WHO NEEDS CASH OR CREDIT?
THE M&A DEAL OF THE YEAR

Transaction: Acquisition of 16 Modern Dry Bulk Vessels By Golden Ocean Group
Winner: DNB Markets

Despite fewer than expected nominations, it was a strong year for merger and acquisition activity. One of the largest transactions concluded was the $1.1 billion merger of Scorpio Tankers with Navig8 Product Tankers, making the combined company the largest listed owner of product tankers with a delivered fleet of 105 vessels. Consideration to the Navig8 shareholders was 55 million shares of Scorpio common stock.

Tanker Investments Ltd. was formed as an asset play in January 2014 to opportunistically acquire, operate and sell modern secondhand tankers to benefit from cyclical fluctuations in the tanker market. Having completed its IPO on the Oslo Stock Exchange in March 2014, TIL operated a fleet of 18 tankers comprised of 10 Suezmaxes, six Aframaxes and two coated Aframaxes with a total carrying capacity of 2.4 million deadweight tons and a weighted average fleet age of 7 years. Given the softening in the tanker market and limited trading liquidity in its Oslo listing, Tanker Investments announced in February 2017 that it intended to monitor and explore consolidation opportunities that would benefit its business, market position and shareholders. To assist in the process the Special Committee, which was formed as a result of the inherent conflicts between the parties, appointed Evercore as its exclusive financial advisor to evaluate strategic alternatives.

After considering a number of alternatives, in May 2017, Tanker Investments agreed to an all-stock merger with Teekay Tankers Ltd. (“TNK”) at an exchange ratio of 3.30 Teekay Tankers Class A common shares for each TIL common share. At announcement, Teekay Tankers owned an 11% ownership interest in Tanker Investments. Teekay Tankers’ offer represented an implied transaction value of approximately $510 million and a share price premium of 21% to TIL’s closing price on May 30, 29% to the 30-day VWAP and a modest premium to TIL’s net asset value. Giving pro forma effect for the completion of the merger, Tanker Investments’ independent shareholders will represent 30% of the economic and 19% of the voting interest of the combined entity. The transaction creates one of the largest publicly traded tanker operators and the largest operator/owner of medium-size tankers with a combined fleet of 62 vessels.

This year’s winner transaction is actually two, with the initial transaction enabling the merger. Back in 2016, Golden Ocean Group Limited, like its peers, was struggling with the depressed market. To obtain relief the company entered into an agreement with its lenders for an amortization holiday and covenant waivers. Its banks agreed, but imposed restrictions on the company with respect to dividends, new debt and vessel acquisitions. As the market began to improve, the company had a chance to break its shackles and executed a $66 million registered direct offering. Due to strong demand from high quality investors, the book was multiple times oversubscribed and priced at $8.50/share, a 0% discount to the US close and ~20% premium above the last equity issue. With the proceeds, the company was in a position to repay the deferred debt amount and terminate the covenant waivers to increase financial flexibility. The deal was led by DNB Markets and ABN AMRO.

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With its share price up 140% since the recapitalization, Golden Ocean was in a unique position with its share trading at a significant premium to its peers and underlying asset value. The company saw the strong share valuation as the means to increase its exposure to the larger vessel segments with the largest leverage to a market recovery. The immediate opportunity that arose was the chance to acquire 16 modern dry bulk vessels in an all-share transaction where the company would issue 17.8 million new common shares and assume debt of $285.2 million. Based on the closing price of the Golden Ocean share on the Oslo Stock Exchange, the aggregate transaction value was approximately $412.4 million.

As part of the acquisition, Golden Ocean will acquire Quintana Shipping Ltd’s 14 vessel fleet and assume the fleet’s corresponding debt of $262.7 million in consideration for 14.5 million shares of Golden Ocean. The fleet consists of six Capesize vessels and eight Kamsarmax / Panamax vessels, mainly built in Japan and Korea with an average age of 4.6 years. The vessels will be owned indirectly by a wholly-owned, non-recourse subsidiary of Golden Ocean.

Additionally, Golden Ocean will acquire two 2017-built ice class Panamax vessels from affiliates of Hemen Holding Ltd, the company’s largest shareholder, in consideration for 3.3 million shares of the company to fund the equity portion of the acquisition. Hemen will issue a seller credit of $22.5 million that matures in June 2019, with no fixed amortization and an interest rate of LIBOR + 3.0 percent. These vessels will also be owned by another separate non-recourse subsidiary of Golden Ocean.

Birgitte Ringstad Vartdal, the company’s CEO, makes the case for the transaction: “…The acquired vessels, averaging 4 years of age, which matches the age profile of our existing fleet, will further enhance our already significant commercial scale and increase our operational leverage to a potential dry bulk market recovery. Combined with attractive bank financing which includes no fixed debt amortization and soft covenants through June 2019, the transaction should be accretive also in terms of cash breakeven levels. We consider the price obtained to be attractive and expect the transaction to be significantly value-accretive to our shareholders.”

For Quintana, the economics were satisfactory and there was clearly perceived value in joining forces to access Golden Ocean’s operating platform, management team, and corporate strategy.