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Investment value—"on"

Examining the arc of its share price, or for that matter of its bond prices, you might be led to assume that Seacor Holdings, Inc. (CKH on the New York Stock Exchange) either drills for oil or manages a fleet of profitless Greek freighters. What Seacor does is buy low and sell high. A bullish reappraisal (see the issue of *Grant's* dated Feb. 22, 2011) follows.

What precipitates the analysis is a message from an interested party in response to the piece in the previous issue of *Grant's*. Atwood Oceanics, Inc. (ATW) and Transocean Ltd. (RIG) were the subjects; each has been laid low by debt. When, oh when, we lamented, would some bright light figure out a way to buy assets during a bear market rather than having to sell them (or, still worse, having to file for bankruptcy protection)? In reply, our informant observed that such a bright light does, in fact, live, and that his name is Charles Fabrikant, Seacor's executive chairman, chief executive and chief capital allocator.

"My observation about the capital markets these days," Fabrikant told *Grant's* over the phone on Monday, "is they tend to paint with a broad brush." It's either "risk-on" or "risk-off," he said. It's buy this ETF or sell that ETF.

Seacor occupies a kind of parallel, Benjamin Graham universe. "We are investors, not just operators," the company characterized itself one month ago at the Stifel Transportation and Logistics Conference. "We are opportunists, not blinkered. We are agnostic about source of profit, but religious about returns."

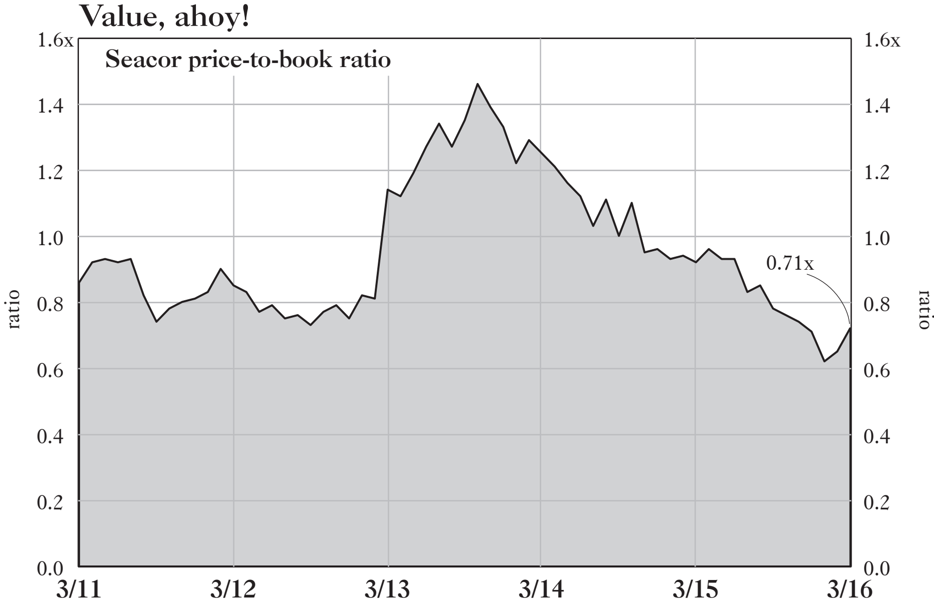
Seacor's miscellaneous income-producing assets mainly sit on the water. You might think of the company as a seagoing Berkshire Hathaway or a freshwater Leucadia National. The stock trades at a 29% discount to its Dec. 31 book value.

The discount didn't come from nowhere, admittedly. Last year marked the first annual loss in Seacor's 24-year history as a public company. Then, too, Seacor's largest business segment, offshore marine services, is an oil-and-gas-and-wind-power derivative; what its 173-vessel fleet services is the offshore energy-production business. Of the recent performance of this particular segment, Fabrikant—as usual, unescorted by a P.R. minder—comments, "It stinks."

Nor do Seacor's other business lines ring the current bells of Wall Street fashion. They comprise inland river services, meaning towboats, hopper barges and terminals of various kinds (grain, liquid, river); and shipping services, including harbor tugs, tankers, a Great Lakes bulk carrier and bunker barges. The two segments each delivered 22% of revenues, as well as, respectively, 22% and 29% of segment assets. Majority-owned Illinois Corn Processing and lines of business marked "other" account for an additional 22% of revenue and 10% of segment assets.

Fabrikant, age 70, is the principal architect of this amalgamation of assets. The owner of 1.05 million shares of Seacor common, with a

Value, ahoy!



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market value of $55 million, he has more than amassed the *Money* magazine-recommended minimum for living a life of carefree retirement. Happy as a clam in his work, says the CEO, he has no plans to retire, though (he continues), if he were either to step down or fall down, a cadre of talented young executives would be perfectly able to carry on in his place. To declare an interest, Fabrikant is a paid-up subscriber to *Grant's*. To declare a further interest, your editor happens to own his stock.

Profiling the captain of the good ship Seacor for her 2012 book *Dynasties of the Sea*, journalist and CNBC producer Lori Ann LaRocco writes: "[His] approach is to invest as if every dollar were his last." As a result of this approach, LaRocco adds of Seacor, "It is an intricate puzzle that uses cross-fertilization of information to track opportunity in disparate markets and industries. Sister business units compete for allocation of capital and, in some instances, for customers."

Seacor and Wall Street are ships in the night. As Fabrikant can't parse "risk-on/risk-off," neither can the Street figure out—or, at least, can't model—Seacor. Fabrikant hosts no conference calls, and he seldom makes public appearances (the Stifel presentation was a rarity). "Visibility remains shrouded," observed one sell-side analyst in the wake of fourth-quarter 2015 GAAP earnings, which, with considerable forbearance, he described as "lumpy." Instead of the expected 82 cents a share, Seacor served up a loss of $3.36 a share. In the circumstances, it's not so surprising that the corps of sell-side Seacor-watchers numbers approximately two, or that they rate the shares no higher than "hold" and "neutral." You could excuse them for screaming "sell" out of sheer exasperation.

Still and all, over past two dozen years, Fabricant et al. have generated growth in book value per share on the order of 12% per annum (as adjusted to include two special cash dividends and the spin-off of the helicopter operator Era Group). For perspective, over the same span, Berkshire Hathaway has delivered roughly 14%.

With so much of his portfolio in the cyclical ditch, do you wonder how Fabrikant is allocating capital? Cash—sterile, zero-percent-yielding dollar bills—is one favorite bolt-hole. ("Diversification and liquidity," reads Seacor's handout at the Stifel event. "We are prepared for opportunity.") Seacor shares is another. Fabrikant et al. have repurchased nearly $275 million's worth of stock in the past two years, reducing the number of shares outstanding by 16% and leaving the insiders with a collective ownership position of 9.5%. Not that the chief capital allocator has stopped investing in the business. Dollars apportioned to capex reached $295 million in 2015 and $360 million in 2014, up from an average of $238 million in the five years through 2013. In addition is a substantial boat- and ship-building program—$455 million was so earmarked in 2015, up from $143 million two years earlier.

Seacor, which is just as happy to sell as it is to buy, recently disclosed plans to offload 27 barges and 13 towboats to tank-barge operator Kirby Corp. for a consideration of $88 million. Tax advantages attach to the sale of certain types of vessels—these vessels, for instance; you can deposit the proceeds in a construction reserve fund and thereby defer taxable gains, provided the proceeds are reinvested in new boats or ships within three years.

"Seacor's calculated portfolio approach applies not just to vessels and investments," a new member of this staff, Alex Hess, points out, "but to entire operating segments. Since the maiden *Grant's* essay on Seacor appeared in the issue dated Sept. 17, 2010, Fabrikant has often reinvented the company. In early 2012, a sizeable portion of the environmental-services segment—which accounted for 33% of revenues in 2010, due in part to its cleanup work for BP in the Gulf of Mexico—was hived off to a private-equity buyer. The previously referenced Era Group, which accounted for 17% of revenues in 2012, was shed in January 2013. A future divestiture might include the offshore marine-services segment, which, in December, issued $175 million in 3.75% seven-year convertible notes to the Carlyle Group. The notes are putable in just under two years—*if*, by then, the division has not been divested."

Though liquidity is a Fabrikant watchword, and though the CEO has demonstrated remarkable talents in the art of asset conversion (cash to boats and back again), Seacor and the credit-rating agencies are likewise ill-matched. "The downgrade," comments Moody's of its demoting Seacor this month to B3 from Baa3, "reflects the company's high financial leverage metrics, caused primarily by the deteriorating earnings in its offshore marine-services segment. ... The downgrade also incorporates the company's structural complexity, with debt issued at multiple subsidiaries."

Granted, borrowing has been on the upswing in recent years. At last count, $1.15 billion of debt at par value was issued and outstanding. Besides the aforementioned 3.75% converts issued to Carlyle, obligations include a pair of convertible issues with a combined par value of $515 million. A series of 7.375% notes accounts for another $196 million on the balance sheet, and a credit facility for Seacor's 51%-owned SEA-Vista subsidiary adds $210 million more.

However, not all debt is equally urgent. Assuming the Carlyle converts are not put back to Seacor in 2017, just $78 million in debt is due before 2019. That year, the $196 million in 7.375% senior notes mature. In 2020 the SEA-Vista line of credit expires. The two additional (non-Carlyle) convertible bonds do not fall due until 2027 and 2028. What are the odds that both shipping and oil are still in fathomless bear markets by the time even the first of these instruments matures?

Fabrikant-led management seems not to live in dread of some looming maturity wall but rather has been buying and retiring debt years in advance. Last year, for instance, it purchased and retired $37.6 million of the 7.375% notes due in October 2019, as well as $65.5 million of convertible. With regard to the 7.375% notes, they change hands (as it were, by appointment) at $87.25, according to FINRA, offering an 11.93% yield to maturity.

Admittedly, net interest expense of $23 million is none too manageable when operating income totals $21 million, which was the case in 2015. Then, again, operating income totaled $165 million in 2014 and $100 million in 2013. Besides, Seacor is perennially buying this and selling that, usually at a profit (2015, the annus horribilis, dealt a $2.4 million loss). In the period from 1997 through 2014, the company recorded gains on the sale of assets every year, and at an average of over $38 million. There appears to be liquidity for assets that float, at least for Seacor; over the past 10 years, it's averaged $220 million in fixed-asset sales per year. Even in 2015, perhaps the hardest year on record for numerous consolidated subsidiaries, Seacor off-loaded $95.5 million in fixed assets.

"With wheeling and dealing serving as such a critical part of the company's operating model," Hess points out, "one can look to the balance sheet as a further source of cash. Property and equipment totaled $2.1 billion at historical cost, and $1.1 billion net of accumulated depreciation. Construction in progress, as mentioned, adds another $455 million. Equity investments are carried at a value of $331 million. Best yet, cash and near-cash assets total (an untaxed) $923 million."

Put it all together and what have you got? Why, more than a ship that swims. You've got a bargain.

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