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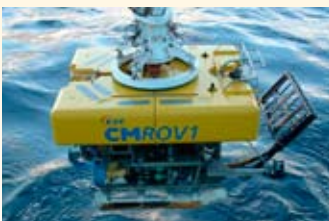
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Trico Marine's Unique Well-Grounded and Not Likely to Be

Trico Marine's Joe Compofelice has the subsea services juggernaut on a course to transform Trico, while vectoring a previously troubled OSV company into an industry services powerhouse. By Joseph Keefe

Transformation: A Curious Choice

Little more than five years ago, Trico Marine Services found itself in serious trouble, smack in the middle of a Chapter 11 filing and sitting on top of an aging OSV fleet in a market that was rapidly trending toward building bigger, shinier and higher-tech tonnage. Indeed, the brown water market was in the last stages of transforming itself from a relatively low-brow industry operated at blue-collar wages on dirty, worn-out vessels into something much grander. The newer, highly sophisticated work platforms now demanded highly trained mariners, a metric which collided painfully with a worldwide shortage of qualified personnel. The OSV business models of the day dictated that operators aggressively replace older tonnage with bigger and better platforms – or, quite simply, perish. Trico Marine, with neither the cash nor inclination to chase the status quo business model, found itself wondering what to do.

In mid-2003, and partially in response to its flagging fortunes, the publicly traded company (TRMA) turned to an industry veteran named Joseph Compofelice and asked him to bring a new vision to the firm's Board of Directors. Within six months, Compofelice was Chairman and already planning Trico's next move in a crowded and highly competitive field of marine players. As the company exited Chapter 11 in March of 2005, it was clear that it had chosen well. But few industry observers could have predicted the course upon which Joe Compofelice would eventually take the firm, why and how he did it. Without a doubt, and certainly not within the current financial climate, no one else will be likely to follow his lead. And that's just fine with Trico Marine's Chairman and CEO.

By mid-2007, Trico had repositioned its fleet, transforming it from a U.S. GOM/North Sea, spot-market OSV company into a vibrant subsea services company. With a war chest of several hundred million dollars, Trico then went on a spending spree that included an aggressive newbuilding program and an acquisition strategy that changed the demographics of the firm's marine fleet, its primary business focus and the way it financed all of that. The dramatic changes eventually led to Compofelice's appointment as CEO.

Timing is everything. Just as certain large banks in the United

States – and elsewhere – have found in the not-too-distant past, poor timing with acquisitions (and lending practices) that have exposure to the fragile credit markets can be potentially fatal. Conversely, Trico's Joe Compofelice experienced just the opposite scenario. Assembling very favorable financing terms just prior to the global credit meltdown, the Trico CEO solidly positioned the growing subsea services firm to complete all of its newbuild and capital improvements without having to further access the capital markets.

Where others now find themselves scrambling to make good on shipyard orders that probably may never be fulfilled because of dwindling credit and increasingly harsh terms to acquire that credit, Trico may actually be in a position to get its tonnage built in a more timely fashion as others in the shipbuilding queue suddenly fade away. In an industry that has known boom-to-bust cycles as a way of life, Trico Marine may very well be the quintessential story of the decade in terms of bust-to-boom. It didn't happen by accident.

Abandoning Conventional Wisdom: Trico Radically Changes Course

The transition from a U.S. GOM/North Sea, spot-market OSV company into a worldwide subsea services outfit took courage. But Compofelice says that the 180-degree turn was not as radical as one might think. "The first step was to figure out what we should not do," he noted. As the Trico CEO looked at his options, he realized that the potential for growth in the OSV business might amount to five percent annually going forward. Beyond this and with so many competitors, the field didn't have the ability to differentiate technologically or on any other basis. More importantly, Trico was behind the large OSV companies in terms of investing in its fleet.

Trico's primarily domestic OSV fleet was now competing in



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Business Model: Duplicated Any Time Soon



a market dominated by Tidewater, Seacor, Gulfmark, Chouest, Hornbeck and others. For the better part of three years, all of these operators had paraded out an increasingly newer, bigger and more sophisticated fleet of vessels, each better than the last one. Compofelice explains, "Boy, that's a lot of competition for that level of activity in deep water. And that told us what not to do. We just couldn't catch up and make that bet." As Trico looked around for other ways to compete, the subsea services sector began to look increasingly attractive, in more ways than one. Says

Trico's CEO, "The subsea portion just jumped right out at us."

Trico has not necessarily abandoned the OSV game, but by 2009 the firm's business mix will have shifted from 89 percent OSV work to one which focuses 74 percent of its resources on the subsea game. Compofelice insists, "We're happy with our older OSV fleet because we manage it for cash. We're not big subscribers to the 'build the bigger, newer, shinier OSV' philosophy. On the OSV side, we say the opposite: A 225-foot DP vessel in the Gulf of Mexico, if it is 12 years old, gets the same day

“The first step was to figure out what we should not do,”...Trico’s primarily domestic OSV fleet was now competing in a market dominated by...an increasingly newer, bigger and more sophisticated fleet of vessels. As Trico looked around for other ways to compete...“The subsea portion just jumped right out at us.”



rate as one that is 12 days old. I am quite certain that we are the only group that thinks along those lines. The flaw in the strategy being employed by the DP-3, 1-day-old’ people is that they are not the only one doing it – there’s ten other companies with the same models, and not every customer wants to pay the premium for all the bells and whistles.”

Ways & Means: The Tightening Credit Market Slams the Door on Would-Be Copycats

Even more curious than the arguably unconventional Trico business plan is how they made it happen – and in such a short period of time. In essence, the newly focused marine services company came up with hundreds of millions of dollars just as it emerged from bankruptcy. Given current events in the world’s capital markets, that feat is unlikely to be duplicated by anyone else in this sector for a long, long time. Here’s why:

The means to finance Joe Compofelice’s dream of positioning Trico to be “a company that produces the highest return on capital employed that it possibly can” came in equal sums, in three different parts. First, approximately \$100 million came from operating cash flow, with a similar amount stemming from an equity offering. Finally, and in the beginning of 2007, Compofelice engineered a convertible debt offering at a time when those markets were exceptionally favorable. The debt, financed at just three percent, put Trico in position to do the things necessary to not only realign its business focus but also to acquire new companies. By that summer, it had about \$400 million in cash on hand.

The door has since slammed firmly shut on the credit markets, here and abroad. And while some would classify Trico’s fortunes as extremely lucky, there is more to the story than that. Trico’s 59-year-old CEO has, over the last 32 years, acquired a mix of experience not often found in the marine sectors. Typically, marine services companies tend to be run by someone with deep knowledge of the maritime (or oil and gas) sectors or, on the other hand, world-class financial experience. In the case of Joe Compofelice, Trico found a leader who had started in the business in 1976 as controller of a privately owned valve

company that produced the first subsea “chokes” for the Ekofisk Fields in the North Sea. His remarkable journey then took him from the oilfield to offshore, through the tenuous times of industry consolidation of the 1980s, and on to his current position at Trico. Along the way, he served as Chairman and CEO of a company called COMPX and took it public in 1998. Beyond this, his CV includes 90 acquisitions and divestitures, several IPOs and dozens of private and public financing transactions.

Building Blocks: Executing the Subsea Services Strategy

Today’s Trico is built on the backs of three key acquisitions: Active Subsea for \$247 million in November of 2007, followed by DeepOcean and CTC Marine for \$810 million in the second quarter of 2008. The deals, born from the realization that the subsea infrastructure business would grow at a rate of at least 25 percent per year for at least the next half decade, were designed to position the firm to take full advantage of this situation. Compofelice also knew that the subsea game was and still is a technology-oriented business. He adds, “There are huge barriers to entry. Not money, but having that individual and company resumé and track record.” Trico’s CEO also maintains that anyone else trying to start up and invest organically in the

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business would need ten years to catch up.

As Trico reached out to capture a piece of the fastest growing pie in the marine industry, it identified and purchased the brand names that were already doing business with the right customers. But the brand name was only one aspect of that plan. Compofelice says, "When you do something like this by acquisition, and you retain the management team, you simply become today what they have been for the last decade. This is very technology-oriented, whereas OSV is not. We still have about one-third of our business on the OSV side. But we're all mariners, no matter what we are doing, and neither side of the company earns a dollar of revenue unless a boat is out on the water. And that's something we never forget."

Now firmly entrenched as one of the world's big players in the subsea services game, Trico is going after the full array of business while carefully evaluating where that business is currently located – and where it is likely to go. Trico insists that part of that market is the rapidly developing scope of subsea decommissioning work. With the number of structures needing to be removed in an environmentally safe manner on the rise in places like the Gulf of Mexico and the North Sea, Trico is fast emerging as the industry's key player for that work. Joe Compofelice adds, "If the price of oil is \$20 in the North Sea, Statoil's responsibility to inspect, maintain and repair its own installations is the same as it would be if oil were \$100 per barrel."



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continues to focus on a day-rate service model. Although Joe Compofelice doesn't pretend to have established Trico as the be-all/end-all engineering provider, Trico also picks and chooses which parts of the traditional playbook suit its needs. Taking the best from each side of the equation, Trico's CEO stresses, "We didn't want the financial risk of the EPIC subsea contractor model. And we don't want the high capital intensity of the vessel-owner model. So there's room for us to do the engineering work while staying within the day-rate model." In terms of risk it is nowhere near as iffy as the burden carried by the firms that Trico subcontracts for.

The Trico strategy goes beyond the day-rate philosophy.

Investing in the subsea side with substantial amounts of available cash, it is Trico's contention that the subsea vessel can be differentiated when it is integrated with the services. Expanding on that metric, Joe Compofelice asserts, "We'll continue to time-charter from others on the subsea side because we want the opportunity to be able to change and ramp up our vessel requirements to match the changes in subsea engineering technology"

Where & Why: Trico Focuses on Emerging and Mature Markets

The DeepOcean purchase, perhaps, is the embodiment of where Trico wants to be in the future and, more importantly, how it will get there. With an instant deep water services capability, Trico intends to grow in both the deep water services business. With subsea service experience gained in the North Sea, where subsea technology was essentially invented, Trico can take full advantage of the world's largest and oldest base of subsea installations. The Gulf of Mexico, on the other hand, is the world's second largest and second oldest base of subsea facilities. And it is here that Trico is adding ROVs and appropriate vessels to its fleet to replicate its North Sea experience.

With 63 of its 80 vessels still engaged in the towing and supply business, Trico has no intention of abandoning its roots in the OSV game. And to those who would point out that Trico's fleet is a little long in the tooth, Joe Compofelice responds, "On the OSV side, the average age is 18 or 19 years. But we're averaging about 12 years old in the North Sea and over 20 years old in the Gulf of Mexico. The GOM fleet is dedicated to the shallow water; they are fully depreciated assets that are very, very well maintained, and we make exceptionally strong EBITDA margins on those vessels. So having an older fleet, limited to the shallow Gulf of

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...changes for the Trico Group, including but not limited to the transitioning from a U.S. GOM/North Sea, spot-market OSV company to one with internationally based vessels (90 percent of 2007 EBITDA), termed-out cash flows (82 percent of 2007 EBITDA) and a reduced U.S. GOM fleet (from 47 vessels in 2004 to 11 vessels today).

Mexico waters, is a very, very profitable strategy.”

As for his North Sea fleet, the Trico chief executive insists that his fleet age is about in the middle of the bell-shaped curve. “Some are younger, some older, but 12 years old is not by any means an old fleet in the North Sea. But there are many markets which have a strong demand for older, well-maintained supply vessels. The Bay of Campeche, at about a 200-foot water depth, is a perfect example of this. We have ten vessels doing very well there. Will we take those vessels to Brazil, the North Sea or Angola? No.” In the end, the Trico model pays far more attention to the condition of the vessels and their fitness for the market they are deployed in, than to the simple factor of age.

In the Gulf of Mexico, Trico has absolutely no intention of chasing an almost static pie of shallow water work, nor will it venture out into the crowded deep water OSV business. Still, Compofelice says, “The Gulf of Mexico is an important market – depending on how you slice it. But we’re not just going out there to chase the supply boat business in deep water.” Instead, Trico will work to increase its market share of the rapidly expanding opex work represented by subsea maintenance and repair.

Steady Growth Planned, Despite Murky Waters

Since 2005, the strategic decision to create a subsea services company has resulted in measurable changes for the Trico Group, including but not limited to the transitioning from a U.S. GOM/North Sea, spot-market OSV company to one with internation-

ally based vessels (90 percent of 2007 EBITDA), termed-out cash flows (82 percent of 2007 EBITDA) and a reduced U.S. GOM fleet (from 47 vessels in 2004 to 11 vessels today). And now the firm is positioned in a market with substantially better growth prospects, utilizing an engineering-based approach to work selection. Joe Compofelice insists that this means a higher potential return on capital employed and fewer competitors with whom to fight for an expanding pie. These moves and assumptions are, of course, not without risk.

Today, it is difficult to say where Trico ranks in the global mix of subsea service providers. While competitors routinely take on huge projects on a lump-sum basis, Trico hesitates to move beyond its day-rate business model. Compofelice adds, “We don’t take, as a rule, engineering risk. In terms of the deep ocean subsea service side, however, we’re as large as anyone else in those segments.”

The future for the marine sector, especially in terms of the subsea markets, is less than clear. The Trico business model, however, is based at least partly on the assumption that the growth in the last few years in subsea services has been driven by the lowering of the cost of recovering a barrel of oil. That being said, Trico is betting that the subsea sector should continue to grow – but at what rate? To this question, Trico’s CEO opines, “The price deck for oil being used to justify new projects is \$40 per barrel. I’ve seen it as high as \$55 - \$60 per barrel at only three large oil companies. But the average is \$41 per barrel. If oil levels out around \$50 to \$80 per barrel – as some would have us believe – then everyone in the subsea businesses is going to be very, very happy.” As MarEx went to press for this edition, the price of crude oil had “crashed” to about \$67 per barrel.

Looking Ahead: Bold Assumptions Based on Past Success and Sound Planning

The Trico balance sheet and earnings mix will see changes in the near future. In 2009, the firm will have owned both new acquisitions for a full year instead of a half year and will take delivery of six to eight vessels. And 2011, the first year of ownership of all its newbuilds, should also yield increased revenues. Compofelice says with confidence, “I see strong EBITDA growth in 2009, 2010 and 2011.”

Trico’s CEO told MarEx in November that EBITDA and operating income are the same number, except for depreciation however the return on capital employed can be quite different. And this is at the heart of the Trico business model. Owning a vessel consumes capital but over time produces less operating income and Ebitda. When you time-charter a vessel – which is what Trico does on the subsea side – it’s like renting the vessel, so it is a much higher expense. On a time-chartered vessel, EBITDA per day is much lower than if the vessel was owned.. As Compofelice explains so well, “If you own it, you’ve already spent \$25 million in capital to buy the vessel, but it might cost less to operate it. So, would you rather have spent \$25 million to make



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a better Ebitda, or nothing to get somewhat less operating income? So in the OSV market, with less technology involved owning a vessel that will produce earning for 25 years makes sense. But with subsea service vessels a five year times charter, while it will produce less Ebitda over five years, provides an opportunity every five years to upgrade to the latest technology in a segment where the customer is willing to pay a higher price.”

The Trico business plan going forward is a simple one. They’ll concentrate on generating cash flow from the OSV segment, grow the subsea segment and “deleveraging” over the next two or three years. Trico’s CEO is candid about the reasons for this. “The goal is to rebuild a balance sheet that will allow us to do more acquisitions, in the



The Trico business plan going forward is a simple one. They’ll concentrate on generating cash flow from the OSV segment, grow the subsea segment and “deleveraging” over the next two or three years.

neither the economy nor Trico’s business plan had anything to do with luck. **MarEx**

future. Our building blocks are in place; we don’t have to access the capital markets during this difficult time and, frankly, we got lucky – we did it at the right time.” Lucky or not, Trico finds itself in an enviable position. With access to low-cost credit, secured before the global melt-down, its newbuild program appears to be secure.

The new-look Trico, now firmly positioned in a growing and highly technical market sector, is far removed from its former focus. Just five years ago, virtually no one could have predicted the state of today’s financial markets. The same holds true for the Trico Group’s position and financial health. Quite likely, though,

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