Recapitalization is at best an art, not a science. It is imprecise work based upon incomplete data, conjecture and uncontrollable variables. Just when you think you may have a solution, it turns out to be tenuous or, worse, temporal. This is not intended as a criticism, but simply reflects the nature of the beast. Last year, the recapitalization of Teekay Offshore L.P. won Marine Money’s Deal of the Year. Unfortunately, that fix was derailed by some negative surprises from cost overruns with respect to certain projects, which left the partnership unable to deal with the 2017-2018 bond maturities. No longer did they have the 2½ to 3-year runway they anticipated. A larger, more permanent solution was needed, made more difficult by challenging energy and capital markets. The immediate need was to build liquidity and strengthen the balance sheet, which was to be accomplished by optimizing the asset portfolio and balance sheet. This would require asset sales, redeployment of assets, complete refinancings, reduced leverage and a strong financial partner.

Finding a like-minded partner makes it easy to transact business and the Teekay companies found an ideal one in Brookfield Business Partners L.P. ("Brookfield"), a global alternative asset manager, with a focus on property, renewable power, infrastructure and private investments. The company’s strategy is to acquire businesses on a value basis by targeting out-of-favor sectors; actively manage its operations in order to enhance cash flows and earnings; and opportunistically sell businesses when valuations are favorable. It has an investment grade rating of A- from S&P and typically deploys its capital into investment grade type balance sheets. For Brookfield, the transaction offered an opportunity to acquire a high quality, highly contracted business with market leading positions in attractive markets.

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total represents an equity swap replacing the existing preferred for common units. In addition to terming out debt, the transaction is not purely defensive, there are proceeds to go on the offensive as evident in the newly placed order described below.

The main terms of the agreement include the following:

• To stabilize the equity base, Brookfield and Teekay invested $610 million and $30 million, respectively, in Teekay Offshore at a price of $2.50 per common unit, a 3% discount to the prior day’s closing price, in addition to receiving pro rata 65.5 million Teekay Offshore warrants. Following the investment, Brookfield will own 59%, Teekay will own approximately 15% (down from 27%) and the public 26% (previously 73%) of the common units of Teekay Offshore.

• Brookfield acquired from Teekay a 49% interest in Teekay Offshore GP LLC, the general partner of Teekay Offshore, together with an option to acquire an additional 2 percent.

• Teekay Offshore will refinance a majority of the shuttle tanker fleet and extend the term;

• Refinanced a significant portion of its existing NOK bonds due to mature in late-2018 and early-2019 with the proceeds from a new five-year $250 million offering by TK Shuttle in the Norwegian bond market and

• Extended the mandatory prepayment date on Arendal Spirit UMS debt facility to September 30, 2018;

• Teekay sold Brookfield an existing $200 million intercompany to Teekay Offshore in exchange for $140 million in cash and 11.4 million of the warrants. The maturity date of the intercompany loan will be extended from 2019 to 2022;

• Teekay Offshore transferred its shuttle tanker business into a new, wholly-owned, non-recourse subsidiary, Teekay Shuttle Tankers LLC (“TK Shuttle”). A new five-year $600 million will refinance a majority of the shuttle tanker fleet and extend the term;

• Refinanced a significant portion of its existing NOK bonds due to mature in late-2018 and early-2019 with the proceeds from a new five-year $250 million offering by TK Shuttle in the Norwegian bond market and

• Extended the termination options on certain interest rate swaps by two years to 2021, released Teekay’s guarantee and reset rate.

There are three other important aspects to this transaction. As a condition of Brookfield’s equity investment, Teekay Offshore reduced its existing common unit distribution from $0.11 to $0.01/unit in order to reinvest cash in the business and further strengthen the partnership’s balance sheet. This could not have come as a surprise as the units were recently yielding ~17%. As a result of the transaction, the $190 million of remaining equity CAPEX will be fully funded. And finally, TK

Clearly, this was a comprehensive and radical solution, which was a necessary outcome from the failure of the earlier effort. As a consequence of the deleveraging and extended debt maturities, the stability of Teekay Offshore’s forward cash flows is preserved and the partnership is better positioned to benefit from an energy market recovery. Importantly, it also improves Teekay’s financial position by eliminating all of its financial guarantees to Teekay Offshore and increasing its own liquidity by approximately $140 million.

As is obvious, the only measure of the success of a recapitalization exercise is survival and as we saw multiple iterations may be necessary to find the right solution. What we have here now is a lean, mean, fighting machine.

This recapitalization incorporated many transactions, most of which were award worthy in their individual categories. We chose instead to view these individual transactions in the context of the total body of work. Forgive us for limiting the number of awards but take pride in participating in the sum of the parts of an elegant and final solution.