FINANCIAL

Legal Eagle deal is 'win win' for all

Lawyer Lawrence Rutkowski hails the UK bank's willingness to work out a restructuring plan to help prevent the beleaguered company going into Chapter 11 bankruptcy.

Joe Brady New York

Veteran lawyer Lawrence Rutkowski found himself in the midst of a conversation with another delegate at Marine Money's annual New York conference when the chat turned to who might be the next shipowner to fall into Chapter 11 bankruptcy.

So, when the other man guessed Eagle Bulk Shipping, Rutkowski had to bite his tongue. The delegate could not have known that the Seward & Kissel partner had spent a good part of the past few months negotiating a restructuring deal with Eagle's banking syndicate. The settlement was due to be announced a few hours later.

"I think my comment was something like, 'that's interesting'," Rutkowski said in an interview with TradeWinds.

In truth, more than one person harboured doubts over whether Eagle had a way out of its months-long dispute with lenders, led by the Royal Bank of Scotland (RBS), and that was reflected in the New York company's stock price, which had dropped below $3 per share.

Instead, Eagle got a deal that has been almost universally hailed by equity analysts, financiers and owner executives as extremely — even surprisingly — favourable to the Nasdaq-listed company.

Some even suggest it could prove a template for other struggling owners as they work to resolve issues with banks that remain none too eager to take writedowns and repossess vessels.

"This is really what I've been spending the bulk of my time on over the past several months," Rutkowski said. "But, at the end of the day, I'm just a lawyer, not an analyst or an investment banker.

"Whether the deal was a success or not ultimately was going to be determined by the market. When the stock went up 40% the next day, I guess people felt it was a good deal for Eagle and its shareholders.

"Unlike what would have happened in a Chapter 11, the company's shareholders still have some value. We managed to do a deal that did not present the banks with a huge problem of writedowns and flood the market with dozens of vessels at once. These are all good developments, so it is probably a win-win for everyone involved."

Seward & Kissel represented Eagle when the $1.6bn syndicated loan was negotiated in 2007, at the height of the dry-bulk market, although Rutkowski didn't become involved until later when problems started to emerge.

The bank market shifted while the loan was in the syndication process and RBS got stuck holding more than $1bn of the paper. The dry-bulk market would fall soon after — and when the financial crisis struck in 2008, RBS foundered and was forced to accept a bailout from UK taxpayers.

Eagle and the lenders agreed on amendments to the original loan terms but, by May 2011, it emerged that RBS claimed Eagle was in default on a key covenant. It also was rumoured at that point that Eagle was negotiating with a workout team rather than "relationship bankers" in the shipping department, led by veteran Lambros Varnavides.

PRAISE: Veteran lawyer Lawrence Rutkowski (left) has credited RBS with keeping

"The fact that a new cast of characters emerged on the other side of the table certainly changed the dynamic," Rutkowski said.

The covenant dispute oddly saw Eagle claim it had failed to regain compliance with the original loan terms, and RBS allege Eagle had achieved compliance but fallen out.

"It put a lot of weight on things early on," Rutkowski said. "It really was the trigger that started the talk of restructuring and ended the talk of amend and extend. I don't think things necessarily got off on the right foot with that dispute."

Did Eagle ever raise the threat of declaring Chapter 11 as negotiations got bogged down?

Rutkowski declined to answer directly.

"All the parties realised that Chapter 11 probably wasn't going to happen but that it could hurt them," he said. "In restructuring talks, the spectre of Chapter 11 always looms."

Rutkowski credits RBS with keeping syndicate members together, and adds that Varnavides and lieutenant Colin Manchester were never fully out of the talks.

"They did not go away," he said. "They did exercise some degree of influence on their colleagues."

For Eagle's management, there is a collective exhale.

"Everyone felt considerable relief," he said. "A lot of management time got taken up in this. Now management can refocus on their shipping business. It was an epic battle for the company's survival — and the company survived."

Lawrence Rutkowski: "Unlike what would have happened in a Chapter 11, the company's shareholders still have value. We managed to do a deal that did not present the banks with a huge problem of writedowns and flood the market with dozens of vessels at once. It is probably a win-win for everyone involved."

PETER EVENSEN: Teekay Corp's chief executive Photo: Teekay Corp

Teekay on a high as solid few

Joe Brady New York

The contraction in bank lending that has proved so punishing to most shipowners is having the opposite effect for the few who have the clout to continue borrowing.

Teekay Corp chief executive Peter Evensen didn't shy away from it during a side session with TradeWinds at the Marine Money conference in New York, noting that the big Canadian group of companies is oddly benefiting from the trend.

Evensen, a banker by trade before he arrived at Teekay, has been known to tease lenders about their largesse in peak shipping markets, citing scant loan margins, high advance ratios, light covenants and, in some cases, no vessel security.

While he acknowledges those days are gone — even Teekay pays more for its debt with tightened conditions — the company's relative position has become stronger.

"Actually, I've been pleasantly surprised. What you read in the papers is not reality," Evensen said. "Bankers still have capital. But their client lists have been dialled back to the people who they think are the best. They're not lending money for the sake of lending money, they're lending money for strategic reasons.

"So I've been pleased that Teekay, in a weird way, has benefited from the tightness that comes with the capital. The pricing has gone up but having money when other people don't has once again become an important aspect. That actually improves Teekay's

syndicate members together. Photos: Scanpix and Seward & Kissel LLP

Deal 'a template for future'

Eagle Bulk' Shipping's announcement of a favourable debt-restructuring deal prompted some pundits to call it a template for future owner-bank agreements. It turns out Eagle's management has that view too.

"No two deals are identical but we believe this one will set the new template," said chief financial officer Alan Ginsberg in a statement to TradeWinds. "I haven't had anyone who has read the terms tell me it looks like any deal they've seen to date."

While Eagle commented no further, the real story of the management's happiness was evident in the grins from Ginsberg and chief executive Sophocles Zoullas as they navigated a Jefferies cocktail reception and a gauntlet of backslaps.

The client note from Jefferies's Doug Mavrinac the next day was typical of reactions: "The agreement is highly attractive to both Eagle Bulk and [its] shareholders as [it] provides the company with significant runway for a market recovery with minimal dilution."

Eagle escapes mandatory principal payments until the end of 2015, with the potential to extend to mid-2017. It also gets a new $20m "liquidity" loan.

In exchange, it is paying a higher interest rate and giving its banks a part of the company. The loan margin grows from 250 basis points to 350 over the London Interbank Offered Rate (Libor) and there is an additional 2.5% to be "payment in kind" – paid in cash or convertible shares.

Banks led by Royal Bank of Scotland (RBS) get up to 19.9% of the company through penny warrants but only one-third of this instantly.

"This means only 6% to 7% dilution in the near term. We view this as an attractive solution for current Eagle equity holders," Mavrinac wrote.

RBS shipping chief Lambros Varnavides said: "This transaction is good for both sides."

US investment veteran back home from Dubai

Joe Brady New York

John Sinders was back in New York for the opening of the annual Marine Money conference but he made it clear that he was returning for more than just a quick speech or two.

Now leading investment banking for Clarksons after a long career at US-based Jefferies, Sinders confirms he will be refreshing his credentials in the US and doing deals both in mainstream shipping and offshore after a long stint in Dubai.

"I'll be renewing my licensing, getting an apartment in Houston and I expect to be involved in deals in both sectors," Sinders said.

"Clarksons has expertise in specific sectors and the intention is be active in deals in areas where we can leverage that strength, and of course shipping and the offshore sector immediately come to mind."

Sinders's impending return had first been tipped by an old and current colleague — Clarkson Capital Markets (CCM) managing director Magnus Fyhr — in an interview with TradeWinds earlier this year.

Fyhr, who had worked with Sinders for many years at Jefferies as a shipping and offshore equity analyst, said his cohort had just cleared a non-compete clause with their old employer and has now become free to pursue US business.

CCM has been building up its capital-markets business with a raft of hires over the past couple of years.

In his Jefferies days, Sinders was one of the lead architects of the expansion of shipowners in the US public markets. The gold-rush era spawned an entire sector of public dry-bulk companies and saw a record 13 owners list in New York during 2005 alone.

Sinders had left Jefferies by 2007, heading on to a venture that saw him as a partner in the buyout of prestigious car maker Aston Martin.

Asked this week whether he felt he was right in pushing shipping initial public offerings (IPOs) during the boom cycle, Sinders's initial comment was simply: "Yeah."

CLARKSONS: John Sinders has moved back to Houston. Photo: Scanpix

But he quickly added a disclaimer.

"The one thing I have some reservations about is a few of the yield-vehicles that were done with just a minimal amount of forward charter coverage. Of course we had to do some of those at Jefferies because if you didn't, you went hungry. But when you start talking about fleets with two-year charters and a large amount of bank debt, well, it started to get uglier toward the end of that cycle, and I guess I'm glad I got out of it before the latter stages. It was becoming less enjoyable to do deals on that basis."

Sinders says he believes he and other bulls were right in selling investors the China story, although perhaps demand projections were overstated in the near term.

As for Clarksons, he says the underwriter will not be limited to a supporting role in deals, adding that it is capable of taking a lead role in certain specialised or structured deals — although probably "with a place on the right". This is underwriter language for the lead co-manager, just below the lead bank "on the left".

"I think we're certainly capable of being a lead on the type of deals Evercore Partners just did with Capital Product Partners," he said.

"But generally speaking, I think we'd be satisified taking a position on the right, in a deal where we have a lead role."

Sinders smiled. "We'd be happy to talk about that. I think people may find I'm not quite the hard-charging investment banker I was a few years ago."

make most of the bank-lending caution

relative positioning versus what we had before."

Evensen also warns against reaching overly broad conclusions on which banks have been incapacitated.

"The idea that European banks are going to pull out en masse [is not true], we see it on a bank-by-bank basis," he said. "But the kind of business that Teekay does is exactly the kind that banks want to do now."

Teekay Corp and its three "daughter" companies in the offshore oil industry, LNG and tankers have a combined market capitalisation of about $6.5bn.

Forward fixed-rate revenues — the kind that banks find comforting — have reached a total of $15bn. Since the end of 2008, the four organisations have raised $2bn in bank debt or export credit agency (ECA) financing.

Another likely comfort for lenders is Teekay's ability to raise equity in the capital markets. This figure has reached a combined $1.7bn for the daughter companies since the start of 2009. Measured since the start of 2011, the three organisations have raised more than $700m in seven separate deals.

Teekay's strength to tap commercial lenders and the capital markets is not just hype from its management.

Bankers speaking on panels at the New York conference also pointed to the increasingly divided market and the prospects of the rich getting richer.

"People are getting differentiated as to who can get financing and who cannot," said Citi's Shreyas Chipalkatty. "Those who can get financing will be the winners going forward."

It was much the same thinking on an investment-banking panel.

"The people who desperately need the capital can't get it," said Simon Smith of UBS.

"As we've heard from Teekay this week, the guys who are in very good shape and don't need the capital to survive actually have a lot of options."

Scorecard is based on the Winners, Losers and Most Active tables on the next page.

SCORECARD

Eagle Bulk falls hard after bounce

Jonathan Boonzaier Singapore

Eagle Bulk shares were starting to look mighty fine at the end of last week. It was a short-lived moment of glory.

Like most US-listed dry-bulk stocks, Eagle Bulk's share price has been bouncing around the bottom for most of June. There have been ups and downs but for the most part they have been trading around the $3-per-share level — a far cry from their record high in May 2008.

Fast-forward four years and the now-struggling company saw its shares trading at their all-time worst, reaching a low of $2.45 on 14 June. They had rallied back to around $3 by last Thursday when the company announced that it had reached an agreement with a syndicate of lenders led by the Royal Bank of Scotland (RBS) to convert $1.129bn of debt into a term loan, with maturity set for December 2015.

Eagle Bulk has the option to extend that date by an additional 18 months to June 2017. It will also receive $20m in a new liquidity facility.

The deal was much better than what most analysts thought the company would manage to line up. Many had written Eagle Bulk off, believing it was on a fast track for bankruptcy due to it paying high short-term interest.

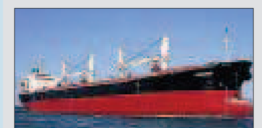
With the arrangement, Eagle Bulk has bought itself a lot of time.

And when the implications sunk in, investors got hungry for the stock — immediately the share soared to $4.20, a price not seen since early May.

European financial woes and a massive drop in the S&P 500 Index ruined the rally very quickly. On Monday the stock went into a steady decline, finishing at $3 by the close of trading on Thursday.

Analysts watching Eagle Bulk — while disappointed that the share price has had to give back all of its gains — still believe that the recent finance developments have been very good for the company. And although the prospects for the dry-bulk market remain poor, Eagle Bulk's stock still deserved some sort of a bounce.

Analysts also note that Eagle Bulk outperformed its peers significantly since the announcement, and that without the debt extension, it would have likely moved down with the rest of the dry-bulk sector. (*See Eagle Bulk Pages 28 & 29*)



EAGLE BULK: The 50,900-dwt bulker "Peregrine" Photo: Eagle Bulk