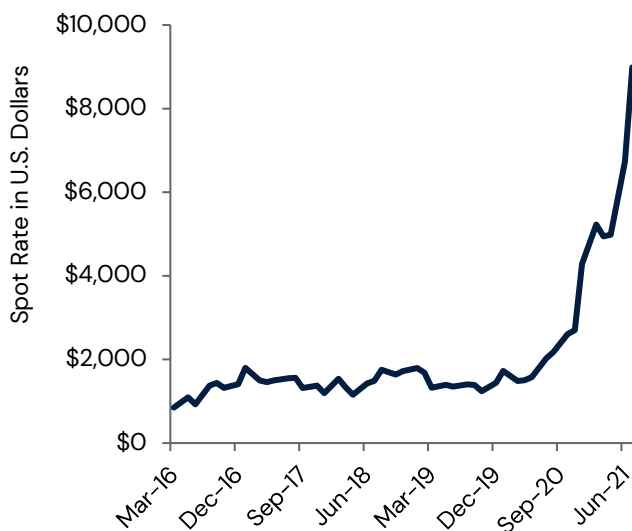
Among the most expensive trade routes is the Shanghai to Los Angeles passage, currently priced at \$9,733 for a 40-foot container, 236% higher than a year ago, according to Bloomberg.³ These surging transportation prices have squeezed shippers and left them strategizing over passing these costs onto customers. Prices will only start to ease once key ports can receive and distribute open containers and free up berth space, which pundits don't foresee happening in the coming months.

The bottlenecks at the ports of Hueneme, Los Angeles, Long Beach, and San Diego are key indicators of marine supply chain health. Before December 2020, the total number of anchored ships (ships waiting to offload) at these four ports hovered around five, according to The Marine Exchange of Southern California.⁴ However, as the holiday season began, ports were unprepared, lacking sufficient labor and equipment to handle the volume of imports. Ships quickly piled to a backlog of 30 to 40 vessels for several months. While the bottlenecks have eased off their peak as the economy revives its Services sector, ports are anticipating elevated wait times through the end of the year with lingering supply chain difficulties and a steady flow of goods shipped in the fall and holiday seasons.

The bottlenecks of containers and berth spaces translate to sustained heightened spot rates for 20-foot and 40-foot containers, creating opportunities for M&A in the industry. Capstone expects larger carriers to acquire smaller carriers ailing from low pricing power and capital unmaneuverability and smaller companies to diversify their service offerings into other marine business segments.

Despite the lingering supply chain buildups, the Maritime Shipping industry looks robust entering the second half of 2021 as the U.S. economy rapidly recovers behind the support of strong consumer spending and manufacturing activity.

World Container Index
2016-2021 (Composite)



Source: Drewry

Anchored Ships at Four Key SoCal Ports



Source: Marine Exchange of Southern California & Vessel Traffic Service L.A./Long Beach

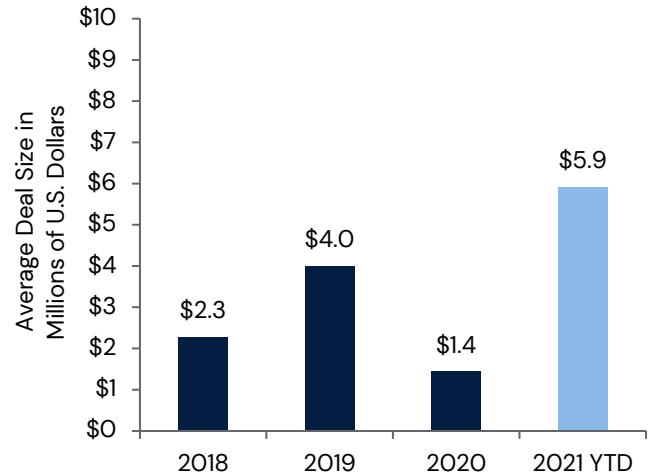
SEGMENT HIGHLIGHT: CARBON-NEUTRAL VESSELS

As the IMO and the European Union crack down on vessel emissions, companies have sought to invest in technology that will lessen the impact of litigations on their bottom lines and position them as leaders in the race to address climate change. Large marine shippers with the requisite capital have developed their own carbon-neutral vessels. For example, maritime giant Maersk (CPSE:MAERSK B) will begin using these ships in 2023, well before its 2030 target, according to a press release.⁵ These new vessels will be powered by bio-fuels, solar panels, or wind, and will result in tremendous long-term fuel and emissions savings. These capital expenditures are uneconomical for many smaller shippers, leaving them to partner with companies that commercially produce these vessels and perform the research and development behind them. Consequently, venture capital is pouring into the space. Sea Machines, a developer of autonomous solar-powered vessels and software, has received \$34.6 million in capital

as of November 2020. This is the most of any company in the space. It boasted a pre-money valuation of \$70.0 million in October 2020, with investors attracted to the innovative maritime technology and ability to win government contracts with the U.S. Department of Transportation and the Navy. Capital investment in this vertical has heated up in the last four years, with many companies still focused on niche markets. Saildrone, for example, uses similar vessels to map ocean datasets and has fetched \$88.5 million in funding. Other activity includes venture firm Eniac's investment in Bedrock (\$8.0 million) and Fontinalis Partners' investment in Autonomous Marine Systems (AMS) (\$1.6 million). These companies both have patented solar and wind infrastructural designs that power marine vehicles, which make enticing acquisition opportunities for marine service providers seeking to lower their carbon footprint.

The impact of regulation on greenhouse gas emissions for marine shippers is increasingly tangible and companies are ramping up their investment in zero-carbon technologies to avoid a significant hit to their earnings and reputational damage from harming the environment. Retrofitting one's assets and operations is a costly exercise, but green technology and infrastructure have become increasingly viable options and investors have backed companies taking on these initiatives.

Marine Net-Zero-Related Venture Capital Deals



Year-to-date (YTD) as of August 6
Source: Pitchbook and Capstone Research

SeaTrac Systems Receives \$1 Million in Late-Stage VC Round (March 2021)



- The \$1 million in financing is expected to speed up the deployment of autonomous, carbon-neutral vessels in the sea.
- Not only are SeaTracs' vessels green and unmanned, but they also have patented autonomy software that can contribute to frothier multiples.

“

SeaTrac's customizable USVs offer a simple, cost-effective and open platform to perform the dangerous, dull and dirty work with greater efficiency over current methods.

”

– Buddy Duncan
Co-Founder, SeaTrac Systems

SEGMENT HIGHLIGHT: MARINA MANAGEMENT SOFTWARE

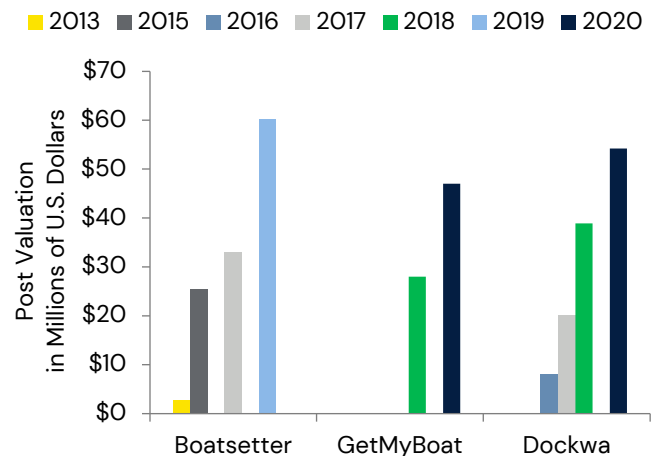
Technology-enabled services are becoming increasingly prevalent in the Marine industry, with automation being a key focus area. Marina and shipyard managers have been looking to marina management software to automate tasks and save resources that can be invested elsewhere. The interest in digitization is supported by a recent surge in venture-backed capital raises, with investors sharing the belief that this software will be a major disruptor for the Marine industry.

There have been at least five major venture-backed deals relating to marina/boating management software since the beginning of the pandemic, with an average capital raise size of about \$4.5 million. Before the pandemic, these deals were scarce, with only two noteworthy deals in 2019.

Dockwa, one of the top companies in this vertical, digitizes reservations, contracts, invoices, and other previously paper-based processes. The software has enabled significant cost savings for clients, improving operating income by an average of 20%, according to the company's case study.⁶ In September 2020, Dockwa raised \$14.2 million in Series B funding, with a post-money valuation of \$54.2 million. DockMaster, another leader in marina and boatyard management software, has expanded tremendously thanks to growth capital provided by MyTaskIt, a subsidiary of software strategic Valsoft.

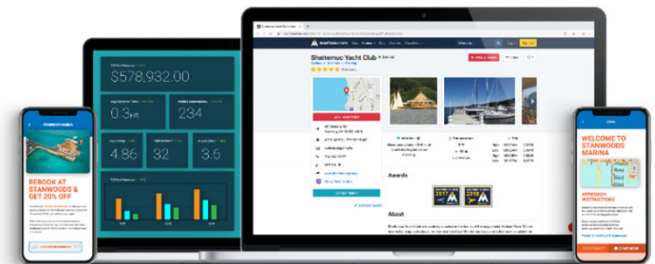
Commercial marina platforms, such as peer-to-peer boat rental marketplaces, have also fared well. Boatsetter has raised \$31 million at a valuation of \$60 million in 2019 and GetMyBoat garnered \$14.8 million in 2020 at a valuation of \$47 million. Investment firms are understanding the potential of this type of software and are willing to pay a premium to capitalize on its growth.

Top MMS Post Valuations (2013 – 2020)



Source: Pitchbook and Capstone Research

Dockwa's Application Interfaces



Startup Spotlight



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It turns out Boating is a \$47 billion dollar industry that, at least on the marina side, has been largely cash-based and unstructured for its entire history. It felt like a digital marketplace waiting to happen. We believed, and it's turned out to be true, that if you digitize, you can unlock a lot more growth and help these operators simplify their lives.

//

– Mike Melillo, Co-Founder & CEO
The Wanderlust Group, Parent Co. of Dockwa



MARINE PUBLIC COMPS

Company	52-Week Range				Q2 2020		Q2 2021 Revenue			Q2 2021 EPS			Q3 2020		Q3 2021 Estimates	
	PX	Low	High	EV/ EBITDA	Rev.	EPS	Actual	Est.	S / M	Actual	Est.	S / M	Rev.	EPS	Rev	EPS
Maersk	2,861	1,447	3,062	4.27	8,997	21.00	14,230	14,169	0.4%	193.00	178.56	8.1%	9,627	7.00	15,124	14.89
Ardmore	3.40	2.61	5.43	30.89x	68	0.41	47	26	83.3%	(0.24)	(0.26)	7.0%	55	(0.30)	26	0.40
Atlas	14.75	8.25	14.87	8.62x	364	0.26	394	388	1.6%	0.18	0.31	-42.4%	275	0.10	409	0.25
DHT	5.49	4.52	6.84	7.06x	246	0.81	66	50	30.9%	0.00	(0.10)	104.6%	106	(0.07)	41	0.87
Frontline	7.37	5.28	9.21	15.25x	387	1.01	170	93	83.3%	(0.13)	(0.11)	-22.5%	193	1.01	73	1.02
Kirby	55.64	35.10	70.60	12.7x	541	0.42	560	533	5.1%	0.17	0.13	33.9%	771	0.79	592	0.44
Matson	78.78	36.78	79.05	5.45x	524	0.76	875	857	2.1%	3.71	3.67	1.1%	558	0.43	935	0.73
Average				12.04x	1,590	3.52	2,335	2,302	1.4%	28.10	26.03	8.0%	1,655	1.14	2,457	2.66
Median				8.62x	387	0.76	394	388	1.6%	0.17	0.13	33.9%	275	0.10	409	0.73

Source: Capital IQ as of August 28, 2021



SELECT M&A TRANSACTIONS

Date	Target	Acquirer	Target Business Description	Enterprise Value (mm)	EV / LTM Revenue	EBITDA
08/18/21	SEA.O.G Offshore	Crosby Tugs	Provides tug and barge and logistics solutions to the offshore energy industry.	-	-	-
08/13/21	U.S. Shipping Corp.	SEACOR Holdings	Provides marine transportation services for chemical and petroleum products.	-	-	-
07/15/21	Waterfront Shipping	Mitsui O.S.K. Lines	Provides marine transportation services.	\$362.5	-	-
06/24/21	Fraser Industries	Infrastructure Acquisition Partners	Offers shipyard services for vessels.	-	-	-
04/19/21	Dredging Assets of RLB Contracting	Encore Dredging Partners	Provides dredging and marine infrastructure services.	-	-	-
02/23/21	Gibbs & Cox	Leidos (NYSE:LDOS)	Provides engineering and design services to the Naval market.	\$376.0	-	-
02/17/21	Rand Logistics	Oaktree Capital Management	Provides bulk freight shipping services throughout the Great Lakes region.	-	-	-
02/02/21	Devall Towing & Boat Services	Southern Towing Company	Offers bulk shipping services for specialty chemicals.	-	-	-
01/05/21	Inland Dredging Company	Encore Dredging Partners	Provides dredging services.	CF	CF	CF
12/28/20	Saltchuk Marine Services	Centerline Logistics	Provides ship refueling in California.	-	-	-
12/07/20	SEACOR Holdings	American Industrial Partners	Owns and operates equipment in the Offshore Oil & Gas, Shipping, and Logistics industries.	\$1,128.0	1.5x	11.3x
12/03/20	Horizon Terminals	AMPORTS	Owns and operates marine terminals.	-	-	-
10/27/20	Veris Environmental, AWS Dredge	Denali Water Solutions	Provides environmental remediation and dredging services.	-	-	-
10/05/20	Intermarine Americas	SAL Heavy Lift	Provides ocean transportation and marine logistics solutions.	-	-	-
06/12/20	Gusgo Transport	TFI International (TSX:TFII)	Provides marine transportation and distribution services.	-	-	-
04/09/20	Ardent Americas	Royal Boskalis (ENXTAM:BOKA)	Provides emergency response services to the Marine industry.	-	-	-
02/10/20	American Steamship Company	Rand Logistics	Provides waterborne transportation services on the Great Lakes.	\$376.0	-	-
02/04/20	Hydroid	Huntingdon Ingalls Industries (NYSE:HII)	Manufactures marine robotic systems.	\$350.0	3.6x	23.2x
12/26/19	Alaska Tanker Company	Overseas Ship Group (NYSE:OSG)	Provides ship management and marine transportation services.	\$58.0	-	-
11/05/19	JGP Energy Partners	Jefferson Energy Holdings	Focused on creating a world class intermodal export and import distribution.	\$29.0	-	-
07/12/19	Ridley Terminals	AMCI Group, Riverstone Holdings	Owns and operates a marine bulk handling terminal.	\$268.4	2.9x	-

Blue shading represents Capstone advised transaction; CF = confidential
Source: Capital IQ, PitchBook, FactSet, and Capstone Research



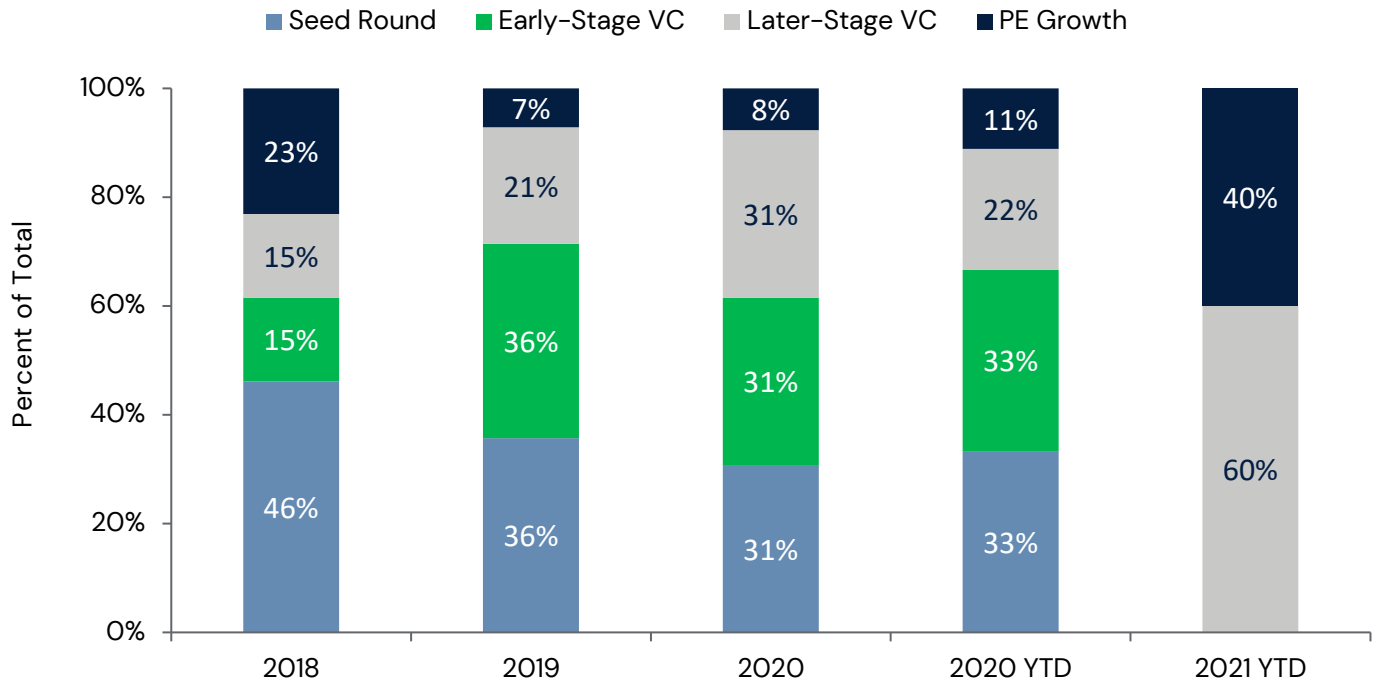
SELECT CAPITAL RAISES

Date	Target	Lead Investor	Target Business Description	Type	Deal Size (mm)	Post-Val (mm)
03/16/21	SeaTrac	Undisclosed	Manufactures solar-powered autonomous surface vessels.	Later-Stage VC	\$1.0	-
01/05/21	Encore Dredging Partners	AV Capital	Provides dredging services.	PE Growth	-	-
01/01/21	Molo	Uncommon Denominator	Develops a marina management platform.	Later-Stage VC	-	-
12/21/20	Dive Technologies	Tanis Venture Management	Develops underwater vehicles intended to offer ocean exploration services.	Early-Stage VC	\$4.0	-
12/07/20	Ocean Freight Exchange	MaC Venture Capital	Develops an efficient marketplace for the Bulk Shipping industry.	Seed Round	\$1.8	\$14.3
10/28/20	Sea Machines	Huntington Ingalls Industries/ Accomplice	Manufactures solar-powered autonomous surface vessels.	Later-Stage VC	\$20.0	\$70.0
08/24/20	Shipln	Two Lanterns Venture Partners	Develops operational analytics solutions for the Maritime industry.	Early-Stage VC	\$1.8	\$10.0
07/24/20	Enstructure	Undisclosed	Operates bulk terminals.	PE Growth	\$36.0	-
05/27/20	Seafair	FJ Labs	Operates a maritime crewing marketplace.	Seed Round	\$0.8	\$1.8
02/18/20	blkSAIL	SeaAhead	Develops maritime software designed to help ships in finding navigation.	Early-Stage VC	-	-
02/10/20	HALO Maritime Defense Systems	Undisclosed	Develops maritime security barrier systems.	Later-Stage VC	\$2.9	-
01/09/20	OceanGate	Undisclosed	Develops manned submersible technology for underwater exploration.	Later-Stage VC	\$18.1	-
10/18/19	Burmester & Vogel	Undisclosed	Develops a demurrage software.	Later-Stage VC	\$1.7	\$6.7
08/21/19	Voyager	Greenhawk Corporation/ Phaze Ventures/ ATX Venture Partners	Develops a marine supply chain management platform.	Seed Round	\$1.5	-
04/01/19	Shone	Soma Capital/ Tjuvholmen Ventures/ Flight Ventures	Develops a shipping automation platform for ocean trade.	Early-Stage VC	\$4.0	-
03/26/19	IoCurrents	Imagen Capital Partners	Operates a boat monitoring platform.	Early-Stage VC	\$5.0	-
03/01/19	Boundary Layer Tech.	V1.vc/Fifty Years/ Hack VC	Designs hydrofoil container ships.	Seed Round	\$2.3	-
02/25/19	Nautilus Labs	M12	Develops a marine logistics platform.	Seed Round	\$11.0	\$40.0
02/19/19	RidgeBury Tankers	Riverstone Energy	Provides marine shipping services.	PE Growth	\$18.0	-
12/10/18	Sea Machines	Accomplice VC/ Eniac Ventures	Manufactures solar-powered autonomous surface vessels.	Early-Stage VC	\$10.0	\$27.0
11/29/18	T. Parker Host	Metalmark Capital	Provides maritime agency services.	PE Growth	-	-
11/15/18	BlueCargo	Cathexis/Zeno/ Lombardstreet	Develops a freight technology platform.	Seed Round	\$3.3	-
01/05/18	Enstructure	Mavington Capital	Operates bulk terminals.	PE Growth	\$126.5	-

Source: Capital IQ, PitchBook, FactSet, and Capstone Research

DOMESTIC MARINE CAPITAL RAISE DATA

Breakdown of 2021 Marine Capital Raises



Year-to-date (YTD) as of August 6
Source: Pitchbook and Capstone Research



Burke Smith, Managing Director

"Marine services is a focus for Capstone Partners. We have completed five deals in the space over the last few years. Covid-19 has shifted supply chains, pushed service providers to go digital and delayed the deployment of investment capital. As a result, we see increased interest from buyers and arguably the hottest seller's market in recent memory. On the sell-side, many companies are going to market in a race to avoid potential capital gains hikes from the Biden Administration. With both buyers and sellers looking to do deals, the market is chaotic, making it imperative for sellers to find an advisor with deep marine experience to cut through the noise and find an attractive deal."



MARINE REPORT CONTRIBUTORS

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Burke brings to Capstone Partners over 20 years of experience as an advisor to or leader of middle market companies, including several asset-based trucking and warehousing operations. Over his career as an M&A advisor, Burke has executed more than 45 transactions with a combined value in excess of \$40 billion.

Burke began his career working on Wall Street. He initially trained at Wasserstein Perella & Co., where he worked directly for famed M&A banker Bruce Wasserstein. Burke then joined Donaldson, Lufkin & Jenrette (DLJ) as an early member of the firm's Exclusive Sales Group, which became one of the most successful middle market sell-side advisory practices on Wall Street. Following the acquisition of DLJ by Credit Suisse, Burke joined UBS as an Executive Director in the mergers and acquisitions group.

**Nathan Feldman**

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Nathan joined Capstone Partners in 2015 and while he has held multiple different roles at the firm, he currently works as an investment banking associate on the firm's Transportation & Logistics team. His responsibilities primarily include helping middle market business owners throughout the industry execute exit, recapitalization, and capital raise transactions. Nathan earned his BA from Brandeis University with a degree in English, Business and Physics.

FIRM TRACK RECORD

Capstone has represented numerous companies that serve the marine services needs of small to midsize businesses, federal or state governments, the United States Navy, and environmental agencies. Sample recent engagements include the following:

<p>CONFIDENTIAL PRE-MARKET</p> <p>PROVIDER OF ENVIRONMENTAL DREDGING SERVICES</p>	<p>CONFIDENTIAL SHIP REPAIR & FABRICATION</p> <p>HAS BEEN ACQUIRED BY</p> <p>UNDISCLOSED BUYER</p>	<p> inland dredging quality · integrity · accountability</p> <p>HAS BEEN ACQUIRED BY</p> <p> ENCORE DREDGING PARTNERS</p> <p> AVCapital</p>
<p></p> <p>HAS BEEN ACQUIRED BY</p> <p></p>	<p> VIGOR</p> <p>HAS BEEN ACQUIRED BY</p> <p> THE CARLYLE GROUP</p> <p></p>	<p> Andrie</p> <p>HAS BEEN ACQUIRED BY</p> <p></p>

//

Rarely do you have the pleasure of working with a diverse team of dedicated, honest, and hard-working individuals with the sophistication of a big bank and none of the ego. Throughout the process, Vigor felt supported and well-represented, which helped focus my thinking and emotions as a seller. The Capstone bankers became a cohesive team with the key leaders at Vigor in a way that feels uncommon for a banker-client relationship. Long term relationships have been born out of this deal, and I wasn't expecting that. Ultimately, the team found the kind of buyer that was appropriate for the growth path of the business.

//

Frank Foti
Chairman, CEO and President, Vigor Industrial



ENDNOTES

1. Alphaliner, "Alphaliner Public Top 100," <https://alphaliner.axsmarine.com/PublicTop100/>, accessed August 5, 2021.
2. Brunswick, "Brunswick to Acquire Navico...," <https://www.brunswick.com/news/press-releases/detail/596/brunswick-to-acquire-navico-will-enhance-leadership>, accessed August 25, 2021.
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