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*And the Winner Is...
Deals of the Year 2022*

THE POWER OF ACTIVE BALANCE SHEET MANAGEMENT

THE EQUITY-LINKED DEAL OF THE YEAR

By Matt McCleery

Transaction: Scorpio Tankers' Conversion of Its Convertible Bond

Winners: B. Dyson Capital Advisors

To fully capture the value of the shipping industry's extreme volatility, companies need to actively adjust their balance sheets in real time, like trimming the sail in constantly shifting wind. And when it comes to the art and science of balance sheet management, there is no one better than Robert Bugbee, Manuel Lauro and the crew at Scorpio Tankers and the advisors who assist them.

There are various tools to tweak a shipping balance sheet: equity issuance and stock buy-backs can be used to grow and shrink share count and boost EPS and P/NAV. Sale leasebacks are an efficient way to increase leverage, while early termination of those same leases is a quick way to deleverage and lower the cost of capital and breakeven. This year's award winner in the category of Equity-Linked is another powerful example of optimizing the balance between debt and equity — B. Dyson Capital's

exchange offer and subsequent conversion of Scorpio's convertible bond.

Like every deal, this one has a backstory. It's hard to believe but, as recently as last year, Scorpio Tankers had liquidity challenges as a result of its \$3 billion of debt, combined with enduring economic paralysis caused by the pandemic. With low valuations, issuing equity was not an attractive way to raise cash. Traditional debt came with a double-digit cash cost when you add base rate + margin + amortization; the debt trap that has killed many shipping companies. Making the situation even more challenging was that fact that Scorpio Tankers had an upcoming hard maturity of its 3.00% Convertible Senior Notes in 2022. The marketplace watched and wondered what was going to happen.

The team at Scorpio is experienced when it comes to

working in heavy weather, but it had a challenge: to convert the convertible bond into equity in order to strengthen the balance sheet, but not suffer the heavy dilution of having them convert based on the low 2021 share price — because anyone who knows Scorpio knows that it is bullish about the future.

B. Dyson Capital helped Scorpio to design and execute a solution that looked artful at the time, but now looks downright genius. They were able to exchange their existing bonds for new bonds that maintained the low 3% cash coupon by accreting the rest of the interest as principal, and maintain the very high conversion premium (200%). The Scorpio deal team was also able to insert an unusual feature known as a "issuer's redemption option." This clause gave them the right to force the bondholders into equity at 125% of the conversion price, thereby putting a

ceiling on the dilution. The strike price on the issuers' redemption offer probably seemed so ridiculously far out of the money that investors went along with it. But shipping often produces unexpected results — and that's exactly what happened.

Scorpio's shares took off like a rocket ship in late 2022, blowing through the 20-day trigger for the redemption option. Scorpio forced redemption, converting all of the \$205 million convertible bonds into equity on the 5th of December. In retrospect, this was an extraordinary deal. But, even when you look past the drama of this unique situation, it is also a powerful reminder that utilizing the wide range of capital markets products available in the marketplace can create enormous value in a highly cyclical and volatile industry like commodity shipping.

