

DEALMAKER OF THE YEAR: TEEKAY CORPORATE MANAGEMENT

Shipping has always been heavy on personalities, and correspondingly in past years we have presented our Deal-maker of the Year Award to charismatic individuals who have been the catalysts and intelligence behind each year's most impressive procession of transactions. This year, however, it was not one single man but a team of individuals who best fit these criteria, and we are thus very pleased to present our Dealmaker of the Year award to Teekay's Corporate Management... and by extension to all those who contributed to the success of Teekay's extraordinary year.

Over the past few years alone, Teekay Corporation has acquired substantial interests in the LNG, offshore and tanker sectors and subsequently spun out related companies. Teekay's empire, the entirety of which is publicly traded, includes Teekay Corporation, Teekay LNG, Teekay Offshore, Teekay

Tankers and Teekay Petrojarl. And while it is common in shipping for groups of related companies to exist with different focuses, Teekay is unique in its clarity of branding, unity of purpose, and transparently centralized management team.

Teekay's management have overseen a steady stream of substantial but well thought-out transactions over the past year, continuously increasing value for their investors. We congratulate Teekay on its transactions and accomplishments over the past years and recognize these in Figures 1 through 4. The 2008 Dealmaker of the Year Award celebrates Teekay's impressive accomplishments in the bank debt, leasing, M&A and equity categories in 2008.

OMI ACQUISITION

The real catalyst for Teekay's incredible dealmaking year in our view was the \$1.1 billion

acquisition of 50% of OMI in April 2007. It's worth recognizing upfront the work that Perella Weinberg and Fearnley Fonds did for OMI in handling its sale process, and that Pareto did for TORM in acquiring the other half of OMI. It's particularly worth note that our Deal-maker, Teekay's management, did not hire an outside financial adviser but handled the necessary work in-house.

Teekay used the acquisition of 13 suezmax tankers and eight product carriers (including one under construction) to grow its suezmax footprint to 33 vessels (with an additional 10 on order). CEO Bjorn Moller explained that the company saw an attractive opportunity in the chance to expand this footprint by 32% with the acquisition of what he called "the best available fleet" rather than ordering and waiting for newbuildings or acquiring vessels with various histories in multiple transactions from multiple owners.

Eighty-one percent of the fleet was fixed with an average contract length of two years while 70% of 2008 cash flow from vessel operations (CFVO) is fixed. Teekay also gained upside potential in profit sharing, spot presence, and purchase options, which are currently in the money but cannot be exercised for several years. Beyond the suezmax business complementing Teekay's aframax business, the transaction made the company better-able to serve current customers, particularly through enhanced flexibility to undertake volume contracts in addition to time-charters.

TEEKAY TANKERS

Teekay, as the marine midstream company, has learned that the services its customers require, with a mix of assets on a variety of contract lengths, is not conducive to winning investors, but is better off separated into individual platforms for different types of

Recent Teekay M&A Deals

Acquirer	Advisors	Amount (US\$ M)	Target / New Company or Partners	Comments	Month
Teekay & TORM	Perella Weinberg Partners, Fearnley Fonds for OMI, Pareto for TORM, none for TK	\$2,200	OMI Corp.	50/50 acquisition being at \$29.25/share	Apr-07
Teekay	DnB NOR Markets for Teekay, ABG Sundal Collier for Petrojarl	\$480	Petrojarl	Acquisition of majority stake in Petrojarl	Oct-06
Teekay	None	\$810	Naviera F. Tapias S.A.	Strategic entry into LNG sector / additional \$540 million newbuilding finance	2004

FIGURE 1

Recent Teekay Equity Deals

Issuer	Underwriters / Advisors	Amount (US\$ M)	Structure / Pricing / Comments	Month
Teekay Tankers	Citi, Morgan Stanley, ML, Wachovia, DB, JPM, Dahlman Rose, Scotia, Johnson Rice	\$224	Spin-off by Teekay of 9 aframax tankers in 10 million share NYSE IPO; Priced at top of range, \$19.5/share; 1,500,000 share overallocation option exercised in full	Dec-07
Teekay LNG	Wachovia Securities, Citi, Raymond James	\$88	Follow-on offering to fund debt repayment	May-07
Teekay Offshore Partners	Citigroup, Merrill Lynch	\$147	Spin-off by Teekay of offshore assets; 7,000,000 common units w/ 1,050,000 shoe at \$21 per unit - top of range	Dec-06
Teekay LNG	Citigroup	\$126	Follow-on offering to fund purchase from TK 3 x suezmax tankers	Nov-05
Teekay LNG	Citigroup, UBS, A.G. Edwards, Raymond James, Jefferies, Wachovia, Deutsche Bank	\$152	5.5m share IPO on NYSE for MLP Teekay LNG; priced at high end of range at \$22/share and traded up	May-05

FIGURE 2

investors with one parent managing all the assets and providing service to all the customers. Teekay Tankers was another example of the elegance with which Teekay's management is capable of financially structuring its company into

neatly packaged units while managing the assets and services it needs to provide top quality service to its customers.

Like Teekay's other spin-offs, Teekay Tankers is sector-focused, parent-controlled, and

populated with modern assets. However, Teekay's tanker assets, particularly in the suezmax niche, lend themselves substantially more to spot market trading or short-term time charters, and as such are not appropriately bundled into a

bond-like vehicle with fixed cash flow distributions. So naturally, Teekay worked with its bankers, who were led by Citi and Morgan Stanley, to come up with just the right structure.

"Belize advertised here in the hard copy this month and reached the most influential readers of our industry, why don't you? Interested? Please contact info@marinemoney.com, for more information!"

Selected Teekay Debt Deals

Borrower	Arrangers / Buyers	Amount (US\$ M)	Pricing / Purpose / Remarks	Month
Teekay Tankers	Nordea, Citi, ING	\$845	To refinance existing bridge loan and vessel acquisitions	Oct-07
ICON Capital	Fortis	\$48	Financing for acquisition of Teekay aframax tankers	Jul-07
Teekay	HSH Nordbank	\$700	12-month financing for OMI acquisition; priced at L+50	May-07
Teekay Offshore Partners	Nordea, DnB, Fortis	\$940	Planned facility for Teekay's offshore spin-off	Aug-06
Teekay Shipping	ING, HSBC	\$350	L+77.5; funding for 2 x LNG newbuildings to be secured pre-delivery by TK and post-delivery by TK LNG	Dec-05
Teekay LNG	Calyon, KEXIM	\$880	Funding for 4 x LNG vessels under construction	Oct-05
Teekay Shipping	ING & Citigroup as bookrunners, Nordea	\$550	8-year revolving facility priced at L+60; refinance of 16 aframaxes	Apr-05
Teekay Shipping	Calyon, KEXIM, DnB, ING, Nordea, RBS	\$468	Commercial tranche L+90, EXIM tranche L+40	2004
Teekay Shipping	Nordea	\$500	LIBOR + 70	2004

FIGURE 3

The company sold to the public 10,000,000 shares plus a 1,500,000-share over-allotment. Amazingly, the deal priced at the top of the target range at \$19.50 per share to raise just over \$224 million. The proceeds went towards the acquisition of nine modern double hull tankers from parent Teekay. Beyond the elegant financial organization that was involved in setting up Teekay Tankers, the deal was impressive from an executional perspective considering the state of the equity markets when it was launched in early December. The successful execution was evidence of the acumen of the bankers involved but even more so the solid relationship Teekay has built and maintains with its investors and

bankers. The success of the deal demonstrates that top tier companies can continue to win the financing necessary for growth even in a questionable market.

TEEKAY CORPORATION/TEEKAY TANKERS CREDIT FACILITIES

With the acquisition of OMI in spring 2007, the spin-off of Teekay Tankers at the end of 2007, and plans to continually drop down tankers from Teekay Corp. into Teekay Tankers, Teekay's financing needs in 2007 were a bit complicated but as always elegantly met. At the time of the OMI acquisition, HSH Nordbank stepped up with a \$700 million 12-month bridge loan priced at

just 50 basis points over LIBOR. Teekay moved quickly to secure a longer-term facility, which it must have realized it needed as credit markets began to fall apart in late July. Nordea, Citi and ING stepped in as bookrunners for a dynamically structured senior secured facility that was upsized from \$800 to \$845 million – this was during the autumn when many companies were having trouble finding any financing at all. Fokus Bank, BNP Paribas and HSH Nordbank joined the three bookrunners as MLAs.

The facility was split into an A and a B tranche. Tranche A, which accounted for \$250 million, financed seven aframax tankers owned by TNK and is guaranteed by TNK. Tranche

B, worth \$595 million, financed seven suezmax, two aframax and four product tankers owned by TK, most of which were acquired as part of the acquisition of 50% of OMI, and is guaranteed by TK. The great thing for Teekay, however, is that during the tenor of the facility collateral vessels can be dropped down from TK to TNK together with their corresponding limits, increasing tranche A and decreasing tranche B. Both tranches have a tenor of ten years and benefit from a five-year repayment holiday. The facility was instrumental in preparation for the listing of Teekay Tankers and going forward facilitates acquisition possibilities for Teekay Tankers. In addition it was successfully upsized and syndi-

Teekay's 2007 Lease Deals

Lessee	Lessor(s)/Advisor(s)	Amount (US\$ M)	Structure / Pricing / Comments	Month
Teekay	ICON Capital	\$80.5	Sale and bareboat charter back of two Aframax tankers for 4 years	Jul-07
Teekay	ICON Capital	\$88.0	Sale and bareboat charter back of two Aframax tankers for 5 years	Apr-07

FIGURE 4

Teekay ICON Fleet

Vessel	DWT	Built	Sale Date	FMV (Clarksons)	Sale Price	% of Debt	Charter Type
Sebarok Spirit	95,649	1993	April 2007	US\$ 44.64m	US\$ 88m enbloc	74%	5 yr Bare Boat
Senang Spirit	95,649	1994	April 2007	US\$ 46.86m			5 yr Bare Boat
Samar Spirit	98,640	1992	June 2007	US\$ 43.05m	US\$ 40.25m	58%	4 yr Bare Boat
Mayon Spirit	98,507	1992	June 2007	US\$ 43.05m	US\$ 40.25m	62%	4 yr Bare Boat
Total / Average	388,445	1992.8	n/a	US\$ 177.6m	US\$ 168.5m	US\$ 118m	4.5 yr Bare Boat

FIGURE 5

cated to 15 banks in a disrupted market as a result of good cooperation and mutual understanding between Teekay and its relationship banks.

LEASING WITH ICON

The OMI and Teekay Tankers transactions were award-worthy in their own right, but in the midst of this Teekay's management was also busy setting up new financial arrangements for other parts of its fleet. The most interesting example is a series of lease deals concluded with Fortis and ICON Capital.

Fortis most recently fused the equity capital and leasing sophistication of ICON with a bespoke sale and leaseback structure to Teekay Corporation for four Aframax class tankers. As an existing relationship bank to Teekay, and involved in the syndicated financing of their Aframax tanker fleet, Fortis introduced ICON to Teekay and provided bilateral lending and risk management products in completing the deal. Taken together, the sale and leaseback of the Senang Spirit and Sebarok Spirit in April of 2007 and the Mayon Spirit and

Samar Spirit in June of 2007 is also noteworthy in that Fortis and ICON adopted financing techniques from the aviation/intermodal industry and applied them in shipping.

In this particular transaction, ICON's expertise in equipment valuation and willingness to assume prudent risks was coupled with Fortis' shipping industry commitment and desire to deliver on Teekay's needs. As a recognized global leader in maritime energy transportation, Teekay and its mid-life cycle Aframax fleet was an optimal partner to benefit from ICON's advantageous leasing proposition.

The vessels acquired, shown in Figure 2, were built at Imabari in Japan and have been owned and operated by Teekay since delivery. Reaching their mid-life cycle, the Vessels were excellent candidates to enjoy the more flexible terms and conditions that ICON is able to provide. Beginning discussions in early 2007, the two parties swiftly reached an amicable agreement to sell and charter back the 1993 built Sebarok Spirit and the 1994 built Senang Spirit for an "en bloc" price of \$88

million. The sale and leaseback provided for a five-year hell or high water bareboat contract at a net rate of \$17,000 per day. Fortis, as lender and swap provider, delivered a five-year bilateral term loan of \$65.2 million, or 74% leverage.

After a mutually beneficial initial transaction, the two companies and Fortis continued discussions, which culminated in a similar follow on deal that was executed less than three months later. In June, ICON and Teekay reached a sale leaseback agreement for the 1992 built double-hulled Aframax tankers Samar Spirit and Mayon Spirit for \$40.25 million each. The vessels were bareboat chartered back to Teekay under a four-year hell or high water bareboat charter at a net rate of US\$ 17,000 per day. Fortis provided four-year term loan financing of 58% and 62% respectively and executed an interest rate swap. However, as different ICON managed funds purchased the assets, they could not be cross-collateralized.

Perhaps the most exciting aspect of these transactions is the manner in which Fortis and

ICON replicated financing techniques prevalent in the aviation/intermodal industry. In this regard, contrary to the usual shipping market relationship between lessor and lessee, Teekay entered into a sale and leaseback agreement with multiple dedicated leasing funds for mid-life cycle vessels with ICON assuming residual value risk. In addition, each of the vessels was purchased slightly below market value given the attached charter-back rate, and the full amount of the bareboat charters are applied to reduce debt.

CONCLUSION

While this creative transaction is a tribute to both ICON and Fortis, it is also another sign of the dealmaking capacity of Teekay's corporate management, showing that they can continue to secure optimum financing arrangements with relationship and non-relationship banks alike even as they move forward to execute on their larger corporate strategy. We hope you will join with us in congratulating Teekay's management team in receiving this well-deserved honor and their many financial advisors, lenders and supports.

