Capitalism at Its Best- OMI Corporation

The Winter of 2007, with its unseasonably warm January, put a damper on tanker rates and the minds of Wall Streeters drifted to the booming drybulk space. At the offices of OMI Corporation, an hour north of midtown New York, February's chilly winds brought about expressions of interest from both Teekay Shipping and an un-named private equity fund, at a time that OMI's Board became increasingly concerned about a possible market softening. So, by mid March, OMI had put itself in play, retaining bankers in both New York and Scandinavia to seek out the best "strategic alternative". The bankers, Weinberg Perella in the States, and Fearnley Fonds in Oslo, approached dozens of shipping and financial players, bringing in a handful of bids for OMI- most with subjects attached.

A month into the process, in a tri-party announcement, Teekay Shipping and Torm announced that their plan to jointly acquire OMI, for $29.25/ share, or $2.2 Billion, including debt of around $500 Million. OMI did a good deal; the share price represents a 28% premium over its price in mid March, and exceeds the high price on share trades, even after two years of share buybacks. Its top executives, including CEO Craig Stevenson and **President Robert Bugbee** (*pictured above left)*, are also due for windfalls on share holdings and contractual severance payments.

The two acquirers, tied together in an acquisition company code-named "Omaha", will now be dividing up OMI's fleet, following the initial deadline for tendering shares, where 83.5% percent of shares came in. Torm said in a press release, "..with control over OMI and allowing for a subsequent merger between OMAHA, Inc. and OMI ultimately allowing for TORM and TEEKAY to gain 100% ownership of OMI". The deadline for tendering additional shares was extended another week, into early June. Teekay will be gaining eight crude carrying Suezmaxes plus eight product tankers (4- 48000 tonners, 4 – 37000 tonners), and Torm absorbing OMI's more than two dozen remaining product carriers.

OMI, originally Ogden Marine Inc, and Oriental Exporters before that, had come a long way from humble beginnings, spun out of conglomerate Ogden Corporation (which also owned Avondale Shipyards) in 1984. In 1998, after growth through asset plays and joint ventures across multiple market segments, OMI was again re-organized, this time as an international tanker company with a strategic mandate of building up a modern fleet of vessels suitable to an increasingly demanding group of charterers.

Not so coincidentally, only a day before the mid April acquisition announcement, Teekay had announced a further example of its financial legerdemain, a plan to unlock value by creating a separate free standing company owning conventional tankers. Though shares analysts have debated whether the "parts are worth more, broken apart", or not, Teekay has successfully enhanced that market value of its holdings through the creation of two partnerships- Teekay Gas Partners and, last year, Teekay Offshore Partners. When asked about whether the new entity would also take the partnership format, Teekay President Bjorn Moller told analysts, "… you can kind of rely on our track record of being innovative in the way we structure these things that we'll find a suitable and attractive strategy for Teekay Tankers," after differentiating LNG and Offshore from the conventional fleet, with its mix of charter expiries.

Bankers and lawyers were still fine-tuning the details surrounding financing of vessels on OMI's balance sheet, consisting of bank debt and high yield bonds. Its $225 Million of secured bank debt, could potentially be renewed with the its existing banks. In the past, OMI has sourced term debt from DNB, Nordea, ING and other European shipping banks. Teekay CFO Vincent Lok said: ".. we've already put in place bank financing, should those banks not wish to continue." The acquiring duo have arranged a $1.4 Billion bridging facility at LIBOR plus 50 basis points with HSH Nordbank ($1.05 Billion) and Danske Bank ($350 Million) to fund their purchase of shares.

The status of OMI's $200 Million of 7.625% high yield debt would depend on the disposition of the OMI corporate entity; according to Teekay's Lok, "If either Teekay or TORM takes OMI as a corporate legal entity, then those bonds could continue; it's still being reviewed."

UPDATE: WEB SPECIAL!!! The financial story of OMI Corporation has come to a happy ending. In late May, OMI and acquirers Teekay and Torm announced that Omaha Inc. (the jointly owned acquiring vehicle) had paid for most of the outstanding shares of OMI. Funding for the share purchase came largely from bridging credit facilities opened with HSH Nordbank and Danske Bank. Additionally, all shareholders had received a special one time dividend of $0.10/ share. Following an extension of the tender period for shares where more than 90% of shares were tendered, Teekay and Torm announced that they had gained control through the Omaha subsidiary. Untendered shares would be cancelled, and holders would have the right to receive the $29.25/share tender price. Omaha then changed its name to "OMI Corporation".

Another important loose end, the $200 Million of 7.625% non investment grade debt still outstanding, was tied up in a late June tender by OMI for the bonds. John Parker, High Yield Analyst at Jefferies & Company, explained that the bonds were trading in the market at 102 prior to the deal announcement and OMI needed to come up with a price that holders would accept. The tender amount, at 106.54 "compares favorably with the pre-deal trading price. It also eliminates the restrictions of the bond indentures and gives them more flexibility as they divide up the assets," Parker told Lloyds Shipping Economist. He also explained that the tender price of $1,065.40 per $1,000 principal amount was calculated based on a "make-whole premium" that brought the yield of the bonds to a level of 50 basis points above a referenced U.S. Treasury note.

http://www.sec.gov/Archives/edgar/data/911971/000094523407000282/o35900sctovc.htm Teekay Conf call re OMI

http://www.sec.gov/Archives/edgar/data/1061571/000095012307006225/y35979sc14d9.htm Background

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