

# PRIVATE EQUITY, PERFECT CHEMISTRY

**I**n the best deals everyone wins. In the Chembulk transactions, which almost spanned a year, and the globe and involved some of the industry's best institutions and people, success and value are found at every stop. It is difficult to imagine a better series of transactions, each of which delivered value, each of which was well executed and each of which fulfilled the objectives of the participants.

Internally there was some debate as to whether Chembulk deal should be counted as an M&A or a private equity deal. In the end the consensus was that it was not one single merger or acquisition that made the deal so impressive, but the elegant series of debt and equity transactions that delivered value to every party involved. The ideal private equity deal has a quick turnover and substantial arbitrage, and the ACP Fund II team succeeded in doing just that. Not only that but the initial sellers found the value they were seeking and the eventual buyers were able to realize even further value through a highly strategic merger. Moreover the banks worked hard to provide at least three separate financing facilities, despite the sub-crime debt crisis that occurred right in the middle of the deal.

## STEP 1 CHEMBULK TANKER FLEET ACQUIRED BY PRIVATE EQUITY

That was our title when the team of Bob Burke and AMA Capital Partners in conjunction with its private equity partner Varde, through ACP Fund II acquired the specialty tanker assets of Doug McShane and Christina Tan's MT Maritime (MTM) in a deal that market sources at the time, based on current comparable vessel prices, placed at around \$550 million.

All three Burke individually, and AMA and Varde through their ACP Fund II put equity into the transaction.

Nordea, in what could have been a Bank Debt Deal of the Year, had it not been a winner as part of this unique deal, provided \$450 million in senior secured financing for the transaction.

Nordea's role was most helpful as the very private deal progressed. Due to confidentiality requirements and timing, financing was solely funded by Nordea prior to syndication, before testing the credit market appetite. Nordea was Sole Lead Arranger, Sole Bookrunner and Facility Agent. The 5-year deal was subsequently successfully syndicated.

Following the transaction the tankers operated under the trade name Chembulk Tankers LLC.

McShane and Tan, husband and wife, built the impressive fleet over the past 10 years. Their offices are located in Singapore, Hong Kong, the Netherlands and Westport, Connecticut. The company enjoys a sterling reputation. McShane and Tan retained their chartered-in drybulk fleet and operations, Strategic Bulk Carriers following the clearly life altering, estate planning cash out.

AMA Capital Partners were not new at owning big-ticket assets. In 2006 they successfully acquired the remaining PLM Funds through ACP Fund I, and systematically monetized that portfolio of ships: 2 MR tankers and 2 Gearless Bulkers, 100,000 TEU of containers and 12 aircraft within a Fund mandated time frame. ACP I also acquired 4x 3,500 teu ships on bareboat to Zim through two K/Ss.

The current deal however was a quantum step ahead for the firm and not just for the investment potential but also because of the efficient execution of a very large transaction.

## A BIT ABOUT CHEMBULK

Chembulk is engaged in the worldwide transportation of bulk liquid chemicals, edible oils, acids, and petroleum products, and can be counted amongst the ten largest chemical tanker operators in the world. The fleet acquired was comprised of the eight owned, plus six time chartered tankers, plus five time charters of ships yet to be delivered through 2010. All those ships come with purchase options structured as "Shikoku" transactions. In addition, the new vessels, too, are structured using the "Shikoku" model. This fully stainless steel 19-ship fleet puts it at the top of the specialty tanker food chain.

A newbuilding program is underway, with deliveries that continued through 2007 and into 2008. The deal also included transfer of the business portfolio and key chartering and operations staff. In a stroke of excellent personnel maneuvering, Bob Burke, who took the role of CEO, hired in Jack Noonan, an experienced commercial talent from Clipper Wonsild and, then Walter Bromfield as a CFO. Mr. Bromfield had until recently been at the financial helm of Maritrans, and had executed that company's financial turn-

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around and eventual sale to OSG.

The management trio along with the acquired commercial team was just the right mix for a private equity transaction – capable of growing the business organically, through acquisitions or newbuildings, or orchestrating a strategic sale, or taking the company public.

Technical management of the fleet remained with MTM in order to maintain quality standards and charterer approvals, while commercial activities will shift in an orderly fashion to new management.

Leo Chang at Watson Farley & Williams acted on behalf of ACP II while Derek Betts of Seward & Kissel represented the McShane interests.

Readers will recall Varde as an astute and pro-active participant in shipping having been front and center in many of the Class of 2000 high yield bond restructurings. At the time AMA CEO Paul Leand was also deeply involved with the HY restructurings, frequently representing both bondholders and shipping companies. Further AMA principal Peter Shaerf, then with his own firm, was very familiar with Varde. It is a personal and professional relationship of long standing. AMA acts as the fund's manager.

## STEP TWO MERRILL AND LEHMAN REFI THE ACQUISITION

It is almost as if the Chembulk

story took place in a vacuum or was watched over by the lords of dealmaking, it all went so according to plan.

Merrill Lynch and Lehman Brothers were brought in by management to refinance the company's existing debt package to enable both greater financial flexibility and allow the initial investors to take a substantial chunk of their capital off the table.

The refinancing was successfully completed despite the first signs in the marketplace of the coming subprime credit crisis. The deal was comprised of two tranches, worth a total of \$544 million. The \$429 million A tranche was successfully syndicated out to global bank participants throughout Asia, Europe and North America, while the \$115 million B tranche was held by a single institution. The structure did have to be adapted a bit to accommodate lenders' requests, but the deal was done in full and pricing was maintained.

The A tranche was comprised of a \$400 million senior secured facility and a \$29 million letter of credit. It had a term of six years and was priced at 200 basis points over LIBOR. The collateral package included Chembulk's entire owned fleet as well as the purchase options on its chartered-in vessels. The \$115 million B tranche had a term of six and a quarter years and allowed initial investors to take out a substantial dividend that significantly reduced the risk of

## What ACP II, AMA and Burke Bought

The Chembulk Fleet	
Stainless Steel, Built 2000 or later	
	5 x 32,000 dwt
	5 x 19,000 dwt
	1 x 27,000 dwt
	1 x 24,000 dwt
	1 x 16,000 dwt
	6 x newbuildings
Approximate charterfree market values:	
	30,000 dwt ~ \$60+ million
	19,000 dwt ~ \$42 million

FIGURE 1

their investment in Chembulk. The overall covenant package was relatively light.

The deal's success in a difficult credit market was evidence of the strength of Chembulk's collateral and of its management team. It was also a tribute to Merrill Lynch and Lehman Brothers, who ran the transaction.

This is the way every deal should work.

### STEP THREE ENTER MR. HADI SURYA OF BERLIAN LAJU AND DNB NOR

The beginning of the end game of this delicious transaction came a scant eight months after the ACP Fund II, AMA and Bob Burke, announced their joint acquisition of the Chembulk fleet from MTM. That was the moment Mr. Hadi Surya and Kevin Wong, Chairman and CFO respectively, of Berlian Laju Tankers (BLT) saw the opportunity to propel their

company forward by acquiring the Chembulk fleet.

The purchase price was \$850 million, which was based upon the company's enterprise value, according to BLT. For this consideration, BLT acquired control of a fleet of 16 vessels on the water and three newbuildings, one delivered in 2007 and the other two in 2008 and 2009, a fleet with an average age of just 3.7 years. More importantly, BLT also acquired a strong management team and infrastructure and major US presence.

Valuation was clearly a challenge in this instance, particularly in light of the large portion of the fleet being chartered-in with purchase options. D/S Norden, a major lessee in Shikoku transactions, indicated that they use a variation of the Black Scholes model to value these options.

For the sellers, private equity professionals of the first order,

the sale reflected a terrific return, one that was obviously weighed against the time and risks associated with more organic growth. Originally the intent of the investors was to grow the company over time with the likely exit strategy being an IPO. However, they quickly realized that there were few acquisition targets and hence getting to the next level would be difficult based solely upon organic growth.

For BLT the acquisition instantly transformed the company to a major position in its trade. The benefits of merging the company's fleets with their similar sizes and complementary trades were clear. Whereas BLT had developed a strong inter-Asian trade, Chembulk had strong trades from South America to the US and between the US and the Middle East and Asia.

DnB NOR advised BLT and played a key role in the acquisition, having a close relationship with both the buyer and the seller. Both seller and buyer saw the synergies and concluded that the merger of the two made the most sense. A deal was quickly agreed that left Chembulk as an independent operating subsidiary of BLT.

DnB NOR helped create the private off market transaction with an accelerated negotiation process where the definitive agreements were executed in less than 60 days after the initial meeting between the parties. DnB NOR also successfully structured the acquisition financing in what was becoming an increasingly challenging credit market. The firm acted as mandated lead arranger and bookrunner for the \$750 million acquisition finance facilities.

Merrill Lynch represented the sellers. Clifford Chance US served as legal counsel to BLT with Paul, Weiss, Rifkind and Watson, Farley serving the same role for the sellers.

Together, the new Chembulk, with 54 vessels totaling 820,600 DWT, is the third largest stainless steel chemical tanker company in the world in terms of capacity and will have one of the youngest fleets in the chemical tanker trade. With worldwide coverage, the company is better positioned to serve their existing and potential new customer base. The truism that the sum is worth more than the parts certainly applies in this instance.

From the shareholders perspective, the transaction was immediately accretive to BLT's earnings and cash flow.

When all is said and done and some future generation of Harvard Business School students take a look at this transaction as a case study, the only comment is likely to be – Perfect.

We wish to congratulate to every participant in this award winning transaction. By our count that includes Bob Burke, AMA Capital Partners, Varde, ACP Fund II, Doug McShane, Christina Tan, Nordea, Watson Farley & Williams, Seward & Kissell, Merrill Lynch, DnB NOR, Lehman Brothers, Berlian Laju Tankers, Paul, Weiss, Rifkin, Clifford Chance and the management of Chembulk. Also included though not mentioned are Fortis, ING, and NIBC for together with DnB NOR providing a \$750 million credit facility to BLT to finance the acquisition.



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