In operations for over 168 years, Clarkson plc ("Clarkson") is a U.K.-based shipping broker. It arranges contracts between a buyer and seller (or lessee and lessor) of a variety of ships and equipment, including dry cargo, containers, tankers, liquefied natural gas ("LNG"), and offshore drilling rigs and equipment. In this capacity, it collects a fee that is based on the value of the transaction. Although the company offers other services for the shipping industry, including investment banking, support services, and research, broking is its largest operating segment, representing 74% of total revenues. As a broker, it connects companies requiring transportation services for their cargo with companies owning vessels that are able to transport the cargo, thus facilitating seaborne trade. As such, Clarkson is the leading provider of integrated shipping services worldwide. Its longevity is a testament to the essential nature of this business: a commercial party with the simple goal of having some goods freighted by ship must be able to locate a ship suitable for the cargo (refrigerated for perishable food, or a bulk carrier for dry chemicals, etc.). Suitability criteria include whether it will be fully or partially available as to capacity, what the pricing and other terms will be, and whether it will arrive at the destination port, among the many it might visit, within a given time window. This is, essentially, an information business.

Indeed, the company views itself as an information service provider. It maintains in-depth data on all aspects of shipping, including data on over 135,000 vessels, 40,000 companies and 600 shipyards, as well as extensive proprietary trade and commercial database developed through its many years in operations. This differs from the typical investor's perspective, which views Clarkson merely as a cyclical company whose fortune is tied to the shipping industry.

It is for this latter view that investor sentiment has remained negative towards Clarkson. This is because the shipping industry has been in a severe depression since 2008 – it is one of the few industries that has not recovered from the Great Credit Crisis. The primary cause for this is the overcapacity of shipping developed just prior to 2008. New ship orders were made before the crash and, since it takes years for a ship to be built, the overcapacity has not relented.

Nevertheless, throughout this challenging period, Clarkson has managed to increase revenues and maintain its profitability. This has been due, in part, to M&A activities pursued by the company. It is also due to the natural operating structure of an information-based business model; that is, very little is required in capital expenditures. This is quite astonishing, given that many shipping companies are operating under duress. Indeed, the consensus is that many, if not most, of the shipping companies are more apt to seek bankruptcy than to experience a revival. It does help that Clarkson holds over £175 million in cash balances and maintains virtually zero debt. Thus, in stasis, the company could remain solvent indefinitely.

Therefore, one must consider the amount of earnings power that Clarkson could produce when the operating environment normalizes. For instance, the Baltic Dry Index (costs for shipping dry bulk commodities, like coal, grain and iron ore) is 72% lower since 2014, and the China Containerized Freight Index is 18% lower over the same period. Despite that, Clarkson's 2019 revenues, on a per share basis, are flat relative to 2014 results, its pre-tax operating income is 23% higher, and its dividend is 30% higher. Although the COVID-19 pandemic will undoubtedly pressure shipping further, Clarkson already has experience in operating during challenging business environments throughout its existence. At some point, the pandemic will end. Moreover, as new shipbuilding declines, the shipping rates will recover, which will have a positive effect on Clarkson's earnings, since its fees benefit not only from increased activity, but are also based on shipping rates. Moreover, other factors will come into play that should be beneficial to Clarkson's business. For example, as the calls for lower carbon emissions become louder, many of the older ships that are not equipped to meet the standards will be retired. The reduction in the supply should lead to higher rates.

There is also the overlooked potential from the proliferation of wind farms within the alternative energy industry. It has been demonstrated that wind farms require regular maintenance. As the farms are typically located offshore, support vessels will be required to provide the maintenance services, so that any contracts that are signed will provide Clarkson with incremental earnings opportunities. This could be an enormous opportunity that is wholly ignored by the investment community.

Ultimately, it should be appreciated that approximately 85% of world trade is carried on ships, and therefore there will continue be a need for ship brokers. Given the desire for countries, especially less developed countries, to improve their citizens' living status, global trade is likely to increase, not decrease. As a consequence, Clarkson provides an essential service that is difficult to duplicate (informational database) with substantial, yet dormant, earnings potential. As of late March 2020, the company has a stock market capitalization of £680 million, and produced after-tax free cash flow of just under £50 million in 2019. As a debt-free information-based company, yet with substantial cyclical optionality, it trades at about 14x trailing free cash flow.

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