ATTENTION K-MART SHOPPERS...CLEAN UP IN AISLE 5...THANK YOU

THE RECAPITALIZATION DEAL OF THE YEAR

**Teekay Offshore Partners L.P. Recapitalization**
Transaction: $200 million PIPE Offering of Common and Convertible Preferred Equity
Winners: Citi, DNB, ABN AMRO

Transaction: $250M Vessel Loan Financing
Winners: ABN AMRO, DNB, Nordea

Transaction: $40M Vessel Loan Financing
Winners: Nordea, DNB, Swedbank

Transaction: Amendment of NOK 600M Bond due 2017 and NOK 800M Bond due 2018
Winners: DNB, Nordea, Swedbank

**Teekay Corporation Recapitalization**
Transaction: $100 million PIPE Offering of Common Equity
Winners: Credit Suisse, DNB, RBC

Transaction: $300M Bank Debt Refinancing
Winners: Nordea, DNB, Swedbank, BNP Paribas

In light of today's market conditions, it should come as no surprise that there were a number of nominations in this category this year, including the following noteworthy ones. Receiving multiple nominations was the Genco Shipping & Trading’s comprehensive recapitalization plan which included a $400 million senior secured credit facility, collateralized by 45 dry bulk vessels, which refinanced five of Genco’s seven existing facilities into one large five-year global facility. In conjunction with the refinancing the company raised $125 million in an equity private placement led by Jefferies, Fearnleys and DNB. Of the proceeds, $41 million was used to reduce the lenders’ exposure in five facilities from $441.5 million to $400 million. The balance improved the company’s cash position. The leaders of the new facility were Nordea, SEB, DVB, ABN AMRO, Credit Agricole, Deutsche Bank, CIC and BNP Paribas. The transaction not only stabilized the company’s financial situation, but gave it a runway into the challenging future of dry bulk.

Under the leadership of ABN AMRO, Credit Agricole and CIT, Eagle bulk amended its original $175 million loan facility and raised $60 million in a subordinated loan. This led to the creation of SubCo, which holds the existing loan facilities and vessels and GrowthCo which raised a total of $188 million to acquire new vessels.
Golden Ocean’s restructuring was remarkable but made easier with the involvement of its main shareholder, John Fredriksen. After taking numerous steps to preserve its liquidity position including postponement of deliveries, vessel sales and sale-leasebacks, the company approached its banks to help it further “preserve and improve its liquidity position to better position the company through the current market cycle and at the same time preserve the upside when the market improves”. To that end the banks agreed to no amortization until September 2018, deferring a total of $165 million while loosening covenants and implementing a cash sweep. As a condition to the deal, the company had to raise $200 million and engaged Danske Bank, DNB Markets, Arctic Securities, Clarksons Platou Securities and Nordea Markets to assist. With the pre-commitment of Hemen Holdings, which controls 43.1% of the shares, to subscribe to its pro rata share, which equates to $86.2 million, the process went smoothly allowing the company fulfill the equity condition to the loan refinancing.

This year’s winning transaction in this category would be viewed by most as an unlikely candidate no less the subject of this award. It does highlight that as much as one tries to structure around risk, it is impossible. Structured as an MLP, Teekay Offshore Partners L.P. (“TOO”) fulfilled every one of the requirements of this financial structure. In particular, it had fee-based contracted forward revenues (i.e. cash flow) of $7.8 billion with an average remaining duration of five years. The counterparties were national and major oil companies who contracted its FPSOs, FSOs and shuttle tankers. Through its fee-based business model which is focused on the transportation and production side of the oil and gas value chain, there was no direct commodity exposure and more importantly their assets are critical to their customers’ production chain. Surely, it was smooth sailing ahead, but for one exogenous and unaccounted for factor.

Forgive our conceit but the perfect image of the villain in this piece is best described in a nursery rhyme in which the childhood subject is replaced by “oil”. It all began in the 2H 2014 when the price of oil began to decline. Its effects were not immediately felt but as it worked its way through the system the dominoes began to fall.

Humpty Dumpty sat on a wall, Humpty Dumpty had a great fall.
All the king’s horses and all the king’s men couldn’t put Humpty together again.

Fear and greed had won. Saudi Arabia wanted to shut down US shale production to restore the natural order of the industry, where oil production was controlled by OPEC at the direction of Saudi Arabia. OPEC continued to pump more oil, building supply and driving the oil price down to levels where exploration and production were no longer economic. Oil company budgets were cut back in resulting in the virtual demise of the oil services industry. Loans could not be serviced and investors lost money as share prices collapsed. The financial markets went into shutdown, which bared the inherent weakness of the MLP model – its dependence on the financial markets for growth capital.

At the core of the model is investors demand for growing distributions which is only possible through the addition of accretive assets. To acquire these assets, the MLP requires easy and ready access to capital. With a full payout model, funding must be fully sourced from the capital markets and the banks. Complicating matters still further is that by nature these future growth projects are strategically planned for the future and are committed to under the assumption that the capital will be there when it is needed.

For TOO, the rainy day was here. As management proclaimed: “waiting for the oil price and financial markets to return was not an option”. The company faced unfunded Capex, including shipyard installments, near-term bank maturities, NOK bond maturities that could not be rolled and high equity payouts, relative to market value, with no indication of when markets would re-open to issuance. With fewer pockets to pick, Peter Evesen had to pull out his own wallet. In an act of near heresy, dividends, at both the daughter and parent levels, were drastically cut. The strong contractual cash flow was now diverted to where it was most needed – to fund the equity requirements of its future growth projects and to deleverage the balance sheet. While it hurt, it was the right thing to do. As additional steps to bolster their balance sheets, TOO and Teekay partially repaid NOK bonds and a revolver and sold non-core assets. Given its good name, Teekay was even able to raise $200 million through a bond offering. The company could now begin to breathe.

But the company knew this was still not enough. TOO still had to cover medium term liquidity requirements and finance committed growth projects.

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scheduled to deliver through 2018. Teekay, as well, had to address near term debt maturities in conjunction with lower incoming dividends from Teekay LNG and TOO. A debt restructuring would not suffice. DNB, as advisor, and Teekay identified the need for a comprehensive financing plan and worked closely together to design a recapitalization program to improve the liquidity of Teekay and TOO. The firm cash flow provided the necessary means to have all the stakeholders cooperate, understanding that a stronger company benefits all stakeholders. The recapitalization route had the added benefit of having the company take a leadership role and manage the process. No one has a better understanding of its needs and the capabilities or can better “herd the cats” with their differing interests.

The recapitalization plan involved four main pillars: new equity, the extension of the Norwegian bonds, new bank debt and refinancings. Anchored by top existing shareholders, TOO raised $200 million of new capital in a combination of a private placement of preferred units plus common unit warrants and a PIPE or a private investment in public equity. Specifically, the Partnership issued $100 million of 10.5% Series D Cumulative Exchangeable Perpetual Preferred Units (Series D Preferred Units) to a group of investors. For the first two years, the issuer has the option to pay the distribution in cash or common units, thereafter it is payable in cash only. As part of the transaction, the investors received approximately 4.5 million warrants with an exercise price equal to the closing price of the Partnership’s common units on June 16, 2016, or $4.55 per unit, and 2.25 million warrants with an exercise price at a 33% premium to the same closing price, or $6.05 per unit. The warrants have a seven-year term. At the option of the holder, the Series D Preferred Units are exchangeable, after five years, into common units of the Partnership at the then ten-day VWAP. In addition, the Partnership has the option to redeem the Series D Preferred Units at 110% after five years and 105% after the sixth anniversary. In short, the Series D Preferred plus warrants offered an attractive current yield with long-term upside and meaningful structural protections. In the second transaction, the Partnership issued $100 million of common units to a group of investors priced at the closing price of the Partnership’s common units on June 16, 2016, or $4.55 per unit. Over-subscribed, this tranche improved pricing to market levels and avoided a costly discount. Proceeds from the offerings will be used for general partnership purposes, including the funding of its existing newbuilding installations and capital conversion projects. For the new investors, this is an attractive valuation entry point, with significant upside potential. There is further upside from potential future dividend increases (current coverage ratio > 5x and growing DCF). Lastly, warrant conversion and common unit price are set around historical lows and offer attractive dividend yield/coupon. TOO was up 18% on the first trading day and 30% on the first trading week following the announcement.

Turning to its liabilities, TOO also addressed near and medium term debt maturities and funding growth capex. The company negotiated a new $250 million debt facility for its East Coast Canada shuttle tanker business and a $40 million debt facility on six unencumbered shuttle tankers and FSO units. A further $35 million was raised from an upsizing of a debt facility on two shuttle tankers. The Norwegian bond market made its contribution as well. The bonds maturing in January 2017 and January 2018 had their maturities extended to November 2018 and December 2018 respectively against agreed amortization payments. In exchange the bondholders retained their relative claim position and benefited from the near-term bond price recovery. In terms of capex, Teekay Offshore cancelled the two remaining UMS newbuildings, resulting in savings of approximately $400 million. Asset sales have also generated cash with the sale and leaseback of two conventional tankers generating net proceeds of $30 million. Clearly there was no rock that was not turned over.

Given the symbiotic relationship, the health of the parent is always an overriding concern. Consequently, Teekay Corporation also focused on strengthening its balance sheet and improving its liquidity to provide further support to TOO if required. The cornerstone transaction was a PIPE offering of $100 million of common stock of which $40 million was issued to two trusts associated with founder, Torben Karlshoej, including Resolute Investments Teekay’s largest
shareholder. The shares were priced at $8.32/share, a discount of 10% to the prior day’s closing price. On the liability side, Teekay refinanced the company’s $150 million Equity Margin Loan Revolver (secured by its shares in Teekay LNG, Teekay Offshore and Teekay Tankers), as well as the $150 million facility secured by the three directly owned FPSOs. The company also re-worked a $50 million facility secured by the Shoshone Spirit VLCC.

On a pro forma basis, the company projects that after taking these steps into account, net debt/estimated value at the parent will decline from 48% to 41% and liquidity will increase from $148 million to $335 million.

Not a bad day’s work. Everyone participated, including a 100% hit-rate from the banks, and everyone benefited. In truth, it was an extraordinary effort best encapsulated in the snapshot which follows:

Recap Plan By the Numbers

- 120 days from launch to closing (March 1 – June 29, 2016)
- $325M of new bank facilities (TOO and TKC)
- $425M of bank facility refinancings and loan extensions (TOO and TKC)
- $761M of interest rate swaps extended (TOO and TKC)
- $186M of NOK bond maturities extended (TOO)
- $300M of new equity raised (TOO and TKC)
- $400M+ of CAPEX cancelled (TOO)
- 2,600+ person-hours spent in Recap Plan meetings/conference calls
- 982 sleepless nights

(1) Management estimate.
(2) Person-nights; core project team only.

And on the 121st day, everyone went back to work. There was no time to rest and besides everyone was accustomed to sleepless nights.

Fade out with the following music playing in the background:

…Regrets, I've had a few
But then again, too few to mention
I did what I had to do
And saw it through without exemption

I planned each charted course
Each careful step along the byway
And more, much more than this
I did it my way

Yes, there were times, I'm sure you knew
When I bit off more than I could chew
But through it all, when there was doubt
I ate it up and spit it out
I faced it all and I stood tall
And did it my way

Frank Sinatra, “My Way” in My Way written by Paul Anka 1969