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Opportunity droops

A man of few publicly uttered words, the CEO of Seacor Holdings, Inc. ordinarily lets the facts speak for themselves. Not on this quarterly reporting date, however. The facts are too "dismal" to stand alone, he told shareholders the other day.

Now unfolding is an update on the waterborne oil-service, transportation and logistics company headed by Charles Fabrikant (*Grant's*, March 25). To anticipate, *Grant's* remains bullish on Seacor (CKH on the New York Stock Exchange), a well-financed participant in what happens to be, for the nonce, a hated line of business.

We incorporate here by reference the description of Seacor's revenue segments contained in our March 25 analysis, as well as a declaration of interest (your editor is an indirect holder of Seacor convertible bonds). Suffice it to say, Seacor's top division, Offshore Marine Services, is a derivative of the oil-and-gas and wind-power industries. You can tell it by the downward track of the Seacor share price.

Given to buying low and selling high, Seacor has been buying very low lately. Thus, in the third quarter, Fabrikant et al. bought 11 fast support vessels in a foreclosure proceeding at a deep discount to replacement cost. Last month, the front office proposed to take over Gulfmark Offshore (GLF on the Big Board), a struggling rival in the marine support-vessel business.

"Dear Sirs," Fabrikant addressed the Gulfmark board of directors,

> We believe that Gulfmark is at a crossroads:
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> —It can restructure its debt and continue operating independently, incurring costs of a public company and overhead for a small fleet with limited employment. This will most certainly deplete value to the detriment of shareholders and creditors; or
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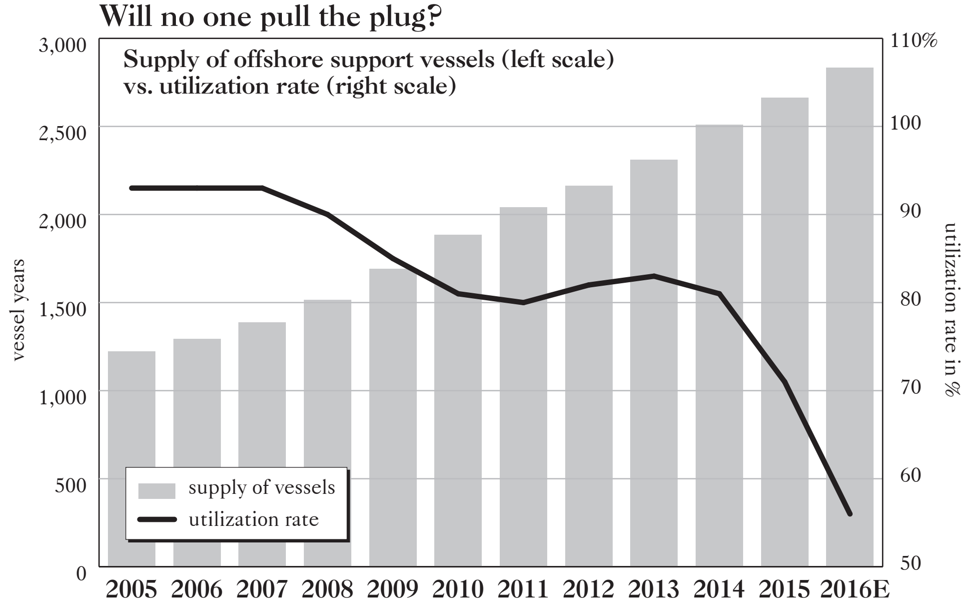
> —It can choose to restructure its debt and combine with a financially stronger participant in its industry, thereby benefitting from cost synergies and positioning for future growth.

Fabrikant did not come to the bargaining table empty-handed: Seacor had accumulated $54 million of the Gulfmark $6^{3}/_{8}$s of 2022, securities which are quoted today at 46.5 cents on the dollar. "It appears to be only a matter of time before Gulfmark will be in covenant default," Fabrikant reminded his opposite numbers at the company he wants to buy on the cheap. In the 12 months through June, Gulfmark's operating loss was almost 10 times higher than Gulfmark's interest expense ($373 million compared with $38 million).

Seacor's financial position is considerably stronger than that of its U.S.-based publicly traded counterparts in the offshore-vessel field. Thus, Tidewater, Inc. (TDW on the NYSE) is seeking relief from creditors. Louisiana-based Hornbeck Offshore Services, Inc. (HOS on the NYSE) has hired an advisor to explore a potential capital

Will no one pull the plug?



source: IHS Markit

restructuring. Gulfmark has already renegotiated terms on existing credit facilities. While its rivals struggle to stay afloat, Seacor reports current assets 3.9 times current liabilities, for $565 million in net working capital. That is before $331 million in investments and $162 million in reserve funds that may be tapped in a pinch. Tangible assets total $2.9 billion, including almost $1.3 billion excluding property such as ships, while total debt is slightly more than $1 billion.

The Seacor terms are these: Gulfmark bondholders to receive $30 million in Seacor equity and $215 million in to-be-issued Seacor 6 3/8% notes of 2024; Gulfmark stockholders to receive an unspecified number of Seacor warrants. It can't be said that the Gulfmark stockholders are new to adversity. In the past two years, the value of a GLF share has fallen to $1 and change from $30 and change. Gulfmark has made no public response to Fabrikant.

Neither are Seacor's owners untested by the cyclical elements. Across all units in the past four quarters, Seacor has suffered $74 million in operating losses (2016 will likely deliver the first operating loss in Seacor's 24 years as a public company). Which facts frame the present-day opportunity. "Of course," Fabrikant wrote to the Seacor shareholders in October, "the very circumstances that allow us to acquire offshore equipment at distressed prices make assessing the value of our own assets very challenging."

You misjudge Fabrikant if you read his opportunism as an expression of near-term bullishness on the energy markets from which Seacor's No. 1 business segment draws its nourishment. Thus, with respect to immediate prospects, he counsels: Prepare for "the winter of discontent." Seacor, preparing for the spring, whenever it comes, is rather "committed to wait patiently for opportunities to acquire more assets or collaborate with others interested in reducing costs and rationalizing fleets in conjunction with restructuring." He continues: "Our strong balance sheet and differentiated fleet separate us from others who are struggling with debt and dependent on an upturn in deepwater drilling to provide employment for their assets."

Certainly, there's a crying need for restructuring. Erik Simonsen, senior principal consultant at the data and analytics company IHS Markit, estimates that one-third of the industrywide service-vessel fleet—up to 1,000 vessels—ought to be scrapped by 2020. As it is, 30% of Seacor's offshore fleet is, as the expression goes, "cold-stacked"; 44% of Gulfmark's is similarly idled.

Seacor's overture can be valued provisionally at $300 million—or $323 million, if Seacor picked up the uncancellable cost of a ship to be delivered to Gulfmark in the first quarter of 2017. This would be equal to 36% of Gulfmark's average market cap, and 25% of its average enterprise value, from 2011 through 2015.

In good part, Fabrikant would be buying Gulfmark to shrink it. Say, proposes colleague Alex Hess, that he immediately scrapped all 30 of Gulfmark's cold-stacked vessels. And say that utilization rates and operating rates returned to the slightly less depressed levels of 2015 (a reasonable assumption if Brent prices go back to $60 per barrel). Then, in five years, Gulfmark might contribute $46.5 million to Seacor's net income, or $2.59 for every one of today's outstanding 17.3 million shares plus the 618,000 shares required to fund the deal. If today's energy famine were succeeded by a cyclical feast, with day rates and utilization rates returning to the bull-market peaks of yesteryear, the world might look back at 2016 as the value opportunity of a career.

Seacor has everything to gain by building a bigger and leaner offshore segment. Under the terms of a $175 million series of convertible 3.75s issued to The Carlyle Group, Seacor must either spin out its offshore subsidiary as a separate company by December 2017 or, at Carlyle's option, redeem its bonds. As of the April 2016 proxy-filing date, officers and directors beneficially owned 13.4% of Seacor common, worth $112.3 million today. Insider sales in the past 12 months totaled $2.3 million. It's been a year of discontent.

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