THE BEST DEAL NO ONE HEARD OF

THE BANK DEBT DEAL OF THE YEAR

Transaction: *Solvang ASA $500 million Credit Facilities*

Winners: *Nordea, DNB, ABN AMRO, KfW IPEX-Bank, SEB, Danish Ship Finance, Danske Bank, National Australia Bank, SpareBank 1 SR-Bank and DVB Bank*

Without a doubt, the hardest deal of the year category to judge is bank debt. Not only does this category garner the largest numbers of nominations, the nominated transactions are all large syndicated transactions and hard to distinguish between. When asked to explain the rationale for the nomination, the banks fall back on a litany of unhelpful buzz words. So, "Let me count the ways"[1] in enumerating the reasons:

- Attractive terms, tenor and price
- Well executed in a timely fashion
- Improves liquidity and flexibility
- Consolidation and simplification of the capital structure
- Lower cost of capital
- Oversubscribed
- A strong bank group of long-term relationship banks to which new banks were added to expand and diversify the company's banking relationships

Yada, yada, yada.[2] Unfortunately, these do not distinguish a transaction or define a winner. For that the help of an insider is required. That person understands the vicissitudes of the transaction, sees the larger picture and understands the impact of the transaction on the company. For some reason, perhaps the limits of a PowerPoint slide, these are rarely communicated. But when shared, the selection process is simple, as you will see.

There were a number of worthy nominations making this category highly competitive as usual. A critical piece to the acquisition of Capital Product's fleet of 27 tankers by Diamond S Shipping was a five-year $360 million senior secured credit facility led by Nordea, Credit Agricole and SEB. In a rare occurrence, the facility was fully underwritten by the three joint bookrunners and successfully syndicated in a tight syndication market, enabling Diamond S to expand its relationships with active shipping banks.

Hard pressed by its burdensome and expensive debt, which was consuming its cash flow, Dynagas LNG Partners was in need of refinancing to deal with its soon to be maturing bond issue. To solve the problem, a bank group led by Citi, KfW-IPEX and Credit Suisse syndicated a $675 million senior secured term loan, which together with cash on hand refinanced in full Dynagas' existing indebtedness comprised of a Term Loan B, due May 2023, and unsecured notes maturing in October 2019. This transformational transaction provided the company with a reduced cost of debt as well as a simplified and sustainable capital structure positioning Dynagas for future growth initiatives.

In the winning transaction, the path to the financing was anything but straightforward. Established in 1936, the Solvang Group, a leading gas-shipping company, was acquired in 1989 by Inge Steensland, which today controls 79.7% of the company. Over the years, the company has developed into one of the world's leading transporters of LPG and petrochemical gases, which it moves on one of the world's most modern Ethylene/LPG carrier fleets totaling 27 vessels.

With a multitude of petroleum feedstocks and derivatives requiring transport, the gas sector has significant growth potential. Solvang operates in three segments: Ethylene, Large Gas Carriers ("LGC") and Very Large Gas Carriers ("VLGC"), with total revenues split 25%, 37% and 38% respectively between them.

Produced in steam cracking units from a range of feedstocks, Ethylene, the largest produced organic compound, is widely used in the chemical industry mainly for the manufacturing of polyethylene. Currently, 5% of the world's ethylene trade is transported by sea mainly by Ethylene carriers, the most sophisticated version of semi-pressurized/refrigerated LPG carriers. The company

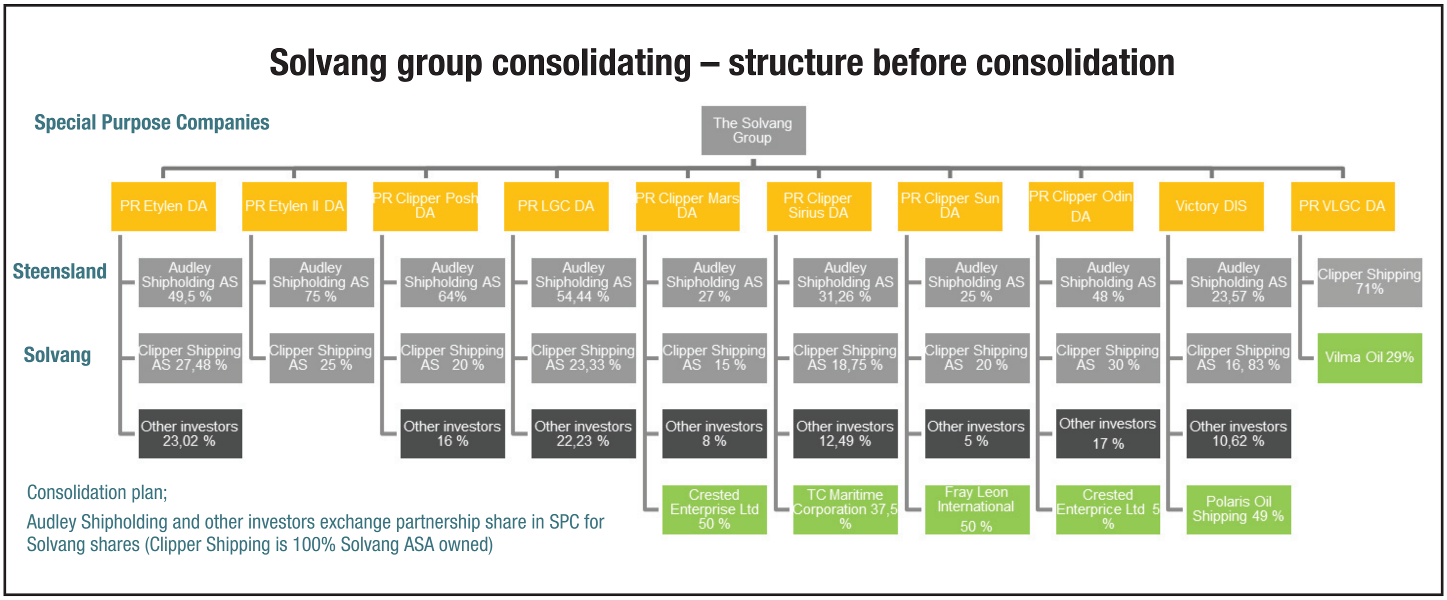

FIGURE 1

operates nine vessels in this sector with an average age of eight years.

In the large gas category, Solvang is the market leader with a ~40% market share, which it services with nine LGCs and one MGC. Including the MGC built in 2005, the average age of the fleet is 12 years. This sector is largely focused on the transportation of ammonia, which is widely used in the fertilizer industry. Currently about 10% of the world's ammonia production is transported by sea on LGCs which are the most economical long-haul transporters of ammonia. Five of Solvang's LGCs are currently employed in this market.

The most traded of the different gas types, with more than 95 million tons exported by sea is LPG. An associated product of crude oil or natural gas, LPG is mainly used as a feedstock in the chemical industry or bottled for energy purposes in rural areas. Panamax VLGCs are the vessel of choice for movements of this cargo. Solvang's fleet consists of eight vessels with an average age of eight years.

As a fully integrated shipping company, with the core competencies of technical expertise, crewing and commercial maintained in-house, the company controls its own destiny and can maintain its focus on improving the safety and quality of operations while minimizing off-hire. Family control ensures focus on the lifetime of its assets and a long-term investment perspective. Its commercial strategy is to employ its assets on long-term contracts, which provide long-term visible and stable earnings to minimize the cyclicality of the industry. Given its extensive history, the company has access to competitive finance and insurance and close relationships with quality shipyards. So, it should come as no surprise that short-term PE-fund involvement and third-party managers competing on cost are anathemas.

"An old family business built one ship at a time over a long period adds layers of complexity as one might imagine and that was the challenge."

An old family business built one ship at a time over a long period adds layers of complexity as one might imagine and that was the challenge. Ships were acquired in partnerships (PR) with multiple investors. Each partnership had multiple private investors, who took their share of profits and losses into their individual tax returns. These deals were attractive on their own and were further enhanced by tax benefits while they were available. This led owners in one partnership to buy interests in others leading to cross-ownership. The fact that these were self-contained single purpose corporations added further complexity as equity built-up in each partnership. This led to the partnerships themselves using those funds to invest in other partnerships, creating a very tangled web. The result was a fragmented organization (see figure 1) with multiple SPCs that was not only opaque, but difficult to analyze. An inability to give a clear structural overview raised questions of investability for non-core investors and banks. The company and its investors also struggled under the weight of the organization, which was both inefficient in terms of cash management and provided

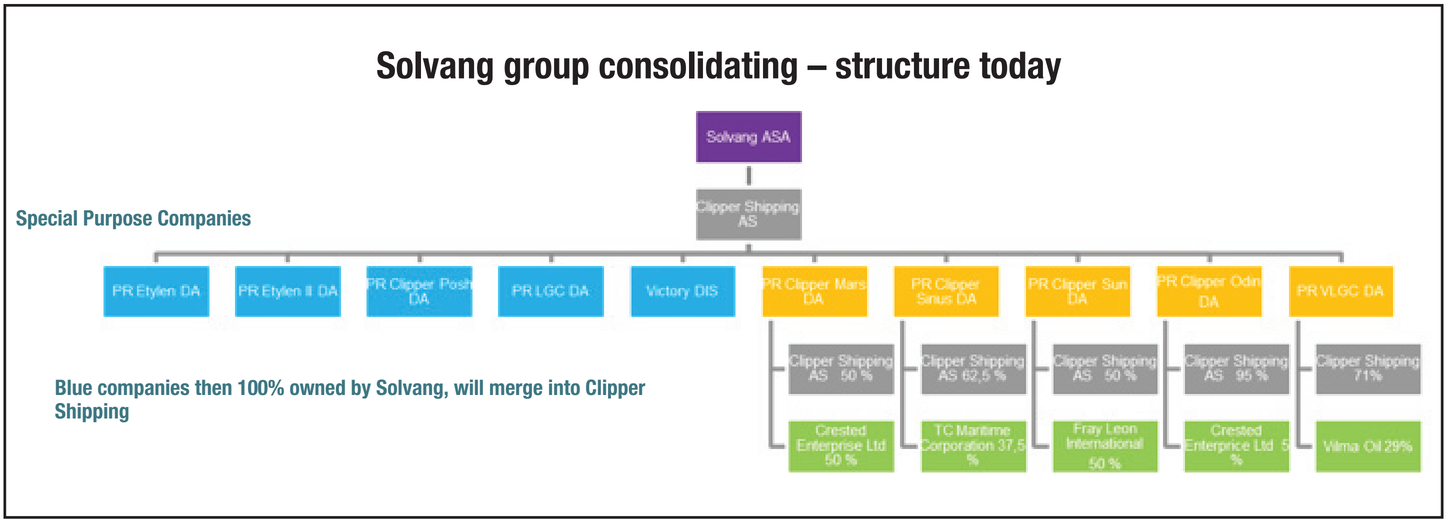

FIGURE 2

little, if any liquidity for investors, requiring a 20 to 30-year investment profile for new investors.

The benefits of reorganizing the company would be a simpler corporate structure, with the majority of the fleet being consolidated under one company. Contracts would be pooled, contributing to reduced financial risk. And, most importantly, a new cleaner structure would allow the company to raise capital in the capital markets, expand the group of relationship banks and create liquidity for existing and new investors.

In 2018, the reorganization process began with Solvang ASA taking over most of the ownership interests in the ship owning partnerships (No: Partrederier). A new Solvang ASA Group was established, with a holding company, Clipper Shipping AS acquiring the SPCs giving it 100% ownership in 20 vessels and majority interests in 7 vessels owned in joint ventures (Figure 2).

Then it was time to refinance the company's five credit facilities into one while providing financing for two newbuildings. Under the new structure, a strong bank group consisting of both relationship and new banks successfully syndicated a combined $500 million credit facility consisting of a $280 million Term Loan, a $70 million Newbuilding Facility and a $150 million RCF. Secured *pari passu* by a first preferred pledge over all the vessels, along with a traditional ship loan security package, the facilities have a total maturity of 5 years and an overall repayment profile of 18 years. The documentation contains covenants and restrictions commonly found in transactions of this nature including, but not limited to collateral cover, working capital cover, liquidity and equity test.

The measure of success of this transaction was the company's effective transition from an organization with loosely connected partnerships to a new guise, a modern corporate with a new simplified and manageable capital structure providing a path for future growth.

[1] *Elizabeth Barret Browning, "How Do I Love Thee?" (Sonnet 43)*
[2] *Seinfield, 8th Season, 19th Episode.*