


# How a shipping firm with no vessels on the water has become flavour of the month on Wall St

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## **Scorpio chief executive Emanuele Lauro**

**One source attributes the Scorpio president's ability to raise new money to the power of "Brand Bugbee".**



## Scorpio chief executive Emanuele Lauro

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Scorpio Bulkers has moved fast, cashed in on 'brand Bugbee' and raised \$905m from a frenzied investors' scramble to buy shares

THE fevered pace of Scorpio Bulkers' [vessel acquisitions last year](#), booking an unprecedented 74 newbuilding orders in six months, is matched only by the frenzy surrounding the [company's fundraising activity](#) – a process in which willing investors scramble for limited spots and where declining to participate in one round could mean exclusion from future opportunities.

Between two private placements last autumn and its [initial public offering](#) in December, Scorpio Bulkers has raised \$905m in new money to pay for the \$2.5bn worth of vessels it has ordered since July.

Scorpio has found an eager audience for each round, with large [hedge funds](#) hungry to commit large sums of capital to a company that has a clean balance sheet and is unburdened with legacy issues, according to investors and market sources.

“They seem to have a good call into the huge hedge funds, because they’re falling all over themselves to invest their money,” said one hedge fund analyst who specialises in shipping, but is not a Scorpio investor.

“It’s a clean story, nothing could be simpler.”

Scorpio investors say that although they believe in Scorpio’s management team and growth strategy around the latest generation of eco-ships, the other factor shaping their decision is that the company offers what few public shipping companies can – the chance to put a large amount of capital to work in a very liquid transaction.

Those two elements, combined with the confidence in management, allows Scorpio the luxury of bypassing hedge funds in later fundraisers if those firms fail to invest initially, according to two sources.

Speaking to Lloyd’s List, investors agreed to comment only on condition of anonymity as they are not authorised to speak to the media about their investments or interactions with the company.

Still, despite investor confidence, the Scorpio Bulkers strategy is predicated on solving – or skirting – a number of significant variables, according to another investor, not involved with the company. Specifically, the company must execute on the technical operations, a task that could be complicated given the quantity of vessels Scorpio Bulkers is bringing into its commercial structure. Timing, from the yard deliveries and the volatility of the market, could also add some headwinds, according to the source.

“They’re doubling or tripling significant risk factors,” he added.

Created in July 2013 by chief executive [Emanuele Lauro](#) and president Robert Bugbee, Scorpio Bulkers has moved swiftly to dominate the dry bulk market through ordering fuel-efficient vessels with a total carrying capacity of 7.7m dwt.

The first two ships are due to be delivered next quarter, most coming online next year and in 2016, according to the company’s website.

Scorpio Bulkers’ roots go back an equally bold corporate structure that includes Scorpio Tankers, a company created in 2010 and which now owns 20 tankers and charters-in an additional 29 vessels for a total capacity of 2.1m dwt.

With Scorpio Tankers, Mr Lauro and Mr Bugbee formed the company at the bottom of the industry cycle and continue to pursue a hefty orderbook – with a total of 64 newbuilds on order, which will add 5.6m dwt of capacity.

The bulk of those new ships are set for delivery this year, with the remaining coming in next year and 2016.

For Scorpio Bulkers Mr Lauro and Mr Bugbee methodically struck deals with shipyards last year, accumulating 52 newbuilding contracts worth more than \$1bn, as they executed their growth strategy of buying into a rebound in the dry bulk market.

The company initially tapped the Norwegian over-the-counter market before going public in the US on December 6, then upsized five days later.

The company made headlines soon after new year, when it announced a newbuilding agreement for 22 dry bulk vessels, worth \$1.17bn.

The market duly took notice.

With the new acquisitions, analysts dramatically revised their projections for the company, many applauding the company's move to buy into a projected dry bulk recovery in 2016.

Justin Yagerman of Deutsche Bank, for example, estimates Scorpio's earnings before interest, taxes, depreciation and amortisation could reach \$283.2m in 2016, up from \$152.5m from before the announcement.

Acknowledging that he might be conservative in his revisions, Ben Nolan of Stifel added \$59m to his previous estimates for \$309.5m of ebitda in 2016.

Investors reacted too, one saying Scorpio was "coming into the cycle with strength" and dismissed sceptics who say the plan is too risky as "forgetting to do the math".

Specifically, the company's aggressive fundraising has allowed it to enter the market overcapitalised, rather than over-levered, he added.

"(Loan to value) is completely out of whack by 2015," said one investor. "The LTV is going to be 40%-50% against current values and you could say it's not enough debt."

In his note to initiate coverage, Evercore analyst Jon Chappell believes Scorpio's debt-to-capital ratio should peak below 50%, which will provide the company "more potential firepower to add additional ships to its fleet".

Asked to describe Mr Bugbee's ability to raise new money, one market source called it "Brand Bugbee". Another hedge fund analyst said Bugbee is "a good sales guy".

The proficiency with which Scorpio acted — relying heavily on equity, over debt — will provide for a clear advantage in the near future.

"He's going to find himself with significant balance sheet flexibility before anyone else," said the first investor.

Scorpio's equity traded at around \$9.80 on Wednesday for a market capitalisation of \$1.3bn, which matches the market capitalisation of Navios Maritime Partners, a master limited partnership with 25 vessels.

Scorpio does not have one ship on the water today.