# "GO WHERE THE MONEY IS... AND GO THERE OFTEN."[1]

## RETAIL FIXED INCOME DEAL OF THE YEAR

*__Seaspan Corporation__*

*Transaction:* *$115 MM 8.2% Series G Preferred Shares*
*Winners:* *RBC Capital Markets, J.P. Morgan, Stifel, Incapital, BB&T, Janney Montgomery Scott, Ladenburg Thalmann, Wunderlich, FBR, Maxim Group*

*Transaction:* *$80 MM 8.2% Series G Preferred Shares*
*Winners:* *ICBC*

*Transaction:* *$225 MM 7.875% Series H Preferred Shares*
*Winners:* *BofA Merrill Lynch, Morgan Stanley, JP Morgan, RBC Capital Markets, Citigroup, Janney Montgomery Scott, BB&T, Ladenburg Thalmann, Wunderlich, FBR, Incapital*

The retail fixed income market has been a constant in the volatile world of shipping credit. In a world of risk-on and record low interest rates, retail investors enjoy the high coupons preferred shares offer and can't seem to get enough of them. Once established with the proper street "creds", issuers can issue shares into what at times appears to be a feeding frenzy at least in the case of one regular well-known issuer. The year began with volatile hybrids and preferreds trading with credit spreads, especially in the banking sector, widening out on global growth fears.

Even for new issuers, there is strong interest. Teekay LNG Partners LP came to market for the first time in the fall offering $50 million $25 Par Series A Redeemable Perpetual Preferred Units. Led by Morgan Stanley, UBS, and Stifel, this debut offering received strong demand from retail investors and was upsized to $125 million and priced with a 9% coupon.

Unfortunately, the competition is on a whole other level. Within a three-month period, from May through August 2016, serial issuer Seaspan raised $645 million in four preferred share offerings and one equity follow-on. This was a remarkable achievement made possible by its previous successes in the retail market, over $1.1 billion raised $25.00 at a time over five years, as well as its close connections to Asian investors.

For months, the unanswered questions surrounding Seaspan Corporation revolved around liquidity. While the container market remains bleak and risk is increasing, the company was faced with the challenge of refinancing its $330 million 9.5%

## SEASPAN RETAIL SECURITIES

| Series | Shares | Coupon | Issue Price | Outstanding |
|---|---|---|---|---|
| D | 4,981,029 | 7.950% | $25 | $124,525,725 |
| E | 5,370,600 | 8.250% | $25 | $134,265,000 |
| F | 5,600,000 | 6.950% | $25 | $140,000,000 |
| G | 7,800,000 | 8.200% | $25 | $195,000,000 |
| H | 9,000,000 | 7.875% | $25 | $225,000,000 |
| Total-Preferred | | | | $818,790,725 |
| Notes | 13,800,000 | 6.375% | $25 | $345,000,000 |
| Total-Retail | | | | $1,163,790,725 |

## GUTS OF THE DEAL

| | |
|---|---|
| Issuer | Seasapn Corporation |
| Title of Security | 7.875% Series H Cumulative Redeemable Perpetual Preferred Shares, par value $0.01 per share, liquidation preference $25.00 per share |
| Number of Shares | 9,000,000 |
| Issue Price | $25.00 |
| Offering Size | $225,000,000 |
| Net Proceeds to Issuer (before expenses) | $217,912,500 |
| Green Shoe | 1,350,000 |
| Proceeds w/ Additional Shares | 258,750,000 |
| Maturity Date | Perpetual |
| Conversion, Exchange and Preemptive Rights | None |
| Dividend Payment Dates | Quarterly on January 30, April 30, July 30 and October 30 commencing October 30, 2016 |
| Dividends | Shall accrue and be cumulative from the date the Series H is issued and shall be due and payable on each payment date, when, as and if declared by the board of directors |
| Dividend Rate | 7.875% per $25.00 of liquidation preference per share (equal to $1.96875 per share per annum) |
| Ranking | Senior to all common shares, parri passu with Series D, Series E, Series F and Series G preferred and junior to all indebteness |
| Optional Redemption | Anytime after August 11, 2021, in whole or part, at a redemption price of $25.00/share plus all accrued and unpaid dividends. |
| Voting rights | None unless dividends are in arrears for 6 or more quarters in which case the holders together with all Series C, Series D and Series E preferred holders can elect an additioanal director. |
| Use of Proceeds | General corporate purposes, which may include funding acquisitions which may include equity interests in GCI or assets of GCI), funding capital expenditures on existing newbuild vessels and debt repayment |
| Net Worth Covenant | Net Worth to Preferred Stock ratio of at least 1.00 |
| Sinking Fund | None required |
| Joint Bookrunning Managers | BofA Merrill Lynch, Morgan Stanley, J.P. Morgan, RBC Capital Markets, Citi |
| Co-Managers | Janney Montgomery Scott, BB&T, Ladenburg Thalmann, Wunderlich, FBR, Incapital |
| Credit Rating | Not rated |
| Listing | NYSE |
| Ticker | SSW PR H |
| Issuer's Counsel | Reeder & Simpson; Perkins Coie; Blake Cassels & Graydon |
| Underwriters Counsel | Cravath Swaine & Moore |
| Accountants | KPMG |
| Incorporation | Marshall Islands |

Series C preferred with its expensive dividend step-up, together with the traditional demands of scheduled capex, amortization and dividends, both preferred and common. Then there was the overriding question of whether Seaspan would exercise its option to acquire the GCI joint venture.

The refinancing process began in May with the issuance of $140 million of 6.95% Series F Cumulative Convertible Perpetual Preferred Shares to a third party investor based in Asia. As is the case with most Seaspan transactions, it is carefully structured. The conversion feature enabled a lower initial coupon but at the same time it increases annually by 1% after the fifth anniversary through the ninth anniversary. The shares are callable at par any time after the dividend increases above 6.95% giving it optionality for an exit, whether through a call or conversion with the escalating coupon after five years providing encouragement. Next Seaspan returned to the traditional equity markets with a public follow-on offering, led by Wells Fargo, Morgan Stanley, UBS, Credit Suisse, JP Morgan and Stifel, which raised $85 million which increased to $100 million with the concurrent $15 million private placement to the company's founders.

The two award winning transactions took place in June with the company issuing $115 million of its 8.20% Series G Preferred Shares and $225 million of its 7.875% Series H Preferred Shares to the public. Although the equity markets remained shut, the debt capital markets had begun to show some signs of life post-Brexit as the bond market strengthened and investors needed to put money to work. With high yield bonds

## GUTS OF THE DEAL

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|---|---|
| Issuer | Seasapn Corporation |
| Title of Security | 8.20% Series G Cumulative Redeemable Perpetual Preferred Shares, par value $0.01 per share, liquidation preference $25.00 per share |
| Number of Shares | 4,000,000 |
| Issue Price | $25.00 |
| Offering Size | $100,000,000 |
| Net Proceeds to Issuer (before expenses) | $96,850,000 |
| Green Shoe | 600,000 |
| Maturity Date | Perpetual |
| Conversion, Exchange and Preemptive Rights | None |
| Dividend Payment Dates | Quarterly on January 30, April 30, July 30 and October 30 commencing July 30, 2016 |
| Dividends | Shall accrue and be cumulative from the date the Series G is issued and shall be due and payable on each payment date, when, as and if declared by the board of directors |
| Dividend Rate | 8.20% per $25.00 of liquidation preference per share (equal to $2.05 per share per annum) |
| Ranking | Senior to all common shares, parri passu with Series C, Series D, SeriesE and Series F preferred and junior to all indebteness |
| Optional Redemption | Anytime after June 16, 2021, in whole or part, at a redemption price of $25.00/share plus all accrued and unpaid dividends. |
| Voting rights | None unless dividends are in arrears for 6 or more quarters in which case the holders together with all Series C, Series D and Series E preferred holders can elect an additioanal director. |
| Use of Proceeds | General corporate purposes, which may include funding acquisitions, funding capital expenditures on existing newbuild vessels and debt repayment |
| Net Worth Covenant | Net Worth to Preferred Stock ratio of at least 1.00 |
| Sinking Fund | None required |
| Joint Bookrunning Managers | RBC, J.P. Morgan, Stifel, Incapital |
| Co-Managers | BB&T, Janney Montgomery Scott, Ladenburg Thalmann, Wunderlich, FBR, Maxim |
| Credit Rating | Not rated |
| Listing | NYSE |
| Ticker | SSW PR G |
| Issuer's Counsel | Reeder & Simpson; Perkins Coie; Blake Cassels & Graydon |
| Underwriters Counsel | Cravath Swaine & Moore |
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recovering, yields tightened making preferred shares with their higher coupons attractive.

Issuers took advantage of an all-time low rate environment issuing $7.7 billion in hybrids in June and July compared to $2.4 billion during the same period in 2015. Interestingly, as yield thresholds required by institutional and retail investors converged, retail targeted corporate hybrids became a more attractive option for issuers. In fact, 60% of 2016 corporate hybrid volume through July (pricing date) was in the retail space compared with 32% in 2015.

The Series G was done in two tranches. Initially, Seaspan raised $115 million including the exercise of the greenshoe. Subsequently, ICBC sold $80 million of the issue to institutional and other professional investors in Asia. While the Series G was nothing to sneeze at, the Series H was Seaspan's largest perpetual preferred and lowest preferred coupon issuance since 2010. The deal was significantly upsized from $100-125 million to $225 million and priced on the tight end of initial price talk at 7.875%, significantly inside the 8.2% coupon of the Series G done in June. Details of both series are shown in the Guts of the Deal.

Although the preferred issues, both public and private, were substantial by any measure they need to be taken in the context of the whole. In a testament to the company's financial prowess, this is the latest of a series of transactions concluded this year in which Seapan raised a total of ~$1.4 billion in new capital in a series of preferred and common equity offerings, lease financings and a revolver refinancing. All concluded without seemingly breaking a sweat.

[1] *Willie Sutton, an American bank robber.*