Companies, People, Ideas

Curious George

Nathan Vardi 03.10.08

DryShips is a public company. But the way George Economou runs the place, you'd hardly know it.

Sitting in the library bar of Manhattan's Regency Hotel, Greek shipping billionaire George Economou throws back a salted nut before confronting the shareholder complaints that have swirled around him. "Listen, guy," he says as if holding a conference call. "If you don't like it, you don't have to be here. Sell the stock."

Many investors have taken this advice, recently slashing $1.7 billion, a third of the market value, from Economou's DryShips, which owns 38 dry-bulk carriers that shuttle iron ore, coal, fertilizers and grain around the globe. But Economou is comfortable in choppy waters. DryShips charters its vessels in the volatile spot market, and, despite the recent dip, the stock has quadrupled in the past year to $85.

With his blond hair and perfect English, Economou has led Greek shipowners to U.S. capital markets. He listed DryShips on the Nasdaq in 2005. Since then 12 mostly Greek dry-bulk shipping firms have followed to New York exchanges as the sector raised $4 billion, reports Dealogic. Not that they've thanked him for the Wall Street welcome.

On the contrary, some shippers and investors have pilloried Economou for tarring the industry by signing controversial deals, often involving family members, that blur the lines between DryShips and his privately held Cardiff Marine, a ship management outfit. Peter Georgiopoulos, chairman of rival Genco Shipping & Trading, blasted Economou in public recently, saying shippers like Economou "play games with their shareholders' money." For his part Economou says his 15-year friendship with Georgiopoulos is over. Economou has also infuriated professional investors. "I believe he runs DryShips as if it's his own private company," says Steven Abernathy, who heads a New York hedge fund that recently dumped its DryShips holdings. "I am not going to be part of anything where a chief executive is self-dealing."

Abernathy's frustration stems from Economou's abrupt announcement late last year that DryShips had ventured out of the shipping sector and into oil drilling. With no prior notice Economou persuaded his board--five people including himself and Aristidis Ioannidis, general manager of Cardiff Marine--to spend $405 million for a 30% stake in Ocean Rig, a Norwegian firm that owns two deepwater drilling rigs. Economou, who also bought a 4% stake in Ocean Rig for himself, says he feels that deepwater drilling presents a glorious opportunity. A Cardiff Marine affiliate recently ordered two newly constructed drill ships from Samsung Heavy Industries for $1.4 billion.

The sudden tacking by DryShips hasn't played well with shareholders. In a December 2007 conference call investors complained about DryShips' intention to pay Cardiff Marine a $4 million fee for brokering the Ocean Rig deal. They also expressed concern that Economou was using the public company to fund his private interests. Would Economou now press Ocean Rig to buy Cardiff's new ships? "The more salient issue is that DryShips' balance sheet is potentially being deployed as bridge financing for Mr. Economou's long-term entry into the drill-rig sector," says Oppenheimer & Co. analyst Tim J. Tiberio.

But Economou, who owns 34% of DryShips, has learned he can do nearly anything he wants in the capital markets as long as it's fully disclosed. "Once you have full disclosure, if you don't like it, don't invest," he says. He does, however, sometimes seem to be disdainful of his shareholders. "Who are my investors? Computer models, hedge funds and some institutions that go in and make $10 and get out."

So much for consensus. DryShips has been operating with two employees (Econ- omou, 54, and his internal auditor) since his chief financial officer quit in May, the second to split in three years. The company's fleet is managed by Cardiff, 70% owned by Economou, which gets more than $7 million a year for its troubles. Cardiff also manages Economou's private fleet of 13 dry bulkers and 21 oil tankers. How do investors know that when a sweet chartering deal comes up Cardiff won't give preferential treatment to vessels owned wholly by Economou? They can read DryShips' securities filings, Economou says.

Born in Athens, Economou first came to America to attend MIT, where he received two masters of science, one in naval architecture and marine engineering, another in shipping and shipbuilding management. His dad owned a small paper-products firm, but Economou was drawn to the sea. He toiled at shipping outfits in New York before returning to Greece, buying his first ship in 1986 and later setting up Cardiff.

Economou returned to New York in 1998 to raise $175 million in junk bonds to expand his fleet with a company called Alpha Shipping. A year after raising the cash, Alpha failed to make an interest payment and defaulted on the bonds, which largely ended up with Credit Suisse. Operating smoothly in bankruptcy court, Economou struck a deal that let him pay creditors 37 cents on the dollar and left him in possession of most of the fleet.

In 2005 Economou tapped Wall Street again, taking DryShips public and raising $250 million. Good timing. The company rose on the growth in global trade, particularly iron ore demand from China, which imports more than 325 million tons of iron ore annually, up from 55.3 million tons in 1999. Asia now accounts for 59% of the world's dry-bulk imports and this new demand has pushed charter rates higher. The price to charter one of DryShips' bigger vessels jumped from $30,000 a day in January 2006 to $170,000 in November 2007, though prices have weakened lately in the global economic slowdown. Meantime DryShips borrowed $819 million, at 5.98% to 7.33% interest rates, to add ships. DryShips' net profit rose 749% to $177 million in the nine months ended Sept. 30.

A family business, this. Economou's two former wives own a total 15% of DryShips. Chryssoula Kandylidis, his sister, holds 30% of Cardiff Marine. With proceeds from its ipo, DryShips bought six ships that had recently been picked up by Kandylidis. Five were sold at cost, but DryShips paid his sister a $3 million fee. Economou says she made very little money on the deal and bore great risk.

Kandylidis' son, Antonios Kandylidis, is also in this cozy network. The 30-year-old Antonios is the founder and largest shareholder in OceanFreight, which raised $218 million when it went public on the Nasdaq last year. Cardiff helped OceanFreight pick up its first dry-bulk vessels, helps manage that fleet and shares office space with OceanFreight.

A rocky maiden voyage. OceanFreight had to clarify its reporting in October, announcing third-quarter earnings per share were really 7 cents as opposed to the 11 cents it had advertised a day earlier. In December Antonios fired his chief executive, who says he intends to sue for wrongful termination. Then OceanFreight's chief financial officer quit; Antonios took over both the executive roles. Within days of the fuss OceanFreight announced it was buying the first of two tankers privately owned by Economou for $112 million. Antonios says the first tanker has already been chartered to ExxonMobil for three years thanks to Cardiff's efforts and that Economou gave him a "break" on price with the second tanker.

Conflict of interest? Antonios insists the decision to buy the tankers was made by OceanFreight's directors, of whom there are five, including Antonios' dad. "Everything was done at arm's length; they are not going to approve a transaction that is overpriced," Antonios says. OceanFreight's stock recently traded at its offering price, but Natasha Boyden, a Cantor Fitzgerald analyst, recommends buying both DryShips and OceanFreight. Boyden shrugs at the interfamily dealings. "They have been doing business like this for hundreds of years," she says. "They are not going to stop doing it just because they are public."