Eagle Bulk set to fly high above the oak trees

By Barry Parker from New York

After months of wrangling, creditors and investors have finally hashed out a pre-packaged Chapter 11 bankruptcy plan for Eagle Bulk Shipping. This one-time high-flier bulked up on vessel orders and subsequently got caught out by the shipping market downdraft in late 2008, followed by the collapse of Korea Lines two years later.

Eagle, with a fleet of 43 supramaxes and two handymaxes, joins the list of listed entities that includes tanker owner General Maritime and drybulk compatriot Genco Shipping & Trading in taking the “pre-pack” route- where the major elements of the re-structure are worked out prior to the actual filing with the courts. If all goes according to plan, Eagle’s existing management team, led by Sophocles Zoullas, will remain in place.

Eagle’s case offered more drama than others because of the steady flow of short-term accommodations by lenders as the drybulk market failed to rally in 2014, who agreed on forbearance, in other words not declaring defaults which would have set the stage for a disruption of the business, while the high stakes haggling took place behind the scenes. Additionally, Eagle had successfully slapped down nuisance suits by disgruntled retail shareholders along the way. In the case of Eagle Bulk, as with others, the major shipping banks such as Royal Bank of Scotland had sold their debt to distressed debt buyers. The buyers, in turn, either sold the debt to other investors, and those who stayed in emerged as the new owners of the company’s equity, in the “loan to own” strategy.

The list of lenders, while devoid of shipping banks, includes familiar names from the distressed debt landscape- topped by Oaktree and Canyon Funds, a high yield/ distress investor also based in Los Angeles. Midtown Acquisition, Panning and Brigade, investors who have played a role in other shipping deals, are also participants. The list also includes pension funds from Fedex, Coca Cola and Los Angeles Country, who came in through Brigade.

According to papers filed, the lenders will control 99.5% of the equity in the company- which will remain listed in Nasdaq; the timeline set out in the Restructuring Agreement, agreed to by a majority of the lenders, requires that a complete plan by agreed and in place by early October. As contemplated in the RSA, close to $1.2bn of debt will be extinguished- and converted into new equity. In the very short term, $50m of debtor in possession (DIP) financing is set to come in by mid August. The deal also anticipates a $275m exit facility, which would, among other things pay out the DIP lenders.

Balance sheet projections and explanations are revealing. The balance sheet shows the company's fleet to be on the books at just under $1.6 bn. However, if a forced liquidation were to occur, the vessels, actually worth around $900 m (according to an analysis from the S & P market), would only fetch between $500m and $700m, "….to account for the forced nature of the transaction, the expedited time frame (90 days) and the magnitude of supply (45 vessels) being sold into the market…" The forecast income statement looks for a slow but steady improvement in the market with "net revenues" of $181m in 2015, equating to a TCE of around $11,000/day, bumping upwards by 13% in 2016 and 10% in 2017.

Zoullas and the management team will also be able to participate in an incentive program, consisting of a small cache of shares, plus options that can be exercised in the future. The fine print reveals that Zoullas is allowed to pursue "other business opportunities related to general shipping", while remaining as the ceo, provided that the new Board of Directors, approves such activities.